

# Good First-time Adopter (International) Limited

International GAAP®

Illustrative financial statements of a first-time  
adopter for the year ended 31 December 2011

Based on International Financial Reporting  
Standards in issue at 31 March 2011





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## Abbreviations and key

The following styles of abbreviation are used in this set of International GAAP Illustrative Financial Statements:

IAS 33.41	International Accounting Standard No. 33, paragraph 41
IAS 1.BC13	International Accounting Standard No. 1, Basis for Conclusions, paragraph 13
IFRS 2.44	International Financial Reporting Standard No. 2, paragraph 44
SIC 29.6	Standing Interpretations Committee Interpretation No. 29, paragraph 6
IFRIC 4.6	IFRS Interpretations Committee (formerly IFRIC) Interpretation No. 4, paragraph 6
IAS 39.IG.G.2	IAS 39 <i>Financial Instruments: Recognition and Measurement</i> – Guidance on Implementing IAS 39 Section G: Other, paragraph G.2
IAS 39.AG71	IAS 39 <i>Financial Instruments: Recognition and Measurement</i> – Appendix A – Application Guidance, paragraph AG71
ISA 700.25	International Standard on Auditing No. 700, paragraph 25
Commentary	The commentary explains how the requirements of IFRS have been implemented in arriving at the illustrative disclosure
GAAP	Generally Accepted Accounting Practice
IASB	International Accounting Standards Board
Interpretations Committee	IFRS Interpretations Committee (formerly International Financial Reporting Interpretations Committee IFRIC)
SIC	Standing Interpretations Committee

# Introduction

This publication contains an illustrative set of consolidated financial statements for Good First-time Adopter (International) Limited and its subsidiaries (the Group) as of and for the year ended 31 December 2011. These are the Group's first financial statements that have been prepared in accordance with International Financial Reporting Standards (IFRS) – the Group is a first-time adopter. The Group is a large publicly listed manufacturing company incorporated in a fictitious country within Europe, whose functional currency is the euro. The functional currency of the parent and the presentation currency of the Group is the euro.

## Objective

This set of illustrative statements is one of many prepared by Ernst & Young to assist you in preparing your own financial statements. The illustration intends to reflect transactions and disclosures that we consider to be most common and most likely for a broad range of first-time adopters. Users of this publication are encouraged to select disclosures relevant to their circumstance and adjust appropriately. Users may also keep in mind that other transactions are likely to require additional disclosures.

This publication is however not designed to reflect disclosure requirements that apply mainly to regulated or specialised industries. We provide a number of industry-specific publications, which you may consider.

The entire series of model financial statements comprises:

- ▶ Good Group (International) Limited
- ▶ Good First-time Adopter (International) Limited
- ▶ Good Group (International) Limited – *Illustrative interim condensed consolidated financial statements*
- ▶ Good Bank (International) Limited
- ▶ Good Insurance (International) Limited
- ▶ Good Investment Fund Limited
- ▶ Good Real Estate Group (International) Limited
- ▶ Good Mining (International) Limited
- ▶ Good Petroleum (International) Limited

Look for other industry-specific illustrative financial statements to be added in the future.

Notations shown on the right hand side of each page are IFRS paragraphs that describe the specific disclosure requirements. In case of doubt as to the IFRS requirements, it is essential to refer to the relevant source material and, where necessary, to seek appropriate professional advice.

Note that these illustrative financial statements are not designed to satisfy any country or stock market regulatory requirements and do not illustrate all possible IFRS accounting or disclosure requirements.

## International Financial Reporting Standards (IFRS)

The abbreviation IFRS is defined in paragraph 5 of the Preface to International Financial Reporting Standards to include "standards and interpretations approved by the International Accounting Standards Board (IASB), and International Accounting Standards (IASs) and Standing Interpretations Committee (SIC) interpretations issued under previous Constitutions". This is also noted in paragraph 7 of IAS 1 and paragraph 6 of IAS 8. Thus, when financial statements are described as complying with IFRS, it means that they comply with the entire hierarchy of pronouncements sanctioned by the IASB including International Accounting Standards, International Financial Reporting Standards and Interpretations originated by the IFRS Interpretations Committee (formerly International Financial Reporting Interpretations Committee, IFRIC, or the former Standing Interpretations Committee, SIC).

## International Accounting Standards Board (IASB)

The IASB is the independent standard-setting body of the IFRS Foundation (an independent, not-for-profit private sector organisation working in the public interest). The IASB members (currently 15 full-time members) are responsible for the development and publication of IFRS and for approving Interpretations of IFRS as developed by the IFRS Interpretations Committee. In fulfilling its standard-setting duties, the IASB follows a thorough, open and transparent due process in which the publication of consultative documents, such as discussion papers and exposure drafts, for public comment is an important component.

## The IFRS Interpretations Committee

The IFRS Interpretations Committee (Interpretations Committee) is a committee appointed by the IASC Foundation Trustees to assist the IASB in establishing and improving standards of financial accounting and reporting for the benefit of users, preparers and auditors of financial statements.

The Interpretations Committee addresses issues of reasonably widespread importance, rather than issues of concern to only a small set of entities. Its interpretations cover:

- ▶ Newly identified financial reporting issues not specifically addressed in IFRS
- ▶ Issues where unsatisfactory or conflicting interpretations have developed, or seem likely to develop in the absence of authoritative guidance, with a view to reaching a consensus on the appropriate treatment
- ▶ Advising the IASB of issues to be considered in the Annual Improvements to IFRS Project

## IFRS as at 31 March 2011

The standards applied in these illustrative financial statements are the versions that were in issue as at 31 March 2011 are effective for periods commencing 1 January 2011.

IFRS comprises standards and interpretations that have been adopted by the IASB. The standards are illustrated across our various illustrative financial statements as follows:

	Good First-time Adopter <sup>1</sup>	Good Group <sup>2</sup>	Good Group Interim <sup>1</sup>	Good Bank <sup>2</sup>	Good Insurance <sup>3</sup>	Good Investment <sup>2</sup>	Good Real Estate <sup>2</sup>	Good Construction <sup>2</sup>	Good Mining <sup>2</sup>	Good Petroleum <sup>4</sup>
<b>International Financial Reporting Standards (IFRS)</b>										
IFRS 1	<i>First-time Adoption of International Financial Reporting Standards</i>	✓			✓					✓
IFRS 2	<i>Share-based Payment</i>	✓	✓	✓	✓			✓		
IFRS 3	<i>Business Combinations (Revised in 2008)</i>	✓	✓	✓	✓		✓	✓	✓	✓
IFRS 4	<i>Insurance Contracts</i>				✓					
IFRS 5	<i>Non-current Assets Held for Sale and Discontinued Operations</i>	✓	✓	✓			✓	✓		
IFRS 6	<i>Exploration for and Evaluation of Mineral Resources</i>								✓	✓
IFRS 7	<i>Financial Instruments: Disclosures</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓
IFRS 8	<i>Operating Segments</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓
IFRS 9	<i>Financial Instruments: Classification and Measurement</i>									
<b>International Accounting Standards (IAS)</b>										
IAS 1	<i>Presentation of Financial Statements</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓
IAS 2	<i>Inventories</i>	✓	✓	✓			✓	✓	✓	✓
IAS 7	<i>Statement of Cash Flows</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓
IAS 8	<i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓
IAS 10	<i>Events after the Reporting Period</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓
IAS 11	<i>Construction Contracts</i>						✓	✓		
IAS 12	<i>Income Taxes</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓
IAS 16	<i>Property, Plant and Equipment</i>	✓	✓	✓	✓		✓	✓	✓	✓
IAS 17	<i>Leases</i>	✓	✓	✓	✓		✓	✓	✓	✓
IAS 18	<i>Revenue</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓
IAS 19	<i>Employee Benefits</i>	✓	✓	✓	✓				✓	✓
IAS 20	<i>Accounting for Government Grants and Disclosure of Government Assistance</i>	✓	✓	✓						
IAS 21	<i>The Effects of Changes in Foreign Exchange Rates</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓
IAS 23	<i>Borrowing Costs</i>	✓	✓	✓	✓		✓	✓	✓	✓
IAS 24	<i>Related Party Disclosures</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓
IAS 26	<i>Accounting and Reporting by Retirement Benefit Plans</i>									
IAS 27	<i>Consolidated and Separate Financial Statements (Revised in 2008)</i>	✓	✓	✓	✓		✓	✓	✓	✓
IAS 28	<i>Investments in Associates</i>	✓	✓	✓	✓		✓	✓		
IAS 29	<i>Financial Reporting in Hyperinflationary Economies</i>									

	Good First-time Adopter <sup>1</sup>	Good Group <sup>2</sup>	Good Group Interim <sup>1</sup>	Good Bank <sup>2</sup>	Good Insurance <sup>3</sup>	Good Investment <sup>2</sup>	Good Real Estate <sup>2</sup>	Good Construction <sup>2</sup>	Good Mining <sup>2</sup>	Good Petroleum <sup>4</sup>
IAS 31 <i>Interests in Joint Ventures</i>	✓	✓	✓				✓	✓	✓	✓
IAS 32 <i>Financial Instruments: Presentation</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IAS 33 <i>Earnings per Share</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IAS 34 <i>Interim Financial Reporting</i>			✓					✓		
IAS 36 <i>Impairment of Assets</i>	✓	✓	✓		✓		✓	✓	✓	✓
IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IAS 38 <i>Intangible Assets</i>	✓	✓	✓	✓	✓		✓	✓	✓	✓
IAS 39 <i>Financial Instruments: Recognition and Measurement</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IAS 40 <i>Investment Property</i>	✓	✓	✓		✓		✓			
IAS 41 <i>Agriculture</i>										
<b>Interpretations</b>										
IFRIC 1 <i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>	✓	✓	✓						✓	✓
IFRIC 2 <i>Members' Shares in Co-operative Entities and Similar Instruments</i>										
IFRIC 4 <i>Determining whether an Arrangement Contains a Lease</i>	✓	✓	✓						✓	✓
IFRIC 5 <i>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>				✓					✓	✓
IFRIC 6 <i>Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment</i>	✓	✓	✓							
IFRIC 7 <i>Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies</i>										
IFRIC 9 <i>Reassessment of Embedded Derivatives</i>					✓	✓				
IFRIC 10 <i>Interim Financial Reporting and Impairment</i>										
IFRIC 12 <i>Service Concession Arrangements</i>									✓	
IFRIC 13 <i>Customer Loyalty Programmes</i>	✓	✓		✓						
IFRIC 14 <i>IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>	✓	✓	✓	✓						
IFRIC 15 <i>Agreements for the Construction of Real Estate</i>										
IFRIC 16 <i>Hedges of a Net Investment in a Foreign Operation</i>	✓	✓	✓							
IFRIC 17 <i>Distributions of Non-cash Assets to Owners</i>										
IFRIC 18 <i>Transfers of Assets from Customers</i>										
IFRIC 19 <i>Extinguishing Financial Liabilities with Equity Instruments</i>										
SIC 7 <i>Introduction of the Euro</i>										
SIC 10 <i>Government Assistance – No Specific Relation to Operating Activities</i>										
SIC 12 <i>Consolidation – Special Purpose Entities</i>	✓	✓	✓	✓						
SIC 13 <i>Jointly Controlled Entities – Non-Monetary Contributions by Venturers</i>	✓	✓	✓							
SIC 15 <i>Operating Leases – Incentives</i>	✓	✓	✓						✓	
SIC 21 <i>Income Taxes – Recovery of Revalued Non-Depreciable Assets</i>	✓	✓	✓						✓	
SIC 25 <i>Income Taxes – Changes in the Tax Status of an Entity or its Shareholders</i>										
SIC 27 <i>Evaluating the Substance of Transactions Involving the Legal Form of a Lease</i>	✓	✓	✓							
SIC 29 <i>Service Concession Arrangements: Disclosures</i>										
SIC 31 <i>Revenue – Barter Transactions Involving Advertising Services</i>										
SIC 32 <i>Intangible Assets – Web Site Costs</i>										

✓ This standard or interpretation is reflected in the accounting policies and / or individual transactions with appropriate note disclosures.

<sup>1</sup> Based on IFRS in issue at 31 March 2011.

<sup>2</sup> Based on IFRS in issue at 31 August 2010.

<sup>3</sup> Based on IFRS in issue at 30 June 2010.

<sup>4</sup> Based on IFRS in issue at 31 May 2010.

All standards and interpretations listed above incorporate all amendments effective for years ending 31 December 2011, unless otherwise stated. These amendments also include the amendments resulting from Improvements to IFRS issued in May 2008, April 2009, and May 2010.

It is important to note that the IASB may issue new and revised standards and interpretations subsequent to 31 March 2011. Therefore, users of this publication are advised to verify that there has been no change in the IFRS requirements between 31 March 2011 and the date on which their financial statements are authorised for issue. In addition, any standards issued but not yet effective need to be considered in the disclosure requirements of a reporting entity.

## **Accounting policies in the first IFRS financial statements**

IFRS 1 requires an entity to use the same accounting policies in its opening IFRS statement of financial position and throughout all periods presented in its first IFRS financial statements. Those accounting policies must comply with each IFRS effective at the end of its first IFRS reporting period, except as specified in IFRS 1 (e.g., when the exceptions in IFRS 1 prohibit retrospective application or an entity avails itself of one of IFRS 1's voluntary exemptions). An entity must not apply different versions of IFRSs that were effective at earlier dates. An entity may apply a new IFRS that is not yet mandatory if that IFRS permits early application.

A first-time adopter of IFRS does not apply the IAS 8 *Accounting Policies, Changes in Accounting Estimate and Errors* requirements for changes in accounting policies that occur when an entity first adopts IFRS. Rather, a first-time adopter of IFRS must provide an explanation of transition adjustments and reconciliations of equity and comprehensive income. If a first-time adopter changes its accounting policies or its use of the IFRS 1 voluntary exemptions during the period covered by the first IFRS financial statements, an entity must explain how this change affected its previously reported financial position, financial performance and cash flows. As this change would be made at the date of transition to IFRS, the entity must also update the equity and comprehensive income reconciliations. Note 2.4 of this publication illustrates how a first-time adopter may provide the explanation of transition adjustments and reconciliations required by IFRS 1.

## **Allowed alternative treatments**

In some cases, IFRS permits more than one accounting treatment for some transaction or event. Preparers of financial statements should choose the treatment that is most relevant to their business.

IAS 8 requires an entity to select and apply its accounting policies consistently for similar transactions, and/or other events and conditions, unless an IFRS specifically requires or permits categorisation of items for which different policies may be appropriate. Where an IFRS requires or permits such categorisation, an appropriate accounting policy is selected and applied consistently to each category. Therefore, once a choice of one of the alternative treatments has been made, it becomes an accounting policy and must be applied consistently.

After an entity has presented its first IFRS financial statements, changes in accounting policy should only be made if required by a standard or interpretation, or if the change results in the financial statements providing reliable and more relevant information.

In this publication, where a choice is permitted by IFRS, the Group has adopted one of the treatments as appropriate to the circumstances of the Group. The commentary provides details of which policy has been selected, and the reasons for this, and summarises the difference in the disclosure requirements.

## **Financial review by management**

Many entities present a financial review by management that is outside the financial statements. IFRS does not require the presentation of such information, although paragraph 13 of IAS 1 gives a brief outline of what might be included in an annual report. The IASB issued an IFRS Practice Statement *Management Commentary* in December 2010 which provides a broad, non-binding framework for the presentation of narrative reporting to accompany financial statements that have been prepared in accordance with IFRS. The Practice Statement is not a standard, consequently, an entity need not comply with the Practice Statement to comply with IFRS.

The content of a financial review by management is often determined by local market requirements or issues specific to a particular jurisdiction. Therefore, no financial review by management has been included for Good First-time Adopter (International) Limited.

# **Good First-time Adopter (International) Limited**

## **Consolidated Financial Statements**

**31 December 2011**

# Independent auditors' report to the shareholders of Good First-time Adopter (International) Limited

We have audited the accompanying consolidated financial statements of Good First-time Adopter (International) Limited and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2011, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2011, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Professional Accountants & Co.

28 January 2012

17 Euroville High Street

Euroville

## Commentary

The auditors' report has been prepared in accordance with ISA 700 (Redrafted) *Forming an Opinion and Reporting on Financial Statements* which is applicable for audits of financial statements for periods beginning on or after 15 December 2009. The auditors' report may differ depending on the requirements of different jurisdictions. An example may be where a jurisdiction or entity requires or requests an audit opinion on each period presented, or an opinion on the statement of financial position at the date of transition to IFRS.

# Consolidated income statement

for the year ended 31 December 2011

IFRS 1.21, IAS 1.10(b)  
IAS 1.51(b)(c)

		2011	2010	
	Notes	€000	€000	IAS 1.51(d)(e)
<b>Continuing operations</b>				
Sale of goods		190,599	172,864	IAS 18.35(b)(i)
Rendering of services		17,131	16,537	IAS 18.35(b)(ii)
Revenue from redemption of <i>GoodPoints</i>	25	1,375	1,125	IAS 18.35(b)(ii)
Rental income	14	1,404	1,377	IAS 18.35(c)
<b>Revenue</b>		<b>210,509</b>	<b>191,903</b>	IAS 1.82(a)
Cost of sales		(163,691)	(155,268)	IAS 1.103
<b>Gross profit</b>		<b>46,818</b>	<b>36,635</b>	IAS 1.85, IAS 1.103
Other operating income	9.1	1,585	2,548	IAS 1.103
Selling and distribution costs		(14,000)	(13,002)	IAS 1.103
Administrative expenses		(19,746)	(13,482)	IAS 1.103
Other operating expenses	9.2	(1,153)	(706)	IAS 1.103
<b>Operating profit</b>		<b>13,504</b>	<b>11,993</b>	IAS 1.85, IAS 1.BC55-56
Finance costs	9.3	(2,868)	(1,223)	IAS 1.82(b), IFRS 7.20
Finance income	9.4	1,186	211	IAS 1.82(a)
Share of profit of an associate	7	83	81	IAS 1.82(c), IAS 28.38
<b>Profit before tax from continuing operations</b>		<b>11,905</b>	<b>11,062</b>	IAS 1.85
Income tax expense	10	(3,893)	(3,432)	IAS 1.82(d), IAS 12.77
<b>Profit for the year from continuing operations</b>		<b>8,012</b>	<b>7,630</b>	IAS 1.85
<b>Discontinued operations</b>				
Profit/(loss) after tax for the year from discontinued operations	11	220	(188)	IAS 1.82(e), IFRS 5.33(a)
<b>Profit for the year</b>		<b>8,232</b>	<b>7,442</b>	
Attributable to:				
Owners of the parent		7,944	7,203	IAS 1.83(a)(ii)
Non-controlling interests		288	239	IAS 1.83(a)(i), IAS 27.27
		<b>8,232</b>	<b>7,442</b>	
Earnings per share	12			IAS 33.66
▶ Basic, profit for the year attributable to ordinary equity holders of the parent		€0.38	€0.38	
▶ Diluted, profit for the year attributable to ordinary equity holders of the parent		€0.38	€0.37	
Earnings per share for continuing operations				
▶ Basic, profit from continuing operations attributable to ordinary equity holders of the parent		€0.37	€0.39	
▶ Diluted, profit from continuing operations attributable to ordinary equity holders of the parent		€0.37	€0.38	

## Commentary

Paragraph 10 of IAS 1 suggests titles for the primary financial statements, such as 'statement of comprehensive income' or 'statement of financial position'. Entities are however permitted to use other titles, e.g., 'Income statement' or 'balance sheet'.

IAS 1.82(a) requires disclosure of total revenue as a line item on the face of the income statement. The Group has elected to present an analysis of the various types of revenues on the face of the income statement. Note that this information could also be given in the notes (per IAS 1.97).

IAS 1.99 requires expenses to be analysed by nature or by their function within the income statement, whichever provides information that is reliable and more relevant. The Group has presented the analysis of expenses by function. Appendix 2 illustrates the consolidated income statement if an analysis by nature were to be used. The Group presents an operating profit. This is not a required line item in IAS 1. In disclosing operating profit, an entity will ensure that the amount disclosed is representative of activities that would normally be regarded as 'operating'.

IAS 33.68 requires presentation of basic and diluted earnings per share for discontinued operations either on the face of the income statement or in the notes to the financial statements. The Group has elected to show this information with other disclosures required for discontinued operations in Note 11 and show the earnings per share information for continuing operations on the face of the income statement.

# Consolidated statement of comprehensive income

for the year ended 31 December 2011

		<b>2011</b>	<b>2010</b>	<i>IFRS 1.21, IAS 1.51(b)(c) IAS 1.51(d)(e)</i>
	<b>Notes</b>	<b>€000</b>	<b>€000</b>	
<b>Profit for the year</b>		<b><u>8,232</u></b>	<b><u>7,442</u></b>	<i>IAS 1.82(f)</i>
<b>Other comprehensive income</b>				<i>IAS 1.82(g)</i>
Net gain on hedge of a net investment		278	–	
Income tax effect		(83)	–	<i>IAS 1.90</i>
		<b><u>195</u></b>	<b><u>–</u></b>	
Exchange differences on translation of foreign operations		<b>(246)</b>	<b>(117)</b>	
Net movement on cash flow hedges	9.8	(732)	33	
Income tax effect		220	(10)	<i>IAS 1.90</i>
		<b><u>(512)</u></b>	<b><u>23</u></b>	
Net (loss)/gain on available-for-sale financial assets	9.8	(60)	(22)	
Income tax effect		18	6	<i>IAS 1.90</i>
		<b><u>(42)</u></b>	<b><u>(16)</u></b>	
Actuarial gains and (losses) on defined benefit plans	26	311	(401)	<i>IAS 19.93B</i>
Income tax effect		(94)	120	<i>IAS 1.90</i>
		<b><u>217</u></b>	<b><u>(281)</u></b>	
Revaluation of land and buildings	13	846	–	
Income tax effect		(254)	–	<i>IAS 1.90</i>
		<b><u>592</u></b>	<b><u>–</u></b>	
<b>Other comprehensive income for the year, net of tax</b>		<b><u>204</u></b>	<b><u>(391)</u></b>	<i>IAS 1.85</i>
<b>Total comprehensive income for the year, net of tax</b>		<b><u>8,436</u></b>	<b><u>7,051</u></b>	<i>IAS 1.82(i)</i>
Attributable to:				
Owners of the parent		8,148	6,812	<i>IAS 1.83(b)(ii)</i>
Non-controlling interests		288	239	<i>IAS 1.83(b)(i) IAS 27.27</i>
		<b><u>8,436</u></b>	<b><u>7,051</u></b>	

## Commentary

The Group has elected to present two statements, an income statement and a statement of comprehensive income, rather than a single statement of comprehensive income combining the two elements. If a two-statement approach is adopted, the income statement must be followed directly by the statement of comprehensive income. For illustrative purposes, the disclosure of a single statement of comprehensive income is presented in Appendix 1.

The different components of comprehensive income are presented on a net basis in the statement above. Therefore, an additional note is required to present the amount of reclassification adjustments and current year gains or losses (see Note 9.8). Alternatively, the individual components could have been presented within the statement of comprehensive income.

The Group has elected to present the income tax effects on an individual basis, therefore, no additional note disclosure is required.

# Consolidated statement of financial position

as at 31 December 2011

IFRS1.21, IAS 1.10(a)  
IAS 1.51(b)(c)

		As at 1			
		2011	2010	January 2010	
	Notes	€000	€000	€000	IAS 1.51(d)(e)
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	13	34,411	25,811	20,385	IAS 1.60, IAS 1.66 IAS 1.54(a)
Investment properties	14	8,893	7,983	7,091	IAS 1.54(b)
Intangible assets	15	6,019	2,461	2,114	IAS 1.54(c)
Investment in an associate	7	764	681	600	IAS 1.54(e), IAS 28.38
Other non-current financial assets	16	6,550	3,616	3,419	IAS 1.54(d), IFRS 7.8
Deferred tax assets	10	383	365	321	IAS 1.54(o), IAS 1.56
		<u>57,020</u>	<u>40,917</u>	<u>33,930</u>	
<b>Current assets</b>					
Inventories	18	24,875	25,489	27,151	IAS 1.60, IAS 1.66 IAS 1.54(g)
Trade and other receivables	19	27,672	24,290	25,537	IAS 1.54(h), IFRS 7.8(c)
Prepayments		244	165	226	IAS 1.55
Other current financial assets	16	551	153	137	IAS 1.54(d), IFRS 7.8
Cash and short-term deposits	20	17,112	14,916	11,066	IAS 1.54(i)
		<u>70,454</u>	<u>65,013</u>	<u>64,117</u>	
Assets classified as held for sale	11	13,554	–	–	IAS 1.54(j), IFRS 5.38
		<u>84,008</u>	<u>65,013</u>	<u>64,117</u>	
<b>Total assets</b>		<b>141,028</b>	<b>105,930</b>	<b>98,047</b>	
<b>Equity and liabilities</b>					
<b>Equity</b>					
Issued capital	21	21,888	19,388	19,388	IAS 1.54(r) IAS 1.54(r), IAS 1.78(e)
Share premium	21	4,780	80	–	IAS 1.54(r), IAS 1.78(e)
Treasury shares	21	(508)	(654)	(774)	IAS 1.54(r), IAS 1.78(e)
Other capital reserves	21	1,171	864	566	IAS 1.54(r), IAS 1.78(e)
Retained earnings		34,934	28,855	23,533	IAS 1.54(r), IAS 1.78(e)
Other components of equity		(121)	18	128	IAS 1.54(r), IAS 1.78(e)
Reserves of a disposal group classified as held for sale	11	46	–	–	IAS 1.54(p)
<b>Equity attributable to owners of the parent</b>		<u>62,190</u>	<u>48,551</u>	<u>42,841</u>	
Non-controlling interests		2,410	740	208	IAS 1.54(q), IAS 27.27
<b>Total equity</b>		<b>64,600</b>	<b>49,291</b>	<b>43,049</b>	
<b>Non-current liabilities</b>					
Interest-bearing loans and borrowings	16	20,856	22,203	19,436	IAS 1.60, IAS 1.69 IAS 1.54(m)
Other non-current financial liabilities	16	806	–	–	IAS 1.54(m), IFRS 7.8(e)
Provisions	23	1,950	77	60	IAS 1.54(l), IAS 1.78(d)
Government grants	24	3,300	1,400	1,300	IAS 20.24
Deferred revenue	25	196	165	174	IAS 1.55
Employee benefit liability	26	2,622	2,494	2,074	IAS 1.55, IAS 1.78(d)
Other liabilities		263	232	212	IAS 1.55
Deferred tax liabilities	10	3,072	1,247	1,279	IAS 1.54(o), IAS 1.56
		<u>33,065</u>	<u>27,818</u>	<u>24,535</u>	
<b>Current liabilities</b>					
Trade and other payables	28	19,556	21,281	20,600	IAS 1.60, IAS 1.69 IAS 1.54(k)
Interest-bearing loans and borrowings	16	2,460	2,775	4,555	IAS 1.54(m), IFRS 7.8(f)
Other current financial liabilities	16	3,040	303	303	IAS 1.54(m), IFRS 7.8(e)
Government grants	24	149	151	150	IAS 1.55, IAS 20.24
Deferred revenue	25	220	200	190	IAS 1.55
Income tax payable		3,963	4,013	4,625	IAS 1.54(n)
Provisions	23	850	98	40	IAS 1.54(l)
		<u>30,238</u>	<u>28,821</u>	<u>30,463</u>	
Liabilities directly associated with the assets classified as held for sale	11	13,125	–	–	IAS 1.54(p), IFRS 5.38
		<u>43,363</u>	<u>28,821</u>	<u>30,463</u>	
<b>Total liabilities</b>		<b>76,428</b>	<b>56,639</b>	<b>54,998</b>	
<b>Total equity and liabilities</b>		<b>141,028</b>	<b>105,930</b>	<b>98,047</b>	

**Commentary**

IFRS 1 requires an entity's first IFRS financial statements to present at least three statements of financial position, two statements of comprehensive income, two separate income statements (if presented), two statements of cash flows and two statements of changes in equity and related notes, including comparative information.

In accordance with IAS 1.60, the Group has classified its statement of financial position into current and non-current assets, and current and non-current liabilities. IAS 1 also allows entities to present assets and liabilities broadly in order of their liquidity when this presentation is reliable and more relevant.

# Consolidated statement of changes in equity

for the year ended 31 December 2011

IFRS 1.21,  
IAS 1.10(c)  
IAS 1.51(b)(c)  
IAS 1.106(d)

## Attributable to owners of the parent

	Issued capital (Note 21)	Share premium (Note 21)	Treasury shares (Note 21)	Other capital reserves (Note 21)	Retained earnings	Cash flow hedge reserve (Note 21)	Available- for-sale reserve (Note 21)	Foreign currency translation reserve (Note 21)	Asset revaluation reserve (Note 21)	Discontinued operations (Note 11)	Total	Non- controlling interest	Total equity	
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	IAS 1.51(d)(e)
<b>As at 1 January 2011</b>	<b>19,388</b>	<b>80</b>	<b>(654)</b>	<b>864</b>	<b>28,855</b>	<b>(71)</b>	<b>89</b>	<b>(117)</b>	<b>117</b>	<b>-</b>	<b>48,551</b>	<b>740</b>	<b>49,291</b>	
Profit for the period	-	-	-	-	7,944	-	-	-	-	-	7,944	288	8,232	IAS 1.106(d)(i)
Other comprehensive income	-	-	-	-	217	(512)	(42)	(51)	592	-	204	-	204	IAS 1.106(d)(ii)
Total comprehensive income	-	-	-	-	8,161	(512)	(42)	(51)	592	-	8,148	288	8,436	
Depreciation transfer for buildings	-	-	-	-	80	-	-	-	(80)	-	-	-	-	IAS 1.96
Discontinued operation (Note 11)	-	-	-	-	-	-	(46)	-	-	46	-	-	-	IFRS 5.38
Issue of share capital (Note 21)	2,500	4,703	-	-	-	-	-	-	-	-	7,203	-	7,203	IAS 1.106(d)(iii)
Exercise of options (Note 21)	-	29	146	-	-	-	-	-	-	-	175	-	175	IAS 1.106(d)(iii)
Share-based payment transactions (Note 27)	-	-	-	307	-	-	-	-	-	-	307	-	307	IAS 1.106(d)(iii)
Transaction costs (Note 5)	-	(32)	-	-	-	-	-	-	-	-	(32)	-	(32)	IAS 32.39
Dividends (Note 22)	-	-	-	-	(1,972)	-	-	-	-	-	(1,972)	(30)	(2,002)	IAS 1.107
Non-controlling interest arising on a business combination (Note 5)	-	-	-	-	-	-	-	-	-	-	-	1,547	1,547	IAS 1.106(d)(iii)
Acquisition of non-controlling interests (Note 5)	-	-	-	-	(190)	-	-	-	-	-	(190)	(135)	(325)	IAS 1.106(d)(iii)
<b>At 31 December 2011</b>	<b>21,888</b>	<b>4,780</b>	<b>(508)</b>	<b>1,171</b>	<b>34,934</b>	<b>(583)</b>	<b>1</b>	<b>(168)</b>	<b>629</b>	<b>46</b>	<b>62,190</b>	<b>2,410</b>	<b>64,600</b>	

## Commentary

For equity-settled share-based payment transactions, IFRS 2.7 requires entities to recognise an increase in equity when goods or services are received. However, IFRS 2 does not specify where in equity this should be recognised. The Group has chosen to recognise the credit in other capital reserves. The Group provided treasury shares to employees exercising share options and elected to recognise the excess of cash received over the acquisition cost of those treasury shares in share premium. In some jurisdictions, it is common to transfer other capital reserves to share premium or retained earnings when the share options are exercised or expire. The Group has elected to continue to present other capital reserves separately.

The acquisition of an additional ownership interest in a subsidiary without a change of control is accounted for as an equity transaction in accordance with IAS 27. Any excess or deficit of consideration paid over the carrying amount of non-controlling interest is recognised in equity of the parent in transactions where non-controlling interest is acquired or sold without loss of control. The Group has elected to recognise this effect in retained earnings. With respect to the subsidiary to which this non-controlling interest relates, there were no accumulated components recognised in other comprehensive income. If there had been such components, those would have been reallocated within equity of the parent (e.g., foreign currency translation reserve, available-for-sale reserve).

IFRS 5.38 requires income and expenses recognised in other comprehensive income related to a discontinued operation to be separately disclosed. The Group presents this effect in the statement of changes in equity above. However, presentation of such items within discontinued operations does not change the nature of the reserve. Reclassification to profit or loss will occur if and when necessary.

The Group's accounting policy for the recognition of actuarial gains and losses arising on defined benefit pension plans is to recognise them outside the income statement in other comprehensive income. As they will never be reclassified into profit or loss, they are immediately recorded in retained earnings. The standard rules out the presentation of a separate component for those effects. However, IAS 19 requires the cumulative amount of gains and losses recognised over time to be disclosed (refer to Note 26).

