IFRS

# Illustrative financial statements

October 2012

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# What's new?

Major changes from the September 2011 edition of *Illustrative financial statements* are highlighted by a double-line border running down the left margin of the text within this publication. The major changes include the following.

- Example disclosures for the adoption of *Deferred Tax: Recovery of Underlying Assets* (Amendments to IAS 12), which is effective for annual periods beginning on or after 1 January 2012.
- Three new appendices illustrating example disclosures for the early adoption of:
  - IAS 19 *Employee Benefits* (2011);
  - IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* (2011), including the related amendments arising from *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (Amendments to IFRS 10, 11 and 12) (2012); and
  - IFRS 13 *Fair Value Measurement* (2011).
- An appendix illustrating example disclosures for the early adoption of IFRS 9 *Financial Instruments*, taking into account the amendments arising from IFRS 9 *Financial Instruments* (2010) and *Mandatory Effective Date and Transition Disclosures* (Amendments to IFRS 9 and IFRS 7) (2011).

In addition, the IASB has issued several other amendments to its standards during the past year. To help identify requirements that are effective for the first time for annual periods beginning on 1 January 2012, and those that are available for early adoption in the period, a new appendix has been introduced to list these new requirements, with cross-references to the related example disclosures when appropriate.

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# About this publication

These illustrative financial statements have been produced by the KPMG International Standards Group (part of KPMG IFRG Limited) and the views expressed herein are those of the KPMG International Standards Group.

## Content

This publication helps you prepare financial statements in accordance with IFRS. It illustrates one possible format for financial statements based on a fictitious multinational corporation; the corporation is not a first-time adopter of IFRS (see 'Technical guide').

This publication reflects IFRS in issue at 1 October 2012 that are required to be applied by an entity with an annual period beginning *on* 1 January 2012 ('currently effective' requirements). IFRSs that are effective for annual periods beginning *after* 1 January 2012 ('forthcoming' requirements) have not been adopted early in preparing these illustrative financial statements. However, certain forthcoming requirements have been introduced in the explanatory notes in a highlighted box. Appendix I provides a list of standards or amendments that are effective for the first time for annual periods beginning on 1 January 2012 and forthcoming requirements. Example disclosures for the adoption of certain new standards and amendments are included in the appendices to these illustrative financial statements.

When preparing financial statements in accordance with IFRS, an entity should have regard to applicable legal and regulatory requirements. This publication does not consider any requirements of a particular jurisdiction. For example, IFRS does not require the presentation of separate financial statements for the parent entity, and this publication includes only consolidated financial statements. However, in some jurisdictions parent entity financial information may also be required.

This publication does not illustrate the requirements of IFRS 4 *Insurance Contracts*, IFRS 6 *Exploration for and Evaluation of Mineral Resources*, IAS 26 *Accounting and Reporting by Retirement Benefit Plans* or IAS 34 *Interim Financial Reporting*. IAS 34 requirements are illustrated in our publication *Illustrative condensed interim financial report.*

This publication illustrates only the financial statements component of a financial report and the independent auditors' report on the financial statements. However, a financial report will typically include at least some additional commentary from management, either in accordance with local laws and regulations or at the election of the entity (see 'Technical guide').

IFRS and its interpretation change over time. Accordingly, these illustrative financial statements should not be used as a substitute for referring to the standards and interpretations themselves.

## References

The illustrative financial statements are contained on the odd-numbered pages of this publication. The even-numbered pages contain explanatory comments and notes on the disclosure requirements of IFRS. The illustrative examples, together with the explanatory notes, are not intended to be seen as a complete and exhaustive summary of all disclosure requirements that are applicable under IFRS. In addition, an entity need not provide a specific disclosure required by an IFRS if the information is not material. For an overview of all disclosure requirements that are applicable under IFRS, see our publication *Disclosure checklist*.

To the left of each item disclosed, a reference to the relevant standard is provided. The illustrative financial statements also include references to the 9th Edition 2012/13 of our publication *Insights into IFRS.*

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## Explanatory note

| | |
|---|---|
| **1.** | The illustrative auditors' report on the consolidated financial statements has been prepared based on International Standard on Auditing 700 *Forming an Opinion and Reporting on Financial Statements*. The format of the report does not reflect any additional requirements of the legal frameworks of particular jurisdictions. |

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# Independent auditors' report on consolidated financial statements

[*Addressee*]

We have audited the accompanying consolidated financial statements of [*name of company*] (the 'Company'), which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising 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 consolidated 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 our judgement, 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, we 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 consolidated financial position of the Company as at 31 December 2012, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG
[*Date of report*]
[*Address*]

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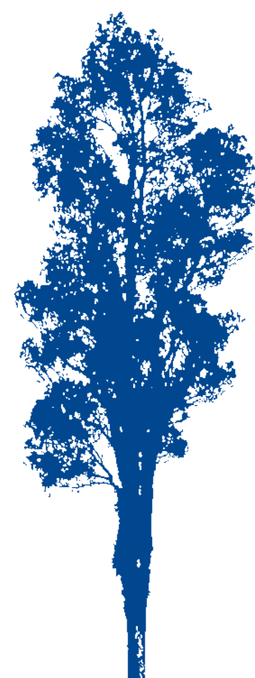
[*Name of Company*]
# Consolidated financial statements