# Consolidated statement of changes in equity

for the year ended 31 December 2010

IFRS 1.21,  
IAS 1.10(c)  
IAS 1.51(b)(c)  
IAS 1.106(d)

## Attributable to owners of the parent

	Issued capital (Note 21)	Share premium (Note 21)	Treasury shares (Note 21)	Other capital reserves (Note 21)	Retained earnings	Cash flow hedge reserve (Note 21)	Available for-sale reserve (Note 21)	Foreign currency translation reserve (Note 21)	Asset revaluation reserve (Note 21)	Total	Non-controlling interest	Total equity	
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	IAS 1.51(d)(e)
<b>As at 1 January 2010</b>	<b>19,388</b>	<b>–</b>	<b>(774)</b>	<b>566</b>	<b>23,533</b>	<b>(94)</b>	<b>105</b>	<b>–</b>	<b>117</b>	<b>42,841</b>	<b>208</b>	<b>43,049</b>	
Profit for the period	–	–	–	–	7,203	–	–	–	–	7,203	239	7,442	IAS 1.106(a)
Other comprehensive income	–	–	–	–	(281)	23	(16)	(117)	–	(391)	–	(391)	IAS 1.106(d)(ii)
Total comprehensive income	–	–	–	–	6,922	23	(16)	(117)	–	6,812	239	7,051	
Exercise of options (Note 21)	–	80	120	–	–	–	–	–	–	200	–	200	IAS 1.106(d)(iii)
Share-based payment transactions (Note 27)	–	–	–	298	–	–	–	–	–	298	–	298	IAS 1.106(d)(iii) IFRS 2.50
Dividends (Note 22)	–	–	–	–	(1,600)	–	–	–	–	(1,600)	(49)	(1,649)	IAS 1.106(d)(iii)
Non-controlling interest arising on a business combination (Note 5)	–	–	–	–	–	–	–	–	–	–	342	342	IAS 1.106(d)(iii)
<b>At 31 December 2010</b>	<b>19,388</b>	<b>80</b>	<b>(654)</b>	<b>864</b>	<b>28,855</b>	<b>(71)</b>	<b>89</b>	<b>(117)</b>	<b>117</b>	<b>48,551</b>	<b>740</b>	<b>49,291</b>	

# Consolidated statement of cash flows

for the year ended 31 December 2011

		2011	2010	
	Notes	€000	€000	
<b>Operating activities</b>				IFRS 1.21, IAS 1.51(b)(c)
Profit before tax from continuing operations		11,905	11,062	IAS 1.10(d)
Profit/(loss) before tax from discontinued operations	11	213	(193)	IAS 1.51(d)(e)
Profit before tax		12,118	10,869	IAS 7.10, IAS 7.18(b)
Non-cash adjustment to reconcile profit before tax to net cash flows				IAS 7.20(b)
Depreciation and impairment of property, plant and equipment	13	3,907	3,383	
Amortisation and impairment of intangible assets	15	325	174	
Share-based payment transaction expense	27	412	492	
Decrease in investment properties	14	306	300	
Decrease in financial instruments		924	–	
Gain on disposal of property, plant and equipment	9.1	(532)	(2,007)	
Fair value adjustment of a contingent consideration	5	358	–	
Finance income	9.4	(1,186)	(211)	IAS 7.20(c)
Finance costs	9.3	2,868	1,223	IAS 7.20(c)
Other operating income		(210)	–	
Share of profit of an associate	7	(83)	(81)	
Movements in provisions, pensions and government grants		(729)	107	
Working capital adjustments:				IAS 7.20(a)
Increase in trade and other receivables and prepayments		(8,877)	(2,161)	
Decrease in inventories		4,091	2,185	
Increase in trade and other payables		4,236	3,591	
		<b>17,928</b>	<b>17,864</b>	
Interest received		336	211	IAS 7.31
Income tax paid		(3,759)	(4,379)	IAS 7.35
<b>Net cash flows from operating activities</b>		<b>14,505</b>	<b>13,696</b>	
<b>Investing activities</b>				IAS 7.10, 21
Proceeds from sale of property, plant and equipment		1,990	2,319	IAS 7.16(b)
Purchase of property, plant and equipment	13	(10,352)	(7,822)	IAS 7.16(a)
Purchase of investment properties	14	(1,216)	(1,192)	IAS 7.16(a)
Purchase of financial instruments		(3,294)	(225)	IAS 7.16(c)
Proceeds from sale of financial instruments		232	–	IAS 7.16(d)
Development expenditures	15	(587)	(390)	IAS 7.16(a)
Acquisition of a subsidiary	5	230	(1,450)	IAS 7.39
Receipt of a government grant	24	2,951	642	
<b>Net cash flows used in investing activities</b>		<b>(10,046)</b>	<b>(8,118)</b>	
<b>Financing activities</b>				IAS 7.10, IAS 7.21
Proceeds from exercise of share options	21	175	200	IAS 7.17(a)
Acquisition of non-controlling interest	5	(325)	–	IAS 7.42A
Transaction costs of share issue	21	(32)	–	IAS 7.17(a)
Payment of finance lease liabilities		(51)	(76)	IAS 7.17(e)
Proceeds from borrowings		5,299	2,645	IAS 7.17(c)
Repayment of borrowings		(1,806)	(1,784)	IAS 7.17(d)
Interest paid		(586)	(983)	IAS 7.31
Dividends paid to equity holders of the parent	22	(1,972)	(1,600)	IAS 7.31
Dividends paid to non-controlling interests		(30)	(49)	IAS 7.31
<b>Net cash flows from/(used in) financing activities</b>		<b>672</b>	<b>(1,647)</b>	
Net increase in cash and cash equivalents		5,131	3,931	
Net foreign exchange difference		43	19	IAS 7.28
Cash and cash equivalents at 1 January	20	12,266	8,316	
<b>Cash and cash equivalents at 31 December</b>	<b>20</b>	<b>17,440</b>	<b>12,266</b>	IAS 7.45

**Commentary**

IAS 7.18 allows entities to report cash flows from operating activities using either the direct method or the indirect method. The Group presents its cash flows using the indirect method. The statement of cash flows prepared using the direct method for operating activities is presented in Appendix 3 for illustrative purposes.

The Group has reconciled profit before tax to net cash flows from operating activities. However, a reconciliation from profit after tax is also acceptable under IAS 7.

IAS 7.33 permits interest paid to be shown as operating or financing activities and interest received to be shown as operating or investing activities, as deemed relevant for the entity. The Group has elected to classify interest paid as cash flows from financing activities. The Group has elected to classify interest received as cash flows from operating activities.

# Notes to the consolidated financial statements

## 1. Corporate information

IAS 1.10(e)  
IAS 1.51(b)(c)  
IAS 1.138(a)  
IAS 10.17

The consolidated financial statements of the Group for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the directors on 28 January 2012. The Group is a limited company incorporated and domiciled in Euroland whose shares are publicly traded. The registered office is located at Homefire House, Ashdown Square in Euroville.

The principal activities of the Group are described in Note 8. Information on its ultimate parent is presented in Note 29.

IAS 1.138(b)  
IAS 1.138(c)

## 2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

IAS 1.16, IFRS 1.23

For all periods up to and including the year ended 31 December 2010, the Group prepared its financial statements in accordance with local generally accepted accounting practice (Local GAAP). These financial statements for the year ended 31 December 2011 are the first the Group has prepared in accordance with IFRS. Refer to Note 2.4 for information on how the Group adopted IFRS.

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties, land and buildings, derivative financial instruments and available-for-sale financial assets that have been measured at fair value. The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships. The consolidated financial statements are presented in euros and all values are rounded to the nearest thousand (€000), except when otherwise indicated.

IAS 1.112(a)  
IAS 1.117(a)  
IAS 1.51(d)(e)

## Commentary

IFRS 1 requires an entity to explain how an entity transitioned from Previous GAAP to IFRS and how its reported financial position, financial performance and cash flows were affected. The Group provides this transition disclosure in Note 2.4.

## 2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2011.

IAS 27.12  
IAS 27.26

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

IAS 27.22  
IAS 27.23  
IAS 27.24  
IAS 27.20

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

IAS 27.28

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

IAS 27.30

- ▶ Derecognises the assets (including goodwill) and liabilities of the subsidiary
- ▶ Derecognises the carrying amount of any non-controlling interest
- ▶ Derecognises the cumulative translation differences, recorded in equity
- ▶ Recognises the fair value of the consideration received
- ▶ Recognises the fair value of any investment retained
- ▶ Recognises any surplus or deficit in profit or loss
- ▶ Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

IAS 27.34  
IAS 27.41

# Notes to the consolidated financial statements

## 2.3 Summary of significant accounting policies

The following are the significant accounting policies applied by the Group in preparing its consolidated financial statements:

IFRS 1.7,  
IAS 1.112  
IAS 1.117(a)(b)

### Commentary

IFRS 1 requires an entity to use the same accounting policies in its opening IFRS statement of financial position and throughout all periods presented in its first IFRS financial statements (the first annual financial statements in which an entity adopts IFRS by an explicit and unreserved statement of compliance with IFRS). Those accounting policies must comply with each IFRS effective at the end of its first IFRS reporting period, except as specified in IFRS 1 (e.g., when the exceptions in IFRS 1 prohibit retrospective application or an entity avails itself of one of IFRS 1's voluntary exemptions). An entity must not apply different versions of IFRS that were effective at earlier dates. An entity may apply a new IFRS that is not yet mandatory if that IFRS permits early application.

### 2.3.1 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

IFRS 3.4  
IFRS 3.18  
IFRS 3.19

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

IFRS 3.15  
IFRS 3.16

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

IFRS 3.42

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes in the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

IFRS 3.58

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

IFRS 3.54  
IFRS 3.B63(a)  
IAS 36.80

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

IAS 36.86

### 2.3.2 Interest in a joint venture

The Group has an interest in a joint venture which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The agreement requires unanimous agreement for financial and operating decisions among the venturers. The Group recognises its interest in the joint venture using the proportionate consolidation method. The Group combines its proportionate share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its consolidated financial statements. The financial statements of the joint venture are prepared for the same reporting period as the Group. Adjustments are made where necessary to bring the accounting policies of the joint venture in line with those of the Group.

IAS 31.3  
IAS 31.9  
IAS 31.30  
IAS 31.34

# Notes to the consolidated financial statements

## 2.3 Summary of significant accounting policies *continued*

Adjustments are made in the Group's consolidated financial statements to eliminate the Group's share of intragroup balances, transactions and unrealised gains and losses on such transactions between the Group and its jointly controlled entity. Losses on these transactions are recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss. The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the joint venture. IAS 31.48 IAS 31.36

Upon loss of joint control, the Group measures and recognises its remaining investment at its fair value. Any difference between the carrying amount of the former jointly controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal are recognised in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as investment in an associate. IAS 31.45

### Commentary

The Group accounts for its interest in the jointly controlled entity using proportionate consolidation. However, IAS 31.38 also permits jointly controlled entities to be recognised using the equity method.

If an entity chooses to recognise jointly controlled entities using the equity method, it is required to present its aggregate share of profit or loss joint ventures on the face of its income statement. The investment would also need to be presented as a non-current asset on the face of the statement of financial position.

### 2.3.3 Investment in an associate

The Group's investment in its associate is accounted for using the equity method. An associate is an entity in which the Group has significant influence. IAS 28.6

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. IAS 28.11 IAS 28.23 IAS 28.22 IAS 28.39

The income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The share of profit of an associate is shown on the face of the income statement. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associate. IAS 28.37(e) IAS 28.26

The financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the 'share of profit of an associate' in the income statement. IAS 28.31 IAS 28.33

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognised in profit or loss. IAS 28.18

### 2.3.4 Foreign currency translation

The Group's consolidated financial statements are presented in euros, which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group has elected to recycle the gain or loss that arises from the direct method of consolidation, which is the method the Group uses to complete its consolidation. IAS 1.51(d) IAS 1.117(b) IAS 21.9

# Notes to the consolidated financial statements

## 2.3 Summary of significant accounting policies *continued*

### *Transactions and balances*

Transactions in foreign currencies are initially recorded by the Group entities at the functional currency rates prevailing at the date of the transaction.

IAS 21.21  
IAS 21.23(a)  
IAS 21.28  
IAS 21.32

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

IAS 21.32

All differences are taken to the income statement with the exception of all monetary items that forms part of a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items is recognised in line with the gain or loss of the item that gave rise to the translation difference (translation differences on items whose gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss respectively).

IAS 21.23(b)  
IAS 21.23(c)

### *Group companies*

The assets and liabilities of foreign operations are translated into euros at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

IAS 21.39(a)  
IAS 21.39(b)  
IAS 21.39(c)

Any goodwill arising on the acquisition of a foreign operation subsequent to 1 January 2010 and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

IAS 21.48

Prior to 1 January 2010, the date of transition to IFRS, the Group treated goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition as assets and liabilities of the parent. Therefore, those assets and liabilities are non-monetary items already expressed in the functional currency of the parent and no further translation differences occur.

IAS 21.47

IAS 21.59,  
IFRS 1.C2

### **2.3.5 Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

IAS 18.35(a)  
IAS 18.14  
IAS 18.20  
IAS 18.9

#### ***Sale of goods***

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

IAS 18.14  
IAS 18.14(a) IAS  
18.14(b)

Within its electronics segment, the Group operates a loyalty points programme, *GoodPoints*, which allows customers to accumulate points when they purchase products in the Group's retail stores. The points can then be redeemed for free products, subject to a minimum number of points being obtained.

Consideration received is allocated between the electronic products sold and the points issued, with the consideration allocated to the points equal to their fair value. Fair value of the points is determined by applying a statistical analysis. The fair value of the points issued is deferred and recognised as revenue when the points are redeemed.

IFRIC 13.5  
IFRIC 13.7

# Notes to the consolidated financial statements

## 2.3 Summary of significant accounting policies *continued*

### Commentary

IAS 18 and IFRIC 13 do not prescribe an allocation method for multiple element arrangements. The Group's revenue recognition policy for sales which involve the issuance of *GoodPoints* is based on the fair value of the points issued. The Group could have based its revenue recognition policy on the relative fair values of the goods sold and the points issued.

IFRIC 13 does not set out any disclosure requirements. The Group has not included extensive disclosure regarding the loyalty programme as the amounts are not significant. If the deferred revenue and revenue related to the *GoodPoints* programme were significant, additional disclosure items might include: the number of outstanding points; the period over which the revenue is expected to be recognised; the key assumptions used to determine the period over which revenue is recognised; and the effect of any changes in redemption rates.

### *Rendering of services*

Revenue from the installation of fire extinguishers, fire prevention equipment and fire retardant fabrics is recognised by reference to the stage of completion. Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

IAS 18.20

IAS 18.26  
IAS 18.20(c)

### *Interest income*

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available for sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the income statement.

IAS 18.30(a)

### *Dividends*

Revenue is recognised when the Group's right to receive the payment is established.

IAS 18.30(c)

### *Rental income*

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms.

IAS 17.50

### 2.3.6 Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is recognised as deferred income and released to income in equal amounts over the expected useful life of the related asset.

IAS 20.7  
IAS 20.12  
IAS 20.26

Where the Group receives non-monetary grants, the asset and the grant are recorded gross at nominal amounts and released to the income statement over the expected useful life and pattern of consumption of the benefit of the underlying asset by equal annual instalments. Where loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favourable interest is regarded as additional government grant.

IAS 20.23

### Commentary

IAS 20 permits two different ways of presenting a government grant relating to assets. It can be presented in the statement of financial position as deferred income which is recognised as income on a systematic and rational basis over the useful life of the asset. Alternatively, it can reduce the carrying amount of the asset. The grant is then recognised as income over the useful life of a depreciable asset by way of a reduced depreciation charge. Whichever method is applied no further disclosures are required.

### 2.3.7 Taxes

#### *Current income tax*

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

IAS 12.46

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

IAS 12.61A  
IAS 1.117

# Notes to the consolidated financial statements

## 2.3 Summary of significant accounting policies *continued*

### *Deferred tax*

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- ▶ Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss IAS 12.22(c)
- ▶ In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future IAS 12.39

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- ▶ Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss IAS 12.24
- ▶ In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised. IAS 12.44

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. IAS 12.56  
IAS 12.37

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. IAS 12.47

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity. IAS 12.61A

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority. IAS 12.71

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it is incurred during the measurement period or in profit or loss. IAS 12.68

### *Sales tax*

Revenues, expenses and assets are recognised net of the amount of sales tax, except: IAS 18.8

- ▶ Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable
- ▶ Receivables and payables are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

# Notes to the consolidated financial statements

## 2.3 Summary of significant accounting policies *continued*

### 2.3.8 Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. IFRS 5.15  
IFRS 5.6  
IFRS 5.7  
IFRS 5.8

In the consolidated statement of comprehensive income of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the statement of comprehensive income. IFRS 5.33

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised. IFRS 5.25

### 2.3.9 Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing component parts of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group derecognises the replaced part, and recognises the new part with its own associated useful life and depreciation. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the income statement as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Refer to Significant accounting judgments, estimates and assumptions (Note 3) and Provisions (Note 23) for further information about the recorded decommissioning provision. IAS 16.73(a)  
IAS 16.30  
IAS 16.15  
IAS 16.16

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognised after the date of the revaluation. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. IAS 16.73(a)  
IAS 16.31

Any revaluation surplus is recognised in other comprehensive income and accumulated in equity in the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement, in which case the increase is recognised in the income statement. A revaluation deficit is recognised in the income statement, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve. IAS 16.39  
IAS 16.40

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings. IAS 16.41

### Commentary

The Group has elected to transfer the revaluation surplus to retained earnings as the asset is being used. Alternatively, the amount could have been transferred upon disposal of the asset.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

- |                       |                |              |
|-----------------------|----------------|--------------|
| ▶ Buildings           | 15 to 20 years | IAS 16.73(b) |
| ▶ Plant and equipment | 5 to 15 years  | IAS 16.73(c) |

# Notes to the consolidated financial statements

## 2.3 Summary of significant accounting policies *continued*

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised. IAS 16.67  
IAS 16.68  
IAS 16.71

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate. IAS 16.51

### 2.3.10 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement. IFRIC 4.6

For arrangements entered into prior to 1 January 2010, the date of inception is deemed to be 1 January 2010 in accordance with the IFRS 1. IFRIC 4.17,  
IFRS 1.D9

### Commentary

IFRS 1 allows a first-time adopter to determine whether an arrangement existing at the date of transition to IFRS contains a lease on the basis of facts and circumstances existing at that date.

If a first-time adopter made a determination of whether an arrangement contained a lease in accordance with previous GAAP and that determination's outcome is the same as that required by IFRIC 4 and IAS 17, the first-time adopter may use such determination when it adopts IFRS even if the date the determination is performed is different from that required by IFRIC 4.

### Group as a lessee

Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the income statement. IAS 17.8  
IAS 17.20  
IAS 17.25

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. IAS 17.27

Operating lease payments are recognised as an operating expense in the income statement on a straight-line basis over the lease term. IAS 17.33

### Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned. IAS 17.8  
IAS 17.52

### 2.3.11 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. IAS 23.8

The Group capitalises borrowing costs for all eligible assets where construction was commenced on or after 1 January 2010. IAS 23.27, IFRS 1.D23

# Notes to the consolidated financial statements

## 2.3 Summary of significant accounting policies *continued*

### 2.3.12 Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the period in which they arise. Fair values are evaluated annually by an accredited external, independent valuer, applying a valuation model recommended by the International Valuation Standards Committee. IAS 40.20  
IAS 40.33  
IAS 40.75(a)  
IAS 40.35

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition. IAS 40.66  
IAS 40.69

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change. IAS 40.57  
IAS 40.60  
IAS 40.61

### Commentary

The Group has elected to state land and buildings at fair value in accordance with IAS 16 and investment properties at fair value in accordance with IAS 40.

Both IAS 16 and IAS 40 permit property, plant and equipment and investment properties to be carried at historical cost less provisions for depreciation and impairment. In these circumstances, disclosures about the cost basis and depreciation rates would be required. In addition, IAS 40 would require note disclosure about the fair value of any investment property recorded at cost. Therefore, companies would still need to determine the fair value.

### 2.3.13 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred. IAS 38.24  
IAS 38.83  
IAS 38.74  
IAS 38.57

The useful lives of intangible assets are assessed as either finite or indefinite. IAS 38.88

Intangible assets with finite lives are amortised over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible assets. IAS 38.97  
IAS 36.9  
IAS 38.104  
IAS 38.118

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. IAS 38.107  
IAS 38.108  
IAS 38.109

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised. IAS 38.113

# Notes to the consolidated financial statements

## 2.3 Summary of significant accounting policies *continued*

### **Research and development costs**

Research costs are expensed as incurred. Development expenditures, on an individual project, are recognised as an intangible asset when the Group can demonstrate:

IAS 38.54  
IAS 38.57

- ▶ The technical feasibility of completing the intangible asset so that it will be available for use or sale
- ▶ Its intention to complete and its ability to use or sell the asset
- ▶ How the asset will generate future economic benefits
- ▶ The availability of resources to complete the asset
- ▶ The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

IAS 38.74

IAS 36.10(a)

### **Patents and licences**

The patents have been granted for a period of 10 years by the relevant government agency with the option of renewal at the end of this period. Licences for the use of intellectual property are granted for periods ranging between five and 10 years depending on the specific licence.

IAS 38.122(a)

The Group's licences provide the option for renewal based on whether the Group meets the conditions of the licences and may be renewed at little or no cost to the Group (further details are given in Note 15). Currently, those licences are assessed as having an indefinite useful life.

A summary of the policies applied to the Group's intangible assets is as follows:

	<b>Licences</b>	<b>Patents</b>	<b>Development costs</b>
<b>Useful lives</b>	Indefinite	Finite	Finite
<b>Amortisation method used</b>	No amortisation	Amortised on a straight-line basis over the period of the patent	Amortised over the period of expected future sales from the related project on a straight-line basis
<b>Internally generated or acquired</b>	Acquired	Acquired	Internally generated

IAS 38.118  
(aXb)

## 2.3.14 Financial instruments – initial recognition and subsequent measurement

### **i) Financial assets**

#### **Initial recognition and measurement**

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

IFRS 7.21  
IAS 39.9

All financial assets are recognised initially at fair value plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

IAS 39.43

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

IAS 39.9  
IAS 39.38

The Group's financial assets include cash and short-term deposits, trade and other receivables, loans and other receivables, quoted and unquoted financial instruments and derivative financial instruments.

# Notes to the consolidated financial statements

## 2.3 Summary of significant accounting policies *continued*

### Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

#### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognised in finance income or finance costs in the income statement.

IAS 39.9  
IAS 39.46

IAS 39.AG14  
IAS 39.55(a)

The Group has not designated any financial assets upon initial recognition as at fair value through profit or loss.

The Group evaluates its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

IAS 39.10  
IAS 39.11  
IAS 39.50-50D

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs.

IAS 39.9  
IAS 39.46(a)  
IAS 39.56

#### Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs. The Group did not have any held-to-maturity investments during the years ended 31 December 2011 and 2010.

IAS 39.9  
IAS 39.56  
IAS 39.46(b)

#### Available-for-sale financial investments

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

IAS 39.9  
IAS 39.46  
IAS 39.55(b)  
IAS 39.67

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is reclassified to the income statement in finance costs and removed from the available-for-sale reserve. Interest income on available-for-sale debt securities is calculated using the effective interest method and is recognised in profit or loss.

# Notes to the consolidated financial statements

## 2.3 Summary of significant accounting policies *continued*

The Group evaluates its available-for-sale financial assets to determine whether the ability and intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

IAS 39.50E  
IAS 39.50F

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

### Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

IFRS 7.21

- ▶ The rights to receive cash flows from the asset have expired
- ▶ The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

IAS 39.17(a)  
IAS 39.18(b)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of it, the asset is recognised to the extent of the Group's continuing involvement in it.

IAS 39.20(a)  
IAS 39.20(c)  
IAS 39.18(b)

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

IAS 39.30(a)

### ii) Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

IAS 39.58  
IAS 39.59  
IFRS 7.B5(f)

### Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

IAS 39.63  
IAS 39.64

# Notes to the consolidated financial statements

## 2.3 Summary of significant accounting policies *continued*

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

IAS 39.AG84  
IFRS 7.16  
IFRS 7.B5(d)(i)  
IFRS 7.B5(d)(ii)  
IAS 39.65  
IAS 39.AG93

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement

### Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

IAS 39.67  
IAS 39.68  
IAS 39.69

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairments are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement.

IFRS 7.16  
IAS 39.AG93  
IAS 39.70

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

### iii) Financial liabilities

#### Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

IFRS 7.21  
IAS 39.43  
IAS 39.56

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, carried at amortised cost. This includes directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings, financial guarantee contracts, and derivative financial instruments.

# Notes to the consolidated financial statements

## 2.3 Summary of significant accounting policies *continued*

### Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

#### Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

IAS 39.9  
IAS 39.47(a)  
IAS 39.55(a)

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the income statement.

IAS 39.47

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

IAS 39.56

#### Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the income statement.

#### Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

IAS 39.47(c)  
IAS 39.9  
IAS 39.14

#### Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

IAS 39.39

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

IAS 39.41  
IAS 39.40

#### iv) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

IAS 32.42

#### v) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

IAS 39.48A IFRS  
7.27

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 16.

# Notes to the consolidated financial statements

## 2.3 Summary of significant accounting policies *continued*

### 2.3.15 Derivative financial instruments and hedge accounting

#### Initial recognition and subsequent measurement

IAS 39.43  
IFRS 7.21

The Group uses derivative financial instruments such as forward currency contracts, interest rate swaps and forward commodity contracts to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The fair value of commodity contracts that meet the definition of a derivative as defined by IAS 39 are recognised in the income statement in cost of sales.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

For the purpose of hedge accounting, hedges are classified as:

- ▶ Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk) IAS 39.86(a)
- ▶ Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment IAS 36.86(b)
- ▶ Hedges of a net investment in a foreign operation IAS 39.86(c)

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

IAS 39.55(a)  
IAS 39.88

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

#### **Fair value hedges**

The change in the fair value of an interest rate hedging derivative is recognised in the income statement in finance costs. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the income statement in finance costs.

IAS 39.89

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the income statement over the remaining term to maturity. Effective interest rate amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

IAS 39.92

If the hedge item is derecognised, the unamortised fair value is recognised immediately in the income statement.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the income statement.

IAS 39.93

The Group has an interest rate swap that is used as a hedge for the exposure of changes in the fair value of its 8.25% fixed rate secured loan. See Note 16 for more details.

# Notes to the consolidated financial statements

## 2.3 Summary of significant accounting policies *continued*

### **Cash flow hedges**

The effective portion of the gain or loss on the hedging instrument is recognised directly as other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the income statement in other operating expenses. IAS 39.95

Amounts recognised as other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability. IAS 39.97  
IAS 39.100  
IAS 39.98

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity is transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss. IAS 39.101

The Group uses forward currency contracts as hedges of its exposure to foreign currency risk in forecasted transactions and firm commitments, as well as forward commodity contracts for its exposure to volatility in the commodity prices. Refer to Note 16 for more details.

### **Hedges of a net investment**

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised as other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the income statement. IAS 39.102

The Group uses a loan as a hedge of its exposure to foreign exchange risk on its investments in foreign subsidiaries. Refer to Note 16 for more details.

### **Current versus non-current classification**

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into a current and non-current portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows). IAS 1.60

- ▶ Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the reporting date, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.
- ▶ Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.
- ▶ Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and a non-current portion only if a reliable allocation can be made.

### **2.3.16 Inventories**

Inventories are valued at the lower of cost and net realisable value. IAS 2.36(a)  
IAS 2.9  
IAS 2.10

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials:

- ▶ Purchase cost on a first in, first out basis IAS 2.25

Finished goods and work in progress:

- ▶ Cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs IAS 2.12  
IAS 2.13

The initial cost of inventories includes the transfer of gains and losses on qualifying cash flow hedges, recognised in other comprehensive income, in respect of the purchases of raw materials. IAS 39.98(b)

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. IAS 2.6

# Notes to the consolidated financial statements

## 2.3 Summary of significant accounting policies *continued*

### 2.3.17 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

IAS 36.6  
IAS 36.9  
IAS 36.66  
  
IAS 36.59  
IAS 36.30  
IAS 36.55  
IAS 36.25  
IAS 36.33

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long term growth rate is calculated and applied to project future cash flows after the fifth year.

IAS 36.60

Impairment losses of continuing operations, including impairment on inventories, are recognised in the income statement in those expense categories consistent with the function of the impaired asset, except for a property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

IAS 36.110  
IAS 36.114  
IAS 36.117  
IAS 36.119

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of specific assets:

#### **Goodwill**

Goodwill is tested for impairment annually (as at 31 December) and when circumstances indicate that the carrying value may be impaired.

IAS 36.10(b)

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than their carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

IAS 36.104  
IAS 36.124

#### **Intangible assets**

Intangible assets with indefinite useful lives are tested for impairment annually as at 31 December either individually or at the cash-generating unit level, as appropriate and when circumstances indicate that the carrying value may be impaired.

IAS 36.10(a)

# Notes to the consolidated financial statements

## 2.3 Summary of significant accounting policies *continued*

### Commentary

IAS 36.96 permits the annual impairment test for goodwill and intangible assets with indefinite useful lives to be performed at any time during the year, provided it is at the same time each year. Different goodwill and intangible assets may be tested at different times.

There are no IFRS 1 exemptions from evaluating property, plant and equipment, definite lived intangible assets and indefinite lived intangible assets for impairment. Consequently, a first-time adopter is required to determine if impairment indicators or reversal of any prior impairment indicators exist for these assets. If impairment indicators or reversal indicators exist, then the IAS 36 *Impairment of Assets*, impairment test should be performed and recoverable amount determined and impairment or impairment reversals recorded.

When a first-time adopter uses the exemption in IFRS 1 from having to apply IFRS 3 retrospectively, it is required to test goodwill for impairment in accordance with IAS 36 *Impairment of Assets* at the date of transition to IFRS (IFRS 1.C4(g)(ii)). The goodwill impairment test and the recognition of any additional impairment must be based on conditions existing at the date of transition to IFRS. However, it is important to note that IFRS 1.C4(h) does not allow any further adjustments to the carrying amount of goodwill at the date of transition to IFRS, except for the adjustments in IFRS 1.C4(g) related to the goodwill impairment test or certain reclassifications of intangible assets. Accordingly, a first-time adopter is precluded from reversing any previous GAAP goodwill impairment.

Under a previous GAAP, an entity may have amortised intangible assets, excluding goodwill, from the date of the business combination. When such amortisation is not in accordance with IFRS, it is adjusted to comply with IFRS. The adjusted carrying amount is subject to the impairment requirements of IFRS.

IFRS 1 requires disclosure that IAS 36 would have required when an entity recognised or reversed any impairment losses for the first-time in preparing its opening IFRS statement of financial position.

### 2.3.18 Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

IAS 7.6  
IAS 7.7

For the purpose of the consolidated statement cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

IAS 7.46

### Commentary

The Group has included bank overdrafts within cash and cash equivalents as they are considered an integral part of the Group's cash management.

### 2.3.19 Convertible preference shares

Convertible preference shares are separated into liability and equity components based on the terms of the contract.

IFRS 7.21  
IAS 32.18  
IAS 32.28  
IAS 32.35  
IAS 32.AG31(a)

On issuance of the convertible preference shares, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond. This amount is classified as a financial liability measured at amortised cost (net of transaction costs) until it is extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity. Transaction costs are deducted from equity, net of associated income tax. The carrying amount of the conversion option is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible preference shares based on the allocation of proceeds to the liability and equity components when the instruments are initially recognised.

IAS 32.38

### 2.3.20 Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them. Share options exercised during the reporting period are satisfied with treasury shares.

IAS 32.33

# Notes to the consolidated financial statements

## 2.3 Summary of significant accounting policies *continued*

### 2.3.21 Provisions

#### *General*

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

IAS 37.14

IAS 37.53

IAS 37.54

IAS 37.45

IAS 37.47

IAS 37.59

IAS 37.60

IAS 37.72

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

#### *Warranty provisions*

Provisions for warranty-related costs are recognised when the product is sold or service provided. Initial recognition is based on historical experience. The initial estimate of warranty-related costs is revised annually.

IAS 19.133

#### *Restructuring provisions*

Restructuring provisions are only recognised when general recognition criteria for provisions are fulfilled. Additionally, the Group needs to have in place a detailed formal plan about the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs and appropriate time-line. The people affected have a valid expectation that the restructuring is being carried out or the implementation has been initiated already.

#### *Decommissioning liability*

The provision for decommissioning costs arose on construction of a manufacturing facility for the production of fire retardant materials. Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of that particular asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognised in the income statement as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

IAS 16.16(c)

IAS 37.45

IAS 37.47

IFRIC 1.8

IAS 37.59

IFRIC 1.5

#### *Greenhouse gas emissions*

The Group receives free emission rights in certain European countries as a result of the European Emission Trading Schemes. The rights are received on an annual basis and in return the Group is required to remit rights equal to its actual emissions. The Group has adopted the net liability approach to the emission rights granted. Therefore, a provision is only recognised when actual emissions exceed the emission rights granted and still held. The emission costs are recognised as other operating costs. Where emission rights are purchased from other parties, they are recorded at cost, and treated as a reimbursement right, whereby they are matched to the emission liabilities and remeasured to fair value, and the changes in fair value recognised in the income statement.

IAS 8.10

### **Commentary**

IFRIC 3 *Emission Rights* was withdrawn in June 2005 as the IASB is developing guidance on accounting for emission rights. In the absence of specific guidance, management must develop an accounting policy that is relevant and reliable.

The Group has applied the net liability approach based on IAS 20.23. However, emission rights received could also be recognised as intangible assets at their fair value with all the disclosures required by IAS 38.

#### *Waste Electrical and Electronic Equipment (WEEE)*

IFRIC 6

The Group is a provider of electrical equipment that falls under the EU Directive on Waste Electrical and Electronic Equipment. The directive distinguishes between waste management of equipment sold to private households prior to a date as determined by each Member State (historical waste) and waste management of equipment sold to private households after that date (new waste). A provision for the expected costs of management of historical waste is recognised when the Group participates in the market during the measurement period as determined by each Member State, and the costs can be reliably measured. These costs are recognised as other operating costs in the income statement.

# Notes to the consolidated financial statements

## 2.3 Summary of significant accounting policies *continued*

With respect to new waste, a provision for the expected costs is recognised when products that fall within the directive are sold and the disposal costs can be reliably measured. Derecognition takes place when the obligation expires, is settled or is transferred. These costs are recognised as part of costs of sales.

With respect to equipment sold to entities other than private households, a provision is recognised when the Group becomes responsible for the costs of this waste management, with the costs recognised as other operating costs or cost of sales as appropriate.

### **Contingent liabilities recognised in a business combination**

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of: *IFRS 3.56*

- ▶ The amount that would be recognised in accordance with the general guidance for provisions above (IAS 37)  
Or
- ▶ The amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition (IAS 18)

### **2.3.22 Pensions and other post employment benefits**

The Group operates two defined benefit pension plans, both of which require contributions to be made to separately administered funds. The Group has also agreed to provide certain additional post employment healthcare benefits to senior employees in the United States. These benefits are unfunded. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method. Actuarial gains and losses for both defined benefit plans are recognised in full in the period in which they occur in other comprehensive income. Such actuarial gains and losses are also immediately recognised in retained earnings and are not reclassified to profit or loss in subsequent periods. *IAS 19.64*  
*IAS 19.92*  
*IAS 19.93A*

The past service costs are recognised as an expense on a straight line basis over the average period until the benefits become vested. If the benefits have already vested, immediately following the introduction of, or changes to, a pension plan, past service costs are recognised immediately. *IAS 19.93D*  
*IAS 19.96*

The defined benefit asset or liability comprises the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds, as explained in Note 3), less past service costs and less the fair value of plan assets out of which the obligations are to be settled. Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value is based on market price information and in the case of quoted securities it is the published bid price. The value of any defined benefit asset recognised is restricted to the sum of any past service costs and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. *IAS 19.54*  
*IAS 19.7*  
*IAS 19.58A*

The Group's accounting policy for defined benefit plans is to recognise actuarial gains and losses in the period in which they occur in full in other comprehensive income in accordance with IAS 19.93A. Accordingly, the Group recognised all cumulative actuarial gains and losses at the date of transition to IFRS. Further details are disclosed in Note 2.4.

### **2.3.23 Share-based payment transactions**

Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions). Employees working in the business development group are granted share appreciation rights, which can only be settled in cash (cash-settled transactions). *IFRS 2.44*

In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, the unidentified goods or services received (or to be received) are measured as the difference between the fair value of the share-based payment transaction and the fair value of any identifiable goods or services received at the grant date. *IFRS 2.13A*

# Notes to the consolidated financial statements

## 2.3 Summary of significant accounting policies *continued*

### Equity-settled transactions

The cost of equity-settled transactions is recognised, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense (Note 9.6).

IFRS 2.7  
IFRS 2.19  
IFRS 2.20  
IFRS 2.21

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

IFRS 2.27  
IFRS 2.27A  
IFRS 2.21

Where the terms of an equity-settled transaction award are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

IFRS 2.28  
IFRS 2.B42-B44

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in Note 12).

IAS 33.45  
IFRS 2.7

### Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date using a binomial model, further details of which are given in Note 27. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognised in employee benefits expense (see Note 9.6).

IFRS 2.30  
IFRS 2.32  
IFRS 2.33

## 2.4 First-time adoption of IFRS

### Commentary

This note to the financial statements illustrates one way in which a company might choose to set out its explanation of its transition to IFRS. The format illustrated is based on Example 11 in IFRS 1. However, in providing a suggested format for disclosure, this example is not intended to, and does not, illustrate every potential first-time adoption adjustment that companies may have to disclose.

These financial statements, for the year ended 31 December 2011, are the first the Group has prepared in accordance with IFRS. For periods up to and including the year ended 31 December 2010, the Group prepared its financial statements in accordance with local generally accepted accounting practice (Local GAAP).

IAS 1.23

Accordingly, the Group has prepared financial statements which comply with IFRS applicable for periods ending on or after 31 December 2011, together with the comparative period data as at and for the year ended 31 December 2010, as described in the accounting policies. In preparing these financial statements, the Group's opening statement of financial position was prepared as at 1 January 2010, the Group's date of transition to IFRS. This note explains the principal adjustments made by the Group in restating its Local GAAP statement of financial position as at 1 January 2010 and its previously published Local GAAP financial statements as at and for the year ended 31 December 2010.

### Exemptions applied

IFRS 1 *First-Time Adoption of International Financial Reporting Standards* allows first-time adopters certain exemptions from the retrospective application of certain IFRS.

# Notes to the consolidated financial statements

## 2.4 First-time adoption of IFRS *continued*

The Group has applied the following exemptions:

- ▶ IFRS 3 *Business Combinations* has not been applied to acquisitions of subsidiaries, which are considered businesses for IFRS, or of interests in associates and joint ventures that occurred before 1 January 2010. Use of this exemption means that the local GAAP carrying amounts of assets and liabilities, which are required to be recognised under IFRS, is their deemed cost at the date of the acquisition. After the date of the acquisition, measurement is in accordance with IFRS. Assets and liabilities that do not qualify for recognition under IFRS are excluded from the opening IFRS statement of financial position. The Group did not recognise or exclude any previously recognised amounts as a result of IFRS recognition requirements. IFRS 1 also requires that the local GAAP carrying amount of goodwill must be used in the opening IFRS statement of financial position (apart from adjustments for goodwill impairment and recognition or derecognition of intangible assets). In accordance with IFRS 1, the Group has tested goodwill for impairment at the date of transition to IFRS. No goodwill impairment was deemed necessary at 1 January 2010.

IFRS 1.C1  
IFRS 1.C4(b)-(f)

IFRS 1.C4(g)-(h)

### Commentary

#### Business combinations (IFRS 1 Appendix C)

IFRS 1 allows a first-time adopter to elect not to apply IFRS 3 retrospectively to past business combinations that occurred before the date of transition to IFRS. However, this does not automatically 'grandfather' all amounts related to the business combination and certain adjustments to assets and liabilities recognised under previous GAAP may still be necessary. For example, IFRS 1 details what adjustments to goodwill may be required when the exemption is used (including impairment of goodwill).

If a first-time adopter does not use the exemption and restates any business combination to comply with IFRS 3, it must restate all later business combinations and must also apply IAS 27 (as amended in 2008) from that same date.

IFRS 3 provides a very specific definition of what is a business combination. Therefore, it is possible that under some previous GAAPs, transactions that are not business combinations (e.g. asset acquisitions) may have been accounted for as if they were business combinations. A first-time adopter will need to restate any transactions that it accounted for as a business combination under its previous GAAP, but which are not business combinations under IFRS.

The business combinations exemption is also available to past acquisitions of investments in associates and of interests in joint ventures. However, if a first-time adopter elects to restate business combinations retrospectively, it must also restate all acquisitions of investments in associates and of interests in joint ventures that occurred from such retrospective date.

- ▶ The Group has not applied IAS 21 retrospectively to fair value adjustments and goodwill from business combinations that occurred before the date of transition to IFRS. Such fair value adjustments and goodwill are treated as assets and liabilities of the parent rather than as assets and liabilities of the acquiree. Therefore, those assets and liabilities are already expressed in the functional currency of the parent or are non-monetary foreign currency items and no further translation differences occur.

IFRS 1.C2

### Commentary

#### Business combinations – foreign exchange on fair value adjustments and goodwill (IFRS 1.C2)

IFRS 1 provides an exemption from having to apply IAS 21 retrospectively to fair value adjustments and goodwill arising in business combinations that occurred before the date of transition to IFRS. If the entity does not apply IAS 21 retrospectively to those fair value adjustments and goodwill, it treats them as assets and liabilities of the entity rather than as assets and liabilities of the acquiree. Therefore, those goodwill and fair value adjustments either are already expressed in the entity's functional currency or are non-monetary foreign currency items, which are reported using the exchange rate applied in accordance with previous GAAP. This exemption allows the first-time adopter to avail itself of similar transition elections available to current IFRS users the first time they applied this amendment to IAS 21.

# Notes to the consolidated financial statements

## 2.4 First-time adoption of IFRS *continued*

- ▶ Freehold land and buildings, other than investment property, were carried in the statement of financial position prepared in accordance with local GAAP on the basis of valuations performed on 31 December 2008. The Group has elected to regard those values as deemed cost at the date of the revaluation since they were broadly comparable to fair value. IFRS 1.D6

### Commentary

#### Deemed cost – Previous GAAP revaluation (IFRS 1.D6)

A previous GAAP revaluation for the following assets may be used as deemed cost, provided that at the date of revaluation, the revaluation was broadly comparable to fair value, or cost or depreciated cost in accordance with IFRS, adjusted to reflect, for example, changes in a general or specific price index:

- ▶ An item of property, plant and equipment
  - ▶ Investment property held at cost
  - ▶ Intangible assets that meet (i) IAS 38's recognition criteria; and (ii) IAS 38's criteria for revaluation
- ▶ Certain items of property, plant and equipment have been measured at fair value at the date of transition to IFRS. IFRS 1.D5

### Commentary

#### Deemed cost – Fair value of property, plant and equipment (IFRS 1.D5)

A first-time adopter may elect to measure an item of property, plant and equipment at the date of transition at its fair value. It is important to note that this exemption does not take classes or categories of assets as its unit of measure, but refers to an item of property, plant and equipment. IAS 16 does not prescribe the unit of measure for recognition, i.e., what constitutes an item of property, plant and equipment. Thus, judgement is required in applying the recognition criteria to an entity's specific circumstances. A first-time adopter can therefore apply the deemed cost exemption to only some or all of its assets.

- ▶ The Group has elected to disclose the following amounts prospectively from the date of transition (IFRS ordinarily requires the amounts for the current and previous four annual periods to be disclosed): (i) the present value of the defined benefit obligation, the fair value of the plan assets and the surplus or deficit in the plan; and (ii) the experience adjustments arising on the plan liabilities and the plan assets. IFRS 1.D11

### Commentary

#### Employee benefits (IFRS 1.D11)

IAS 19.120A(p) requires disclosure of the current and previous four years of defined benefit information. A first-time adopter may elect to apply this disclosure prospectively from the date of transition to IFRS (i.e., provide the disclosure for the current and comparative periods only). The Group has elected to recognise all actuarial gains and losses as they occur (IAS 19.93). Had the Group elected to use the corridor approach available under IAS 19.92 and defer actuarial gains and losses for future recognition, it would have the option to reset to zero all actuarial gains and losses accumulated at the date of transition.

- ▶ Cumulative currency translation differences for all foreign operations are deemed to be zero as at 1 January 2010. IFRS 1.D13

### Commentary

#### Cumulative translation differences (IFRS 1.D13)

A first-time adopter need not comply with the requirements in IAS 21 to recognise cumulative translation differences on foreign operations (i.e., cumulative translation differences that existed at the date of transition to IFRS). If a first-time adopter uses this exemption:

- The cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to IFRS  
And
- The gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of transition to IFRS and shall include later translation differences.

The exemption applies to all cumulative translation differences arising from the translation of foreign operations, including related gains or losses on related hedges. Accordingly, we believe it is entirely appropriate for this exemption to be applied to net investment hedges as well as to the underlying gains and losses.

# Notes to the consolidated financial statements

## 2.4 First-time adoption of IFRS *continued*

- ▶ IFRS 2 *Share-based Payment* has not been applied to equity instruments in share-based payment transactions that were granted on or before 7 November 2002, nor has it been applied to equity instruments granted after 7 November 2002 that vested before 1 January 2010. For cash-settled share-based payment transactions, the Group has not applied IFRS 2 to liabilities that were settled before 1 January 2010.

IFRS 1.D2

### Commentary

#### Share-based payment transactions exemption (IFRS 1.D2)

A first-time adopter is encouraged, but not required, to apply IFRS 2 to equity instruments that were granted on or before 7 November 2002 and to equity instruments that were granted after 7 November 2002 and vested before the later of (a) the date of transition to IFRS and (b) 1 January 2005. However, if a first-time adopter elects to apply IFRS 2 to such equity instruments, it may do so only if the entity has disclosed publicly the fair value of those equity instruments determined at the measurement date as defined in IFRS 2. For all grants of equity instruments that are still outstanding at the date of transition to IFRS, to which IFRS 2 has not been applied, a first-time adopter shall disclose information that enables users of the financial statements to understand the nature and extent of share-based payment arrangements that existed (paragraphs 44 and 45 of IFRS 2).

If a first-time adopter modifies the terms or conditions of a grant of equity instruments to which IFRS 2 has not been applied, the entity is also not required to apply IFRS 2's requirements for modifications of awards if the modification occurred before the date of transition to IFRS.

- ▶ The Group has applied the transitional provision in IFRIC 4 *Determining Whether an Arrangement Contains a Lease* and has assessed all arrangements based upon the conditions in place as at the date of transition.

IFRS 1.D9

### Commentary

#### Leases (IFRS 1D9-D9A)

IFRS 1 allows a first-time adopter to determine whether an arrangement existing at the date of transition to IFRS contains a lease on the basis of facts and circumstances existing at that date.

If a first-time adopter made a determination of whether an arrangement contained a lease in accordance with previous GAAP and that determination's outcome is the same as that required by IFRIC 4 and IAS 17, the first-time adopter may use such determination when it adopts IFRS even if the date the determination is performed is different from that required by IFRIC 4.

# Notes to the consolidated financial statements

## 2.4 First-time adoption of IFRS *continued*

- ▶ The Group has applied the transitional provisions in IAS 23 *Borrowing Costs* and capitalises borrowing costs on assets where construction was commenced on or after the date of transition. IFRS 1.D23

### Commentary

#### Borrowing costs (IFRS 1.D23)

IFRS 1 provides an exemption that allows an entity to use IAS 23's transitional provisions. The revised IAS 23 does not require full restatement when applying the standard for the first time. Instead, entities must begin to capitalise borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009 or the date of transition to IFRS, whichever is later. Nevertheless, a first-time adopter may designate any date before the later of 1 January 2009 or the date of transition to IFRS and apply IAS 23 to all qualifying assets for which the commencement date for capitalisation is on or after that date. This has been interpreted to mean that an entity that has incomplete qualifying assets at the effective date has a choice:

- ▶ Not to capitalise borrowing costs on those assets already in the course of construction and only to start capitalising in respect of assets whose commencement date is after the date of transition to IFRS. This would also require the reversal of interest capitalised under previous GAAP  
Or
- ▶ To capitalise borrowing costs on all qualifying assets by electing to apply the revised standard from an earlier date (IAS 23.28).

At the time of writing, the IASB is planning to propose clarifications to IFRS 1 so that, from the date on which a first-time adopter applies IAS 23, it:

- ▶ Is not required to restate the borrowing costs component that was capitalised under previous GAAP and included in the carrying amount of assets at that date
- ▶ Shall account for borrowing costs incurred from that date, including those incurred on qualifying assets already under construction, in accordance with IAS 23

As this proposal is a clarification of the requirements in IFRS 1, in our view, a first-time adopter may currently elect to use either of the above interpretations. The IASB intends to make this clarification as part of the Annual Improvements Project. Once made, the clarified treatment will be required.

IAS 23 defines borrowing costs as including exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The Group would also include foreign exchange differences on directly attributable borrowings as an adjustment to interest costs for capitalisation if the amount was significant. Additionally, the accounting policy would be expanded to include the Group's approach in determining the foreign exchange differences.

The Group would have continued to expense borrowing costs relating to construction projects that commenced prior to 1 January 2010. However, no such cost was incurred prior to that date.

- ▶ The Group has designated unquoted equity instruments held at 1 January 2010 as available-for-sale investments. IFRS 1.D19(a)

### Commentary

#### Designation of previously recognised financial instruments (IFRS 1.D19)

IFRS 1 provides an exemption that permits a first-time adopter to designate financial assets and liabilities as at fair value through profit or loss or as available-for-sale at the date of transition to IFRS. The Group designated unquoted equity instruments as available-for-sale. Once the designation has been made, IAS 39's measurement provisions apply retrospectively. Retrospective designation of financial instruments as available-for-sale financial assets requires a first-time adopter to recognise the cumulative fair value changes in a separate component of equity in the opening IFRS statement of financial position, and transfer those fair value changes to profit or loss on subsequent disposal or impairment of the asset.

# Notes to the consolidated financial statements

## 2.4 First-time adoption of IFRS *continued*

### Commentary

IFRS 1 also contains the following exemptions that have not been utilised by the Group, which are discussed fully in our comprehensive publication International GAAP 2011:

#### **Insurance contracts (IFRS 1.D4)**

A first-time adopter may apply the transitional provisions in IFRS 4. That standard limits an insurer to changing 'its accounting policies for insurance contracts if, and only if, the change makes the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable and no less relevant to those needs. An insurer should judge relevance and reliability by the criteria in IAS 8. IFRS 4 also provides certain relief from full retrospective disclosure, for example, claims development.

#### **Deemed cost – Investment property or intangible assets (IFRS 1.D7)**

Fair value or revaluation deemed cost elections for property, plant and equipment, are extended to investment property measured at cost and intangible assets that meet IAS 38's criteria for recognition and revaluation.

#### **Deemed cost – Event driven (IFRS 1.D8)**

Event driven fair values, such as a privatisation or initial public offering, may be used as deemed cost for assets and liabilities at the date of the event, provided that the event occurred on or prior to the date of the entity's first IFRS financial statements. Subsequent to the date of the event, IFRS is used to measure the assets and liabilities.

#### **Deemed cost – Oil and gas assets (IFRS 1.D8A)**

First-time adopters that accounted under their previous GAAP for exploration and development costs for oil and gas properties in the development or production phases ... in cost centres that include all properties in a large geographical area, may elect to measure oil and gas assets at the date of transition to IFRS on the following basis:

- (a) Exploration and evaluation assets at the amount determined under the entity's previous GAAP  
And
- (b) Assets in the development or production phases at the amount determined for the cost centre under the entity's previous GAAP. The entity shall allocate this amount to the cost centre's underlying assets *pro rata* using reserve volumes or reserve values as of that date

A first-time adopter that uses the exemption under (b) should disclose that fact and the basis on which carrying amounts determined under previous GAAP were allocated.

To avoid the use of deemed costs resulting in an oil and gas asset being measured at more than its recoverable amount, oil and gas assets that were valued using this exemption should be tested for impairment at the date of transition to IFRS.

#### **Deemed cost – Assets used in operations subject to rate regulation (IFRS 1.D8B)**

A first-time adopter with operations subject to rate regulations may elect to use the previous GAAP carrying amount of items of property, plant and equipment or intangible assets that include rate regulation adjustments at the date of transition to IFRS as deemed cost. At the date of transition to IFRS, a first-time adopter must test for impairment in accordance with IAS 36 each item for which this exemption is used.

#### **Employee benefits (IFRS 1.D10)**

A first-time adopter with unrecognised actuarial gains or losses in accordance with previous GAAP may elect to recognise all cumulative actuarial gains and losses of all employee benefit plans at the date of transition to IFRS. This is the case even if it uses the corridor approach for later actuarial gains and losses.

#### **Investments in subsidiaries, jointly controlled entities and associates (IFRS 1.D14-15)**

In separate financial statements, a first-time adopter that subsequently measures an investment in a subsidiary, jointly controlled entity or associate at cost, may measure such investment at cost (determined in accordance with IAS 27) or deemed cost (fair value or previous GAAP carrying amount) in its separate opening IFRS statement of financial position.

#### **Assets and liabilities of subsidiaries associates and joint ventures (IFRS 1.D16-17)**

If a subsidiary becomes a first-time adopter later than its parent, the subsidiary should measure its assets and liabilities in its financial statements at either the amount included in the parent's consolidated financial statements (excluding consolidation adjustments), or at amounts determined by IFRS 1.

If a parent becomes a first-time adopter later than its subsidiary (or associate or joint venture), in the parent's consolidated financial statements the assets and liabilities of the subsidiary (or associate or joint venture) are measured at the same amounts as in the subsidiary's (or associate's or joint venture's) financial statements (after adjusting for consolidation and equity accounting adjustments and for the effects of the business combination in which the entity acquired the subsidiary).

#### **Compound financial instruments (IFRS 1.D18)**

When the liability component of a compound financial instrument is no longer outstanding at the date of transition to IFRS, a first-time adopter may elect not to apply IAS 32 retrospectively to split the liability and equity components of the instrument.

# Notes to the consolidated financial statements

## 2.4 First-time adoption of IFRS *continued*

### Commentary

#### **Fair value measurement of financial assets or financial liabilities (IFRS 1.D20)**

First-time adopters may apply the requirements of IAS 39 for day 1 profit in either of the following ways:

- ▶ Prospectively to transactions entered into after 25 October 2002
- Or
- ▶ Prospectively to transactions entered into after 1 January 2004

In December 2010, to provide first-time adopters with relief from retrospective restatement of such transactions, the IASB issued amendments to remove the above fixed dates and to replace those dates with the date of transition to IFRS. Accordingly, once the amendments are effective, a first-time adopter can apply IAS 39's (or IFRS 9) day one gain or loss provisions prospectively to transactions occurring on or after the date of transition to IFRS. Therefore, unless a first-time adopter elects to apply IAS 39 (or IFRS 9) retrospectively to day one gain or loss transactions, transactions that occurred prior to the date of transition to IFRS would not need to be retrospectively restated.

An entity must apply the amendments for annual periods beginning on or after 1 July 2011. Earlier application is permitted.

#### **Decommissioning liabilities included in the cost of property, plant and equipment (IFRS 1.D21-D21A)**

Under IAS 16 the cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

An entity accounts for changes in decommissioning liability in accordance with IFRIC 1 that requires specified changes in a decommissioning, restoration or similar liability to be added or deducted from the cost of the asset to which it relates.

IFRS 1 provides an exemption for changes that occurred before the date of transition to IFRS and prescribes an alternative treatment if the exemption is used.

A decommissioning liability is measured in accordance with IAS 37 at the date of transition to IFRS, and an estimate of the amount to include in the cost of the asset when the liability first arose is made at the date of transition to IFRS.

When a first-time adopter has also elected deemed cost for oil and gas assets in the production or development stages (IFRS 1D8A(b)) a further exemption is provided. A decommissioning liability is measured at the date of transition to IFRS, and any difference between this amount and the previous GAAP carrying amount is recognised in retained earnings.

#### **Financial assets or intangible assets accounted for in accordance with IFRIC 12 (IFRS 1.D22)**

When it is impracticable to apply IFRIC 12 retrospectively, a first-time adopter may apply IFRIC 12's transitional provisions, which allow the previous carrying amounts of financial and intangible assets, tested for impairment, to be used as their carrying amounts at the date of transition to IFRS.

#### **Transfers of assets from customers (IFRS 1.D24)**

A first-time adopter may apply IFRIC 18 prospectively from the later of 1 July 2009 or the date of transition to IFRS. Nevertheless, a first-time adopter may apply IFRIC 18 from a date before the date of transition to IFRS to all transfers of assets for customers received on or after that date.

#### **Extinguishing financial liabilities with equity instruments (IFRS 1.D25)**

A first-time adopter may apply IFRIC 19 for all annual periods beginning on or after 1 July 2010. Earlier application is permitted.

#### **Severe hyperinflation (IFRS 1.D26)**

Entities that have been unable to present IFRS financial statements due to 'severe hyperinflation' are treated the same as first-time adopters and can elect fair value as the deemed cost for assets and liabilities affected by severe hyperinflation in their first IFRS financial statements. An entity must apply the amendments for annual periods beginning on or after 1 July 2011. Earlier application is permitted.

#### **Disclosures about financial instruments (IFRS 1.E3)**

IFRS 1 was amended by *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* issued in January 2010. First-time adopters are permitted to use the same transition provisions permitted for existing preparers of financial statements that are included in *Improving Disclosures about Financial Instruments* (Amendments to IFRS 7). This relief is provided for all comparative periods ending before 31 December 2009.

An entity shall apply these amendments for annual periods beginning on or after 1 July 2010. Earlier application is permitted with disclosure of that fact. The Group has not utilised this amendment because its opening IFRS statement of financial position is as at 1 January 2010.

# Notes to the consolidated financial statements

## 2.4 First-time adoption of IFRS *continued*

### Commentary

IFRS 1 also contains the following exceptions from retrospective application of other IFRS, which are discussed fully in our comprehensive publication International GAAP 2011:

#### **Derecognition of financial assets and financial liabilities (IFRS 1.B2-3)**

A first-time adopter should apply the derecognition requirements in IAS 39 prospectively to transactions occurring on or after 1 January 2004. Therefore, if a first-time adopter derecognised non-derivative financial assets or non-derivative financial liabilities under its previous GAAP as a result of a transaction that occurred before 1 January 2004, it should not recognise those assets and liabilities under IFRS (unless they qualify for recognition as a result of a later transaction or event). A first-time adopter that wants to apply the derecognition requirements in IAS 39 retrospectively from a date of the entity's choosing can only do so provided that the information needed to apply IAS 39 to financial assets and financial liabilities derecognised as a result of past transactions was obtained at the time of initially accounting for those transactions.

In December 2010, to provide first-time adopters with relief from retrospective restatement of such transactions, the IASB issued amendments to remove the above fixed dates and to replace those dates with the date of transition to IFRS. Accordingly, once the amendments are effective, a first-time adopter can apply IAS 39's (or IFRS 9) derecognition provisions prospectively to transactions occurring on or after the date of transition to IFRS. Therefore, unless a first-time adopter elects to apply IAS 39 (or IFRS 9) retrospectively to derecognition transactions, transactions that occurred prior to the date of transition to IFRS would not need to be retrospectively restated.

An entity must apply the amendments for annual periods beginning on or after 1 July 2011. Earlier application is permitted.

#### **Hedge accounting (IFRS 1.B4-6)**

An entity cannot recognise a hedge relationship that does not qualify for hedge accounting under IAS 39. However, an entity that designated a net position as a hedged item in accordance with previous GAAP, may designate an individual item within that net position as a hedged item no later than the date of transition to IFRS. Transactions entered into before the date of transition to IFRS must not be retrospectively designated as hedges.

#### **Non-controlling interests (IFRS 1.B7)**

The following requirements of IAS 27 are applied prospectively from the date of transition to IFRS (provided that IFRS 3 is not applied retrospectively to past business combinations):

- ▶ To attribute total comprehensive income to non-controlling interests irrespective of whether this results in a deficit balance
- ▶ To treat changes in a parent's ownership interest as equity transactions
- ▶ To apply IAS 27 to loss of control of a subsidiary

### Estimates

IFRS 1.14

The estimates at 1 January 2010 and at December 31, 2010 are consistent with those made for the same dates in accordance with Local GAAP (after adjustments to reflect any differences in accounting policies) apart from the following items where application of Local GAAP did not require estimation:

- ▶ Pensions and other post employment benefits
- ▶ Share-based payment transactions
- ▶ Available-for-sale financial assets - unquoted equity shares

IFRS 1.16

The estimates used by the Group to present these amounts in accordance with IFRS reflect conditions at 1 January 2010, the date of transition to IFRS and as of December 31, 2010.

### Commentary

Application of IFRS, like other GAAPs, requires the use of estimation. IFRS 1 provides that an entity may need to make estimates in accordance with IFRS at the date of transition to IFRS that were not required at that date under previous GAAP. To achieve consistency with IAS 10, those estimates in accordance with IFRS must reflect conditions that existed at the date of transition to IFRS. In particular, estimates at the date of transition to IFRS of market prices, interest rates or foreign exchange rates shall reflect market conditions at that date. Care should be taken to identify previous GAAP estimates that are also required under IFRS and adjust for policy differences rather than adjust the previous GAAP estimates.

# Notes to the consolidated financial statements

## 2.4 First-time adoption of IFRS continued

### Group reconciliation of equity as at 1 January 2010 (date of transition to IFRS)

	Notes	Local GAAP €000	Remeasurements €000	IFRS as at 1 January 2010 €000	IFRS 1.23, 24(a)(i), 25
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	L, M, N	19,475	910	20,385	IFRS 1.D6
Investment properties		7,091	-	7,091	
Start-up expenses	A	300	(300)	-	IFRS 1.10(b)
Intangible assets	F	2,114	-	2,114	IFRS 1.10(b), IFRS 1.C4(c)
Investment in an associate		600	-	600	
Other non-current financial assets	B	3,269	150	3,419	IFRS 1.D19(a)
Deferred tax assets		321	-	321	IFRS 1.10(a)
		<u>33,170</u>	<u>760</u>	<u>33,930</u>	
<b>Current assets</b>					
Inventories		27,151	-	27,151	
Trade and other receivables	C	24,399	1,138	25,537	IFRS 1.10(d)
Prepayments		226	-	226	
Other current financial assets	D	-	137	137	
Cash and short-term deposits	O	11,066	-	11,066	
		<u>62,842</u>	<u>1,275</u>	<u>64,117</u>	
Assets classified as held for sale		-	-	-	
		<u>62,842</u>	<u>1,275</u>	<u>64,117</u>	
<b>Total assets</b>		<b>96,012</b>	<b>2,035</b>	<b>98,047</b>	
<b>Equity and liabilities</b>					
<b>Equity</b>					
Issued capital		19,388	-	19,388	
Share premium		-	-	-	
Treasury shares		(774)	-	(774)	
Other capital reserves	J	228	338	566	IFRS 1.D2
Retained earnings		25,112	(1,579)	23,533	IFRS 1.11
Other components of equity	B, D, K	(160)	288	128	IFRS 1.D13(a)
Reserves of a disposal group classified as held for sale		-	-	-	
<b>Equity attributable to owners of the parent</b>		<b>43,794</b>	<b>(953)</b>	<b>42,841</b>	
Non-controlling interests		198	10	208	
<b>Total equity</b>		<b>43,992</b>	<b>(943)</b>	<b>43,049</b>	
<b>Non-current liabilities</b>					
Interest-bearing loans and borrowings		19,436	-	19,436	
Other non-current financial liabilities		-	-	-	
Provisions	H	185	(125)	60	IFRS 1.10(b)
Government grants		1,300	-	1,300	
Deferred revenue		174	-	174	
Employee benefit liability	G	-	2,074	2,074	IFRS 1.10(a)
Other liabilities		212	-	212	
Deferred tax liabilities	I	(227)	1,507	1,279	IFRS 1.10(a)
		<u>21,080</u>	<u>3,456</u>	<u>24,535</u>	
<b>Current liabilities</b>					
Trade and other payables	E	21,348	(749)	20,600	IFRS 1.10(b)
Interest-bearing loans and borrowings		4,555	-	4,555	
Other current financial liabilities	D	32	271	303	
Government grants		150	-	150	
Deferred revenue		190	-	190	
Income tax payable		4,625	-	4,625	
Provisions		40	-	40	
		<u>30,940</u>	<u>(478)</u>	<u>30,463</u>	
Liabilities directly associated with the assets classified as held for sale		-	-	-	
		<u>30,940</u>	<u>(478)</u>	<u>30,463</u>	
<b>Total liabilities</b>		<b>52,020</b>	<b>2,978</b>	<b>54,998</b>	
<b>Total equity and liabilities</b>		<b>96,012</b>	<b>2,035</b>	<b>98,047</b>	

# Notes to the consolidated financial statements

## 2.4 First-time adoption of IFRS continued

### Group reconciliation of equity as at 31 December 2010

Notes	Local GAAP	Remeasurements	IFRS as at 31	IFRS 1.23, 24(a)(ii), 25	
	December 2010	December 2010	December 2010		
	€000	€000	€000		
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	L, M, N	24,992	819	25,811	IFRS 1.D6
Investment properties		7,983	-	7,983	
Start-up expenses	A	200	(200)	-	IFRS 1.10(b)
Intangible assets	F	2,461	-	2,461	
Investment in an associate		681	-	681	
Other non-current financial assets	B	3,491	125	3,616	IFRS 1.10(d)
Deferred tax assets		365	-	365	IFRS 1.10(a)
		<u>40,173</u>	<u>744</u>	<u>40,917</u>	
<b>Current assets</b>					
Inventories		25,489	-	25,489	
Trade and other receivables	C	23,212	1,078	24,290	IFRS 1.10(d)
Prepayments		165	-	165	
Other current financial assets	D	-	153	153	IFRS 1.10(a), IFRS 1.B4
Cash and short-term deposits	O	14,916	-	14,916	
		<u>63,782</u>	<u>1,231</u>	<u>65,013</u>	
Assets classified as held for sale		-	-	-	
		<u>63,782</u>	<u>1,231</u>	<u>65,013</u>	
<b>Total assets</b>		<b>103,955</b>	<b>1,975</b>	<b>105,930</b>	
<b>Equity and liabilities</b>					
<b>Equity</b>					
Issued capital		19,388	-	19,388	
Share premium		80	-	80	
Treasury shares		(654)	-	(654)	
Other capital reserves	J	294	570	864	IFRS 1.D2
Retained earnings		30,574	(1,719)	28,855	IFRS 1.11
Other components of equity	B, D, K	(275)	293	18	IFRS 1.10(a), (d), IFRS 1.B4
Reserves of a disposal group classified as held for sale		-	-	-	
<b>Equity attributable to owners of the parent</b>		<u>49,407</u>	<u>(856)</u>	<u>48,551</u>	
Non-controlling interests		728	12	740	
<b>Total equity</b>		<b>50,135</b>	<b>(844)</b>	<b>49,291</b>	
<b>Non-current liabilities</b>					
Interest-bearing loans and borrowings		22,203	-	22,203	
Other non-current financial liabilities		-	-	-	
Provisions	H	202	(125)	77	IFRS 1.10(b)
Government grants		1,400	-	1,400	
Deferred revenue		165	-	165	
Employee benefit liability	G	-	2,494	2,494	IFRS 1.10(a)
Other liabilities		232	-	232	
Deferred tax liabilities	I	(31)	1,278	1,247	IFRS 1.10(a)
		<u>24,171</u>	<u>3,647</u>	<u>27,818</u>	
<b>Current liabilities</b>					
Trade and other payables	E	22,363	(1,082)	21,281	IFRS 1.10(b)
Interest-bearing loans and borrowings		2,775	-	2,775	
Other current financial liabilities	D	49	254	303	
Government grants		151	-	151	
Deferred revenue		200	-	200	
Income tax payable		4,013	-	4,013	
Provisions		98	-	98	
		<u>29,649</u>	<u>(828)</u>	<u>28,821</u>	
Liabilities directly associated with the assets classified as held for sale		-	-	-	
		<u>29,649</u>	<u>(828)</u>	<u>28,821</u>	
<b>Total liabilities</b>		<b>53,820</b>	<b>2,819</b>	<b>56,639</b>	
<b>Total equity and liabilities</b>		<b>103,955</b>	<b>1,975</b>	<b>105,930</b>	

# Notes to the consolidated financial statements

## 2.4 First-time adoption of IFRS continued

### Group reconciliation of total comprehensive income for the year ended 31 December 2010

	Notes	IFRS as at 31		
		Local GAAP €000	Remeasurements €000	December 2010 €000
<b>Continuing operations</b>				
Sale of goods	C	172,924	(60)	172,864
Rendering of services		16,537	-	16,537
Revenue from redemption of <i>GoodPoints</i>		1,125	-	1,125
Rental income		1,377	-	1,377
<b>Revenue</b>		<b>191,963</b>	<b>(60)</b>	<b>191,903</b>
Cost of sales	L, M, N	(155,177)	(91)	(155,268)
<b>Gross profit</b>		<b>36,786</b>	<b>(151)</b>	<b>36,635</b>
Other operating income		2,548	-	2,548
Selling and distribution costs	G	(12,983)	(19)	(13,002)
Administrative expenses	J	(13,250)	(232)	(13,482)
Other operating expenses	A	(806)	100	(706)
<b>Operating profit</b>		<b>12,295</b>	<b>(302)</b>	<b>11,993</b>
Finance costs		(1,223)	-	(1,223)
Finance income		211	-	211
Share of profit of an associate		81	-	81
<b>Profit before tax from continuing operations</b>		<b>11,364</b>	<b>(302)</b>	<b>11,062</b>
Income tax expense	I	(3,544)	112	(3,432)
<b>Profit for the year from continuing operations</b>		<b>7,820</b>	<b>(190)</b>	<b>7,630</b>
Profit/(loss) after tax for the year from discontinued operations		(188)	-	(188)
<b>Profit for the year</b>		<b>7,632</b>	<b>(190)</b>	<b>7,442</b>
<b>Other comprehensive income</b>				
Exchange differences on translation of foreign operations		(117)	-	(117)
Net movement on cash flow hedges	D	-	33	33
Income tax effect	I	-	(10)	(10)
		-	<b>23</b>	<b>23</b>
Net (loss)/gain on available-for-sale financial assets	B	3	(25)	(22)
Income tax effect	I	(1)	7	6
		<b>2</b>	<b>(18)</b>	<b>(16)</b>
Actuarial gains and losses on defined benefit plans	G	-	(401)	(401)
Income tax effect	I	-	120	120
		-	<b>(281)</b>	<b>(281)</b>
<b>Other comprehensive income for the year, net of tax</b>		<b>(115)</b>	<b>(276)</b>	<b>(391)</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>7,517</b>	<b>(466)</b>	<b>7,051</b>

# Notes to the consolidated financial statements

## 2.4 First-time adoption of IFRS *continued*

### Commentary

In an entity's first IFRS financial statements, it would not be acceptable to merely refer to an earlier announcement published by the Group of the transition date statement of financial position and related notes, as IFRS 1 requires the disclosures to appear within the first IFRS financial statements. However, for interim reporting, entities should be aware that they are not required to repeat all of the incremental IFRS information for each interim period during that first IFRS reporting year (IFRS 1.32-33). The opening statement of financial position and accompanying reconciliations of equity and total comprehensive income at the date of transition to IFRS is a requirement for only the first interim and annual financial reports; they are not required in the second and third interim financial reports, which only require reconciliations of equity and total comprehensive income for the respective quarter.