31 December 2012



## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IAS 1.10* | IAS 1 *Presentation of Financial Statements* uses the title 'Statement of financial position'. This title is not mandatory. An entity may use other titles – e.g. 'Balance sheet' – as long as the meaning is clear and they are not misleading. |
| **2.** | *IAS 1.45* | The presentation and classification of items in the financial statements is retained from one period to the next unless:<br>• changes are required by a new standard or interpretation; or<br>• it is apparent, following a significant change to an entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate. In this case, the entity also considers the criteria for the selection and application of accounting policies in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. |
| **3.** | *IAS 1.10, 39* | An additional statement of financial position and related notes are presented as at the beginning of the earliest comparative period following a retrospective change in accounting policy, a retrospective correction of an error, or a reclassification of items in the financial statements. The current IAS 1 provides no further guidance in terms of how this requirement should be interpreted. In our view, the requirement to present a 'third' statement of financial position should be interpreted having regard to materiality based on the particular facts and circumstances. In our view, 'related notes' should be interpreted as requiring disclosure of those notes that are relevant to the reason why the third statement of financial position is presented – i.e. not all notes are required in every circumstance. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (2.1.35).<br><br>**Forthcoming requirements**<br><br>In *Annual Improvements to IFRS – 2009–2011 Cycle*, which is effective for annual periods beginning on or after 1 January 2013, the IASB amends IAS 1 to clarify, among other things, the requirements regarding the presentation of the third statement of financial position.<br>• The third statement of financial position is required only if a retrospective change in accounting policy, a retrospective correction of an error or a reclassification has a material effect on the information in the statement of financial position.<br>• Except for the disclosures required under IAS 8, notes related to the third statement of financial position are no longer required.<br>• The third statement of financial position to be presented is that at the beginning of the *preceding* period, rather than at the beginning of the *earliest* comparative period presented. This is also the case even if an entity provides additional comparative information beyond the minimum comparative information requirements. |
| **4.** | | In our view, derivative assets and liabilities should be presented as separate line items in the statement of financial position if they are significant. If derivative instruments are not significant, then they may be included within other financial assets and other financial liabilities, respectively, with additional details disclosed in the notes. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (7.8.120.40). |
| **5.** | *IAS 1.60–61* | In these illustrative financial statements, we have presented current and non-current assets, and current and non-current liabilities, as separate classifications in the statement of financial position. An entity may present its assets and liabilities broadly in order of liquidity if such presentation provides reliable and more relevant information.<br><br>Whichever method of presentation is adopted, for each asset and liability line item that combines amounts expected to be recovered or settled within:<br>• no more than 12 months after the end of the reporting period; and<br>• more than 12 months after the end of the reporting period,<br><br>an entity discloses in the notes the amount expected to be recovered or settled after more than 12 months. |

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# Consolidated statement of financial position[1, 2]

IAS 1.10(a), 10(f), 38, 113

| In thousands of euro | Note | 31 December 2012 | 31 December 2011 Restated* | 1 January 2011[3] Restated* |
|---|---|---|---|---|
| **Assets** | | | | |
| Property, plant and equipment (IAS 1.54(a)) | 16 | **26,586** | 31,049 | 34,937 |
| Intangible assets and goodwill (IAS 1.54(c)) | 17 | **6,226** | 4,661 | 5,429 |
| Biological assets (IAS 1.54(f)) | 18 | **4,860** | 6,636 | 6,111 |
| Trade and other receivables (IAS 1.54(h)) | 24 | **213** | - | - |
| Investment property (IAS 1.54(b), 17.49) | 19 | **2,170** | 1,050 | 950 |
| Equity-accounted investees (IAS 1.54(e), 28.38) | 20 | **4,179** | 3,638 | 3,099 |
| Other investments, including derivatives[4] (IAS 1.54(d)) | 21 | **3,631** | 3,525 | 3,212 |
| Deferred tax assets[2 on page 10] (IAS 1.54(o), 56) | 22 | **-** | 1,376 | 1,902 |
| Employee benefits | 29 | **635** | 731 | 587 |
| **Non-current assets[5]** (IAS 1.60) | | **48,500** | 52,666 | 56,227 |
| Inventories (IAS 1.54(g)) | 23 | **12,867** | 12,119 | 12,716 |
| Biological assets (IAS 1.54(f)) | 18 | **245** | 140 | 402 |
| Other investments, including derivatives[4] (IAS 1.54(d)) | 21 | **662** | 1,032 | 821 |
| Current tax assets[3 on page 10] (IAS 1.54(n)) | | **-** | 228 | - |
| Trade and other receivables (IAS 1.54(h)) | 24 | **26,250** | 17,999 | 16,311 |
| Prepayments | | **330** | 1,200 | 895 |
| Cash and cash equivalents (IAS 1.54(i)) | 25 | **1,505** | 1,850 | 2,529 |
| Assets held for sale[4 on page 10] (IFRS 5.38, 40, IAS 1.54(j)) | 8 | **14,410** | - | - |
| **Current assets[5]** (IAS 1.60) | | **56,269** | 34,568 | 33,674 |
| **Total assets** | 6 | **104,769** | 87,234 | 89,901 |

* See Note 2(e).