A first-time adopter will also have to ensure that its interim financial reports in the year of adoption of IFRS contain sufficient information about events or transactions that are material to an understanding of the current interim period. Since a first-time adopter has not previously issued a complete set of annual IFRS financial statements, this means that significantly more information may be required in these IFRS interim reports than would normally be included in an interim report prepared in accordance with IAS 34.

### Notes to the reconciliation of equity as at 1 January 2010 and 31 December 2010 and total comprehensive income for the year ended 31 December 2010

IAS 1.23, 25

#### A Start-up expenses

IFRS 1.10(b)

Under Local GAAP, the Group capitalised the cost of incorporation of a new subsidiary and depreciated this on a straight-line basis over five years. As such cost does not qualify for recognition as an asset under IFRS this asset is derecognised against retained earnings.

#### B Available-for-sale financial assets

IFRS 1.10(d)  
IFRS 1.D19(a),  
IFRS 1.29

Under Local GAAP, the Group accounted for investments in unquoted equity shares as financial instruments measured at cost. Under IFRS, the Group has designated such investments as available-for-sale investments. IFRS requires available-for-sale investments to be measured at fair value. At the date of transition to IFRS, the fair value of these assets is €1,040,000 and their previous Local GAAP carrying amount was €890,000. The €150,000 difference between the instruments fair value and Local GAAP carrying amount has been recognised as a separate component of equity, in the available-for-sale reserve, net of related deferred taxes.

#### C Trade and other receivables

IFRS 1.10(d)

Under Local GAAP, the provision for impairment of receivables consists of both a specific amount for incurred losses and general amount for expected future losses. IFRS does not permit recognition of impairment for expected future losses and this amount has been eliminated against retained earnings at 1 January 2010. The effect on earnings for the year ended 31 December 2010 is also recognised in profit for the year under IFRS.

#### D Other financial assets and liabilities

IFRS 1.10(a),  
IFRS 1.B4

The fair value of forward foreign exchange contracts is recognised under IFRS, and was not recognised under Local GAAP. The contracts, which were designated as hedging instruments under Local GAAP, have been designated as at the date of transition to IFRS as hedging instrument in cash flow hedges of either expected future sales for which the group has firm commitments or expected purchases from suppliers that are highly probable. The corresponding adjustment has been recognised as a separate component of equity, in the cash flow hedge reserve.

#### E Trade and other payables

IFRS 1.10(b)

Under Local GAAP, proposed dividends are recognised as a liability in the period to which they relate, irrespective of when they are declared. Under IFRS, a proposed dividend is recognised as a liability in the period in which it is declared by the company (usually when approved by shareholders in a general meeting) or paid. In the case of the Group, the declaration of dividend occurs after period end. Therefore, the liability recorded for this dividend has been derecognised against retained earnings.

#### F Intangible assets

IFRS 1.10(b),  
IFRS 1.CA(c)

Under Local GAAP, the Group recognised indefinite lived intangible assets amounting to €57,000 on a business combination that do not qualify for recognition under IFRS. These intangible assets have been reclassified as part of goodwill on transition to IFRS. Goodwill has been presented within Intangible Assets on the Statement of Financial Position.

#### G Defined benefit obligation

IFRS 1.10(a)

Under Local GAAP, the Group recognised costs related to its pension plan on a cash basis. Under IFRS, pension liabilities are recognised on an actuarial basis. The pension liability has been recognised in full against retained earnings.

# Notes to the consolidated financial statements

## 2.4 First-time adoption of IFRS *continued*

### H Provisions

Under Local GAAP, a restructuring provision has been recorded relating to downsizing head office activities. This amount does not qualify for recognition as a liability according to IAS 37, and has been derecognised against retained earnings.

IFRS 1.10(b)

### I Deferred tax

The various transitional adjustments lead to different temporary differences. According to the accounting policies in Note 2.3, the Group has to account for such differences. Deferred tax adjustments are recognised in correlation to the underlying transaction either in retained earnings or a separate component of equity.

IFRS 1.10(a)

### J Share-based payments

Under Local GAAP, the Group recognised only the cost for the long-term incentive plan as an expense. IFRS requires the fair value of the share options to be determined using an appropriate pricing model recognised over the vesting period. An additional expense of €232,000 has been recognised in profit or loss for the year ended 31 December 2010. Share options totalling €338,000, which were granted before and still vesting at 1 January 2010, have been recognised as a separate component of equity against retained earnings at 1 January 2010.

IFRS 1.10(a)

### K Foreign currency translation

Under Local GAAP, the Group recognised translation differences on foreign operations in a separate component of equity. Cumulative currency translation differences for all foreign operations are deemed to be zero as at 1 January 2010. The resulting adjustment was recognised against retained earnings.

IFRS 1.D13(a)

### L Property, plant and equipment

The group has elected to measure certain items of property, plant and equipment at fair value at the date of transition to IFRS. At the date of transition to IFRS, an increase of €540,000 (31 December 2010 – €486,000) was recognised in property, plant and equipment. This amount has been recognised against retained earnings.

IFRS 1.D5

### M Depreciation of property, plant and equipment

IAS 16 requires significant component parts of an item of property, plant and equipment to be depreciated separately. As explained in note 2.3(i), the cost of major inspections is capitalised and depreciated separately over the period to the next major inspection. At the date of transition to IFRS, an increase of €620,000 (31 December 2010 – €558,000) was recognised in property, plant and equipment net of accumulated depreciation due to separate depreciation of significant components of property, plant and equipment. This amount has been recognised against retained earnings.

IFRS 1.10(d),  
IAS 16.43

### N Impairment of property, plant and equipment

Under Local GAAP, long-lived assets were reviewed for impairment when events or changes in circumstances indicated that their carrying value may exceed the sum of the undiscounted future cash flows expected from use and eventual disposal. For the purposes of assessing impairment, assets were grouped at the lowest level for which identifiable cash flows were largely independent of the cash flows of other assets. If the estimated undiscounted cash flows for the asset group were less than the asset group's carrying amount, the impairment loss was measured as the excess of the carrying value over fair value. Under IFRS, as explained in note 2.3(q), impairment of assets that do not generate cash inflows that are largely independent of those from other assets or groups of assets, is assessed at the CGU level based on the CGU's recoverable amount.

At the date of transition to IFRS, as a result of the changes in methodology, the Group determined that the recoverable amount of its manufacturing plant, which is considered a CGU and is part of the Group's Fire Prevention Equipment reportable segment, was less than its carrying amount. The recoverable amount was based on the CGU's value in use using a pre-tax discount rate of 8%. This resulted in an impairment loss of €250,000 being recognised as at 1 January 2010. This amount has been recognised against retained earnings. Additionally, depreciation for the year ended December 31, 2010 was reduced by \$25,000.

### O Statement of cash flows

The transition from Local GAAP to IFRS has not had a material impact on the statement of cash flows.

## Commentary

If errors made under previous GAAP are discovered during the transition to IFRS, any adjustments to equity or comprehensive income for these amounts must be identified as error corrections in the reconciliation rather than as IFRS transition adjustments.

# Notes to the consolidated financial statements

## 3. Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

### Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the consolidated financial statements:

IAS 1.122

#### *Operating lease commitments – group as lessor*

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and, therefore, accounts for the contracts as operating leases.

#### *Discontinued operations*

On 1 March 2011, the Board of Directors announced its decision to dispose of the rubber segment consisting of Hose Limited and therefore classified it as a disposal group held for sale. The Board decided that the subsidiary met the criteria to be classified as held for sale at that date for the following reasons:

- ▶ Hose Limited is available for immediate sale and can be sold to a potential buyer in its current condition
- ▶ The Board had a plan to sell Hose Limited and had entered into preliminary negotiations with a potential buyer. Should negotiations with the party not lead to a sale, a number of other potential buyers have been identified
- ▶ The Board expects negotiations to be finalised and the sale to be completed by 29 February 2012

IFRS 5.7  
IFRS 5.8

For more details on the discontinued operation refer to Note 11.

#### *Consolidation of a special purpose entity*

In February 2011, the Group and a third party partner formed an entity to acquire land and construct and operate a fire equipment safety facility. The Group holds a 20% equity interest in this entity. However, the Group has majority representation on the entity's board of directors and is required to approve all major operational decisions. The operations, once they commence, will be solely used by the Group. Based on these facts and circumstances, management concluded that the Group controls this entity and, therefore, consolidates the entity in its financial statements. In addition, the Group is effectively guaranteeing the returns to the third party. The shares of the third party partner are recorded as a long-term loan and the return on investment is recorded as interest expense.

### Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

IAS 1.125

#### *Revaluation of property, plant and equipment and investment properties*

The Group carries its investment properties at fair value, with changes in fair value being recognised in the income statement. In addition, it measures land and buildings at revalued amounts with changes in fair value being recognised in other comprehensive income. The Group engaged independent valuation specialists to determine fair value as at 31 December 2011. For the investment property the valuer used a valuation technique based on a discounted cash flow model as there is a lack of comparable market data because of the nature of the property.

The determined fair value of the investment properties is most sensitive to the estimated yield as well as the long term vacancy rate. The key assumptions used to determine the fair value of the investment properties, are further explained in Note 14.

# Notes to the consolidated financial statements

## 3. Significant accounting judgments, estimates and assumptions *continued*

### *Impairment of non-financial assets*

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, are further explained in Note 17.

### *Share-based payment transactions*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires the determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 27.

### *Taxes*

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile. As the Group assesses the probability for litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognised.

IAS 12.88  
IAS 1.125

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

The Group has tax loss carry forwards amounting to €427,000 (2010: €1,198,000, 1 January 2010: €1,494,000). These losses relate to subsidiaries that have a history of losses, do not expire and may not be used to offset taxable income elsewhere in the Group. The subsidiary has no taxable temporary differences nor any tax planning opportunities available that could partly support the recognition of these losses as deferred tax assets.

If the Group was able to recognise all unrecognised deferred tax assets, profit would increase by €128,000. Further details on taxes are disclosed in Note 10.

# Notes to the consolidated financial statements

## 3. Significant accounting judgments, estimates and assumptions *continued*

### *Pension benefits*

The cost of defined benefit pension plans and other post employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds.

The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates for the respective country.

Further details about the assumptions used are given in Note 26.

### *Fair value measurement of contingent consideration*

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. Where the contingent consideration meets the definition of a derivative and, thus, a financial liability, it is subsequently remeasured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor.

As part of the purchase price allocation for its acquisition of Extinguishers Limited, the Group identified an element of contingent consideration with a fair value of €714,000 at the acquisition date, remeasured to €1,071,500 as at 31 December 2011, which is classified as other financial liability (see Notes 5 and 16).

### *Fair value of financial instruments*

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible. Where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments (see Note 16.4).

### *Development costs*

Development costs are capitalised in accordance with the accounting policy in Note 2.3. Initial capitalisation of costs is based on management's judgment that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. At 31 December 2011, the carrying amount of capitalised development costs was €2,178,000 (2010: €1,686,000, 1 January 2010: €1,420,000).

This amount includes significant investments in the development of an innovative fire prevention system. Prior to being marketed, it will need to obtain a safety certificate issued by the relevant regulatory authorities. Because of the innovative nature of the product, there is some uncertainty as to whether the certificate will be obtained. However, the Group is confident that the certificate will be received.

# Notes to the consolidated financial statements

## 3. Significant accounting judgments, estimates and assumptions *continued*

### *Provision for decommissioning*

As part of the purchase price allocation for the acquisition of Extinguishers Limited in 2011, the Group has recognised a provision for decommissioning obligations associated with a factory owned by Extinguishers Limited. In determining the fair value of the provision, assumptions and estimates are made in relation to discount rates, the expected cost to dismantle and remove the plant from the site and the expected timing of those costs. The carrying amount of the provision as at 31 December 2011 was €1,221,000 (2010: €Nil).

If the estimated pre-tax discount rate used in the calculation had been 10% higher than management's estimate, the carrying amount of the provision would have been €94,000 lower.

### *Provision for WEEE*

The Group recognises a provision for liabilities associated with participation in the market for Waste Electrical and Electronic Equipment (WEEE) in accordance with the accounting policy stated in Note 2.3. The Group has made assumptions in relation to historical waste, regarding the level of market participation, the quantity of products disposed of and the expected cost of disposal. In relation to future waste, the Group has made assumptions about the age profile of products in the market and the cost of disposal. At 31 December 2011, the carrying amount of the provision for WEEE was €149,000 (2010: €53,000, 1 January 2010: €31,000).

### *Revenue recognition – GoodPoints for loyalty programme*

The Group estimates the fair value of points awarded under the *GoodPoints* programme by applying statistical techniques. Inputs to the models include making assumptions about expected redemption rates, the mix of products that will be available for redemption in the future and customer preferences. As points issued under the programme do not expire, such estimates are subject to significant uncertainty. As at 31 December 2011, the estimated liability for unredeemed points was approximately €416,000 (2010: €365,000, 1 January 2010: €364,000).

## **Commentary**

IAS 1.125 requires an entity to disclose significant judgments applied in preparing the financial statements and significant estimates that involve a high degree of estimation uncertainty. The disclosure requirements go beyond those requirements that already exist in some other IFRS such as IAS 37.

These disclosures represent a very important source of information in the financial statements because they highlight those areas in the financial statements that are most prone to change in the foreseeable future. Therefore, any information given should be sufficiently detailed to help the reader of the financial statements understand the impact of possible significant changes.

## 4. Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

IAS 8.30  
IAS 8.31(d)

### **IAS 12 Income Taxes – Recovery of Underlying Assets**

The amendment clarified the determination of deferred tax in investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement to calculate deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16, always be measured on the sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012.

### **IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements**

The amendment requires additional disclosures about financial assets that have been transferred, but not derecognised, to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

# Notes to the consolidated financial statements

## 4. Standards issued but not yet effective continued

### IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

### Commentary

IAS 8.30 requires disclosure of those standards that have been issued, but are not yet effective and that provide known or reasonably estimable information to enable users to assess the possible impact of the application of such IFRSs on an entity's financial statements. Therefore, the Group has listed those standards and interpretations that are not yet effective, which it reasonably expects to have an impact (i.e., omitting to list amendments that have no impact, such as IAS 34).

A first-time adopter is permitted to adopt a standard issued but not yet effective in its first IFRS annual financial statements provided that the standard permits early adoption. Entities may wish to take this approach to reduce the number of accounting standard changes in the years immediately following transition to IFRS.

Note the above disclosure is based on standards issued, but not yet effective, as of 31 March 2011.

## 5. Business combinations and acquisition of non-controlling interests

### Acquisitions in 2011

#### Acquisition of Extinguishers Limited

On 1 May 2011, the Group acquired 80% of the voting shares of Extinguishers Limited, an unlisted company based in Euroland and specialising in the manufacture of fire retardant fabrics. The Group has acquired Extinguishers Limited because it significantly increases the range of products in the fire prevention equipment segment that can be offered to its clients.

IFRS 3.59  
IFRS 3.B64(a)  
IFRS 3.B64(b)  
IFRS 3.B64(d)  
IFRS 3.B64(c)

The Group has elected to measure the non-controlling interest in the acquiree at fair value.

#### Assets acquired and liabilities assumed

The fair value of the identifiable assets and liabilities of Extinguishers Limited as at the date of acquisition were:

	<b>Fair value recognised on acquisition</b>	IFRS 3.B64(i) IAS 7.40(d)
	<b>€000</b>	
<b>Assets</b>		
Property, plant and equipment (Note 13)	7,042	
Cash and cash equivalents	230	IAS 7.40(c)
Trade receivables	1,736	
Inventories	3,578	
Patents and licences (Note 15)	1,200	
	<b>13,786</b>	
<b>Liabilities</b>		
Trade payables	(2,542)	
Contingent liability (Note 23)	(380)	
Provision for onerous operating lease costs (Note 23)	(400)	
Provision for restructuring (Note 23)	(500)	
Provision for decommissioning costs (Note 23)	(1,200)	
Deferred tax liability	(1,511)	
	<b>(6,553)</b>	
<b>Total identifiable net assets at fair value</b>	<b>7,233</b>	
Non-controlling interest measured at fair value	(1,547)	IFRS 3.B64(o)(i)
Goodwill arising on acquisition (Note 15)	2,231	
<b>Purchase consideration transferred</b>	<b>7,917</b>	

# Notes to the consolidated financial statements

## 5. Business combinations and acquisition of non-controlling interests *continued*

The fair value of the trade receivables amounts to €1,736,000. The gross amount of trade receivables is €1,754,000. None of the trade receivables were impaired and the contractual amounts were expected to be collected. IFRS 3.B64(h)

Prior to the acquisition, Extinguishers Limited decided to eliminate certain product lines (further details are given in Note 23). The restructuring provision recognised above was a present obligation of Extinguishers Limited immediately prior to the business combination. The execution of the plan was not conditional upon it being acquired by the Group.

The goodwill of €2,231,000 comprises the value of expected synergies arising from the acquisition and a customer list, which is not separately recognised. Goodwill is allocated entirely to the fire prevention segment. Due to the contractual terms imposed on acquisition, the customer list is not separable and therefore does not meet the criteria for recognition as an intangible asset under IAS 38 *Intangible Assets*. None of the goodwill recognised is expected to be deductible for income tax purposes. IFRS 3.B64(e)  
IFRS 3.B64(k)

A contingent liability at a fair value of €380,000 has been determined at the acquisition date resulting from a claim of a supplier whose shipment has been rejected and payment has been refused by the Group due to deviations from the defined technical specifications of the goods. The claim is subject to legal arbitration and is only expected to be finalised in late 2011. As at the reporting date, the contingent liability has been reassessed and is determined to be €400,000, which is based on the expected probable outcome (see Note 23). The charge has been recognised in the income statement. IFRS 3.B64(j)  
IFRS 3.56(a)

The fair value of the non-controlling interest in Extinguishers Limited has been estimated by applying a discounted earnings approach. Extinguishers Limited is an unlisted company and as such no market information is available. The fair value estimate is based on: IFRS 3.B64  
(oXii)

- ▶ An assumed discount rate of 14%
- ▶ A terminal value, calculated based on long-term sustainable growth rates for the industry ranging from two to four per cent which has been used to determine income for the future years
- ▶ A reinvestment ratio of 60% of earnings

From the date of acquisition, Extinguishers Limited has contributed €17,857,000 of revenue and €750,000 to the net profit before tax of the Group. If the combination had taken place at the beginning of the year, revenue from continuing operations would have been €222,582,000 and the profit from continuing operations for the Group would have been €12,285,000. IFRS 3.B64 (qXi)  
IFRS 3.B64  
(qXii)

### **Purchase consideration**

	<b>€000</b>	
Shares issued, at fair value	7,203	IFRS 3.B64 (fXiv)
Contingent consideration liability	714	IFRS 3.B64 (fXiii)
<b>Total consideration</b>	<b>7,917</b>	IAS 7.40(a)

### **Analysis of cash flows on acquisition:**

	<b>€000</b>	
Transaction costs of the acquisition (included in cash flows from operating activities)	(600)	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	230	IAS 7.40(c)
Transaction costs attributable to issuance of shares (included in cash flows from financing activities, net of tax)	(32)	
<b>Net cash flow on acquisition</b>	<b>(402)</b>	

The Group issued 2,500,000 ordinary shares as consideration for the 80% interest in Extinguishers Limited. The fair value of the shares is the published price of the shares of the Group at the acquisition date, which was €2.88 each. The fair value of the consideration given is therefore €7,203,000. IFRS 3.B64  
(fXiv)

Transaction costs of €600,000 have been expensed and are included in administrative expenses. The attributable costs of the issuance of the equity instruments of €32,000 have been charged directly to equity as negative share premium. IFRS 3.B64  
(fXiv)  
IFRS 3.B64(m)

# Notes to the consolidated financial statements

## 5. Business combinations and acquisition of non-controlling interests *continued*

### *Contingent consideration*

As part of the purchase agreement with the previous owner of Extinguishers Limited, a contingent consideration has been agreed. There will be additional cash payments to the previous owner of Extinguishers Limited of:

*IFRS 3.B64  
(gXii)*

a) €675,000, if the entity generates €1,000,000 of profit before tax in a 12-month period after the acquisition date  
Or

*IFRS 3.B64  
(gXiii)  
IFRS 3.B64 (gXi)*

b) €1,125,000, if the entity generates €1,500,000 of profit before tax in a 12-month period after the acquisition date

As at the acquisition date, the fair value of the contingent consideration was estimated at €714,000.

*IFRS 3.58 (bXi)*

As at 31 December 2011, the key performance indicators of Extinguishers Limited show clearly that target (a) will be achieved and the achievement of target (b) is probable due to a significant expansion of the business and synergies implemented. Accordingly, the fair value of the contingent consideration has been adjusted to reflect this development and such charge has been recognised through profit or loss.

The contingent consideration as at 31 December 2011 has been increased by €357,500 to €1,071,500 due to changes in the underlying assumptions which reflects the fair value of the discounted cash payment (see Note 3). This fair value adjustment is recognised in administrative expenses.

### **Commentary**

The classification of a contingent consideration requires an analysis of the individual facts and circumstances. It may be classified either as equity or as a financial liability in accordance with IAS 32 and IAS 39, as a provision in accordance with IAS 37 or in accordance with other IFRSs, each resulting in different initial recognition and subsequent measurement. The Group has assessed the nature of the contingent consideration and determined it as being a financial liability, as the Group incurred a contractual obligation to deliver cash to the seller (IAS 32.11). Consequently, the Group is required to remeasure that liability to fair value at the reporting date (IFRS 3.58(b)(i)).

As part of the business combination, contingent payments to employees or selling shareholders are a common method of retention of key people for the combined entity. The nature of such contingent payments, however, needs to be evaluated in each individual circumstance as not all such payments qualify as contingent consideration but are accounted for as a separate transaction. For example, contingent payments that are unrelated to the future service of the employee are deemed contingent consideration, whereas contingent payments that are forfeited when the employment is terminated, are deemed remuneration. Paragraphs B54 - B55 of IFRS 3 provide further guidance.

When first-time adopters elect the IFRS 1 business combinations exemption from full retrospective application of IFRS 3, they are reminded that they are still required to recognise the fair value of any contingent consideration relating to past business combinations at the date of transition if they had not done so under previous GAAP. This is because the business combinations exemption in IFRS 1 does not specifically override the requirements of IAS 32, IAS 37 and IAS 39 and an entity accounts for contingent consideration under one or more of those standards.

### **Acquisition of additional interest in Lightbulbs Limited**

On 1 October 2011, the Group acquired an additional 7.4% interest of the voting shares of Lightbulbs Limited, increasing its ownership interest to 87.4%. A cash consideration of €325,000 was paid to the non-controlling interest shareholders. The carrying value of the net assets of Lightbulbs Limited (excluding goodwill on the original acquisition) at the acquisition date was €1,824,000, and the carrying value of the additional interest acquired was €135,000. The difference of €190,000 between the consideration and the carrying value of the interest acquired has been recognised in retained earnings within equity.

*IAS 27.30  
IAS 27.41(e)*

### **Acquisitions in 2010**

On 1 December 2010, the Group acquired 80% of the voting shares of Lightbulbs Limited, a company based in Euroland, specialising in the production and distribution of lightbulbs.

*IFRS 3.59  
IFRS 3.B64(a)  
IFRS 3.B64(b)  
IFRS 3.B64(d)  
IFRS 3.B64(c)*

The Group has acquired Lightbulbs Limited because it adds additional products to its existing consumer electronics business.

# Notes to the consolidated financial statements

## 5. Business combinations and acquisition of non-controlling interests *continued*

The fair value of the identifiable assets and liabilities of Lightbulbs Limited as at the date of acquisition were:

	<b>Fair value recognised on acquisition</b>	<i>IFRS 3.B64(i) IAS 7.40(d)</i>
	<b>€000</b>	
<b>Assets</b>		
Land and buildings (Note 13)	1,280	
Cash and cash equivalents	50	<i>IAS 7.40(c)</i>
Trade receivables	853	
Inventories	765	
	<b>2,948</b>	
<b>Liabilities</b>		
Trade payables	(807)	
Deferred tax liability	(380)	
Provision for maintenance warranties	(50)	
	<b>(1,237)</b>	
<b>Total identifiable net assets at fair value</b>	<b>1,711</b>	
Non-controlling interest measured at the proportionate share of the acquiree's identifiable net assets (20%)	(342)	<i>IFRS 3.B64(o)(i)</i>
Net assets acquired	1,369	
Goodwill arising on acquisition (Note 15)	131	
<b>Purchase consideration transferred</b>	<b>1,500</b>	
<b>Cash flow on acquisition</b>		
Net cash acquired with the subsidiary	50	<i>IFRS 3.B64(f)(i), IAS 7.40(c)</i>
Cash paid	(1,500)	<i>IFRS 3.B64(f)(i), IAS 7.40(a), (b)</i>
<b>Net cash outflow</b>	<b>(1,450)</b>	

The fair value of the trade receivables amounts to €853,000, which approximates their gross carrying amount. None of the trade receivables were impaired and the full contractual amounts were expected to be collected. *IFRS 3.B64(h)*

The goodwill of €131,000 comprises the value of expected synergies arising from the acquisition. Goodwill is allocated entirely to the electronics segment. None of the goodwill recognised is deductible for income tax purposes. *IFRS 3.B64(e)*

Lightbulbs Limited contributed €450,000 of revenue and €20,000 to the net profit before tax from the date of acquisition (1 December 2010) to 31 December 2010 to the profit for the year from continuing operations of the Group. If the combination had taken place at the beginning of that year, revenue from continuing operations would have been €198,078,000 and the profit for the year from continuing operations for the Group for 2010 would have been €7,850,000. *IFRS 3.B64 (q)(i)  
IFRS 3.B64 (q)(ii)*

### Commentary

IFRS 1 includes an optional exemption from restating business combinations that occurred prior to the date of transition to IFRS. However, this exemption does not extend to business combinations that occurred after the date of transition to IFRS but within the comparative period. Accordingly, business combinations in the comparative period have been restated to comply with IFRS 3.

# Notes to the consolidated financial statements

## 6. Interest in a joint venture

The Group has a 50% interest in Showers Limited, a jointly controlled entity which is involved in the manufacture of fire prevention equipment in Euroland. IAS 31.56

IAS 31.57

The Group's share of the assets and liabilities as at 31 December 2011 and 31 December 2010 and 1 January 2010 and income and expenses of the jointly controlled entity for the years ended 31 December 2011 and 31 December 2010, which is proportionally consolidated in the consolidated financial statements, are as follows:

	<b>2011</b>	<b>2010</b>	<b>1 January 2010</b>	<b>As at 2010</b>
	<b>€000</b>	<b>€000</b>		<b>€000</b>
Share of the joint venture's statement of financial position:				
Current assets	1,613	1,404		1,507
Non-current assets	1,432	1,482		1,445
Current liabilities	(112)	(551)		(450)
Non-current liabilities	(510)	(500)		(505)
<b>Equity</b>	<b>2,423</b>	<b>1,835</b>		<b>1,997</b>
Share of the joint venture's revenue and profit:				
Revenue	30,047	29,438		
Cost of sales	(27,244)	(26,710)		
Administrative expenses	(1,319)	(1,293)		
Finance costs	(102)	(100)		
Profit before tax	1,382	1,335		
Income tax expense	(794)	(778)		
<b>Profit for the year from continuing operations</b>	<b>588</b>	<b>557</b>		

The joint venture has no contingent liabilities or capital commitments as at 31 December 2011 and 2010 and 1 January 2010. IAS 31.54

IAS 31.55

## 7. Investment in an associate

The Group has a 25% interest in Power Works Limited, which is involved in the manufacture of fire prevention equipment for power stations in Euroland. IAS 28.37(a)

Power Works Limited is a private entity that is not listed on any public exchange. The following table illustrates summarised financial information of the Group's investment in Power Works Limited: IAS 28.37(e)

	<b>2011</b>	<b>2010</b>	<b>1 January 2010</b>	<b>As at 2010</b>
	<b>€000</b>	<b>€000</b>		<b>€000</b>
Share of the associate's statement of financial position:				
Current assets	1,631	1,581		1,500
Non-current assets	3,416	3,207		3,126
Current liabilities	(1,122)	(976)		(920)
Non-current liabilities	(3,161)	(3,131)		(3,106)
<b>Equity</b>	<b>764</b>	<b>681</b>		<b>600</b>
Share of the associate's revenue and profit:				
Revenue	8,323	8,160		
Profit	83	81		
<b>Carrying amount of the investment</b>	<b>764</b>	<b>681</b>		<b>600</b>

# Notes to the consolidated financial statements

## 8. Segment information

For management purposes, the group is organised into business units based on their products and services and has three reportable segments as follows:

IAS 1.138  
IFRS 8.22(a)  
IFRS 8.22(b)

- ▶ The fire prevention equipment segment produces and installs extinguishers, fire prevention equipment and fire retardant fabrics
- ▶ The electronics segment is a supplier of electronic equipment for defence, aviation, electrical safety markets and consumer electronic equipment for home use. It offers products and services in the areas of electronics, safety, thermal and electrical architecture
- ▶ The investment property segment leases offices and manufacturing sites owned by the Group which are surplus to the Group's requirements

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

IFRS 8.28(b)

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

IFRS 8.27(a)

Year ended					Adjustments and		
31 December 2011	Fire prevention equipment	Electronics	Investment property	Total segments	eliminations	Consolidated	
	€000	€000	€000	€000	€000	€000	
<b>Revenue</b>							
External customers	139,842	69,263	1,404	210,509	–	210,509	IFRS 8.23(a)
Inter-segment	–	7,465	–	7,465	(7,465)	–	IFRS 8.23(b)
<b>Total revenue</b>	<b>139,842</b>	<b>76,728</b>	<b>1,404</b>	<b>217,974</b>	<b>(7,465)</b>	<b>210,509</b>	
<b>Results</b>							
Depreciation and amortisation	(3,533)	(389)	–	(3,922)	–	(3,922)	IFRS 8.23(e)
Goodwill impairment (Note 17)	–	(200)	–	(200)	–	(200)	IFRS 8.23(e)
Impairment on AFS financial assets (Note 9.3)	(111)	–	–	(111)	–	(111)	
Share of profit of an associate (Note 7)	83	–	–	83	–	83	IFRS 8.23(g)
<b>Segment profit</b>	<b>10,475</b>	<b>2,968</b>	<b>321</b>	<b>13,764</b>	<b>(1,859)</b>	<b>11,905</b>	IFRS 8.23
<b>Operating assets</b>	<b>58,696</b>	<b>44,814</b>	<b>18,592</b>	<b>122,102</b>	<b>18,926</b>	<b>141,028</b>	IFRS 8.23
<b>Operating liabilities</b>	<b>18,309</b>	<b>7,252</b>	<b>4,704</b>	<b>30,265</b>	<b>46,163</b>	<b>76,428</b>	IFRS 8.23
<b>Other disclosures</b>							
Investment in an associate	764	–	–	764	–	764	IFRS 8.24(a)
Capital expenditure	18,849	2,842	1,216	22,907	–	22,907	IFRS 8.24(b)

Inter-segment revenues are eliminated upon consolidation and reflected in the 'adjustments and eliminations' column. All other adjustments and eliminations are part of detailed reconciliations presented further below.