*The notes on pages 27 to 219 are an integral part of these consolidated financial statements.*

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IAS 1.55, 58* | Additional line items, headings and subtotals are presented in the statement of financial position when relevant to an understanding of an entity's financial position. The judgement is based on an assessment of:<br>• the nature and liquidity of the assets;<br>• the function of assets within the entity; and<br>• the amounts, nature and timing of liabilities.<br>Additional line items may include, for example, a bank overdraft as illustrated here. |
| | *IAS 1.57* | IAS 1 does not prescribe the order or format in which an entity presents items. Additional line items are included when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the entity's financial position and the descriptions used. The ordering of items or aggregation of similar items may be amended according to the nature of the entity and its transactions to provide information that is relevant to an understanding of an entity's financial position. |
| **2.** | *IAS 12.74* | Deferred tax assets and liabilities are offset if the entity has a legally enforceable right to offset current tax liabilities and assets (see Explanatory note 3 below), and the deferred tax liabilities and assets relate to income taxes levied by the same tax authority on either:<br>• the same taxable entity; or<br>• different taxable entities, but these entities intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realised simultaneously for each future period in which these differences reverse. |
| **3.** | *IAS 12.71* | An entity offsets current tax assets and current tax liabilities only if it has a legally enforceable right to offset the recognised amounts and intends to realise the asset and settle the liability on a net basis or simultaneously. |
| **4.** | *IFRS 5.40* | Comparatives are not restated to reflect classification as held-for-sale or held-for-distribution at the end of the reporting period. |
| | *IAS 1.66* | In our view, non-current assets, as well as assets and liabilities of disposal groups, classified as held-for-sale or held-for-distribution are classified as current in the statement of financial position. Consequently, presentation of a three-column statement of financial position with the headings 'Assets/Liabilities not for sale', 'Assets/Liabilities held for sale' and 'Total', with the assets and liabilities held for sale or held for distribution included in non-current line items, would not generally be appropriate. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (5.4.110.30). |

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# Consolidated statement of financial position (continued)[1]

| Reference | *In thousands of euro* | Note | 31 December 2012 | 31 December 2011 Restated* | 1 January 2011 Restated* |
|---|---|---|---|---|---|
| *IAS 1.10(a), 10(f), 38, 113* | | | | | |
| | **Equity** | | | | |
| *IAS 1.54(r), 78(e)* | Share capital | | **14,979** | 14,550 | 14,550 |
| *IAS 1.55, 78(e)* | Share premium | | **4,777** | 3,500 | 3,500 |
| *IAS 1.54(r), 78(e)* | Reserves | | **1,210** | 449 | 322 |
| *IAS 1.55, 78(e)* | Retained earnings | | **20,886** | 14,006 | 10,600 |
| | **Equity attributable to owners of the Company** | | **41,852** | 32,505 | 28,972 |
| *IAS 1.54(q), 27.27* | Non-controlling interests | | **1,582** | 842 | 601 |
| | **Total equity** | 26 | **43,434** | 33,347 | 29,573 |
| | **Liabilities** | | | | |
| *IAS 1.54(m)* | Loans and borrowings | 28 | **20,942** | 19,206 | 21,478 |
| *IAS 1.55, 1.78(d)* | Employee benefits | 29, 30 | **982** | 841 | 2,204 |
| *IAS 1.54(k)* | Trade and other payables | 33, 34 | **290** | 5 | - |
| *IAS 20.24* | Deferred income/revenue | 31 | **1,389** | 1,436 | - |
| *IAS 1.54(l)* | Provisions | 32 | **1,010** | 400 | 682 |
| *IAS 1.54(o), 56* | Deferred tax liabilities[2] | 22 | **2,464** | 1,567 | 1,436 |
| *IAS 1.60* | **Non-current liabilities**[5 on page 10] | | **27,077** | 23,455 | 25,800 |
| *IAS 1.55* | Bank overdraft | 25 | **334** | 282 | 303 |
| *IAS 1.54(n)* | Current tax liabilities[3] | | **762** | - | 25 |
| *IAS 1.54(m)* | Loans and borrowings | 28 | **4,390** | 4,386 | 2,017 |
| *IAS 1.54(k)* | Trade and other payables | 33 | **23,489** | 24,370 | 30,627 |
| *IAS 11.42(b)* | Deferred income/revenue | 31 | **213** | 194 | 156 |
| *IAS 1.54(l)* | Provisions | 32 | **660** | 1,200 | 1,400 |
| *IFRS 5.38, 40, IAS 1.54(p)* | Liabilities held for sale[4] | 8 | **4,410** | - | - |
| *IAS 1.60* | **Current liabilities**[5 on page 8] | | **34,258** | 30,432 | 34,528 |
| | **Total liabilities** | 6 | **61,335** | 53,887 | 60,328 |
| | **Total equity and liabilities** | | **104,769** | 87,234 | 89,901 |

* See Note 2(e).

*The notes on pages 27 to 219 are an integral part of these consolidated financial statements.*

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IAS 1.7, 81* | Total comprehensive income is the change in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Entities have a choice of presenting all items of income and expense recognised in a period either in:<br>• one statement – i.e. a statement of comprehensive income; or<br>• two statements – i.e. a separate income statement and a statement beginning with profit or loss and displaying components of other comprehensive income.<br>In these illustrative financial statements, the one-statement approach is illustrated. Appendix II provides an illustration of the two-statement approach. |
| **2.** | *IAS 1.85* | An entity presents additional line items, headings and subtotals when such presentation is relevant to an understanding of its financial performance. |
| **3.** | *IAS 1.99, 100* | An entity presents an analysis of expenses based on function or nature whichever provides information that is reliable and more relevant. This analysis may be presented in the statement of comprehensive income or in the notes. Individual material items are classified in accordance with their nature or function, consistent with the classification of items that are not material individually. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (4.1.82.10–20). In these illustrative financial statements, we present the analysis based on functions within the entity. |
| **4.** | | IFRS does not specify whether revenue should be presented only as a single line item in the statement of comprehensive income, or whether an entity may also present the individual components of revenue, with a subtotal for revenue from continuing operations. |
| **5.** | *IAS 28.38* | An entity separately presents its share of any discontinued operations of associates. |
| **6.** | *IFRS 5.33(a)–(b), IAS 1.82(e)* | An entity discloses a single amount in the statement of comprehensive income comprising the total of the post-tax profit or loss of discontinued operations and the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal groups constituting the discontinued operation.<br>In addition, an entity analyses the above single amount into revenue, expenses and the pre-tax profit or loss from discontinued operations; tax on the profit or loss from discontinued operations; gain or loss on the disposal or measurement to fair value less costs to sell; and tax on that gain or loss.<br>The above analysis may be presented either in the statement of comprehensive income or in the notes (see Note 7). An entity may also present this analysis in the statement of comprehensive income, in a section identified as related to discontinued operations. For example, a columnar format presenting the results from continuing and discontinued operations in separate columns is acceptable. |
| **7.** | *IAS 1.82(g)–(h)* | An entity presents each component of other comprehensive income by nature. The only exception to this principle relates to equity-accounted investees. An entity's share of the other comprehensive income of an equity-accounted investee is presented as a separate line item separately from the other components of other comprehensive income. For forthcoming requirements see Explanatory note 6 on page 14. |
| **8.** | *IAS 1.92, 94* | An entity may present reclassification adjustments directly in the statement of comprehensive income or in the notes. In these illustrative financial statements, we have illustrated the former approach. |
| **9.** | *IAS 1.90–91* | Individual components of other comprehensive income may be presented either net of related tax effects or before related tax effects with an aggregate amount presented for tax.<br>In these illustrative financial statements, we have illustrated the latter approach. Consequently, disclosures related to tax on each component of other comprehensive income are presented in the notes. |

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# Consolidated statement of comprehensive income[1,2]

For the year ended 31 December

| Reference | *In thousands of euro* | Note | 2012 | 2011 Restated* |
|---|---|---|---|---|
| | **Continuing operations** | | | |
| IAS 1.82(a) | Revenue[4] | 10 | **102,716** | 96,636 |
| IAS 1.99, 103 | Cost of sales[3] | 13 | **(55,708)** | (56,186) |
| IAS 1.103 | Gross profit | | **47,008** | 40,450 |
| IAS 1.85 | Other income | 11 | **1,021** | 194 |
| IAS 1.99, 103 | Selling and distribution expenses[3] | 13 | **(17,984)** | (18,012) |
| IAS 1.99, 103 | Administrative expenses[3] | 13 | **(17,142)** | (15,269) |
| IAS 1.99, 103, 38.126 | Research and development expenses[3] | 13 | **(1,109)** | (697) |
| IAS 1.99, 103 | Other expenses | 12 | **(860)** | (30) |
| IAS 1.85 | **Results from operating activities** | | **10,934** | 6,636 |
| IAS 1.85 | Finance income | | **1,161** | 480 |
| IAS 1.82(b) | Finance costs | | **(1,707)** | (1,646) |
| IAS 1.85 | **Net finance costs** | 15 | **(546)** | (1,166) |
| IAS 1.82(c), 28.38 | Share of profit of equity-accounted investees, net of tax[5] | 20 | **541** | 708 |
| IAS 1.85 | **Profit before tax** | | **10,929** | 6,178 |
| IAS 1.82(d), 12.77 | Tax expense | 22 | **(3,371)** | (1,800) |
| IAS 1.85 | **Profit from continuing operations** | | **7,558** | 4,378 |
| | **Discontinued operation** | | | |
| IFRS 5.33(a), IAS 1.82(e) | Profit (loss) from discontinued operation, net of tax[6] | 7 | **379** | (422) |
| IAS 1.82(f) | **Profit for the year** | | **7,937** | 3,956 |
| | **Other comprehensive income[7]** | | | |
| IAS 1.82(g), 21.52(b) | Foreign currency translation differences – foreign operations | | **680** | 499 |
| IAS 28.39, 1.82(h) | Foreign currency translation differences – equity-accounted investees | | **(159)** | (169) |
| IAS 1.82(g), 1.92 | Reclassification of foreign currency differences on loss of significant influence | | **(20)** | - |
| IAS 1.82(g) | Net loss on hedge of net investment in foreign operation | 15 | **(3)** | (8) |
| IAS 1.82(g) | Revaluation of property, plant and equipment | 16 | **200** | - |
| IFRS 7.23(c), IAS 1.82(g) | Effective portion of changes in fair value of cash flow hedges | 15 | **(62)** | 77 |
| IFRS 7.23(d), IAS 1.92 | Net change in fair value of cash flow hedges reclassified to profit or loss[8] | 15 | **(31)** | (11) |
| IFRS 7.20(a)(ii), IAS 1.82(g) | Net change in fair value of available-for-sale financial assets | 15 | **199** | 94 |
| IFRS 7.20(a)(ii), IAS 1.92 | Net change in fair value of available-for-sale financial assets reclassified to profit or loss[8] | 15 | **(64)** | - |
| IAS 1.82(g), 19.93B | Defined benefit plan actuarial gains (losses) | 29 | **72** | (15) |
| IAS 1.91(b) | Tax on other comprehensive income[9] | 22 | **(104)** | (48) |
| IAS 1.85 | **Other comprehensive income for the year, net of tax** | | **708** | 419 |
| IAS 1.82(i) | **Total comprehensive income for the year** | | **8,645** | 4,375 |