# Notes to the consolidated financial statements

## 8. Segment information *continued*

Year ended 31 December 2010	Fire prevention equipment	Electronics	Investment property	Rubber equipment (disc. operation)	Total segments	Adjustments and eliminations	Consolidated	
	€000	€000	€000	€000	€000	€000	€000	€000
<b>Revenue</b>								
External customers	123,905	66,621	1,377	45,206	237,109	(45,206)	191,903	<i>IFRS 8.23(a)</i>
Inter-segment	–	7,319	–	–	7,319	(7,319)	–	<i>IFRS 8.23(b)</i>
<b>Total revenue</b>	<b>123,905</b>	<b>73,940</b>	<b>1,377</b>	<b>45,206</b>	<b>244,428</b>	<b>(52,525)</b>	<b>191,903</b>	
<b>Results</b>								
Depreciation and amortisation	(2,784)	(472)	–	324	(2,932)	(324)	(3,256)	<i>IFRS 8.23(e)</i>
Impairment on property, plant and equipment (Note 13)	(301)	–	–	–	(301)	–	(301)	<i>IFRS 8.23(i)</i>
Share of profit of an associate (Note 7)	81	–	–	–	81	–	81	<i>IFRS 8.23(g)</i>
<b>Segment profit</b>	<b>6,449</b>	<b>5,396</b>	<b>314</b>	<b>326</b>	<b>12,485</b>	<b>(1,423)</b>	<b>11,062</b>	<i>IFRS 8.23</i>
<b>Operating assets</b>	<b>41,711</b>	<b>40,409</b>	<b>9,887</b>	<b>11,712</b>	<b>103,719</b>	<b>2,211</b>	<b>105,930</b>	<i>IFRS 8.23</i>
<b>Operating liabilities</b>	<b>8,015</b>	<b>4,066</b>	<b>1,688</b>	<b>12,378</b>	<b>26,147</b>	<b>30,492</b>	<b>56,639</b>	<i>IFRS 8.23</i>
<b>Other disclosures</b>								
Investment in an associate	681	–	–	–	681	–	681	<i>IFRS 8.24(a)</i>
Capital expenditure	5,260	4,363	1,192	–	10,815	–	10,815	<i>IFRS 8.24(b)</i>
<b>As at 1 January 2010</b>								
	€000	€000	€000	€000	€000	€000	€000	
<b>Operating assets</b>	<b>39,289</b>	<b>36,341</b>	<b>9,152</b>	<b>11,140</b>	<b>95,922</b>	<b>2,125</b>	<b>98,047</b>	<i>IFRS 8.23</i>
<b>Operating liabilities</b>	<b>6,993</b>	<b>3,965</b>	<b>1,520</b>	<b>12,353</b>	<b>24,832</b>	<b>30,166</b>	<b>54,998</b>	<i>IFRS 8.23</i>
<b>Other disclosures</b>								
Investment in an associate	600	–	–	–	600	–	600	<i>IFRS 8.24(a)</i>

### Commentary

The chief operating decision maker of the Group regularly reviews certain other effects recorded in the statement of comprehensive income, i.e., depreciation and amortisation, impairments and the share of profit in associates. This is because management assumes those amounts to reflect the effectiveness of certain internal control procedures as well as the accuracy and effectiveness of certain transactions.

# Notes to the consolidated financial statements

## 8. Segment information *continued*

IFRS 8.28

### Adjustments and eliminations

Finance income and expenses, fair value gains and losses on financial assets are not allocated to individual segments as the underlying instruments are managed on a group basis.

Current taxes, deferred taxes and certain financial assets and liabilities are not allocated to those segments as they are also managed on a group basis.

Capital expenditure consists of additions of property, plant and equipment, intangible assets and investment properties including assets from the acquisition of subsidiaries. Inter-segment revenues are eliminated on consolidation.

<b>Reconciliation of profit</b>	<b>2011</b>	<b>2010</b>
	<b>€000</b>	<b>€000</b>
<b>Segment profit</b>	<b>13,764</b>	<b>12,485</b>
Finance income	336	211
Net fair value loss on financial assets at fair value through profit or loss	(652)	–
Finance costs	(1,366)	(1,223)
Net realised gains from available-for-sale financial assets (elimination)	(2)	–
Inter-segment sales (elimination)	(175)	(85)
Gain from discontinued operations	–	(326)
<b>Group profit</b>	<b>11,905</b>	<b>11,062</b>

<b>Reconciliation of assets</b>	<b>2011</b>	<b>2010</b>	<b>As at 1 January 2010</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>
<b>Segment operating assets</b>	<b>122,102</b>	<b>103,719</b>	<b>95,922</b>
Deferred tax assets	383	365	321
Loans to an associate	200	–	–
Loans to directors	13	8	8
Loan notes	3,674	1,685	1,659
Derivatives	1,102	153	137
Assets classified as held for sale	13,554	–	–
<b>Group operating assets</b>	<b>141,028</b>	<b>105,930</b>	<b>98,047</b>

<b>Reconciliation of liabilities</b>	<b>2011</b>	<b>2010</b>	<b>As at 1 January 2010</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>
<b>Segment operating liabilities</b>	<b>30,265</b>	<b>26,147</b>	<b>24,832</b>
Deferred tax liabilities	3,072	1,247	1,279
Current tax payable	3,963	4,013	4,625
Loans	20,538	22,334	21,469
Convertible preference shares	2,778	2,644	2,522
Derivatives	2,687	254	271
Liabilities classified as held for sale	13,125	–	–
<b>Group operating liabilities</b>	<b>76,428</b>	<b>56,639</b>	<b>54,998</b>

# Notes to the consolidated financial statements

## 8. Segment information *continued*

### Geographic information

IFRS 8.33(a)

#### Revenues from external customers

	<u>2011</u>	<u>2010</u>
	€000	€000
Euroland	158,285	142,022
United States	<u>52,224</u>	<u>49,881</u>
<b>Total revenue per consolidated income statement</b>	<b><u>210,509</u></b>	<b><u>191,903</u></b>

The revenue information above is based on the location of the customer.

IFRS 8.33(a)

Revenue from one customer amounted to €25,521,000 (2010: €21,263,000), arising from sales by the fire prevention equipment segment.

IFRS 8.34

#### Non-current assets

	<u>2011</u>	<u>2010</u>	<u>As at</u>
	€000	€000	1 January 2010
	€000	€000	€000
Euroland	40,023	29,004	24,350
United States	<u>9,300</u>	<u>7,251</u>	<u>5,240</u>
<b>Total</b>	<b><u>49,323</u></b>	<b><u>36,255</u></b>	<b><u>29,590</u></b>

IFRS 8.33(b)

Non-current assets for this purpose consist of property, plant and equipment, investment properties and intangible assets.

## Commentary

Interest revenue and interest expense have not been disclosed by segment as these items are managed on a group basis, and are not provided to the chief operating decision maker at the operating segment level. Disclosure of operating segment assets and liabilities is only required where such measures are provided to the chief operating decision maker. The Group provides information to the chief operating decision maker about operating assets and liabilities. The remaining operations (e.g., treasury) which are amongst others reflected in 'adjustments and eliminations', do not constitute an individual operating segment.

The Group's internal reporting is set up to report in accordance with IFRS. The segment disclosures could be significantly more extensive if internal reports had been prepared on a basis other than IFRS. In this case, a reconciliation between the internally reported items and the externally communicated items need to be prepared.

IFRS 8 does not provide specific disclosure requirements for operating segments classified as a discontinued operation. An entity is therefore not required to provide such segment information as soon as the classification criteria for held for sale are met. It is, however, allowed to continue to present segment information as long as the definition as operating segment is met. The Group has elected to continue to present segment information for the prior year. In the current year, the discontinued operation has been eliminated and is part of the reconciling items.

## 9. Other income/expenses and adjustments

### 9.1 Other operating income

	<u>2011</u>	<u>2010</u>
	€000	€000
Government grants (Note 24)	1,053	541
Net gain on disposal of property, plant and equipment	<u>532</u>	<u>2,007</u>
	<b><u>1,585</u></b>	<b><u>2,548</u></b>

IAS 20.39(b)

IAS 1.97

Government grants have been received for the purchase of certain items of property, plant and equipment. There are no unfulfilled conditions or contingencies attached to these grants.

IAS 20.39(c)

# Notes to the consolidated financial statements

## 9. Other income/expenses and adjustments *continued*

### 9.2 Other operating expenses

	<u>2011</u>	<u>2010</u>
	<b>€000</b>	<b>€000</b>
Bid defence costs	(579)	(31) <i>IAS 1.97</i>
Cost of WEEE (Note 23)	(102)	(22) <i>IAS 1.97</i>
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties	(101)	(353) <i>IAS 40.75 (f)(ii)</i>
Change in fair value of investment properties (Note 14)	(306)	(300) <i>IAS 1.97</i>
Ineffectiveness on forward commodity contracts designated as cash flow hedges	(65)	– <i>IFRS 7.24(b)</i>
<b>Total other operating expenses</b>	<b><u>(1,153)</u></b>	<b><u>(706)</u></b>

Bid defence costs were incurred to get advice in respect of a hostile takeover bid by a competitor. The competitor did not proceed with the bid.

Ineffectiveness resulting from cash flow hedges with respect to commodity forward contracts were incurred in the Electronics segment.

### 9.3 Finance costs

	<u>2011</u>	<u>2010</u>
	<b>€000</b>	<b>€000</b>
Interest on debts and borrowings	(1,172)	(1,182)
Finance charges payable under finance leases and hire purchase contracts	(40)	(40)
<b>Total interest expense</b>	<b><u>(1,212)</u></b>	<b><u>(1,222)</u></b> <i>IFRS 7.20(b)</i>
Impairment loss on quoted available-for-sale debt and equity investments (Note 16.1)	(111)	– <i>IFRS 7.20(e)</i>
Net loss on financial liabilities at fair value through profit or loss	(1,502)	– <i>IFRS 7.20(a)</i>
Unwinding of discount on provisions (Note 23)	(43)	(1) <i>IAS 37.60</i>
<b>Total finance costs</b>	<b><u>(2,868)</u></b>	<b><u>(1,223)</u></b>

### 9.4 Finance income

	<u>2011</u>	<u>2010</u>
	<b>€000</b>	<b>€000</b>
Interest income on a loan to an associate (Note 29)	20	–
Interest income from available-for-sale investments	316	211
Fair value gain on financial assets at fair value through profit or loss	850	– <i>IAS 1.85</i> <i>IFRS 7.20(a)(i)</i>
<b>Total finance income</b>	<b><u>1,186</u></b>	<b><u>211</u></b> <i>IFRS 7.20(b)</i>

Net loss on financial assets and liabilities through profit or loss in Note 9.3 and 9.4 above relates to foreign exchange forward contracts which did not qualify for hedge accounting and embedded derivatives, which have been bifurcated.

### Commentary

Finance income and finance cost are not defined terms in IFRS. Some jurisdictions limit the inclusion of certain income and expense within those items (e.g., restricted to interest income and expense), while other jurisdictions allow additional items to be included.

# Notes to the consolidated financial statements

## 9. Other income/expenses and adjustments *continued*

### 9.5 Depreciation, amortisation, foreign exchange differences and costs of inventories included in the consolidated income statement

	<b>2011</b>	<b>2010</b>	
	<b>€000</b>	<b>€000</b>	<i>IAS 1.104</i>
Included in cost of sales:			
Depreciation	3,520	2,800	
Impairment of property, plant and equipment (Note 13)	–	301	<i>IAS 36.126(a)</i>
Amortisation and impairment of intangible assets (Note 15)	325	174	
Net foreign exchange differences	(65)	(40)	<i>IAS 21.52(a)</i>
Warranty provision (Note 23)	106	52	
Costs of inventories recognised as an expense	150,283	131,140	<i>IAS 2.36(d)</i>
Included in administrative expenses:			
Depreciation	277	282	
Minimum lease payments recognised as an operating lease expense	250	175	<i>IAS 17.35(c)</i>

### 9.6 Employee benefits expense

	<b>2011</b>	<b>2010</b>	
	<b>€000</b>	<b>€000</b>	<i>IAS 1.104</i>
Wages and salaries	38,205	38,050	
Social security costs	3,854	3,837	
Pension costs (Note 26)	1,395	1,361	
Post-employment benefits other than pensions (Note 26)	153	113	
Share-based payment transaction expense (Note 27)	412	492	<i>IFRS 2.51(a)</i>
<b>Total employee benefits expense</b>	<b>44,019</b>	<b>43,853</b>	

### 9.7 Research and development costs

*IAS 38.126*

Research and development costs recognised as an expense in the income statement during the financial year amount to €2,235,000 (2010: €1,034,000).

### 9.8 Components of other comprehensive income

	<b>2011</b>	<b>2010</b>	
	<b>€000</b>	<b>€000</b>	<i>IAS 1.97</i>
Cash flow hedges:			
Gains/(losses) arising during the year			
Currency forward contracts	(218)	(379)	
Commodity forward contracts	(915)	–	
Reclassification adjustments for gains included in profit or loss	401	412	<i>IAS 1.92</i>
	<u>(732)</u>	<u>33</u>	<i>IFRS 7.23(d)</i>
Available-for-sale financial assets:			
Gains/(losses) arising during the year	(58)	(22)	
Reclassification adjustments for losses included in profit or loss	(2)	–	<i>IAS 1.92</i>
	<u>(60)</u>	<u>(22)</u>	<i>IFRS 7.20(a)(ii)</i>

### Commentary

The purpose of Note 9.8 is to provide an analysis of items presented net on the Statement of Comprehensive Income. This analysis does not apply to the other items of other comprehensive income, as those are either never reclassified to profit or loss or reclassification adjustments did not occur.

# Notes to the consolidated financial statements

## 10. Income tax

The major components of income tax expense for the years ended 31 December 2011 and 2010 are:

IAS 12.79

### Consolidated income statement

	<u>2011</u>	<u>2010</u>
	€000	€000
<b>Current income tax:</b>		
Current income tax charge	3,732	3,901
Adjustments in respect of current income tax of previous year	(18)	(129)
<b>Deferred tax:</b>		
Relating to origination and reversal of temporary differences	179	(340)
<b>Income tax expense reported in the income statement</b>	<b><u>3,893</u></b>	<b><u>3,432</u></b>

IAS 12.80(a)

IAS 12.80(b)

IAS 12.80(c)

### Consolidated statement of other comprehensive income

IAS 12.81(a)

Deferred tax related to items charged or credited directly to equity during the year:

Net gain/(loss) on revaluation of cash flow hedges	220	(10)
Unrealised gain/(loss) on available-for-sale financial assets	18	6
Net loss on revaluation of land and buildings	(254)	-
Net loss on hedge of net investment	(83)	-
Net (loss)/gain on actuarial gains and losses	(94)	120
<b>Income tax charged directly to other comprehensive income</b>	<b><u>(193)</u></b>	<b><u>116</u></b>

A reconciliation between tax expense and the product of accounting profit multiplied by Euroland's domestic tax rate for the years ended 31 December 2011 and 2010 is as follows:

IAS 12.81 (c)(i)

	<u>2011</u>	<u>2010</u>
	€000	€000
Accounting profit before tax from continuing operations	11,905	11,062
Profit/(loss) before tax from a discontinued operation	213	(193)
<b>Accounting profit before income tax</b>	<b><u>12,118</u></b>	<b><u>10,869</u></b>
At Euroland's statutory income tax rate of 30% (2010: 30%)	3,635	3,261
Adjustments in respect of current income tax of previous years	(18)	(44)
Government grants exempt from tax	(316)	(162)
Utilisation of previously unrecognised tax losses	(231)	(89)
Non-deductible expenses for tax purposes		
Impairment of goodwill	60	-
Change in contingent consideration on acquisition of Extinguishers Limited	107	-
Other non-deductible expenses	121	145
Effect of higher tax rates in the US	528	316
<b>At the effective income tax rate of 31% (2010: 32%)</b>	<b><u>3,886</u></b>	<b><u>3,427</u></b>
Income tax expense reported in the consolidated income statement	3,893	3,432
Income tax attributable to a discontinued operation	(7)	(5)
	<b><u>3,886</u></b>	<b><u>3,427</u></b>

# Notes to the consolidated financial statements

## 10. Income tax continued

### Deferred tax

Deferred tax relates to the following:

	Consolidated statement of financial position			Consolidated income statement		IAS 12.81(gXi)
	2011	2010	As at 1 January 2010	2011	2010	
	€000	€000	€000	€000	€000	
Accelerated depreciation for tax purposes	(2,359)	(634)	(411)	491	(157)	
Revaluations of investment properties to fair value	(1,330)	(1,422)	(1,512)	(92)	(90)	
Revaluations of land and buildings to fair value	(304)	(50)	(50)	-	-	
Revaluations of available-for-sale investments to fair value	(21)	(39)	(45)	-	-	
Revaluation of a hedged loan to fair value	(11)	-	-	11	-	
Net gain on hedge of a net investment	(83)	-	-	-	-	
Post-employment medical benefits	102	59	26	(43)	(33)	
Pension	685	689	596	(90)	27	
Revaluation of an interest rate swap (fair value hedge) to fair value	11	-	-	(11)	-	
Revaluation of cash flow hedges	(25)	30	40	-	-	
Impairment on available-for-sale unquoted debt instruments	27	-	-	(27)	-	
Deferred revenue on customer loyalty programmes	71	65	54	(6)	(11)	
Convertible preference shares	91	55	23	(36)	(32)	
Losses available for offsetting against future taxable income	383	365	321	(18)	(44)	
<b>Deferred tax expense /(income)</b>				<b>179</b>	<b>(340)</b>	
<b>Net deferred tax assets/(liabilities)</b>	<b>(2,763)</b>	<b>(882)</b>	<b>(958)</b>			
Reflected in the statement of financial position as follows:						
Deferred tax assets	383	365	321			
Deferred tax liabilities – continuing operations	(3,072)	(1,247)	(1,279)			
Deferred tax liabilities – discontinued operations	(74)	-	-			
<b>Deferred tax liabilities net</b>	<b>(2,763)</b>	<b>(882)</b>	<b>(958)</b>			
<b>Reconciliation of deferred tax liabilities net</b>				<b>2011</b>	<b>2010</b>	
				<b>€000</b>	<b>€000</b>	
<b>Opening balance as of 1 January</b>				<b>(882)</b>	<b>(958)</b>	
Tax income/(expense) during the period recognised in profit or loss				(179)	340	
Tax income/(expense) during the period recognised in other comprehensive income				(193)	116	
Discontinued operation				2	-	
Deferred taxes acquired in business combinations				(1,511)	(380)	
<b>Closing balance as at 31 December</b>				<b>(2,763)</b>	<b>(882)</b>	

### Commentary

Although not specifically required by IAS 1 or IAS 12, the reconciliation of the net deferred tax liability may be helpful for the reader.

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

IAS 12.73

# Notes to the consolidated financial statements

## 10. Income tax continued

The Group has tax losses which arose in Euroland of €427,000 (2010: €1,198,000, 1 January 2010: €1,494,000) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. However, as these losses relate to subsidiaries that have a history of losses, deferred tax assets have not been recognised as these losses may not be used to offset taxable profits elsewhere in the Group. The Group evaluated and concluded that it is not probable that deferred tax assets on existing tax losses as a result of the acquisition of Extinguishers Limited in 2011 will be recovered. The subsidiary has no taxable temporary differences nor any tax planning opportunities available that could partly support the recognition of these losses as deferred tax assets. If the Group were able to recognise all unrecognised deferred tax assets, profit would increase by €128,000.

IAS 12.81(e)

IAS 12.87

IAS 12.67

IAS 12.81(f)

At 31 December 2011, there was no recognised deferred tax liability (2010: €Nil, 1 January 2010: €Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associate or joint venture. The Group has determined that undistributed profits of its subsidiaries, joint venture or associate will not be distributed in the foreseeable future, as:

- ▶ The Group has an agreement with its associate that the profits of the associate will not be distributed until it obtains the consent of the Group. The parent company does not foresee giving such a consent at the reporting date

And

- ▶ The joint venture of the Group cannot distribute its profits until it obtains the consent from all venture partners. The parent company does not foresee giving such a consent at the reporting date

The temporary differences associated with investments in subsidiaries, associate and joint venture, for which a deferred tax liability has not been recognised, aggregate to €1,745,000 (2010: €1,458,000, 1 January 2010: €1,325,000).

IAS 12.82A

There are no income tax consequences attached to the payment of dividends in either 2011 or 2010 by the Group to its shareholders.

### Commentary

IAS 1.61 requires an entity to separately disclose the amount expected to be recovered or settled within 12 months and more than 12 months after the reporting date for each line item that combines such amounts. Deferred tax assets and liabilities may be considered one example, for items combining such amounts. However, IAS 1.56, in contrast, does not permit to present deferred tax items as current.

## 11. Discontinued operations

On 1 March 2011, the Group publicly announced the decision of its Board of Directors to dispose of Hose Limited. The business of Hose Limited has been operating in an unpredictable product environment, making it difficult for management to derive real growth and profitability from the segment. The disposal of Hose Limited is due to be completed on 28 February 2012 and, as at 31 December 2011, final negotiations for the sale were in progress. As at 31 December 2011, Hose Limited was classified as a disposal group held for sale and as a discontinued operation. The results of Hose Limited for the year are presented below:

IFRS 5.30

IFRS 5.41

	<b>2011</b>	<b>2010</b>	
	<b>€000</b>	<b>€000</b>	
Revenue	42,809	45,206	
Expenses	(41,961)	(44,880)	
Gross profit	848	326	
Finance costs	(525)	(519)	
Impairment loss recognised on the remeasurement to fair value less costs to sell (Note 13)	(110)	-	IFRS 5.33 (b)(iii)
Profit/(loss) before tax from a discontinued operation	213	(193)	
Tax income:			
Related to current pre-tax profit/(loss)	5	5	IAS 12.81(h)(ii)
Related to measurement to fair value less costs to sell (deferred tax)	2	-	IAS 12.81(h)(i)
<b>Profit/(loss) for the year from a discontinued operation</b>	<b>220</b>	<b>(188)</b>	

IFRS 5.33(b)(i)

IFRS 5.34

# Notes to the consolidated financial statements

## 11. Discontinued operations continued

The major classes of assets and liabilities of Hose Limited classified as held for sale as at 31 December 2011 are as follows: IFRS 5.38

	<b>2011</b>	<i>IFRS 5.38</i>
	<b>€000</b>	<i>IFRS 5.40</i>
<b>Assets</b>		
Intangibles (Note 15)	135	
Property, plant and equipment (Note 13)	4,637	
Debtors	6,980	
Equity shares – unquoted	508	
Cash and short-term deposits (Note 20)	1,294	
Assets classified as held for sale	13,554	
<b>Liabilities</b>		
Creditors	(7,242)	
Deferred tax liability	(74)	
Interest-bearing liabilities (Note 16)	(5,809)	
Liabilities directly associated with assets classified as held for sale	(13,125)	
<b>Net assets directly associated with disposal group</b>	<b>429</b>	
<b>Included in other comprehensive income:</b>		
Available-for-sale reserve	66	<i>IFRS 5.38</i>
Deferred tax on available-for-sale reserve	(20)	
<b>Reserve of disposal group classified as held for sale</b>	<b>46</b>	

The net cash flows incurred by Hose Limited are as follows:

	<b>2011</b>	<b>2010</b>	<i>IFRS 5.33(c)</i>
	<b>€000</b>	<b>€000</b>	
Operating	(1,999)	3,293	
Investing	–	–	
Financing	(436)	(436)	
<b>Net cash (outflow)/inflow</b>	<b>(2,435)</b>	<b>2,857</b>	
<b>Earnings per share:</b>			
Basic, profit/(loss) for the year, from discontinued operation	€0.01	(€0.01)	<i>IAS 33.68</i>
Diluted, profit/(loss) for the year, from discontinued operation	€0.01	(€0.01)	

Interest-bearing liabilities comprise a fixed rate bank loan of €5,809,000 having an effective interest rate of 7.5% that is repayable in full on 1 January 2016.

### Impairment of property, plant and equipment

Immediately before the classification of Hose Limited as a discontinued operation, the recoverable amount was estimated for certain items of property, plant and equipment and no impairment loss was identified. Following the classification, an impairment loss of €110,000 (net of tax €77,000) was recognised to reduce the carrying amount of the assets in the disposal group to the fair value less costs to sell. This was recognised in the income statement in the line item, 'Profit for the year from a discontinued operation'. An independent valuation was obtained to determine the fair value of property, plant and equipment, which was based on recent transactions for similar assets within the same industry. *IAS 36.130*

*IFRS 5.33 (a)(iii)*

## Commentary

IFRS 5 specifies certain disclosures required in respect of discontinued operations and non-current assets held for sale. In April 2010, the IASB issued its second omnibus of Improvements to IFRSs which clarified that disclosures required in other IFRSs do not apply to non-current assets held for sale and discontinued operations, except where other IFRSs explicitly refer to non-current assets held for sale and discontinued operations.

The Group has elected to present earnings per share (EPS) from discontinued operations in the notes. Alternatively, it could have presented those amounts on the face of the statement of comprehensive income.

# Notes to the consolidated financial statements

## 12. Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	<u>2011</u>	<u>2010</u>	
	<u>€000</u>	<u>€000</u>	
Net profit attributable to ordinary equity holders of the parent from continuing operations	7,724	7,391	
Profit/(loss) attributable to ordinary equity holders of the parent from a discontinued operation	<u>220</u>	<u>(188)</u>	
<b>Net profit attributable to ordinary equity holders of the parent for basic earnings</b>	<b>7,944</b>	<b>7,203</b>	<i>IAS 33.70(a)</i>
Interest on convertible preference shares	<u>247</u>	<u>238</u>	
<b>Net profit attributable to ordinary equity holders of the parent adjusted for the effect of dilution</b>	<b><u>8,191</u></b>	<b><u>7,441</u></b>	<i>IAS 33.70(a)</i>
	<u>2011</u>	<u>2010</u>	
	<u>Thousands</u>	<u>Thousands</u>	<i>IAS 33.70(b)</i>
Weighted average number of ordinary shares for basic earnings per share *	20,797	19,064	
Effect of dilution:			
Share options	112	177	
Convertible preference shares	<u>833</u>	<u>833</u>	
<b>Weighted average number of ordinary shares adjusted for the effect of dilution *</b>	<b><u>21,742</u></b>	<b><u>20,074</u></b>	

\* The weighted average number of shares take into account the weighted average effect of changes in treasury shares transactions during the year.

*IAS 33.70(d)*

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

To calculate earnings per share amounts for the discontinued operation (see Note 11), the weighted average number of ordinary shares for both basic and diluted amounts is as per the table above. The following table provides the profit/(loss) amount used:

	<u>2011</u>	<u>2010</u>
	<u>€000</u>	<u>€000</u>
<b>Net profit/(loss) attributable to ordinary equity holders of the parent from a discontinued operation for basic and diluted earnings per share calculations</b>	<b><u>220</u></b>	<b><u>(188)</u></b>

### Commentary

Although not a requirement of IFRS, first-time adopters may want to provide an explanation or reconciliation of the changes to EPS on transition to IFRS as supplementary information to help stakeholders understand the changes. IFRS 1 requires that any previous GAAP information be prominently labelled as not being prepared in accordance with IFRS, in addition to the main adjustments that would make it comply with IFRS.

# Notes to the consolidated financial statements

## 13. Property, plant and equipment

	Freehold land and buildings	Construction in progress	Plant and equipment	Total	IAS 1.78(a) IAS 16.73(e) IAS 16.73(d)
	€000	€000	€000	€000	
<b>Cost or valuation</b>					
At 1 January 2010	7,727	–	24,602	32,329	
Additions	1,587	–	6,235	7,822	
Acquisition of a subsidiary (Note 5)	1,280	–	–	1,280	
Disposals	(347)	–	(49)	(396)	
Exchange adjustment	10	–	26	36	
<b>At 31 December 2010</b>	<b>10,257</b>	<b>–</b>	<b>30,814</b>	<b>41,071</b>	
Additions	1,612	4,500	4,543	10,655	
Acquisition of a subsidiary (Note 5)	2,897	–	4,145	7,042	
Disposals	–	–	(4,908)	(4,908)	
Discontinued operations (Note 11)	(3,044)	–	(3,980)	(7,024)	
Revaluations	846	–	–	846	
Transfer*	(102)	–	–	(102)	IAS 16.35
Exchange differences	30	–	79	109	
<b>At 31 December 2011</b>	<b>12,496</b>	<b>4,500</b>	<b>30,693</b>	<b>47,689</b>	
<b>Depreciation and impairment</b>					
At 1 January 2010	–	–	11,944	11,944	
Depreciation charge for the year	354	–	2,728	3,082	
Impairment (Note 9.5)	–	–	301	301	
Disposals	(35)	–	(49)	(84)	
Exchange adjustment	5	–	12	17	
<b>At 31 December 2010</b>	<b>324</b>	<b>–</b>	<b>14,936</b>	<b>15,260</b>	
Depreciation charge for the year**	500	–	3,297	3,797	
Disposals	–	–	(3,450)	(3,450)	
Discontinued operations (Note 11)	(183)	–	(2,094)	(2,277)	
Transfer*	(102)	–	–	(102)	
Exchange differences	20	–	30	50	
<b>At 31 December 2011</b>	<b>559</b>	<b>–</b>	<b>12,719</b>	<b>13,278</b>	
<b>Net book value</b>					
At 31 December 2011	11,937	4,500	17,974	34,411	
At 31 December 2010	9,933	–	15,878	25,811	
At 1 January 2010	7,727	–	12,658	20,385	

\* This transfer relates to the accumulated depreciation as at the revaluation date that was eliminated against the gross carrying amount of the revalued asset.

\*\* Depreciation for the year excludes an impairment loss of €110,000 (see Note 11).

# Notes to the consolidated financial statements

## 13. Property, plant and equipment *continued*

In 2010, the impairment loss of €301,000 represented the write-down of certain property, plant and equipment in the fire prevention segment to the recoverable amount. This has been recognised in the income statement in the line item, 'Cost of sales'. The recoverable amount was based on value in use and was determined at the level of the cash-generating unit. The cash-generating unit consisted of the Euroland based assets of Sprinklers Limited, a subsidiary and Showers Limited a jointly controlled entity of the Group. In determining value in use for the cash-generating unit, the cash flows were discounted at a rate of 12.4% on a pre-tax basis. IAS 36.126(a)

### **Capitalised borrowing costs**

The Group started the construction of a new fire safety facility in February 2011. This project is expected to be completed in February 2012. The carrying amount of the fire safety facility at 31 December 2011 was €3 million (2010: €Nil, 1 January 2010: €Nil). The fire safety facility is financed by a third party in a common arrangement. IAS 36.126(a)  
IAS 23.26(a)  
IAS 23.26(b)

The amount of borrowing costs capitalised during the year ended 31 December 2011 was €303,000 (2010: €Nil, 1 January 2010: €Nil). The rate used to determine the amount of borrowing costs eligible for capitalisation was 11%, which is the effective interest rate of the specific borrowing.

### **Finance leases and assets under construction**

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 31 December 2011 was €1,178,000 (2010: €1,486,000, 1 January 2010: €1,432,000). Additions during the year include €45,000 (2010: €54,000) of plant and equipment under finance leases and hire purchase contracts. Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities. IAS 17.31(a)  
IAS 7.43  
IAS 16.74(a)

Land and buildings with a carrying amount of €7,400,000 (2010: €5,000,000, 1 January 2010: €4,500,000) are subject to a first charge to secure two of the Group's bank loans (Note 16). IAS 16.74(a)

Included in plant and equipment at 31 December 2011 was, in addition to the new fire safety facility, an amount of €1,500,000 (2010: €Nil, 1 January 2010: €Nil) relating to expenditure for a plant in the course of construction. Both facilities under construction will be recognised in 'freehold land and buildings' after completion. IAS 16.74(b)

### **Revaluation of land and buildings**

The Group uses the revaluation model of measurement of land and buildings. The Group engaged Chartered Surveyors & Co., an accredited independent valuer, to determine the fair value of its land and buildings. IAS 16.77(a)(e)

Fair value is determined by reference to market-based evidence. Valuations are based on active market prices, adjusted for any difference in the nature, location or condition of the specific property. The date of the most recent revaluation was 31 January 2011. The previous revaluation was on 31 December 2008 (see Note 2.4).

If land and buildings were measured using the cost model, the carrying amounts would be as follows:

	<b>2011</b>	<b>2010</b>	<b>As at 1 January 2010</b>	
	<b>€000</b>	<b>€000</b>	<b>€000</b>	IAS 16.77(e)
Cost	11,650	10,257	7,727	
Accumulated depreciation and impairment	(520)	(324)	-	
<b>Net carrying amount</b>	<b>11,130</b>	<b>9,933</b>	<b>7,727</b>	

# Notes to the consolidated financial statements

## 14. Investment properties

	<u>2011</u>	<u>2010</u>	<i>IAS 40.76</i>
	<b>€000</b>	<b>€000</b>	
Opening balance at 1 January	7,983	7,091	
Additions (subsequent expenditure)	1,216	1,192	
Net loss on fair value adjustment	(306)	(300)	
<b>Closing balance at 31 December</b>	<b><u>8,893</u></b>	<b><u>7,983</u></b>	

  

	<u>2011</u>	<u>2010</u>	<i>IAS 40.75(f)</i>
	<b>€000</b>	<b>€000</b>	
Rental income derived from investment properties	1,404	1,377	
Direct operating expenses (including repair and maintenance) generating rental income	(101)	(353)	
Direct operating expenses (including repair and maintenance) that did not generate rental income (included in cost of sales)	(37)	(127)	
<b>Net profit arising from investment properties carried at fair value</b>	<b><u>1,266</u></b>	<b><u>897</u></b>	

The Group has no restrictions on the realisability of its investment property and no contractual obligations to either purchase, construct or develop investment property or for repairs, maintenance and enhancements. *IAS 40.75(g)*  
*IAS 40.75(h)*

Investment properties are stated at fair value, which has been determined based on valuations performed by Chartered Surveyors & Co. an accredited independent valuer, as at 31 December 2011 and 31 December 2010. Chartered Surveyors & Co. is an industry specialist in valuing these types of investment properties. The fair value of the properties have not been determined on transactions observable in the market because of the nature of the property and the lack of comparable data. Instead, a valuation model in accordance with that recommended by the International Valuation Standards Committee has been applied. The following main inputs have been used. *IAS 40.75(d)*  
*IAS 40.75(e)*

	<u>2011</u>	<u>2010</u>	<i>IAS 40.75(d)</i>
Yields (%)	6 – 7%	5 – 6%	
Inflation rate (%)	3.5%	3%	
Long term vacancy rate (%)	9%	5%	
Long term growth in real rental rates (%)	3%	4%	

### Commentary

The Group has elected to value investment properties at fair value in accordance with IAS 40.

IAS 40 permits investment properties to be carried at historic cost less provision for depreciation and impairment. If the Group accounted for investment properties at cost, information about the cost basis and depreciation rates (similar to property, plant and equipment) would be required in addition to the disclosures about the fair value, including disclosures about the methods and significant assumptions used to determine fair value.