Reference: IAS 1.10(b), 38, 81(a), 113

* See Notes 2(e), 7 and 16.

*The notes on pages 27 to 219 are an integral part of these consolidated financial statements.*

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IAS 33.2–3, 4A* | Basic and diluted earnings per share are required to be presented by entities:<br>• whose ordinary shares or potential ordinary shares are traded in a public market; or<br>• that file, or are in the process of filing, their financial statements with a securities commission or other regulatory organisation to issue any class of ordinary shares in a public market.<br>When an entity voluntarily presents earnings per share information, that information is calculated and presented in accordance with IAS 33 *Earnings per Share*. |
| **2.** | *IAS 33.73* | Entities may also present earnings per share based on alternative measures of earnings. However, these amounts are presented only in the notes and not in the statement of comprehensive income. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (5.3.370.55). |
| **3.** | *IAS 33.67A* | If an entity presents the components of profit or loss in a separate income statement (the 'two-statement approach'; see Explanatory note 1 on page 12), then it presents basic and diluted earnings per share in that separate statement.<br>For an illustration of the two-statement approach, see Appendix II. |
| **4.** | *IAS 33.68* | An entity that reports a discontinued operation discloses the basic and diluted amounts per share for the discontinued operation either in the statement of comprehensive income or in the notes. In these illustrative financial statements, this information is included in Note 7. |
| **5.** | *IAS 33.67, 69* | Basic and diluted earnings per share are presented even if the amounts are negative (a loss per share). Diluted earnings per share is also presented even if it equals basic earnings per share and this may be accomplished by the presentation of basic and diluted earnings per share in one line item. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (5.3.370.50). |
| **6.** | | **Forthcoming requirements**<br>*Presentation of Items of Other Comprehensive Income* (Amendments to IAS 1) is effective for annual periods beginning on or after 1 July 2012. The amendments:<br>• require an entity to present the items of other comprehensive income that may be reclassified to profit or loss in the future if certain conditions are met, separately from those that would never be reclassified to profit or loss. Consequently, an entity that presents items of other comprehensive income before related tax effects would also have to allocate the aggregated tax amount between these sections; and<br>• change the title of the statement of comprehensive income to the 'statement of profit or loss and other comprehensive income'. However, an entity is still allowed to use other titles.<br>For an illustration of the new requirements, see Appendix IV. |

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# Consolidated statement of comprehensive income (continued)

*IAS 1.10(b), 38, 81(a), 113*

| *In thousands of euro* | | Note | 2012 | 2011 Restated* |
|---|---|---|---|---|
| | **Profit attributable to:** | | | |
| *IAS 1.83(a)(ii)* | Owners of the Company | | **7,413** | 3,737 |
| *IAS 1.83(a)(i)* | Non-controlling interests | | **524** | 219 |
| | Profit for the year | | **7,937** | 3,956 |
| | **Total comprehensive income attributable to:** | | | |
| *IAS 1.83(b)(ii)* | Owners of the Company | | **8,094** | 4,134 |
| *IAS 1.83(b)(i)* | Non-controlling interests | | **551** | 241 |
| | Total comprehensive income for the year | | **8,645** | 4,375 |
| *IAS 33.4* | **Earnings per share**[1, 2, 3, 4] | | | |
| *IAS 33.66* | Basic earnings per share (euro)[5] | 27 | **2.26** | 1.08 |
| *IAS 33.66* | Diluted earnings per share (euro)[5] | 27 | **2.15** | 1.07 |
| | **Earnings per share – continuing operations** | | | |
| *IAS 33.66* | Basic earnings per share (euro)[5] | 27 | **2.14** | 1.22 |
| *IAS 33.66* | Diluted earnings per share (euro)[5] | 27 | **2.03** | 1.21 |

* See Notes 2(e), 7 and 16.