# Notes to the consolidated financial statements

## 15. Intangible assets

	Development costs	Patents and licences	Goodwill	Total	IAS 38.118(c) IAS 38.118(e)
	€000	€000	€000	€000	
<b>Cost</b>					
At 1 January 2010	1,585	635	119	2,339	
Additions – internal development	390	–	–	390	
Acquisition of a subsidiary (Note 5)	–	–	131	131	
<b>At 31 December 2010</b>	<b>1,975</b>	<b>635</b>	<b>250</b>	<b>2,860</b>	
Additions – internal development	587	–	–	587	
Acquisition of a subsidiary (Note 5)	–	1,200	2,231	3,431	
Discontinued operations (Note 11)	–	(138)	–	(138)	
<b>At 31 December 2011</b>	<b>2,562</b>	<b>1,697</b>	<b>2,481</b>	<b>6,740</b>	
<b>Amortisation and impairment</b>					
At 1 January 2010	165	60	–	225	
Amortisation	124	50	–	174	
<b>At 31 December 2010</b>	<b>289</b>	<b>110</b>	<b>–</b>	<b>399</b>	
Amortisation	95	30	–	125	
Impairment (Note 17)	–	–	200	200	
Discontinued operations (Note 11)	–	(3)	–	(3)	
<b>At 31 December 2011</b>	<b>384</b>	<b>137</b>	<b>200</b>	<b>721</b>	
<b>Net book value</b>					
At 31 December 2011	2,178	1,560	2,281	6,019	
At 31 December 2010	1,686	525	250	2,461	
At 1 January 2010	1,420	575	119	2,114	

There are two main fire prevention research and development projects: improved fire detection and sprinkler systems and fire retardant fabrics for motor vehicles and aircraft. The Group's electronics business research and development concentrates on the development of internet-enabled safety equipment. Research costs and development costs that are not eligible for capitalisation have been expensed and are recognised in administrative expenses (Note 9.7).

IAS 38.118(d)

### *Acquisition during the year*

Patents and licences include intangible assets acquired through business combinations. These patents have been granted for a minimum of 10 years by the relevant government agency, while licences have been acquired with the option to renew at the end of the period at little or no cost to the Group. Previous licences acquired have been renewed and have allowed the Group to determine that these assets have indefinite useful lives.

As at 31 December 2011, these assets were tested for impairment (Note 17).

# Notes to the consolidated financial statements

## 16. Other financial assets and financial liabilities

### 16.1 Other financial assets

	2011 €000	2010 €000	1 January 2010 €000	As at 2010 €000	IFRS 7.6 IFRS 7.8
<b>Financial instruments at fair value through other comprehensive income</b>					
Cash flow hedges					
Foreign exchange forward contracts	252	153		137	
<b>Financial instruments at fair value through profit or loss</b>					
Derivatives not designated as hedges					
Foreign exchange forward contracts	640	–		–	
Embedded derivatives	210	–		–	
<b>Total financial instruments at fair value</b>	<b>1,102</b>	<b>153</b>		<b>137</b>	
<b>Loans and receivables</b>					
Loan notes	3,674	1,685		1,659	
Loan to an associate	200	–		–	
Loan to directors	13	8		8	
<b>Total loans and receivables</b>	<b>3,887</b>	<b>1,693</b>		<b>1,667</b>	
<b>Available for sale investments</b>					
Unquoted equity shares	1,163	1,023		1,040	
Quoted equity shares	337	300		334	
Quoted debt securities	612	600		378	
<b>Total available for sale investments</b>	<b>2,112</b>	<b>1,923</b>		<b>1,752</b>	
<b>Total other financial assets</b>	<b>7,101</b>	<b>3,769</b>		<b>3,556</b>	
<b>Total current</b>	<b>551</b>	<b>153</b>		<b>137</b>	
<b>Total non-current</b>	<b>6,550</b>	<b>3,616</b>		<b>3,419</b>	

#### Available-for-sale investment – unquoted equity shares

The Group holds non-controlling interests (between 2% and 9%) in entities where it has entered into research collaboration. The fair value of the unquoted ordinary shares has been estimated using a discounted cash flow model. The valuation requires management to make certain assumptions about the model inputs, including credit risk and volatility. The probabilities of the various estimates within the range can be reasonably assessed and are used in management's estimate of fair value for these unquoted equity investments. Management has determined that the potential effect of using reasonably possible alternatives as inputs to the valuation model would reduce the fair value by €24,000 (2010: €25,000, 1 January 2010: €18,000) using less favourable assumptions and increase the fair value by €21,000 (2010: €22,000, 1 January 2010: €16,000) using more favourable assumptions.

IFRS 7.27  
IAS 39.AG  
74-79(c)

IFRS 7.27B(e)

#### Available-for-sale investment – quoted debt securities and equity shares

The Group has investments in listed equity and debt securities. The fair value of the quoted debt securities and equity shares is determined by reference to published price quotations in an active market.

IFRS 7.27

#### Impairment on available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, historical share price movements and the duration or extent to which the fair value of an investment is less than its cost.

IAS 39.58  
IAS 39.67  
IAS 39.68  
IAS 39.69

Based on these criteria, the Company identified an impairment of €88,000 on available-for-sale investment – quoted debt securities and an impairment of €23,000 on available-for-sale investment – quoted equity securities, both of which are recognised within finance costs in the income statement (Note 9.3).

# Notes to the consolidated financial statements

## 16. Other financial assets and financial liabilities *continued*

### 16.2 Other financial liabilities

	2011	2010	As at 1 January 2010	IFRS 7.6 IFRS 7.8
	€000	€000	€000	
<b>Financial liabilities at fair value through profit or loss</b>				
Contingent consideration (Note 5)	1,072	–	–	
Fair value hedges				
Interest rate swaps	35	–	–	
Derivatives not designated as hedges				
Foreign exchange forward contracts	720	–	–	
Embedded derivatives	782	–	–	
<b>Total financial liabilities at fair value through profit or loss</b>	<b>2,609</b>	<b>–</b>	<b>–</b>	
<b>Financial liabilities at fair value through other comprehensive income</b>				
Cash flow hedges				
Foreign exchange forward contracts	170	254	271	
Commodity forward contracts	980	–	–	
<b>Total financial liabilities at fair value through other comprehensive income</b>	<b>1,150</b>	<b>254</b>	<b>271</b>	
<b>Other financial liabilities at amortised cost</b>				
Financial guarantee contracts	87	49	32	
<b>Total other financial liabilities at amortised cost</b>	<b>87</b>	<b>49</b>	<b>32</b>	
<b>Total other financial liabilities</b>	<b>3,846</b>	<b>303</b>	<b>303</b>	
<b>Total current</b>	<b>3,040</b>	<b>303</b>	<b>303</b>	
<b>Total non-current</b>	<b>806</b>	<b>–</b>	<b>–</b>	

#### *Contingent consideration*

As part of the purchase agreement with the previous owner of Extinguishers Limited, a contingent consideration has been agreed. This consideration is dependent on the profit before tax of Extinguishers Limited during a 12-month period. The fair value at the acquisition date was €714,000, which has been adjusted as of 31 December 2011 due to a significantly enhanced performance compared to budget to a fair value of €1,071,500. The consideration is due for final measurement and payment to the former shareholders on 30 April 2011. No further significant change to the consideration is expected.

#### **Commentary**

IFRS 7.7 requires disclosure of information that enables users of the financial statements to evaluate the significance of financial instruments for its financial position and performance. However, the standard does not require any specific details to be disclosed. As the Group has a significant amount of different financial assets, liabilities and derivatives on its statement of financial position, it has decided to provide detailed information to the users of the financial statements about the different types of financial instruments and their fair values.

# Notes to the consolidated financial statements

## 16. Other financial assets and financial liabilities *continued*

### Interest-bearing loans and borrowings

	Interest rate	Maturity	2011	2010	As at 1 January 2010	IFRS 7.7
	%		€000	€000	€000	
<b>Current interest-bearing loans and borrowings</b>						
Obligations under finance leases and hire purchase contracts (Note 30)	7.8	2012	83	51	47	
Bank overdrafts (Note 20)	EURIBOR + 1.0	On demand	966	2,650	2,750	
<b>Other current loans</b>						
€1,500,000 bank loan (2010: €1,400,000)	EURIBOR + 0.5	1 Nov 2012	1,411	-	-	
€2,200,000 bank loan	EURIBOR + 0.5	31 Mar 2011	-	74	1,758	
<b>Total current interest-bearing loans and borrowings</b>			<b>2,460</b>	<b>2,775</b>	<b>4,555</b>	
<b>Non-current interest-bearing loans and borrowings</b>						
Obligations under finance leases and hire purchase contracts (Note 30)	7.8	2013-2014	905	943	938	
8% debentures	8.2	2013-2020	3,374	3,154	3,154	
8.25% secured loan of US\$3,600,000	*LIBOR + 0.2	31 May 2017	2,246	-	-	
Secured bank loan	LIBOR + 2.0	31 Jul 2017	3,479	3,489	3,489	
<b>Other non-current loans</b>						
€1,500,000 bank loan (2010: €1,400,000)	EURIBOR + 0.5	1 Nov 2012	-	1,357	1,357	
€2,750,000 bank loan (2010: €2,500,000)	EURIBOR + 1.1	2014-2016	2,486	2,229	2,229	
€2,200,000 bank loan	EURIBOR + 0.5	31 Mar 2015	2,078	2,078	2,078	
€5,809,000 bank loan	7.5	1 Jan 2016	-	5,809	3,164	
Loan from a partner in a Special Purpose Entity	11.00	2015	3,000	-	-	
Share of a joint venture's loan	EURIBOR + 1.1	30 Jun 2015	510	500	505	
			<b>18,078</b>	<b>19,559</b>	<b>16,914</b>	
<b>Convertible preference shares</b>						
Convertible preference shares	11.65	2014-2017	2,778	2,644	2,522	
<b>Total non-current interest-bearing loans and borrowings</b>			<b>20,856</b>	<b>22,203</b>	<b>19,436</b>	

\* includes the effects of related interest rate swap.

### Commentary

IFRS 7.7 requires disclosure of information that enables users of the financial statements to evaluate the significance of financial instruments for its financial position and performance. However, the standard does not require any specific details to be disclosed. As the Group has a significant amount of interest bearing loans and borrowings on its statement of financial position, it has decided to provide detailed information to the users of the financial statements about the effective interest rate as well as the maturity of the loans.

# Notes to the consolidated financial statements

## 16. Other financial assets and financial liabilities *continued*

### *Bank overdrafts*

IFRS 7.7

The bank overdrafts are secured by a portion of the Group's short-term deposits.

### *€1,500,000 bank loan*

This loan is unsecured and is repayable in full on 1 November 2012.

### *8% debentures*

The 8% debentures are repayable in equal annual instalments of €350,000 commencing on 1 January 2013.

### *8.25% secured loan*

The loan is secured by a first charge over certain of the Group's land and buildings with a carrying value of €2,400,000 (2010: €Nil, 1 January 2010: €Nil).

### *Secured bank loan*

This loan has been drawn down under a six-year multi-option facility (MOF). The loan is repayable within 12 months after the reporting date, but has been classified as long term because the Group expects and has the discretion to exercise its rights under the MOF to refinance this funding. Such immediate replacement funding is available until 31 July 2017. The total amount repayable on maturity is €3,500,000. The facility is secured by a first charge over certain of the Group's land and buildings, with a carrying value of €5,000,000 (2010: €5,000,000, 1 January 2010: €4,500,000).

IAS 1.73

### *€2,750,000 bank loan*

The Group increased its borrowings under this loan contract by €250,000 during the reporting period. This loan is repayable in two instalments of €1,250,000 due on 31 December 2014 and €1,500,000 due on 31 December 2016.

### *€2,200,000 bank loan*

This loan is unsecured and is repayable in full on 31 March 2015. As of 31 December 2010, €74,000 was repayable on 31 March 2011.

### *Share of a joint venture's loan*

This relates to the Group's 50% share of the joint venture's €1,020,000 bank loan (2010: €1,000,000, 1 January 2010: €1,010,000) and is repayable in full on 30 June 2015.

### *Loan from a partner in a Special Purpose Entity*

In February 2011, the Group and a third party partner formed an entity to acquire, construct and operate a fire equipment safety facility. The partner contributed approximately €2.7 million in 2011 for the acquisition and construction of the fire safety test facility and is committed to provide approximately €1 million in each of the following two years to complete the project. The construction is expected to be completed in 2012 at a total cost of approximately €5 million. The partner is entitled to a 22% return on the outstanding capital upon the commencement of operations. At the end of the fourth annual period, the partner is entitled to a 100% capital return. The effective interest rate is 11% and the interest accumulated on the contributed amount totalled €303,000 at 31 December 2011.

### *Convertible preference shares*

At 31 December 2011 and 2010, there were 2,500,000 convertible preference shares in issue. Each share has a par value of €1 and is convertible at the option of the shareholders into ordinary shares of the parent of the Group on 1 January 2014 on the basis of one ordinary share for every three preference shares held. Any preference shares not converted will be redeemed on 31 December 2017 at a price of €1.20 per share. The preference shares carry a dividend of 7% per annum, payable half-yearly in arrears on 30 June and 31 December. The dividend rights are non-cumulative. The preference shares rank ahead of the ordinary shares in the event of a liquidation.

IAS 1.79(a)(v)

## 16.3 Hedging activities and derivatives

### **Derivatives not designated as hedging instruments**

IFRS 7.22

The Group uses foreign currency denominated borrowings and forward currency contracts to manage some of its transaction exposures. These currency forward contracts are not designated as cash flow, fair value or net investment hedges and are entered into for periods consistent with currency transaction exposures, generally from one to 24 months.

# Notes to the consolidated financial statements

## 16. Other financial assets and financial liabilities *continued*

### Cash flow hedges

#### Foreign currency risk

IFRS 7.23(a)

At 31 December 2011, the Group held foreign currency forward contracts, designated as hedges of expected future sales to customers in the United States for which the Group has highly probable forecasted transactions. The Group also has foreign currency forward contracts outstanding at 31 December 2011 designated as hedges of expected future purchases from suppliers in the United Kingdom for which the Group has firm commitments. The foreign currency forward contracts are being used to hedge the foreign currency risk of the firm commitments.

At 31 December 2010 and 1 January 2010, the Group held foreign currency forward contracts designated as hedges of expected future sales, to customers in the United States for which the Group has firm commitments. The Group also has foreign currency forward contracts outstanding at 31 December 2010 and 1 January 2010 designated as hedges of expected future purchases from suppliers in the United Kingdom for which the Group has high probable forecasted transactions. The foreign currency forward contracts are being used to hedge the foreign currency risk of the highly probable forecasted transactions.

	2011		2010		As at 1 January 2010	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
	€000	€000	€000	€000	€000	€000
<b>Foreign currency forward contracts</b>						
Fair value	252	(170)	153	(254)	137	(271)

The terms of the foreign currency forward contracts have been negotiated to match the terms of the commitments. There were no highly probable transactions for which hedge accounting has been claimed that have not occurred and no significant element of hedge ineffectiveness requiring recognition in the income statement. Notional amounts are as provided in Note 31.

IFRS 7.24(b)

The cash flow hedges of the expected future sales in January 2012 were assessed to be highly effective and a net unrealised gain of €252,000, with a deferred tax liability of €76,000 relating to the hedging instruments, is included in other comprehensive income.

IFRS 7.23(c)

The cash flow hedges of the expected future purchases in February and March 2012 were assessed to be highly effective, and as at 31 December 2011, a net unrealised loss of €170,000, with a related deferred tax asset of €51,000 was included in other comprehensive income in respect of these contracts.

IFRS 7.23(c)

At the end of December 2010, the cash flow hedges of the expected future sales in the first quarter of 2011 were assessed to be highly effective and an unrealised gain of €153,000 with a deferred tax liability of €46,000 was included in other comprehensive income in respect of these contracts. The cash flow hedges of the expected future purchases in the first quarter of 2011 were also assessed to be highly effective and an unrealised loss of €254,000, with a deferred tax asset of €76,000 was included in other comprehensive income in respect of these contracts.

IFRS 7.23(c)

At 1 January 2010, the cash flow hedges of the expected future sales in the first quarter of 2010 were assessed to be highly effective and an unrealised gain of €137,000 with a deferred tax liability of €41,000 was included in other comprehensive income in respect of these contracts. The cash flow hedges of the expected future purchases in the first quarter of 2010 were also assessed to be highly effective and an unrealised loss of €271,000, with a deferred tax asset of €81,000 was included in other comprehensive income in respect of these contracts.

IFRS 7.23(c)

The amount removed from other comprehensive income during the year and included in the carrying amount of the hedging items as a basis adjustment was immaterial for both 2011 and 2010. The amounts retained in other comprehensive income at 31 December 2011 are expected to mature and affect the income statement by a gain of €82,000 in 2012.

IFRS 7.23(d)

IFRS 7.23(e)

IFRS 7.23(a)

#### Commodity price risk

The Group purchases copper on an ongoing basis as its operating activities in the electronic division require a continuous supply of copper for the production of its electronic devices. The increased volatility in copper price over the past 12 months has led to the decision to enter into commodity forward contracts.

# Notes to the consolidated financial statements

## 16. Other financial assets and financial liabilities *continued*

These contracts are expected to reduce the volatility of cash flows in respect of highly probable forecast copper purchases or firm commitments attributable to the fluctuation in the copper price in accordance with the risk management outlined by the Board of Directors, commencing on 1 July 2011. The contracts are intended to hedge the volatility of the purchase price of copper for a period between 3 and 12 months based on existing purchase agreements. The Group designated only the spot-to-spot movement of the entire commodity purchase price as the hedged risk. The forward points of the commodity forward contracts are therefore excluded from the hedge designation. Changes in fair value of the forward points recognised in the income statement in finance costs were immaterial during the year.

As at 31 December 2011, the fair value of outstanding commodity forward contracts amounted to a liability of €980,000. The ineffectiveness recognised in other operating expenses in the income statement for the current year was €65,000 (see Note 9.2). The cumulative effective portion of €915,000 is reflected in other comprehensive income.

### Fair value hedge

At 31 December 2011, the Group had an interest rate swap agreement in place with a notional amount of US\$3,600,000 (€2,246,000) (2010: €Nil, 1 January 2010: €Nil) whereby the Group receives a fixed rate of interest of 8.25% and pays a variable rate equal to LIBOR+0.2% on the notional amount. The swap is being used to hedge the exposure to changes in the fair value of its 8.25% secured loan.

IFRS 7.22  
IFRS 7.24(a)

The decrease in fair value of the interest rate swap of €35,000 (2010: €Nil) has been recognised in finance costs and offset with a similar gain on the bank borrowings. The ineffectiveness recognised in 2011 was immaterial.

### Hedge of net investments in foreign operations

Included in loans at 31 December 2011 was a borrowing of US\$3,600,000 (€2,246,000 including the effect of interest rate swap discussed above), which has been designated as a hedge of the net investment in the subsidiaries in the United States, Wireworks Inc. and Sprinklers Inc. and is being used to hedge the Group's exposure to foreign exchange risk on these investments. Gains or losses on the retranslation of this borrowing are transferred to equity to offset any gains or losses on translation of the net investments in the subsidiaries. There is no ineffectiveness in the years ending 31 December 2011 and 2010.

IFRS 7.22

IFRS 7.24(c)

### Embedded derivatives

In 2011, the Group entered into long-term sale contracts with customers in Switzerland and Norway. The selling prices in these contracts are fixed and set in Canadian dollars. These contracts require physical delivery and will be held for the purpose of the delivery of the commodity in accordance with the buyers' expected sale requirements. These contracts have embedded foreign exchange derivatives that require bifurcation.

IAS 39.AG33(d)

IAS 39.AG33(e)

The Group also entered into various purchase contracts for brass and chrome (for which there is an active market) with a number of suppliers in South Africa and Russia. The purchase prices in these contracts are linked to the price of electricity. These contracts have embedded commodity swaps that require bifurcation.

These embedded foreign currency and commodity derivatives have been separated and carried at fair value through profit or loss. The carrying value of the embedded derivatives at 31 December 2011 amounted to €210,000 (other financial assets) and €782,000 (other financial liabilities) (2010: both €Nil, 1 January 2010: both €Nil). The effect of profit or loss is reflected in finance income and finance costs, respectively.

# Notes to the consolidated financial statements

## 16. Other financial assets and financial liabilities *continued*

### 16.4 Fair values

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements.

IFRS 7.25  
IFRS 7.26

	Carrying amount			Fair value		
	2011	2010	As at 1	2011	2010	As at 1
			January			January
€000	€000	€000	€000	€000	€000	€000
<b>Financial assets</b>						
Trade and other receivables	27,672	24,290	25,537	27,672	24,290	25,537
Other financial assets						
Loans and other receivables	3,887	1,693	1,667	3,887	1,693	1,667
Available-for-sale financial investments	2,112	1,923	1,752	2,112	1,923	1,752
Foreign exchange forward contracts	640	–	–	640	–	–
Embedded derivatives	210	–	–	210	–	–
Derivatives in effective hedges	252	153	137	252	153	137
Cash and short-term deposits	17,112	14,916	11,066	17,112	14,916	11,066
<b>Total</b>	<b>51,885</b>	<b>42,975</b>	<b>40,159</b>	<b>51,885</b>	<b>42,975</b>	<b>40,159</b>
<b>Financial liabilities</b>						
Interest-bearing loans and borrowings						
Obligations under finance leases and hire purchase contracts	(988)	(994)	(985)	(1,063)	(1,216)	(1,217)
Floating rate borrowings*	(12,210)	(9,727)	(11,416)	(12,210)	(9,727)	(11,416)
Fixed rate borrowings	(6,374)	(8,963)	(6,318)	(6,374)	(8,963)	(6,318)
Convertible preference shares	(2,778)	(2,644)	(2,522)	(2,778)	(2,644)	(2,522)
Trade and other payables	(19,556)	(21,281)	(20,599)	(19,556)	(21,281)	(20,600)
Bank overdrafts	(966)	(2,650)	(2,750)	(966)	(2,650)	(2,750)
Financial guarantee contracts	(87)	(49)	(32)	(87)	(49)	(32)
Contingent consideration	(1,072)	–	–	(1,072)	–	–
Derivative financial liabilities at fair value through profit or loss						
Foreign exchange forward contracts	(720)	–	–	(720)	–	–
Embedded derivatives	(782)	–	–	(782)	–	–
Derivatives in effective hedges	(1,185)	(254)	(271)	(1,185)	(254)	(271)
<b>Total</b>	<b>(46,718)</b>	<b>(46,562)</b>	<b>(44,893)</b>	<b>(46,793)</b>	<b>(46,784)</b>	<b>(45,126)</b>

\* Includes an 8.25% secured loan carried at amortised cost adjusted to fair value movement due to the hedged interest rate risk.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

IFRS 7.27

The following methods and assumptions were used to estimate the fair values:

- ▶ Cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- ▶ Long-term fixed-rate and variable-rate receivables / borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken to account for the expected losses of these receivables. As at 31 December 2011, the carrying amounts of such receivables, net of allowances, are not materially different from their calculated fair values.
- ▶ Fair value of quoted notes and bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

# Notes to the consolidated financial statements

## 16. Other financial assets and financial liabilities *continued*

- ▶ Fair value of available-for-sale financial assets is derived from quoted market prices in active markets, if available.
- ▶ Fair value of unquoted available-for-sale financial assets is estimated using appropriate valuation techniques.
- ▶ The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly interest rate swaps, foreign exchange forward contracts and commodity forward contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, interest rate curves and forward rate curves of the underlying commodity.

As at 31 December 2011, the marked to market value of derivative asset position is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationship and other financial instruments recognised at fair value.

### Fair value hierarchy

As at 31 December 2011, the Group held the following financial instruments carried at fair value on the statement of financial position:

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

### Assets measured at fair value

	<b>31 December</b>				<i>IFRS 7.27A</i>
	<b>2011</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	
Financial assets at fair value through profit or loss					
Foreign exchange forward contracts – hedged	252	–	252	–	
Foreign exchange forward contracts – non-hedged	640	–	640	–	
Embedded derivatives	210	–	210	–	
Available-for-sale financial assets					
Equity shares	1,500	337	–	1,163	
Debt securities	612	612	–	–	

### Liabilities measured at fair value

	<b>31 December</b>			
	<b>2011</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Financial liabilities at fair value through profit or loss				
Foreign exchange forward contracts – hedged	170	–	170	–
Commodity forward contracts	980	–	980	–
Interest rate swaps	35	–	35	–
Foreign exchange forward contracts – non-hedged	720	–	720	–
Embedded derivatives	782	–	782	–

During the reporting period ending 31 December 2011, there were no transfers between Level 1 and Level 2 fair value measurements.

*IFRS 7.27B(b)*  
*IFRS 7.27B(c)*

## Notes to the consolidated financial statements

### 16. Other financial assets and financial liabilities *continued*

As at 31 December 2010, the Group held the following financial instruments measured at fair value:

#### Assets measured at fair value

	<b>31 December</b>				<i>IFRS 7.27A</i>
	<b>2010</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	
Financial assets at fair value through profit or loss					
Foreign exchange forward contracts – hedged	153	–	153	–	
Available-for-sale financial assets					
Equity shares	1,323	300	–	1,023	
Debt securities	600	600	–	–	

#### Liabilities measured at fair value

	<b>31 December</b>			
	<b>2010</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Financial liabilities at fair value through profit or loss				
Foreign exchange forward contracts – hedged	254	–	254	–

During the reporting period ending 31 December 2010, there were no transfers between Level 1 and Level 2 fair value measurements. *IFRS 7.27B(b)*  
*IFRS 7.27B(c)*

As at 1 January 2010, the Group held the following financial instruments measured at fair value:

#### Assets measured at fair value

	<b>1 January 2010</b>				<i>IFRS 7.27A</i>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	
Financial assets at fair value through profit or loss					
Foreign exchange forward contracts – hedged	137	–	137	–	
Available-for-sale financial assets					
Equity shares	1,374	334	–	1,040	
Debt securities	378	378	–	–	

#### Liabilities measured at fair value

	<b>1 January 2010</b>			
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Financial liabilities at fair value through profit or loss				
Foreign exchange forward contracts – hedged	271	–	271	–

#### Reconciliation of fair value measurements of Level 3 financial instruments

The Group carries unquoted equity shares as available-for-sale financial instruments classified as Level 3 within the fair value hierarchy. *IFRS 7.27B(c)*  
*IFRS 7.27B(d)*

The Group has interest in three unlisted entities with which it entered into a research and collaboration agreement. As part of the agreement, the Group invested in equity instruments of those entities.

# Notes to the consolidated financial statements

## 16. Other financial assets and financial liabilities *continued*

A reconciliation of the beginning to the closing balances disclosing movements separately is disclosed hereafter:

	Evo Ltd	Lab Ltd	Test Ltd	Total
	€000	€000	€000	€000
1 January 2010	232	306	502	1,040
Total gains and losses recognised in OCI	2	(25)	6	(17)
<b>31 December 2010</b>	<b>234</b>	<b>281</b>	<b>508</b>	<b>1,023</b>
1 January 2011	234	281	508	1,023
Sales	(232)	–	–	(232)
Purchases	–	870	–	870
Reclassification to a discontinued operation (Note 11)	–	–	(508)	(508)
Total gains and losses recognised in OCI	(2)	12	–	10
<b>31 December 2011</b>	<b>–</b>	<b>1,163</b>	<b>–</b>	<b>1,163</b>

The Group did not incur gains or losses recorded in the statement of comprehensive income with respect to Level 3 financial instruments.

The research agreement with Evo Ltd expired in 2011, the equity instruments were sold to a third party. The collaboration with Lab Ltd was significantly increased due to strong results arising from their research activities. The collaboration with Test Ltd is closely related with the discontinued operations of Hose Limited and is therefore reclassified as part of the discontinued operation (see Note 11). All transactions were performed at an arm's length basis.

## 17. Impairment testing of goodwill and intangibles with indefinite lives

Goodwill acquired through business combinations and licences with indefinite lives has been allocated to two cash-generating units, which are also operating and reportable segments, for impairment testing as follows:

- ▶ Electronics cash-generating unit
- ▶ Fire prevention equipment cash-generating unit

### Carrying amount of goodwill and licences allocated to each of the cash-generating units:

	Electronics unit			Fire prevention equipment unit			Total			
			1 Jan			1 Jan			1 Jan	
	2011	2010	2010	2011	2010	2010	2011	2010	2010	
	€000	€000	€000	€000	€000	€000	€000	€000	€000	
Goodwill	50	250	119	2,231	–	–	2,281	250	119	<i>IAS 36.134(a)</i>
Licences with indefinite useful lives	360	–	–	1,050	240	240	1,410	240	240	<i>IAS 36.134(b)</i>

The Group performed its annual impairment test as at 31 December 2011. The Group considers the relationship between its market capitalisation and its book value, among other factors, when reviewing for indicators of impairment. As at 31 December 2011, the market capitalisation of the Group was below the book value of its equity, indicating a potential impairment of goodwill and impairment of the assets of the operating segment. In addition, the overall decline in construction and development activities around the world, as well as the ongoing economic uncertainty, have led to a decreased demand in both the Fire Prevention Equipment and Electronics cash-generating units.

*IAS 36.130(a)*

### *Electronics cash-generating unit*

The recoverable amount of the Electronics cash-generating unit has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The projected cash flows have been updated to reflect the decreased demand for products and services. The pre-tax discount rate applied to cash flow projections is 15.5% (2010: 12.1%) and cash flows beyond the five-year period are extrapolated using a 3.0% growth rate (2010: 5.0%) that is the same as the long-term average growth rate for the electronics industry. As a result of this analysis, management has recognised an impairment charge of €200,000 against goodwill previously carried at €250,000, which is recorded within administrative expenses in the income statement.

*IAS 36.134(c)*  
*IAS 36.134*  
*(d)(iii)*  
*IAS 36.134*  
*(d)(iv)*  
*IAS 36.134*  
*(d)(v)*  
*IAS 36.126(a)*

# Notes to the consolidated financial statements

## 17. Impairment testing of goodwill and intangibles with indefinite lives *continued*

### *Fire prevention equipment cash-generating unit*

The recoverable amount of the Fire Prevention Equipment cash-generating unit is also determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The projected cash flows have been updated to reflect the decreased demand for products and services. The pre-tax discount rate applied to the cash flow projections is 14.4% (2010: 12.8%). The growth rate used to extrapolate the cash flows of the fire prevention equipment unit beyond the five-year period is 2.9% (2010: 3.8%). This growth rate exceeds the average growth rate for the industry in which the Fire Prevention Equipment unit operates by three quarters of a percentage point. Management of the Fire Prevention Equipment unit believes this growth rate is justified based on the acquisition of Extinguishers Limited that has resulted in the control of an industry patent, preventing other entities from manufacturing a specialised product for a period of 10 years, with the option for renewal after the 10 years have expired. As a result of the updated analysis, management did not identify an impairment for this cash-generating unit to which goodwill of €2,231,000 is allocated.

IAS 36.134(c)  
IAS 36.134  
(dXiii)  
IAS 36.134  
(dXiv)  
IAS 36.134  
(dXv)  
  
IAS 36.134  
(dXii)  
IAS 36.134  
(dXiv)  
IAS 36.134  
(dXv)

### **Key assumptions used in value in use calculations**

The calculation of value in use for both electronics and fire prevention equipment units are most sensitive to the following assumptions:

IAS 36.134(dXi)  
IAS 36.134(dXii)

- ▶ Gross margin
- ▶ Discount rates
- ▶ Raw materials price inflation
- ▶ Market share during the budget period
- ▶ Growth rate used to extrapolate cash flows beyond the budget period

*Gross margins* – Gross margins are based on average values achieved in the three years preceding the start of the budget period. These are increased over the budget period for anticipated efficiency improvements. An increase of 1.5% per annum was applied for the Electronics unit and 2% per annum for the Fire Prevention Equipment unit.

*Discount rates* – Discount rates represent the current market assessment of the risks specific to each cash-generating unit, regarding the time value of money and individual risks of the underlying assets which have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available marked data.

*Raw materials price inflation* – Estimates are obtained from published indices for the countries from which materials are sourced, as well as data relating to specific commodities. Forecast figures are used if data is publicly available (principally for Euroland and the United States), otherwise past actual raw material price movements have been used as an indicator of future price movements.

*Market share assumptions* – These assumptions are important because, as well as using industry data for growth rates (as noted below), management assesses how the unit's position, relative to its competitors, might change over the budget period. Management expects the Group's share of the electronics market to be stable over the budget period, whereas for the reasons explained above, the Board of Directors expects the Group's position, relative to its competitors, to strengthen following the acquisition of Extinguishers Limited.

*Growth rate estimates* – Rates are based on published industry research. For the reasons explained above, the long-term rate used to extrapolate the budget for the fire prevention equipment unit has been adjusted by an additional element because of the acquisition of a significant industry patent.

# Notes to the consolidated financial statements

## 17. Impairment testing of goodwill and intangibles with indefinite lives *continued*

### Sensitivity to changes in assumptions

With regard to the assessment of value in use of the fire prevention equipment unit, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount. IAS 36.134(f)

For the electronics unit, the estimated recoverable amount is equal to its carrying value and, consequently, any adverse change in a key assumption would result in a further impairment loss. The implications of the key assumptions for the recoverable amount are discussed below: IAS 36.134 (fX*i*)

- ▶ *Raw materials price inflation* – Management has considered the possibility of greater-than-budgeted increases in raw material price inflation. This may occur if anticipated regulatory changes result in an increasing demand which cannot be met by suppliers. Budgeted price inflation lies within a range of 1.9% to 2.6%, depending on the country from which materials are purchased. Should the Group be unable to pass on, or absorb through efficiency improvements, additional cost increases of an average of 4.5%, a further impairment may result. IAS 36.134 (fX*ii*)  
IAS 36.134 (fX*iii*)
- ▶ *Growth rate assumptions* – Management recognises that the speed of technological change and the possibility of new entrants can have a significant impact on growth rate assumptions. The effect of new entrants is not expected to have an adverse impact on the forecasts included in the budget, but could yield a reasonably possible alternative to the estimated long-term growth rate of 5.2%. A reduction of 0.8% in the long term growth rate would result in a further impairment. IAS 36.134 (fX*ii*)  
IAS 36.134 (fX*iii*)

## 18. Inventories

	2011	2010	As at 1 January 2010	
	€000	€000	€000	
Raw materials (at cost)	6,046	7,793	8,250	IAS 2.36(b)
Work in progress (at cost)	13,899	11,224	12,951	IAS 1.78(c)
Finished goods (at cost or net realisable value)	4,930	6,472	5,950	
<b>Total inventories at the lower of cost and net realisable value</b>	<b>24,875</b>	<b>25,489</b>	<b>27,151</b>	

The amount of write-down of inventories recognised as an expense is €286,000 (2010: €242,000), which is recognised in cost of sales. IAS 2.36(e)

## 19. Trade and other receivables (current)

	2011	2010	As at 1 January 2010	
	€000	€000	€000	
Trade receivables	26,501	23,158	24,490	IAS 1.78(b)
Receivables from an associate	551	582	602	IFRS 7.6
Receivables from other related parties	620	550	445	
	<b>27,672</b>	<b>24,290</b>	<b>25,537</b>	

For terms and conditions relating to related party receivables, refer to Note 29. IFRS 7.34(a)

Trade receivables are non-interest bearing and are generally on 30-90 day terms.