*The notes on pages 27 to 219 are an integral part of these consolidated financial statements.*

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IAS 1.80* | An entity without share capital – e.g. a partnership – discloses information equivalent to that required for other entities, disclosing movements during the period in each category of equity interest, and the rights, preferences and restrictions attaching to each category of equity interest. |
| **2.** | *IAS 1.106(b)* | When a change in accounting policy, either voluntarily or as a result of the initial application of a standard, has an effect on the current period or any prior period, an entity presents the effects of retrospective application recognised in accordance with IAS 8 in the statement of changes in equity. The illustrative examples to IAS 1 demonstrate this in relation to a change in accounting policy, as does the 9th Edition 2012/13 of our publication *Insights into IFRS* (2.8.40.90) in relation to an error. |
| **3.** | *IAS 1.106A* | Entities may present the disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income in either the statement of changes in equity or in the notes. In these illustrative financial statements, we present this information in Note 26. |
| **4.** | *IAS 32.33* | An entity deducts own shares purchased from equity. Consideration received when own shares (treasury shares) held are re-issued is recognised directly as a change in equity and no gain or loss is recognised. IFRS does not mandate a specific method of presenting the treasury shares within equity. In these illustrative financial statements, the surplus arising on the re-issue of own shares is presented as share premium. However, before following this approach, an entity should take into account its legal environment when choosing how to present treasury shares. An entity should choose a presentation format, to be applied consistently to all treasury shares. This issue is discussed, and certain possible presentation alternatives are explained, in the 9th Edition 2012/13 of our publication *Insights into IFRS* (7.3.480). |
| **5.** | | IFRS 2 *Share-based Payment* does not address specifically how share-based payment transactions are presented within equity – e.g. whether an increase in equity in connection with a share-based payment transaction is presented in a separate component within equity or within retained earnings. In our view, either approach is acceptable. In these illustrative financial statements, the increase in equity recognised in connection with a share-based payment transaction is presented within retained earnings. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (4.5.1230.10–30). |

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## Consolidated statement of changes in equity[1]

For the year ended 31 December 2011

| | *In thousands of euro* | Note | Share capital[1] | Share premium | Translation reserve | Hedging reserve | Fair value reserve | Revaluation reserve | Reserve for own shares | Convertible notes | Retained earnings | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *IAS 1.38, 108–109, 110(c), 113* | | | Attributable to owners of the Company | | | | | | | | | | | |
| | Balance at 1 January 2011, as previously reported | | 14,550 | 3,500 | (129) | 434 | 17 | - | - | - | 10,565 | 28,937 | 601 | 29,538 |
| *IAS 1.106(b)* | Impact of change in accounting policy[2] | 2(e) | - | - | - | - | - | - | - | - | 35 | 35 | - | 35 |
| | **Restated balance at 1 January 2011** | | 14,550 | 3,500 | (129) | 434 | 17 | - | - | - | 10,600 | 28,972 | 601 | 29,573 |
| | **Total comprehensive income for the year** | | | | | | | | | | | | | |
| *IAS 1.106(d)(i)* | Profit for the year, as restated | | - | - | - | - | - | - | - | - | 3,737 | 3,737 | 219 | 3,956 |
| *IAS 1.106(d)(ii), 106A* | Total other comprehensive income[3] | 22, 26 | - | - | 300 | 44 | 63 | - | - | - | (10) | 397 | 22 | 419 |
| *IAS 1.106(a)* | **Total comprehensive income for the year** | | - | - | 300 | 44 | 63 | - | - | - | 3,727 | 4,134 | 241 | 4,375 |
| *IAS 1.106(d)(iii)* | **Transactions with owners of the Company, recognised directly in equity** | | | | | | | | | | | | | |
| | **Contributions by and distributions to owners of the Company** | | | | | | | | | | | | | |
| | Own shares acquired[4] | 26 | - | - | - | - | - | - | (280) | - | - | (280) | - | (280) |
| | Dividends | 26 | - | - | - | - | - | - | - | - | (571) | (571) | - | (571) |
| | Share-based payment transactions[5] | 30 | - | - | - | - | - | - | - | - | 250 | 250 | - | 250 |
| | **Total contributions by and distributions to owners of the Company** | | - | - | - | - | - | - | (280) | - | (321) | (601) | - | (601) |
| | **Restated balance at 31 December 2011** | | 14,550 | 3,500 | 171 | 478 | 80 | - | (280) | - | 14,006 | 32,505 | 842 | 33,347 |

*The notes on pages 27 to 219 are an integral part of these consolidated financial statements.*

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# Consolidated statement of changes in equity (continued)

For the year ended 31 December 2012

| Reference | In thousands of euro | Note | Share capital | Share premium | Translation reserve | Hedging reserve | Fair value reserve | Revaluation reserve | Reserve for own shares | Convertible notes | Retained earnings | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| IAS 1.10(c), 38, 108, 110(c), 113 | | | Attributable to owners of the Company | | | | | | | | | | | |
| | Restated balance at 31 December 2011 | | 14,550 | 3,500 | 171 | 478 | 80 | - | (280) | - | 14,006 | 32,505 | 842 | 33,347 |
| | **Total comprehensive income for the year** | | | | | | | | | | | | | |
| IAS 1.106(d)(i) | Profit for the year | | - | - | - | - | - | - | - | - | 7,413 | 7,413 | 524 | 7,937 |
| IAS 1.106(d)(ii), 106A | Total other comprehensive income | 22, 26 | - | - | 471 | (62) | 90 | 134 | - | - | 48 | 681 | 27 | 708 |
| IAS 1.106(a) | **Total comprehensive income for the year** | | - | - | 471 | (62) | 90 | 134 | - | - | 7,461 | 8,094 | 551 | 8,645 |
| | **Transactions with owners of the Company, recognised directly in equity** | | | | | | | | | | | | | |
| IAS 1.106(d)(iii) | **Contributions by and distributions to owners of the Company** | | | | | | | | | | | | | |
| | Issue of ordinary shares related to business combination | 9 | 24 | 63 | - | - | - | - | - | - | - | 87 | - | 87 |
| | Issue of ordinary shares | 26 | 390 | 1,160 | - | - | - | - | - | - | - | 1,550 | - | 1,550 |
| | Issue of convertible notes, net of tax | 22, 28 | - | - | - | - | - | - | - | 109 | - | 109 | - | 109 |
| | Own shares sold | 26 | - | 19 | - | - | - | - | 11 | - | - | 30 | - | 30 |
| | Dividends | 26 | - | - | - | - | - | - | - | - | (1,243) | (1,243) | - | (1,243) |
| | Share-based payment transactions | 30 | - | - | - | - | - | - | - | - | 755 | 755 | - | 755 |
| | Share options exercised | 26 | 15 | 35 | - | - | - | - | - | - | - | 50 | - | 50 |
| | **Total contributions by and distributions to owners of the Company** | | 429 | 1,277 | - | - | - | - | 11 | 109 | (488) | 1,338 | - | 1,338 |
| IAS 1.106(d)(iii) | **Changes in ownership interests in subsidiaries** | | | | | | | | | | | | | |
| | Acquisition of non-controlling interests without a change in control | 9 | - | - | 8 | - | - | - | - | - | (93) | (85) | (115) | (200) |
| | Acquisition of subsidiary with non-controlling interests | 9 | - | - | - | - | - | - | - | - | - | - | 304 | 304 |
| | **Total transactions with owners of the Company** | | 429 | 1,386 | 8 | - | - | - | 11 | - | (581) | 1,253 | 189 | 1,442 |
| | **Balance at 31 December 2012** | | 14,979 | 4,777 | 650 | 416 | 170 | 134 | (269) | 109 | 20,886 | 41,852 | 1,582 | 43,434 |

*The notes on pages 27 to 219 are an integral part of these consolidated financial statements.*

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IAS 7.50* | An entity is encouraged, but not required, to disclose:<br>• the amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities;<br>• the aggregate amounts of the cash flows from each of operating, investing and financing activities related to interests in joint ventures reported using proportionate consolidation;<br>• the aggregate amount of cash flows that represent increases in operating capacity separately from those cash flows that are required to maintain operating capacity; and<br>• the amount of the cash flows arising from the operating, investing and financing activities of each reportable segment, if the entity presents segment information. |
| **2.** | *IAS 7.22* | Cash flows from operating, investing or financing activities may be reported on a net basis if the cash receipts and payments are on behalf of customers and the cash flows reflect the activities of the customer, or when the cash receipts and payments for items concerned turn over quickly, the amounts are large and the maturities are short. |
| **3.** | *IAS 7.18–19* | In these illustrative financial statements, we have illustrated the presentation of cash flows from operating activities using the indirect method, whereby profit for the year is adjusted for the effects of non-cash transactions, accruals and deferrals, and items of income or expense associated with investing or financing cash flows. An entity may also, and is encouraged to, present operating cash flows using the direct method, disclosing major classes of gross cash receipts and payments related to operating activities.<br>For an illustration presenting the operating cash flows using the direct method, see Appendix III. |
| **4.** | *IAS 7.18, 20, A* | For an entity that elects to present operating cash flows using the indirect method, there is often confusion about the correct starting point: should it be profit or loss? Can a different figure, such as profit before tax, be used?<br>IAS 7 *Statement of Cash Flows* refers to profit or loss, but the example provided in the appendix to the standard starts with a different figure (profit before taxation). Because the appendix is illustrative only and does not have the same status as the standard, it would be more appropriate to follow the standard. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (2.3.30.20). |
| **5.** | *IAS 7.31* | IFRS does not specify the classification of cash flows from interest and dividends received and paid, and an entity is required to choose its own policy for classifying interest and dividends paid as either operating or financing activities, and interest and dividends received as either operating or investing activities. The presentation is selected to present these cash flows in a manner that is most appropriate for the business or industry, if applicable, and the method selected is applied consistently. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (2.3.50.20).<br>In our view, to the extent that borrowing costs are capitalised in respect of qualifying assets, the cost of acquiring those assets, which would include borrowing costs, should be split in the statement of cash flows. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (2.3.50.40). |
| **6.** | *IAS 7.35* | Taxes paid are classified as operating activities unless it is practicable to identify them with, and therefore classify them as, financing or investing activities. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (2.3.50.20–35). |