## Notes to the consolidated financial statements

### 19. Trade and other receivables (current) continued

As at 31 December 2011, trade receivables of an initial value of €108,000 (2010: €97,000, 1 January 2010: €95,000) were impaired and fully provided for. See below for the movements in the provision for impairment of receivables (see credit risk disclosure in Note 31 for further guidance). IFRS 7.37

	Individually impaired	Collectively impaired	Total	
	€000	€000	€000	IFRS 7.16
<b>At 1 January 2010</b>	<b>29</b>	<b>66</b>	<b>95</b>	
Charge for the year	4	8	12	
Utilised	(4)	(7)	(11)	
Unused amounts reversed	–	–	–	
Discount rate adjustment	–	1	1	
<b>At 31 December 2010</b>	<b>29</b>	<b>68</b>	<b>97</b>	
Charge for the year	10	16	26	
Utilised	(3)	(5)	(8)	
Unused amounts reversed	(2)	(6)	(8)	
Discount rate adjustment	–	1	1	
<b>At 31 December 2011</b>	<b>34</b>	<b>74</b>	<b>108</b>	

As at 31 December, the ageing analysis of trade receivables is as follows:

IFRS 7.37

	Total	Neither past due nor impaired	Past due but not impaired				
			< 30 days	30-60 days	61-90 days	91-120 days	> 120 days
			€000	€000	€000	€000	€000
<b>2011</b>	26,501	17,596	4,791	2,592	1,070	360	92
<b>2010</b>	23,158	16,455	3,440	1,840	945	370	108
<b>As at 1 January 2010</b>	24,490	18,367	2,693	1,989	862	421	158

### 20. Cash and short-term deposits

	2011	2010	As at 1 January 2010
	€000	€000	€000
Cash at banks and on hand	11,316	11,125	6,816
Short-term deposits	5,796	3,791	4,250
	<b>17,112</b>	<b>14,916</b>	<b>11,066</b>

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

At 31 December 2011, the Group had available €5,740,000 (2010: €1,230,000, 1 January 2010: €1,200,000) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. IAS 7.50(a)

The Group has pledged a part of its short-term deposits in order to fulfil collateral requirements. Refer to Note 31 for further details. IAS 7.48

# Notes to the consolidated financial statements

## 20. Cash and short-term deposits *continued*

For the purpose of the consolidated statement of cash flow, cash and cash equivalents comprise the following at 31 December: IAS 7.45

	2011	2010	As at 1 January 2010
	€000	€000	€000
Cash at banks and on hand	11,316	11,125	6,816
Short-term deposits	5,796	3,791	4,250
Cash at banks and short-term deposits attributable to a discontinued operation (Note 11)	1,294	-	-
	18,406	14,916	11,066
Bank overdrafts (Note 16)	(966)	(2,650)	(2,750)
	<b>17,440</b>	<b>12,266</b>	<b>8,316</b>

## 21. Issued capital and reserves

### *Authorised shares*

	2011	2010	As at 1 January 2010
	Thousands	Thousands	Thousands
Ordinary shares of €1 each	22,588	20,088	20,088
7% convertible preference shares of €1 each (Note 16)	2,500	2,500	2,500
	<b>25,088</b>	<b>22,588</b>	<b>22,588</b>

IAS 1.78(e)  
IAS 1.79(a)(i)  
IAS 1.79(a)(iii)

During the year, the authorised share capital was increased by €2,500,000 by the issue of 2,500,000 ordinary shares of €1 each.

### *Ordinary shares issued and fully paid*

	Thousands	€000
<b>At 1 January 2010</b>	<b>19,388</b>	<b>19,388</b>
<b>At 31 December 2010</b>	<b>19,388</b>	<b>19,388</b>
Issued on 1 May 2011 in exchange for issued share capital of Extinguishers Limited (Note 5)	2,500	2,500
<b>At 31 December 2011</b>	<b>21,888</b>	<b>21,888</b>

IAS 1.79(a)(iv)

### *Share premium*

	€000
<b>At 1 January 2010</b>	-
Increase on 1 November 2010 for cash on exercise of share options in excess of cost of treasury shares	80
<b>At 31 December 2010</b>	<b>80</b>
Increase on 1 May 2011 because of issuance of share capital for the acquisition of Extinguishers Limited (Note 5)	4,703
Increase on 1 November 2011 for cash on exercise of share options in excess of cost of treasury shares	29
Decrease due to transaction costs for issued share capital	(32)
<b>At 31 December 2011</b>	<b>4,780</b>

IAS 1.78(e)

### *Treasury shares*

	Thousands	€000
<b>At 1 January 2010</b>	<b>335</b>	<b>774</b>
Issued on 1 November 2010 for cash on exercise of share options (Note 27)	(65)	(120)
<b>At 31 December 2010</b>	<b>270</b>	<b>654</b>
Issued on 1 November 2011 for cash on exercise of share options (Note 27)	(75)	(146)
<b>At 31 December 2011</b>	<b>195</b>	<b>508</b>

IAS 1.79(a)(vi)

# Notes to the consolidated financial statements

## 21. Issued capital and reserves *continued*

### Commentary

The accounting for treasury shares is based on jurisdictional requirements. IFRS requires that if an entity reacquires its own equity instruments, those instruments (treasury shares) are presented as a deduction from equity. No gain or loss should be recognised in profit or loss on the purchase, sale, issue or cancellation of an entity's own equity instruments. Consideration paid or received shall be recognised directly in equity.

Share options exercised in each respective year have been settled using the treasury shares of the Group. The reduction in the treasury share equity component is equal to the cost incurred to acquire the shares, on a weighted average basis. Any excess between the cash received from employees and reduction in treasury shares is recorded in share premium.

### Share option schemes

The Group has two share option schemes under which options to subscribe for the Group's shares have been granted to certain executives and senior employees (Note 27).

### Other capital reserves

	<b>Share-based payment transactions</b>	<b>Convertible preference shares</b>	<b>Total</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>
<b>As at 1 January 2010</b>	338	228	566
Share-based payment transactions (Note 27)	298	–	298
<b>At 31 December 2010</b>	<b>636</b>	<b>228</b>	<b>864</b>
Share-based payment transactions (Note 27)	307	–	307
<b>At 31 December 2011</b>	<b>943</b>	<b>228</b>	<b>1,171</b>

### Nature and purpose of reserves

IAS 1.79(b)

#### Other capital reserves

##### Share-based payment transactions

The share-based payment transaction reserve is used to recognise the value of equity-settled share-based payment transactions provided to employees, including key management personnel, as part of their remuneration. Refer to Note 27 for further details of these plans.

##### Convertible preference shares

The convertible preference share reserve contains the equity component of the issued convertible shares. The liability component is reflected in financial liabilities.

#### All other reserves as stated in the consolidated statement of changes in equity

##### Cash Flow hedge reserve

The cash flow hedge reserve contains the effective portion of the cash flow hedge relationships incurred as at the reporting date. €512,000 is made up of the net movements in cash flow hedges and the effective portion of the forward commodity contract, net of tax.

##### Available-for-sale reserve

This reserve records fair value changes on available-for-sale financial assets.

##### Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. It is also used to record the effect of hedging net investments in foreign operations.

##### Asset revaluation reserve

The asset revaluation reserve is used to record increases in the fair value of land and buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity. The reserve can only be used to pay dividends in limited circumstances. The last revaluation was on 31 December 2011 (see Note 13).

# Notes to the consolidated financial statements

## 22. Dividends paid and proposed

	2011 €000	2010 €000	
Declared and paid during the year:			IAS 1.107
Dividends on ordinary shares:			
Final dividend for 2010: 5.58 cents per share (2009: 3.86 cents per share)	1,082	749	
Interim dividend for 2011: 4.07 cents per share (2010: 4.39 cents per share)	890	851	
	<u>1,972</u>	<u>1,600</u>	
Proposed for approval at the annual general meeting (not recognised as a liability as at 31 December):			IAS 1.137(a)
Dividends on ordinary shares:			
<b>Final dividend for 2011: 4.97 cents per share (2010: 5.58 cents per share)</b>	<u>1,087</u>	<u>1,082</u>	

## 23. Provisions

	Maintenance warranties €000	Social security contributions on share options €000	Waste electrical and electronic equipment €000	Total €000	
<b>At 1 January 2010</b>	<b>66</b>	<b>3</b>	<b>31</b>	<b>100</b>	IAS 37.84(a)
Arising during the year	52	1	22	75	IAS 37.84(b)
<b>At 31 December 2010</b>	<u><b>118</b></u>	<u><b>4</b></u>	<u><b>53</b></u>	<u><b>175</b></u>	IAS 37.84(c)
<b>At 1 January 2010</b>	<b>66</b>	<b>3</b>	<b>31</b>	<b>100</b>	
Current	22	-	18	40	
Non-current	44	3	13	60	
<b>At 31 December 2010</b>	<u><b>118</b></u>	<u><b>4</b></u>	<u><b>53</b></u>	<u><b>175</b></u>	
Current	60	-	38	98	
Non-current	58	4	15	77	

## Commentary

The above table shows movements in provisions for the comparative period voluntarily, as IAS 37.84 does not require such disclosure.

	Maintenance warranties	Social security contributions on share options	Waste electrical and electronic equipment	Restructuring	Decommissioning	Onerous operating lease	Contingent liability	Total	
<b>At 1 January 2011</b>	<b>118</b>	<b>4</b>	<b>53</b>	-	-	-	-	<b>175</b>	IAS 37.84(a)
Acquisition of a subsidiary (Note 5)	-	-	-	500	1,200	400	380	2,480	
Arising during the year	112	26	102	-	-	-	20	260	IAS 37.84(b)
Utilised	(60)	(19)	(8)	(39)	-	(20)	-	(146)	IAS 37.84(c)
Unused amounts reversed	(6)	-	-	(6)	-	-	-	(12)	IAS 37.84(d)
Discount rate adjustment and imputed interest	2	1	2	11	21	6	-	43	IAS 37.84(e)
<b>At 31 December 2011</b>	<u><b>166</b></u>	<u><b>12</b></u>	<u><b>149</b></u>	<u><b>466</b></u>	<u><b>1,221</b></u>	<u><b>386</b></u>	<u><b>400</b></u>	<u><b>2,800</b></u>	IAS 37.84(c)
Current	114	3	28	100	-	205	400	850	IAS 1.60
Non-current	52	9	121	366	1,221	181	-	1,950	
	<u><b>166</b></u>	<u><b>12</b></u>	<u><b>149</b></u>	<u><b>466</b></u>	<u><b>1,221</b></u>	<u><b>386</b></u>	<u><b>400</b></u>	<u><b>2,800</b></u>	

# Notes to the consolidated financial statements

## 23. Provisions *continued*

### Maintenance warranties

IAS 37.85

A provision is recognised for expected warranty claims on products sold during the last two years, based on past experience of the level of repairs and returns. It is expected that most of these costs will be incurred in the next financial year and all costs will have been incurred within two years after the reporting date. Assumptions used to calculate the provision for warranties were based on current sales levels and current information available about returns based on the two-year warranty period for all products sold.

### Restructuring

The restructuring provision was in existence prior to the business combination and relates principally to the elimination of certain product lines of Extinguishers Limited. The restructuring plan was drawn up and announced to the employees of Extinguishers Limited in 2010 when the provision was recognised in the acquiree's financial statements. The restructuring is expected to be completed by 2013.

### Decommissioning

A provision has been recognised for decommissioning costs associated with a factory owned by Extinguishers Limited. The Group is committed to decommissioning the site as a result of the construction of the manufacturing facility for the production of fire retardant fabrics.

### Onerous operating lease

On acquisition of Extinguishers Limited, a provision has been recognised for the fact that the lease premiums on the operating lease were significantly higher than the market rate at acquisition. The provision has been calculated based on the difference between the market rate and the rate paid.

IFRS requires that an entity recognise a provision for contracts that are onerous. When Local GAAP does not require such contracts to be recognised as a liability, the first-time adopter is required to examine its contracts that are non-cancellable or that can only be terminated by incurring a penalty for onerous contracts. If the economic benefits expected to be received from the contract are lower than the unavoidable costs of meeting the obligations under the contract then the contract is onerous (IAS 37.10). The unavoidable cost of meeting the obligations is the lower of the net costs of fulfilling the contract and the cost of terminating it. The Group did not have any onerous contracts at the date of transition to IFRS.

### Social security contributions on share options

The provision for social security contributions on share options is calculated based on the number of options outstanding at the reporting date that are expected to be exercised, and using the market price of the shares at the reporting date as the best estimate of market price at the date of exercise. It is expected that the costs will be incurred during the exercise period of 1 January 2011 to 31 December 2013.

### Waste electrical and electronic equipment

The provision for waste electrical and electronic equipment is calculated based on sales in the current year (new waste) and expected disposals of old waste (sales before August 2007).

### Contingent liability

IFRS 3.56(a)

A contingent liability at a fair value of €380,000 has been determined at the acquisition date of Extinguishers Limited. The claim is subject to legal arbitration and only expected to be finalised in late 2012. At the reporting date, the provision has been reassessed and as a result thereof, it has been increased to €400,000 (see Note 5).

# Notes to the consolidated financial statements

## 24. Government grants

	<u>2011</u>	<u>2010</u>
	<u>€000</u>	<u>€000</u>
<b>At 1 January</b>	1,551	1,450
Received during the year	2,951	642
Released to the income statement	(1,053)	(541)
<b>At 31 December</b>	<u><u>3,449</u></u>	<u><u>1,551</u></u>

  

	<u>2011</u>	<u>2010</u>	<u>As at 1</u>
	<u>€000</u>	<u>€000</u>	<u>January 2010</u>
	<u>€000</u>	<u>€000</u>	<u>€000</u>
Current	149	151	150
Non-current	3,300	1,400	1,300
	<u><u>3,449</u></u>	<u><u>1,551</u></u>	<u><u>1,450</u></u>

Government grants have been received for the purchase of certain items of property, plant and equipment. There are no unfulfilled conditions or contingencies attached to these grants.

IAS 20.39(c)

## 25. Deferred revenue

	<u>2011</u>	<u>2010</u>
	<u>€000</u>	<u>€000</u>
<b>At 1 January</b>	365	364
Deferred during the year	1,426	1,126
Released to the income statement	(1,375)	(1,125)
<b>At 31 December</b>	<u><u>416</u></u>	<u><u>365</u></u>

  

	<u>2011</u>	<u>2010</u>	<u>As at 1</u>
	<u>€000</u>	<u>€000</u>	<u>January 2010</u>
	<u>€000</u>	<u>€000</u>	<u>€000</u>
Current	220	200	190
Non-current	196	165	174
	<u><u>416</u></u>	<u><u>365</u></u>	<u><u>364</u></u>

The deferred revenue refers to the accrual and release of *GoodPoints* transactions.

## 26. Pensions and other post-employment benefit plans

The Group has two defined benefit pension plans, one final salary plan in Euroland and one average salary plan in the US, covering substantially all of its employees, both of which require contributions to be made to separately administered funds.

IAS 19.120  
IAS 19.120A(b)

The Group has also agreed to provide certain additional post-employment healthcare benefits to senior employees in the United States. These benefits are unfunded.

The following tables summarise the components of net benefit expense recognised in the income statement and the funded status and amounts recognised in the statement of financial position for the respective plans:

# Notes to the consolidated financial statements

## 26. Pensions and other post-employment benefit plans *continued*

### Net benefit expense 2011 (recognised in cost of sales)

	Euroland plan	US plan	Post- employment medical	Total	<i>IAS 19.120A(g)</i>
	€000	€000	€000	€000	
Current service cost	(815)	(452)	(128)	(1,395)	
Interest cost on benefit obligation	(201)	(55)	(25)	(281)	
Expected return on plan assets	127	56	–	183	
Past service cost	(55)	–	–	(55)	
<b>Net benefit expense</b>	<b>(944)</b>	<b>(451)</b>	<b>(153)</b>	<b>(1,548)</b>	
Actual return on plan assets	445	293	–	738	<i>IAS 19.120A(m)</i>

### Net benefit expense 2010 (recognised in cost of sales)

	Euroland plan	US plan	Post- employment medical	Total	<i>IAS 19.120A(g)</i>
	€000	€000	€000	€000	
Current service cost	(788)	(356)	(105)	(1,249)	
Interest cost on benefit obligation	(218)	(65)	(8)	(291)	
Expected return on plan assets	126	47	–	173	
Past service cost	(107)	–	–	(107)	
<b>Net benefit expense</b>	<b>(987)</b>	<b>(374)</b>	<b>(113)</b>	<b>(1,474)</b>	
Actual return on plan assets	(338)	(166)	–	(504)	<i>IAS 19.120A(m)</i>

### Benefit asset/(liability) As at 31 December 2011

	Euroland plan	US plan	Post- employment medical	Total	<i>IAS 19.120A(f)</i>
	€000	€000	€000	€000	
Defined benefit obligation	(4,940)	(1,093)	(339)	(6,372)	
Fair value of plan assets	2,617	705	–	3,322	
	(2,323)	(388)	(339)	(3,050)	
Unrecognised past service costs	428	–	–	428	
<b>Benefit liability</b>	<b>(1,895)</b>	<b>(388)</b>	<b>(339)</b>	<b>(2,622)</b>	

### Benefit asset/(liability) As at 31 December 2010

	Euroland plan	US plan	Post- employment medical	Total	<i>IAS 19.120A(f)</i>
	€000	€000	€000	€000	
Defined benefit obligation	(4,108)	(1,115)	(197)	(5,420)	
Fair value of plan assets	1,763	680	–	2,443	
	(2,345)	(435)	(197)	(2,977)	
Unrecognised past service costs	483	–	–	483	
<b>Benefit liability</b>	<b>(1,862)</b>	<b>(435)</b>	<b>(197)</b>	<b>(2,494)</b>	

# Notes to the consolidated financial statements

## 26. Pensions and other post-employment benefit plans *continued*

### Benefit asset/(liability) As at 31 December 2010

	Euroland plan	US plan	Post- employment medical	Total	<i>IAS 19.120A(f)</i>
	€000	€000	€000	€000	
Defined benefit obligation	(4,108)	(1,115)	(197)	(5,420)	
Fair value of plan assets	1,763	680	–	2,443	
	(2,345)	(435)	(197)	(2,977)	
Unrecognised past service costs	483	–	–	483	
<b>Benefit liability</b>	<b>(1,862)</b>	<b>(435)</b>	<b>(197)</b>	<b>(2,494)</b>	

### Benefit asset/(liability) As at 1 January 2010

	Euroland plan	US plan	Post- employment medical	Total	<i>IAS 19.120A(f)</i>
	€000	€000	€000	€000	
Defined benefit obligation	(3,973)	(1,275)	(88)	(5,336)	
Fair value of plan assets	2,134	676	–	2,810	
	(1,839)	(599)	(88)	(2,526)	
Unrecognised past service costs	452	–	–	452	
<b>Benefit liability</b>	<b>(1,387)</b>	<b>(599)</b>	<b>(88)</b>	<b>(2,074)</b>	

Changes in the present value of the defined benefit obligation are as follows:

	Euroland plan	US plan	Post- employment medical	Total	<i>IAS 19.120A(c)</i>
	€000	€000	€000	€000	
Defined benefit obligation at 1 January 2010	3,973	1,275	88	5,336	
Interest cost	218	65	8	291	
Current service cost	788	356	105	1,249	
Benefits paid	(1,027)	(192)	–	(1,219)	
Actuarial losses/(gains) on obligation	156	(432)	–	(276)	
Exchange differences	–	43	(4)	39	
<b>Defined benefit obligation at 31 December 2010</b>	<b>4,108</b>	<b>1,115</b>	<b>197</b>	<b>5,420</b>	
Interest cost	201	55	25	281	
Current service cost	815	452	128	1,395	
Benefits paid	(669)	(321)	–	(990)	
Actuarial losses/(gains) on obligation	485	(119)	–	366	
Exchange differences	–	(89)	(11)	(100)	
<b>Defined benefit obligation at 31 December 2011</b>	<b>4,940</b>	<b>1,093</b>	<b>339</b>	<b>6,372</b>	

# Notes to the consolidated financial statements

## 26. Pensions and other post-employment benefit plans *continued*

Changes in the fair value of plan assets are as follows:

IAS 19.120A(e)

	<b>Euroland plan</b>	<b>US plan</b>	<b>Total</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>
Fair value of plan assets at 1 January 2010	2,134	676	2,810
Expected return	126	47	173
Contributions by employer	799	553	1,352
Benefits paid	(1,027)	(192)	(1,219)
Actuarial losses	(269)	(408)	(677)
Exchange differences	-	4	4
<b>Fair value of plan assets at 31 December 2010</b>	<b>1,763</b>	<b>680</b>	<b>2,443</b>
Expected return	127	56	183
Contributions by employer	1,078	47	1,125
Benefits paid	(669)	(321)	(990)
Actuarial gains	318	359	677
Exchange differences	-	(116)	(116)
<b>Fair value of plan assets at 31 December 2011</b>	<b>2,617</b>	<b>705</b>	<b>3,322</b>

The Group expects to contribute €1,500,000 to its defined benefit pension plans in 2012.

IAS 19.120A(q)

The acquisitions of Extinguishers Limited in 2011 and Lightbulbs Limited in 2010 did not affect plan assets or the defined benefit obligation, as both companies did not have defined benefit plans.

The major categories of plan assets as a percentage of the fair value of the total plan assets are as follows:

IAS 19.120A(j)

	<b>Pension plans</b>					
	<b>Euroland plan</b>			<b>US plan</b>		
	<b>2011</b>	<b>2010</b>	<b>1 January 2010</b>	<b>2011</b>	<b>2010</b>	<b>1 January 2010</b>
	%	%	%	%	%	%
Euroland equities	44	49	48	13	10	12
American equities	29	29	29	9	9	8
Euroland bonds	10	5	8	33	32	34
American bonds	10	8	5	19	15	11
Property	7	9	10	26	34	35

The plan assets include a property occupied by the Group with a fair value of €150,000 (2010: €140,000, 1 January 2010: €130,000).

IAS 19.120A(k)

The overall expected rate of return on assets is determined based on the market expectations prevailing on that date, applicable to the period over which the obligation is to be settled. These are reflected in the principal assumptions below.

IAS 19.120A(l)

The principal assumptions used in determining pension and post-employment medical benefit obligations for the Group's plans are shown below:

IAS 19.120(n)

# Notes to the consolidated financial statements

## 26. Pensions and other post-employment benefit plans *continued*

	2011	2010	1 January 2010
	%	%	%
Discount rate:			
Euroland plan	4.9	5.5	5.6
US plan / post-employment medical plan	5.7	5.9	5.9
Expected rate of return on assets:			
Euroland plan	7.2	5.9	5.8
US plan	8.3	6.8	6.8
Future salary increases:			
Euroland plan	3.5	4.0	4.1
US plan	3.8	4.1	4.2
Future pension increases:			
Euroland plan	2.1	2.1	2.1
US plan	2.2	2.3	2.3
Healthcare cost increase rate	7.2	7.4	7.4
Post retirement mortality for pensioners at the age of 65:			
Euroland plan			
Male	20.0	20.0	20.0
Female	23.0	23.0	23.0
US plan / post-employment medical plan			
Male	19.0	19.0	19.0
Female	22.0	22.0	22.0

A one percentage point change in the assumed rate of increase in healthcare costs would have the following effects:

	Increase	Decrease	<i>IAS 19.120A(o)</i>
	€000	€000	
<b>2011</b>			
Effect on the aggregate current service cost and interest cost	6	(2)	
Effect on the defined benefit obligation	12	(8)	
<b>2010</b>			
Effect on the aggregate current service cost and interest cost	4	(2)	
Effect on the defined benefit obligation	7	(5)	

A one percentage point change in the assumed discount rate would have the following effects:

*IAS 1.125*  
*IAS 1.129(b)*

	Increase	Decrease
	€000	€000
<b>2011</b>		
Effect on the aggregate current service cost and interest cost	(43)	37
Effect on the defined benefit obligation	(34)	31
<b>2010</b>		
Effect on the aggregate current service cost and interest cost	(34)	30
Effect on the defined benefit obligation	(28)	26

### Commentary

Although not specifically required by IAS 19, the discount rate assumption or other assumptions give rise to estimation uncertainty which can result in having a significant risk for a material adjustment. IAS 1.125 requires adequate disclosure about the assumptions that helps users to understand the source of estimation uncertainty. Therefore, a sensitivity analysis involving the discount rate is regarded as important information and should be strongly considered.

# Notes to the consolidated financial statements

## 26. Pensions and other post-employment benefit plans continued

Amounts for the current and previous period are as follows:

IFRS 1.D11,  
IAS 19.120A(p)

	<b>Euroland plan</b>	
	<b>2011</b>	<b>2010</b>
	<b>€000</b>	<b>€000</b>
Defined benefit obligation	(4,940)	(4,108)
Plan assets	2,617	1,763
(Deficit)/surplus	(2,323)	(2,345)
Experience adjustments on plan liabilities	(572)	(257)
Experience adjustments on plan assets	318	(464)
	<b>US plan</b>	
	<b>2011</b>	<b>2010</b>
	<b>€000</b>	<b>€000</b>
Defined benefit obligation	(1,093)	(1,115)
Plan assets	705	680
(Deficit)/surplus	(388)	(435)
Experience adjustments on plan liabilities	145	402
Experience adjustments on plan assets	243	(217)
	<b>Post-employment medical benefits</b>	
	<b>2011</b>	<b>2010</b>
	<b>€000</b>	<b>€000</b>
Defined benefit obligation	(339)	(197)
Experience adjustments on plan liabilities	(48)	(37)

### Commentary

IAS 19.120A(p) requires disclosure of five years of defined benefit information. A first-time adopter may elect to provide this disclosure prospectively from the date of transition to IFRS (i.e., provide the disclosure for the current and comparative periods only).

## 27. Share-based payment plans

### Senior Executive Plan

IFRS 2.45(a)

Under the Senior Executive Plan (SEP), share options of the parent are granted to senior executives of the parent with more than 12 months of service. The exercise price of the share options is equal to the market price of the underlying shares on the date of grant. The share options vest if and when the Group's earnings per share amount increases by 10% three years from the date of grant and the senior executive is employed on such date. If this increase is not met, the share options do not vest.

The fair value of the share options is estimated at the grant date using a binomial option pricing model, taking into account the terms and conditions upon which the share options were granted. IFRS 2.46

The contractual term of each option granted is five years. There are no cash settlement alternatives. The Group does not have a past practice of cash settlement for these share options.

### General Employee Share-option Plan

IFRS 2.45(a)

At its discretion, the Group may grant share options of the parent to other employees of the parent under the General Employee Share-option Plan (GESP), once they have been in service for two years. The vesting of the share options is dependent on the total shareholder return (TSR) of the Group as compared with a group of principal competitors. Employees must remain in service for a period of three years from the date of the grant. The fair value of share options granted is estimated at the date of the grant using a Monte-Carlo simulation model, taking into account the terms and conditions upon which the share options were granted. The model simulates the TSR and compares it against a group of principal competitors. It takes into account historical and expected dividends, and share price fluctuation covariance of the Group and its competitors to predict the distribution of relative share performance. IFRS 2.47(a)(iii)

# Notes to the consolidated financial statements

## 27. Share-based payment plans *continued*

The exercise price of the share options is equal to the market price of the underlying shares on the date of grant. The contractual term of the share options is five years and there are no cash settlement alternatives for the employees. The Group does not have a past practice of cash settlement for these awards.

IFRS 2.46

### Share Appreciation Rights

Employees in the business development group are granted share appreciation rights (SARs), which can only be settled in cash. These SARs vest when a specified target number of new sales contracts are closed and the employee is employed at the vesting date. The contractual term of the SARs is six years. The fair value of the SARs is measured at each reporting date using a binomial option pricing model taking into account the terms and conditions upon which the instruments were granted and the current likelihood of achieving the specified target.

IFRS 2.45(a)  
IFRS 2.46

The carrying amount of the liability relating to the SARs at 31 December 2011 is €187,000 (2010: €82,000, 1 January 2010: €nil). No SARs had vested at 31 December 2011 and 31 December 2010.

IFRS 2.51(b)

The expense recognised for employee services received during the year is shown in the following table:

	<b>2011</b>	<b>2010</b>
	<b>€000</b>	<b>€000</b>
Expense arising from equity-settled share-based payment transactions	307	298
Expense arising from cash-settled share-based payment transactions	105	194
<b>Total expense arising from share-based payment transactions</b>	<b>412</b>	<b>492</b>

IFRS 2.51(a)

There have been no cancellations or modifications to any of the plans during 2011 or 2010.

### Movements in the year

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options during the year:

	<b>2011</b>	<b>2011</b>	<b>2010</b>	<b>2010</b>
	<b>No.</b>	<b>WAEP</b>	<b>No.</b>	<b>WAEP</b>
Outstanding at 1 January	575,000	€2.85	525,000	€2.75
Granted during the year	250,000	€3.85	155,000	€3.03
Forfeited during the year	–	–	(25,000)	€2.33
Exercised during the year	(75,000) <sup>2</sup>	€2.33	(65,000) <sup>1</sup>	€3.08
Expired during the year	(25,000)	€3.02	(15,000)	€2.13
Outstanding at 31 December	<b>725,000</b>	€3.24	<b>575,000</b>	€2.85
Exercisable at 31 December	110,000		100,000	

IFRS 2.45(c)

IFRS 2.45(d)

<sup>1</sup> The weighted average share price at the date of exercise of these options was €4.09.

IFRS 2.45(c)

<sup>2</sup> The weighted average share price at the date of exercise of these options was €3.13.

The weighted average remaining contractual life for the share options outstanding as at 31 December 2011 is 2.94 years (2010: 2.60 years).

The weighted average fair value of options granted during the year was €1.32 (2010: €1.18).

IFRS 2.47(a)

The range of exercise prices for options outstanding at the end of the year was €2.33 to €3.85 (2010: €2.13 to €3.03).

IFRS 2.45(d)

## Notes to the consolidated financial statements

### 27. Share-based payment plans *continued*

The following tables list the inputs to the models used for the three plans for the years ended 31 December 2011 *IFRS 2.47(a)(i)* and 31 December 2010:

	<b>2011 SEP</b>	<b>2011 GESP</b>	<b>2011 SAR</b>
Dividend yield (%)	3.13	3.13	3.13
Expected volatility (%)	15.00	16.00	18.00
Risk-free interest rate (%)	5.10	5.10	5.10
Expected life of share options/SARs (years)	3.00	4.25	6.00
Weighted average share price (€)	3.10	3.10	3.12
Model used	Binomial	Monte Carlo	Binomial

	<b>2010 SEP</b>	<b>2010 GESP</b>	<b>2010 SAR</b>
Dividend yield (%)	3.01	3.01	3.01
Expected volatility (%)	16.30	17.50	18.10
Risk-free interest rate (%)	5.00	5.00	5.00
Expected life of options/SARs (years)	3.00	4.25	6.00
Weighted average share price (€)	2.86	2.86	2.88
Model used	Binomial	Monte Carlo	Binomial

	<b>1 January 2010 SEP</b>	<b>1 January 2010 GESP</b>	<b>1 January 2010 SAR</b>
Dividend yield (%)	3.02	3.02	3.02
Expected volatility (%)	16.00	17.00	18.00
Risk-free interest rate (%)	5.00	5.00	5.00
Expected life of options/SARs (years)	3.00	4.25	6.00
Weighted average share price (€)	2.81	2.81	2.82
Model used	Binomial	Monte Carlo	Binomial

The expected life of the share options and SARs is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome either.

*IFRS 2.47(a)(ii)*

### 28. Trade and other payables (current)

	<b>2011</b>	<b>2010</b>	<b>As at 1 January 2010</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>
Trade payables	17,640	19,496	18,725
Other payables	1,833	1,495	1,565
Interest payable	43	269	289
Joint venture (Note 29)	30	12	9
Other related parties (Note 29)	10	9	12
	<b>19,556</b>	<b>21,281</b>	<b>20,600</b>

Terms and conditions of the above financial liabilities:

*IFRS 7.39*

- ▶ Trade payables are non-interest bearing and are normally settled on 60-day terms
- ▶ Other payables are non-interest bearing and have an average term of six months
- ▶ Interest payable is normally settled quarterly throughout the financial year
- ▶ For terms and conditions relating to joint ventures and other related parties, refer to Note 29

*IFRS 7.39(b)*

For explanations on the Group's credit risk management processes, refer to Note 31.

# Notes to the consolidated financial statements

## 29. Related party disclosures

IAS 24.12

The financial statements include the financial statements of the Group and the subsidiaries listed in the following table:

Name	Country of incorporation	% equity interest		As at 1 January 2010
		2011	2010	
Extinguishers Limited	Euroland	80.0	–	–
Bright Sparks Limited	Euroland	95.0	95.0	95.0
Wireworks Inc.	United States	98.0	98.0	98.0
Sprinklers Inc.	United States	100.0	100.0	100.0
Lightbulbs Limited	Euroland	87.4	80.0	–
Hose Limited	Euroland	100.0	100.0	100.0
Fire Equipment Test Lab Limited	Euroland	20.0	–	–

The Group holds a 20% equity interest in the newly formed Fire Equipment Test Lab Limited. However, the Group has majority representation on the entity's board of directors and is required to approve all major operational decisions. The operations, once they commence, will be solely used by the Group. Based on these facts and circumstances, management determined that, in substance, the Group controls this entity and therefore has consolidated this entity in its financial statements.

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year (for information regarding outstanding balances at 31 December 2011 and 2010, as well as 1 January 2010, refer to Notes 19 and 28):

IAS 24.17  
IAS 24.22

		Sales to related parties	Purchases from related parties	Amounts owed by related parties*	Amounts owed to related parties*
		€000	€000	€000	€000
Entity with significant influence over the Group:					
International Fires P.L.C.	2011	7,115	–	620	–
	2010	5,975	–	550	–
	As at 1 January 2010	–	–	445	–
Associate:					
Power Works Limited	2011	2,900	–	551	–
	2010	2,100	–	582	–
	As at 1 January 2010	–	–	602	–
Joint venture in which the parent is a venturer:					
Showers Limited	2011	–	590	–	30
	2010	–	430	–	12
	As at 1 January 2010	–	–	–	9
Key management personnel of the Group:					
Other directors' interests	2011	225	510	20	10
	2010	135	490	–	9
	As at 1 January 2010	–	–	–	12

IAS 24.17

\* The amounts are classified as trade receivables and trade payables, respectively.

		Interest received	Amounts owed by related parties
Loans from/to related parties			
Associate:			
Power Works Limited	2011	20	200
	2010	–	–
	As at 1 January 2010	–	–
Key management personnel of the Group:			
Director's loan (Note 16)	2011	1	13
	2010	–	8
	As at 1 January 2010	–	8

IAS 24.17

# Notes to the consolidated financial statements

## 29. Related party disclosures *continued*

IAS 24.12

### *The ultimate parent*

The ultimate parent of the Group is S.J. Limited.

IAS 24.12  
IAS 1.138(c)

There were no transactions other than dividends paid, between the Group and S.J. Limited during the financial year (2010: €Nil).

### *Entity with significant influence over the Group*

International Fires P.L.C.

International Fires P.L.C. owns 31.48% of the ordinary shares in Good First-time Adopter (International) Limited (2010: 31.48%, 1 January 2010: 31.48%).

### *Associate*

Power Works Limited

The Group has a 25% interest in Power Works Limited (2010: 25%, 1 January 2010: 25%).

### *Joint venture in which the Group is a venturer*

Showers Limited

The Group has a 50% interest in Showers Limited (2010: 50%, 1 January 2010: 50%).

### *Terms and conditions of transactions with related parties*

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured and interest free. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2011, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2010: €Nil). This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

IAS 24.21  
IAS 24.17(b)

## **Commentary**

The fact that transactions with related parties are made at terms equivalent to an arm's length transaction is only required if an entity can substantiate such terms, i.e., IAS 24.21 does not require such disclosure. The Group was able to substantiate the terms and therefore provides the disclosure.

### *Loan to an associate*

The loan granted to Power Works Limited is intended to finance an acquisition of new machines for the manufacturing of fire prevention equipment. The loan is unsecured and repayable in full on 1 June 2013. Interest is charged at 10%.

## **Transactions with key management personnel**

### *Director's loan*

The Group offers to senior management a facility to borrow up to €20,000, repayable within five years from the date of disbursement. Such loans are unsecured and the interest rate is the average rate incurred on long-term loans (currently EURIBOR + 0.8). Any loans granted are included in financial instruments on the face of the statement of financial position.

IAS 24.17(b)

### *Other directors' interests*

During both 2011 and 2010, purchases at normal market prices were made by group companies from Gnome Industries Limited. The spouse of one of the directors of the Group is a director and controlling shareholder of this company.

One director has a 25% (2010: 25%, 1 January 2010: 25%) equity interest in Home Fires Limited. The Group has a contract for the supply of fire extinguishers to this company. During 2011 and 2010, the Group supplied extinguishers to Home Fires Limited at normal market prices.

# Notes to the consolidated financial statements

## 29. Related party disclosures *continued*

IAS 24.12

### Compensation of key management personnel of the Group

	<b>2011</b>	<b>2010</b>	
	<b>€000</b>	<b>€000</b>	
Short-term employee benefits	435	424	IAS 24.16(a)
Post-employment pension and medical benefits	110	80	IAS 24.16(b)
Termination benefits <sup>1</sup>	40	–	IAS 24.16(d)
Share-based payment transactions	18	12	IAS 24.16(e)
<b>Total compensation paid to key management personnel</b>	<b>603</b>	<b>516</b>	

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel.

<sup>1</sup> The non-executive directors do not receive pension entitlements from the Group. During 2011, an amount of €40,000 was paid to a director who retired from an executive director's position in 2010.

### Directors' interests in the Senior Executive Plan

Share options held by executive members of the Board of Directors under the senior executive plan to purchase ordinary shares have the following expiry dates and exercise prices:

Issue date	Expiry date	Exercise price	1 January		
			2011	2010	2010
			Number of shares outstanding		
2010	2011	€2.33	10,000	10,000	–
2010	2013	€3.13	83,000	83,000	–
2011	2013	€3.85	27,000	–	–
<b>Total</b>			<b>120,000</b>	<b>93,000</b>	–

IAS 24.16(e)

No share options have been granted to the non-executive members of the Board of Directors under this scheme. Refer to Note 27 for further details on the scheme.

### Commentary

Certain jurisdictions might require additional and more extensive disclosures e.g., on remuneration and benefits of key management personnel and members of the Board of Directors.

## 30. Commitments and contingencies

### Operating lease commitments – Group as lessee

IAS 17.35(d)

The Group has entered into commercial leases on certain motor vehicles and items of machinery. These leases have an average life of between three and five years with no renewal option included in the contracts. There are no restrictions placed upon the Group by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases are as follows:

IAS 17.35(a)

	<b>2011</b>	<b>2010</b>	<b>As at 1</b>
	<b>€000</b>	<b>€000</b>	<b>January 2010</b>
			<b>€000</b>
Within one year	255	250	165
After one year but not more than five years	612	600	400
More than five years	408	400	300
	<b>1,275</b>	<b>1,250</b>	<b>875</b>

### Operating lease commitments – Group as lessor

IAS 17.56(c)

The Group has entered into commercial property leases on its investment property portfolio, consisting of the Group's surplus office and manufacturing buildings. These non-cancellable leases have remaining terms of between five and 20 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

# Notes to the consolidated financial statements

## 30. Commitments and contingencies *continued*

Future minimum rentals receivable under non-cancellable operating leases are as follows:

	2011	2010	As at 1 January 2010	<i>IAS 17.56(a)</i>
	€000	€000	€000	
Within one year	709	695	650	
After one year but not more than five years	2,815	2,760	2,100	
More than five years	5,901	5,864	3,500	
	<u>9,425</u>	<u>9,319</u>	<u>6,250</u>	

### Finance lease and hire purchase commitments

*IAS 17.31(e)*

The Group has finance leases and hire purchase contracts for various items of plant and machinery. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease. Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as follows:

	2011		2010		As at 1 January 2010		
	Minimum payments €000	Present value of payments (Note 16) €000	Minimum payments €000	Present value of payments (Note 16) €000	Minimum payments €000	Present value of payments (Note 16) €000	
Within one year	85	83	56	51	50	47	
After one year but not more than five years	944	905	1,014	943	985	938	
More than five years	–	–	–	–	–	–	
Total minimum lease payments	1,029	988	1,070	994	1,035	985	<i>IAS 17.31(b)</i>
Less amounts representing finance charges	(41)	–	(76)	–	(50)	–	
<b>Present value of minimum lease payments</b>	<u>988</u>	<u>988</u>	<u>994</u>	<u>994</u>	<u>985</u>	<u>985</u>	

### Capital commitments

At 31 December 2011, the Group had commitments of €2,310,000 (2010: €4,500,000, 1 January 2010: €Nil) relating to the completion of the fire equipment safety facility.

*IAS 16.74(c)*  
*IAS 31.55*

### Legal claim contingency

An overseas customer has commenced an action against the Group in respect of equipment claimed to be defective. The claim is estimated to be €850,000 should the action be successful. A trial date has not yet been set and therefore it is not practicable to state the timing of the payment, if any.

*IAS 37.86*

The Group has been advised by its legal counsel that it is only possible, but not probable, that the action will succeed. Accordingly, no provision for any liability has been made in these financial statements.

### Guarantees

The Group has provided the following guarantees at 31 December 2011:

*IAS 24.20(h)*  
*IAS 31.54(a)*  
*IAS 28.40*

- ▶ Guarantee of 25% of the bank overdraft of the associate to a maximum amount of €500,000 (2010: €500,000, 1 January 2010: €500,000), which is incurred jointly with other investors of the associate (carrying amounts of the related financial guarantee contracts were €67,000 and €34,000 at 31 December 2011 and 2010, respectively (1 January 2010: €32,000), see Note 16) *IAS 37.86*
- ▶ Guarantee to an unrelated party for the performance in a contract by the joint venture entity. No liability is expected to arise *IAS 31.54(b)*
- ▶ Guarantee of its share of €20,000 (2010: €15,000, 1 January 2010: €Nil) of the associate's contingent liabilities which have been incurred jointly with other investors *IAS 28.40(a)*

### Contingent liabilities

The Group recognised a contingent liability of €400,000 in the course of the acquisition of Extinguishers Limited. Refer to Note 5 for additional information.

# Notes to the consolidated financial statements

## 31. Financial risk management objectives and policies

The Group's principal financial liabilities, other than derivatives, comprise loans and borrowings, trade and other payables, and financial guarantee contracts. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. The Group has loan and other receivables, trade and other receivables, and cash and short-term deposits that arrive directly from its operations. The Group also holds available-for-sale investments and enters into derivative transactions.

The Group is exposed to market risk, credit risk and liquidity risk.

The Group's senior management oversees the management of these risks. The Group's senior management is supported by a financial risk committee that advises on financial risks and the appropriate financial risk governance framework for the Group. The financial risk committee provides assurance to the Group's senior management that the Group's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with group policies and group risk appetite. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Group's policy that no trading in derivatives for speculative purposes shall be undertaken.

The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

### Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise four types of risk: interest rate risk, currency risk, commodity price risk and other price risk, such as equity price risk. Financial instruments affected by market risk include loans and borrowings, deposits, available-for-sale investments and derivative financial instruments.

The sensitivity analyses in the following sections relate to the position as at 31 December in 2011 and 2010.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 December 2011.

The analyses exclude the impact of movements in market variables on the carrying value of pension and other post-retirement obligations, provisions and on the non-financial assets and liabilities of foreign operations.

The following assumptions have been made in calculating the sensitivity analyses:

- ▶ The statement of financial position sensitivity relates to derivatives and available-for-sale debt instruments
- ▶ The sensitivity of the relevant income statement item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 31 December 2011 and 2010 including the effect of hedge accounting

The sensitivity of equity is calculated by considering the effect of any associated cash flow hedges and hedges of a net investment in a foreign subsidiary at 31 December 2011 for the effects of the assumed changes of the underlying.

### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings. The Group's policy is to keep between 40% and 60% of its borrowings at fixed rates of interest and excluding borrowings that relate to discontinued operations. To manage this, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. At 31 December 2011, after taking into account the effect of interest rate swaps, approximately 43% of the Group's borrowings are at a fixed rate of interest (2010: 50%, 1 January 2010: 41%).

# Notes to the consolidated financial statements

## 31. Financial risk management objectives and policies *continued*

### Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings, after the impact of hedge accounting. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings as follows. (There is only an immaterial impact on the Group's equity):

	<b>Increase/decrease in basis points</b>	<b>Effect on profit before tax</b>	<i>IFRS 7.40(a)</i>
		<b>€000</b>	
<b>2011</b>			
Euro	+45	(48)	
US dollar	+60	(13)	
Euro	-45	33	
US dollar	-60	12	
<b>2010</b>			
Euro	+10	(19)	
US dollar	+15	-	
Euro	-10	12	
US dollar	-15	-	

The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment, showing a significantly higher volatility as in prior years.

### Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's functional currency) and the Group's net investments in foreign subsidiaries.

*IFRS 7.33  
IFRS 7.40(b)*

The Group manages its foreign currency risk by hedging transactions that are expected to occur within a maximum 24-month period. Transactions that are certain are hedged without any limitation in time.

Where the nature of the hedge relationship is not an economic hedge, it is the Group's policy to negotiate the terms of the hedging derivatives to match the terms of the underlying hedge items to maximise hedge effectiveness.

The Group hedges its exposure to fluctuations on the translation into euro of its foreign operations by holding net borrowings in foreign currencies and by using foreign currency swaps and forwards.

At 31 December 2011 the Group hedged 75% (2010: 70%, 1 January 2010: 70%) of its foreign currency sales for which firm commitments existed at the reporting date, respectively.

### Foreign currency sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities including non-designated foreign currency derivatives) and the Group's equity (due to changes in the fair value of forward exchange contracts designated as cash flow hedges and net investment hedges). The Group's exposure to foreign currency changes for all other currencies is not material.

	<b>Change in US\$ rate</b>	<b>Effect on profit before tax</b>	<b>Effect on equity</b>	
		<b>€000</b>	<b>€000</b>	<i>IFRS 7.40(a)</i>
2011	+9%	(30)	(154)	
	-9%	20	172	
2010	+8%	(40)	(146)	
	-8%	40	158	

# Notes to the consolidated financial statements

## 31. Financial risk management objectives and policies *continued*

The movement on the post-tax effect is a result of a change in the fair value of derivative financial instruments not designated in a hedging relationship and monetary assets and liabilities denominated in US dollars, where the functional currency of the entity is a currency other than US dollars. Although the derivatives have not been designated in a hedge relationship, they act as a commercial hedge and will offset the underlying transactions when they occur.

The movement on equity arises from changes in US dollar borrowings (net of cash and cash equivalents) in the hedge of net investments in US operations and cash flow hedges. These movements will offset the translation of the US operations' net assets into euro.

### Commodity price risk

The Group is affected by the volatility of certain commodities. Its operating activities require the ongoing purchase and manufacturing of electronic parts and therefore require a continuous supply of copper. Due to the significantly increased volatility of the price of the underlying, the Group's Board of Directors has developed and enacted a risk management strategy regarding commodity price risk and its mitigation.

Based on a 12-month forecast about the required copper supply, the Group hedges the purchase price using forward commodity purchase contracts. The forecast is deemed to be highly probable.

Forward contracts with a physical delivery which qualify for normal purchase, sale or usage are therefore not recognised as derivatives and are disclosed in Note 30.

### Commodity price sensitivity

The following table shows the effect of price changes from copper after the impact of hedge accounting.

	<u>Change in year-end price</u>	<u>Effect on profit before tax</u>	<u>Effect on equity</u>	
		€000	€000	IFRS 7.40(a)
<b>2011</b>				
Copper	+15%	(220)	(585)	
	-15%	220	585	

### Equity price risk

The Group's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Board of Directors reviews and approves all equity investment decisions.

IFRS 7.33(b)

At the reporting date, the exposure to unlisted equity securities at fair value was €1,163,000. A change of 10% in the overall earnings stream of the valuations performed could have an impact of approximately €120,000 on the equity of the Group.

IFRS 7.33(a)

IFRS 7.40

At the reporting date, the exposure to listed equity securities at fair value was €337,000. A decrease of 10% on the NYSE market index could have an impact of approximately €55,000 on the income or equity attributable to the Group, depending on whether or not the decline is significant or prolonged. An increase of 10% in the value of the listed securities would only impact equity but would not have an effect on profit or loss.

### Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

IAS 7.33

# Notes to the consolidated financial statements

## 31. Financial risk management objectives and policies *continued*

### Trade receivables

IAS 7.34(c)  
IFRS 7.B8

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of the customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored and any shipments to major customers are generally covered by letters of credit or other forms of credit insurance. At 31 December 2011, the Group had 55 customers (2010: 65 customers, 1 January 2010: 60 customers) that owed the Group more than €250,000 each and accounted for approximately 71% (2010: 76%, 1 January 2010: 72%) of all receivables owing. There were five customers (2010: seven customers, 1 January 2010: three customers ) with balances greater than €1 million accounting for just over 17% (2010: 19%, 1 January 2010: 13%) of the total amounts receivable. The requirement for an impairment is analysed at each reporting date on an individual basis for major clients. Additionally, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actual incurred historical data. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 16. The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

### Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Group's Board of Directors on an annual basis, and may be updated throughout the year subject to approval of the Group's Finance Committee. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty's failure. The Group's maximum exposure to credit risk for the components of the statement of financial position is the carrying amounts as illustrated in Note 16 except for financial guarantees and derivative financial instruments. The Group's maximum exposure for financial guarantees and financial derivative instruments are noted in Note 30 and in the liquidity table below.

IFRS 7.33  
IFRS 7.36

### Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool.

IFRS 7.33  
IFRS 7.39(c)

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, debentures, preference shares, finance leases and hire purchase contracts. The Group's policy is that not more than 35% of borrowings should mature in the next 12-month period. 10.6% of the Group's debt will mature in less than one year at 31 December 2011 (2010: 11.1%, 1 January 2010 19.0%) based on the carrying value of borrowings reflected in the financial statements. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. Access to sources of funding is sufficiently available and debt maturing within 12 months can be rolled over with existing lenders.

IFRS 7.B8

# Notes to the consolidated financial statements

## 31. Financial risk management objectives and policies *continued*

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

<b>As at 31 December 2011</b>	<b>On demand</b>	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>&gt; 5 years</b>	<b>Total</b>	<i>IFRS 7.39(a)(b)</i>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Interest-bearing loans and borrowings	966	21	1,562	10,554	8,000	21,103	
Convertible preference shares	-	-	-	676	2,324	3,000	
Other liabilities	-	-	-	150	-	150	
Trade and other payables	3,620	14,766	1,170	-	-	19,556	
Financial guarantee contracts	87	-	-	-	-	87	
Financial derivatives	1,970	2,740	391	1,191	1,329	7,621	
	<b>6,643</b>	<b>17,527</b>	<b>3,123</b>	<b>12,571</b>	<b>11,653</b>	<b>51,517</b>	

  

<b>As at 31 December 2010</b>	<b>On demand</b>	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>&gt; 5 years</b>	<b>Total</b>	
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	
Interest-bearing loans and borrowings	2,650	18	1,433	7,572	11,600	23,273	
Convertible preference shares	-	-	-	624	2,376	3,000	
Other liabilities	-	-	-	202	-	202	
Trade and other payables	4,321	14,904	2,056	-	-	21,281	
Financial guarantee contracts	49	-	-	-	-	49	
Financial derivatives	549	1,255	-	-	-	1,804	
	<b>7,576</b>	<b>16,177</b>	<b>3,489</b>	<b>8,398</b>	<b>13,976</b>	<b>49,609</b>	

  

<b>As at 1 January 2010</b>	<b>On demand</b>	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>&gt; 5 years</b>	<b>Total</b>	
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	
Interest-bearing loans and borrowings	2,750	23	1,523	7,235	8,127	19,658	
Convertible preference shares	-	-	-	598	2,402	3,000	
Other liabilities	-	-	-	180	-	180	
Trade and other payables	4,707	13,894	1,998	-	-	20,599	
Financial guarantee contracts	32	-	-	-	-	32	
Financial derivatives	532	1,272	-	-	-	1,804	
	<b>8,021</b>	<b>15,189</b>	<b>3,521</b>	<b>8,013</b>	<b>10,529</b>	<b>45,273</b>	

### Commentary

*Improving Disclosures about Financial Instruments* (Amendments to IFRS 7) amended paragraph 39 of IAS 39 to explicitly require a contractual maturity analysis for derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows.

The disclosed financial derivative instruments in the above table are the gross undiscounted cash flows. However, those amounts may be settled gross or net. The following table shows the corresponding reconciliation of those amounts to their carrying amounts.

<b>As at 31 December 2011</b>	<b>On demand</b>	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>over 5 years</b>	<b>Total</b>	<i>IFRS 7.39(a)(b)</i>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Inflows	800	1,000	250	700	950	3,700	
Outflows	(1,970)	(2,740)	(391)	(1,191)	(1,329)	(7,621)	
Net	(1,170)	(1,740)	(141)	(491)	(379)	(3,921)	
Discounted at the applicable interbank rates	(1,170)	(1,731)	(139)	(463)	(343)	(3,846)	

# Notes to the consolidated financial statements

## 31. Financial risk management objectives and policies *continued*

As at 31 December 2010	On demand	Less than 3 months	3 to 12 months	1 to 5 years	over 5 years	Total
	€000	€000	€000	€000	€000	€000
Inflows	500	1,000	-	-	-	1,500
Outflows	(549)	(1,255)	-	-	-	(1,804)
Net	(49)	(255)	-	-	-	(304)
Discounted at the applicable interbank rates	(49)	(254)	-	-	-	(303)

  

As at 1 January 2010	On demand	Less than 3 months	3 to 12 months	1 to 5 years	over 5 years	Total
	€000	€000	€000	€000	€000	€000
Inflows	500	1,000	-	-	-	1,500
Outflows	(532)	(1,272)	-	-	-	(1,804)
Net	(32)	(272)	-	-	-	(304)
Discounted at the applicable interbank rates	(32)	(271)	-	-	-	(303)

### Capital management

Capital includes convertible preference shares and equity attributable to the equity holders of the parent.

IAS 1.134  
IAS 1.135

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2011 and 31 December 2010.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio between 25% and 40%. The Group includes within net debt, interest bearing loans and borrowings, a loan from a venture partner, trade and other payables, less cash and cash equivalents, excluding discontinued operations.

	2011	2010	As at 1 January 2010
	€000	€000	€000
Interest-bearing loans and borrowings (Note 16)	20,538	22,334	21,469
Trade and other payables (Note 28)	19,556	21,281	20,600
Less: cash and short-term deposits (Note 20)	(17,112)	(14,916)	(11,066)
Net debt	22,982	28,699	31,003
Convertible preference shares (Note 16)	2,778	2,644	2,522
Equity	62,190	48,551	42,841
Total capital	64,968	51,195	45,363
<b>Capital and net debt</b>	<b>87,950</b>	<b>79,894</b>	<b>76,365</b>
Gearing ratio	26%	36%	41%

IAS 1.134

# Notes to the consolidated financial statements

## 31. Financial risk management objectives and policies *continued*

### Commentary

IAS 1.134 and IAS 1.135 require entities to make qualitative and quantitative disclosures regarding their objectives, policies and processes for managing capital. The Group has disclosed a gearing ratio as this is the measure it uses to monitor capital. The Group considers both capital and net debt as relevant components of funding, and hence, part of its capital management. However, other measures or a different type of gearing ratio may be more suitable for other entities.

### Collateral

The Group has pledged part of its short-term deposits in order to fulfil the collateral requirements for the hedging derivatives in place. At 31 December 2011, the fair value of the short-term deposit pledged was €5 million (2010: €2 million, 1 January 2010: €2 million). The counterparties have an obligation to return the securities to the Group. There are no other significant terms and conditions associated with the use of collateral.

IAS 7.48  
IFRS 7.14  
IFRS 7.38

The Group did not hold collateral at 31 December 2011 (2010 €Nil, 1 January 2010 €Nil).

IFRS 7.15

## 32. Events after the reporting period

On 14 January 2012, a building with a net book value of €1,695,000 was severely damaged by flooding and inventories with a net book value of €857,000 were lost. It is expected that insurance proceeds will fall short of the costs of rebuilding and loss of inventories by €750,000. The consolidated financial statements have not been adjusted to give effect to this expected loss.

IAS 10.21  
IAS 10.10

# Appendix 1 - Consolidated statement of comprehensive income (example of a single statement)

for the year ended 31 December 2011

IAS 1.10(b)  
IAS 1.51(b)(c)

## Commentary

The Group presents the income statement in two separate statements. For illustrative purposes, the income statement is presented as a single statement of comprehensive income in this appendix.

		2011	2010	
	Notes	€000	€000	IAS 1.10(b), IAS 1.51(b)(c)
<b>Continuing operations</b>				
Sale of goods		190,599	172,864	IAS 18.35(b)(i)
Rendering of services		17,131	16,537	IAS 18.35(b)(ii)
Revenue from redemption of <i>GoodPoints</i>	25	1,375	1,125	IAS 18.35(b)(ii)
Rental income	14	1,404	1,377	IAS 18.35(c)
<b>Revenue</b>		<b>210,509</b>	<b>191,903</b>	IAS 1.82(a)
Cost of sales		(163,691)	(155,268)	IAS 1.103
<b>Gross profit</b>		<b>46,818</b>	<b>36,635</b>	IAS 1.85, IAS 1.103
Other operating income	9.1	1,585	2,548	IAS 1.103
Selling and distribution costs		(14,000)	(13,002)	IAS 1.103
Administrative expenses		(19,746)	(13,482)	IAS 1.103
Other operating expenses	9.2	(1,153)	(706)	IAS 1.103
<b>Operating profit</b>		<b>13,504</b>	<b>11,993</b>	IAS 1.82(a)
Finance costs	9.3	(2,868)	(1,223)	IAS 1.82(b), IFRS 7.20
Finance income	9.4	1,186	211	IAS 1.82(a)
Share of profit of an associate	7	83	81	IAS 1.82(c), IAS 28.38
<b>Profit before tax from continuing operations</b>		<b>11,905</b>	<b>11,062</b>	IAS 1.85
Income tax expense	10	(3,893)	(3,432)	IAS 1.82(d), IAS 12.77
<b>Profit for the year from continuing operations</b>		<b>8,012</b>	<b>7,630</b>	IAS 1.85
<b>Discontinued operations</b>				
Profit/(loss) after tax for the year from discontinued operations	11	220	(188)	IAS 1.82(e), IFRS 5.33(a)
<b>Profit for the year</b>		<b>8,232</b>	<b>7,442</b>	IAS 1.82 (f)
<b>Other comprehensive income</b>				
IAS 1.82(g)				
Net gain on hedge of net investment		278	–	
Exchange differences on translation of foreign operations		(351)	(167)	
Net movement on cash flow hedges	9.8	(732)	33	
Net (loss)/gain on available-for-sale financial assets	9.8	(60)	(22)	
Actuarial gains and losses on defined benefit plans	26	311	(401)	IAS 19.93B
Revaluation of land and buildings	13	846	–	
Income tax relating to the components of other comprehensive income	10	(88)	166	IAS 1.90
<b>Other comprehensive income for the year, net of tax</b>		<b>204</b>	<b>(391)</b>	IAS 1.85
<b>Total comprehensive income for the year, net of tax</b>		<b>8,436</b>	<b>7,051</b>	IAS 1.82(i)

# Appendix 1 - Consolidated statement of comprehensive income (example of a single statement)

IAS 1.10(b)  
IAS 1.51(b)  
IAS 1.81(a)  
IAS 1.51(c)

for the year ended 31 December 2011

	<u>2011</u>	<u>2010</u>	
	<u>€000</u>	<u>€000</u>	
Profit attributable to:			
Owners of the parent	7,944	7,203	IAS 1.83(a)(ii)
Non-controlling interests	288	239	IAS 1.83(a)(i), IAS 27.27
	<u><b>8,232</b></u>	<u><b>7,442</b></u>	
 Total comprehensive income attributable to:			
Owners of the parent	8,148	6,812	IAS 1.83(b)(ii)
Non-controlling interests	288	239	IAS 1.83(b)(i), IAS 27.27
	<u><b>8,436</b></u>	<u><b>7,051</b></u>	
 Earnings per share	 12		 IAS 33.66
▶ Basic, profit for the year attributable to ordinary equity holders of the parent	€0.38	€0.38	
▶ Diluted, profit for the year attributable to ordinary equity holders of the parent	€0.38	€0.37	
 Earnings per share for continuing operations			
▶ Basic, profit from continuing operations attributable to ordinary equity holders of the parent	€0.37	€0.39	
▶ Diluted, profit from continuing operations attributable to ordinary equity holders of the parent	€0.37	€0.38	

## Commentary

The Group presents, for illustrative purposes, the disclosure of a single statement of comprehensive income in this Appendix.

The different components of comprehensive income are presented on a net basis in the statement above. Therefore, an additional note is required to present the amount of reclassification adjustments and current year gains or losses. Alternatively, the individual components could have been presented within the statement of comprehensive income.

In this Appendix, the Group illustrates the presentation of the income tax effects on other comprehensive income on a net basis. Therefore, additional note disclosures would be required, which have not been illustrated.

## Appendix 2 - Consolidated income statement (example of expenses disclosed by nature)

IAS 1.10(b)  
IAS 1.51(b)(c)

for the year ended 31 December 2011

### Commentary

The Group presents the income statement disclosing expenses by function. For illustrative purposes, the income statement disclosing expenses by nature is presented in this appendix.

	Notes	2011 €000	2010 €000	IAS 1.51(d)(e)
<b>Continuing operations</b>				
Sale of goods		190,599	172,864	IAS 18.35(b)(i)
Rendering of services		17,131	16,537	IAS 18.35(b)(ii)
Revenue from redemption of <i>GoodPoints</i>		1,375	1,125	
Rental income		1,404	1,377	IAS 18.35(c)
<b>Revenue</b>		<b>210,509</b>	<b>191,903</b>	IAS 1.82(a)
Other operating income	9.1	1,585	2,548	IAS 1.103
Changes in inventories of finished goods and work in progress		(1,133)	(3,791)	IAS 1.103
Raw materials and consumables used		(148,440)	(130,833)	IAS 1.103
Employee benefits expense	9.6	(44,019)	(43,853)	IAS 1.103
Depreciation, amortisation and goodwill impairment		(3,845)	(2,974)	IAS 1.103
Impairment of non-current assets	13	-	(301)	
Other expenses	9.2	(1,153)	(706)	IAS 1.103
Finance costs	9.3	(2,868)	(1,223)	IAS 1.82(b)
Finance income	9.4	1,186	211	IAS 1.82(a)
Share of profit of an associate	7	83	81	IAS 1.82(c)
<b>Profit before tax from continuing operations</b>		<b>11,905</b>	<b>11,062</b>	IAS 1.85
Income tax expense	10	(3,893)	(3,432)	IAS 1.82(d) IAS 12.77
<b>Profit for the year from continuing operations</b>		<b>8,012</b>	<b>7,630</b>	IAS 1.85
<b>Discontinued operations</b>				
Profit/(loss) after tax for the year from discontinued operations	11	220	(188)	IAS 1.82(e) IFRS 5.33(a)
<b>Profit for the year</b>		<b>8,232</b>	<b>7,442</b>	IAS 1.82(f)
Attributable to:				
Owners of the parent		7,944	7,203	IAS 1.83(a)(ii)
Non-controlling interests		288	239	IAS 1.83(a)(i)
		<b>8,232</b>	<b>7,442</b>	
Earnings per share	12			IAS 33.66
▶ Basic profit for the year attributable to ordinary equity holders of the parent		€0.38	€0.38	
▶ Diluted profit for the year attributable to ordinary equity holders of the parent		€0.38	€0.37	
Earnings per share for continuing operations				
▶ Basic profit from continuing operations attributable to ordinary equity holders of the parent		€0.37	€0.39	
▶ Diluted profit from continuing operations attributable to ordinary equity holders of the parent		€0.37	€0.38	

## Appendix 3 - Consolidated statement of cash flows - direct method

for the year ended 31 December 2011

### Commentary

AS 7.18 allows entities to report cash flows from operating activities using either the direct method or the indirect method. The Group presents cash flows using the indirect method. However, the statement of cash flows prepared using the direct method for operating activities is presented in this appendix for illustrative purposes.

		2011	2010	
	Notes	€000	€000	
<b>Operating activities</b>				IAS 1.10(d) IAS 1.51(b)(c) IAS 7.10 IAS 1.51(d)(e) IAS 7.18(a)
Receipts from customers		227,113	235,778	
Payments to suppliers		(165,231)	(173,966)	
Payments to employees		(43,954)	(43,948)	
Interest received		336	211	IAS 7.31
Income tax paid		(3,759)	(4,379)	IAS 7.35
<b>Net cash flows from operating activities</b>		<b>14,505</b>	<b>13,696</b>	
<b>Investing activities</b>				IAS 7.21
Proceeds from sale of property, plant and equipment		1,990	2,319	IAS 7.16(b)
Purchase of property, plant and equipment	13	(10,352)	(7,822)	IAS 7.16(a)
Purchase of investment properties	14	(1,216)	(1,192)	IAS 7.16(a)
Purchase of financial instruments		(3,294)	(225)	IAS 7.16(c)
Proceeds from available-for-sale investments		232	-	
Purchase of intangible assets	15	(587)	(390)	IAS 7.16(a)
Acquisition of a subsidiary	5	230	(1,450)	IAS 7.39
Receipt of government grants	24	2,951	642	
<b>Net cash flows used in investing activities</b>		<b>(10,046)</b>	<b>(8,118)</b>	
<b>Financing activities</b>				IAS 7.21
Proceeds from exercise of share options	21	175	200	IAS 7.17(a)
Acquisition of non-controlling interest	5	(325)	-	
Transaction costs of issue of shares	21	(32)	-	
Payment of finance lease liabilities		(51)	(76)	IAS 7.17(e)
Proceeds from borrowings		5,299	2,645	IAS 7.17(c)
Repayment of borrowings		(1,806)	(1,784)	IAS 7.17(d)
Interest paid		(586)	(983)	IAS 7.31
Dividends paid to owners of the parent	22	(1,972)	(1,600)	IAS 7.31
Dividends paid to non-controlling interests		(30)	(49)	IAS 7.31
<b>Net cash flows from/(used in) financing activities</b>		<b>672</b>	<b>(1,647)</b>	
Net increase in cash and cash equivalents		5,131	3,931	
Net foreign exchange difference		43	19	IAS 7.28
Cash and cash equivalents at 1 January	20	12,266	8,316	
<b>Cash and cash equivalents at 31 December</b>	<b>20</b>	<b>17,440</b>	<b>12,266</b>	IAS 7.45

### Commentary

IAS 7.33 permits interest paid to be shown as operating or financing activities and interest received to be shown as operating or investing activities, as deemed relevant for the entity. The Group has decided to classify interest received as cash flows from operating activities.

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## Notes

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