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IAS 1.10(d), 38, 113

# Consolidated statement of cash flows[1, 2]

For the year ended 31 December

IAS 7.18(b)

| *In thousands of euro* | Note | 2012 | 2011 Restated* |
|---|---|---|---|
| **Cash flows from operating activities[3]** | | | |
| Profit for the year[4] | | **7,937** | 3,956 |
| Adjustments for: | | | |
| – Depreciation | 16 | **5,001** | 5,122 |
| – Amortisation of intangible assets | 17 | **785** | 795 |
| – (Reversal of) impairment losses on property, plant and equipment | 16 | **(393)** | 1,123 |
| – Impairment losses on intangible assets | 17 | **116** | 285 |
| – Reversal of impairment losses on intangible assets | 17 | **(100)** | - |
| – Impairment loss on remeasurement of disposal group | 8 | **25** | - |
| – Change in fair value of biological assets | 18 | **(576)** | 71 |
| – Net change in biological assets due to births/deaths | 18 | **(11)** | (15) |
| – Change in fair value of investment property | 19 | **(20)** | (60) |
| – Impairment loss on trade receivables | 12 | **150** | 30 |
| – Net finance costs | 15 | **546** | 1,166 |
| – Share of profit of equity-accounted investees, net of tax | 20 | **(541)** | (708) |
| – Gain on sale of property, plant and equipment | 11 | **(26)** | (100) |
| – Gain on sale of discontinued operation, net of tax | 7 | **(516)** | - |
| – Gain on curtailment | 29 | **(100)** | - |
| – Equity-settled share-based payment transactions | 30 | **755** | 250 |
| – Tax expense | 22 | **3,346** | 1,756 |
| | | **16,378** | 13,671 |
| Changes in: | | | |
| – inventories | | **(352)** | 2,305 |
| – current biological assets due to sales | 18 | **127** | 63 |
| – trade and other receivables | | **(15,101)** | (1,318) |
| – prepayments | | **870** | (305) |
| – trade and other payables | | **5,164** | (2,619) |
| – provisions and employee benefits – excluding gain on curtailment | | **152** | (1,500) |
| – deferred income/revenue, including government grant | 31 | **(28)** | 1,474 |
| **Cash generated from operating activities** | | **7,210** | 11,771 |
| Interest paid[5] (IAS 7.31–32) | | **(1,604)** | (1,521) |
| Income taxes paid[6] (IAS 7.35) | | **(400)** | (1,400) |
| Net cash from operating activities (IAS 7.10) | | **5,206** | 8,850 |

* See Note 2(e).

*The notes on pages 27 to 219 are an integral part of these consolidated financial statements.*

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | | In these illustrative financial statements, we have presented a consolidated statement of cash flows that includes an analysis of *all* cash flows – i.e. including both continuing and discontinued operations. Amounts related to discontinued operations by operating, investing and financing activities are disclosed in Note 7. However, in our view there are different ways in which cash flows from discontinued operations may be presented. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (5.4.220.40). |
| **2.** | *IAS 7.16, 39* | Aggregate cash flows arising from obtaining or losing control of subsidiaries or other businesses are presented separately as investing activities. However, in some cases significant judgements may be needed to classify certain cash flows that relate to business combinations, such as in respect of transaction costs, deferred consideration and contingent consideration. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (2.3.20.14–18). |
| **3.** | *IAS 7.43* | An entity discloses, outside the statement of cash flows, non-cash investing and financing transactions in a way that provides all relevant information about these investing and financing activities. In these illustrative financial statements, this information is disclosed in Notes 16 and 26. |
| **4.** | *IAS 7.16* | When a hedging instrument is accounted for as a hedge of an identifiable position, the cash flows of the hedging instrument are classified in the same manner as the cash flows of the position being hedged.<br><br>If hedge accounting is not applied to a derivative instrument that is entered into as an economic hedge, then in our view derivative gains and losses may be shown in the statement of comprehensive income as either operating or financing items depending on the nature of the item being economically hedged. In our view, the possibilities for the presentation in the statement of comprehensive income also apply to the presentation in the consolidated statement of cash flows. These issues are discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (7.8.220.80 and 7.8.225.70). |

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# Consolidated statement of cash flows (continued)

IAS 1.10(d), 38, 113

For the year ended 31 December

| Reference | *In thousands of euro* | Note | 2012 | 2011 Restated* |
|---|---|---|---|---|
| | **Cash flows from investing activities** | | | |
| IAS 7.31 | Interest received[5 on page 20] | | **211** | 155 |
| IAS 7.31 | Dividends received[5 on page 20] | | **369** | 330 |
| IAS 7.16(a) | Proceeds from sale of property, plant and equipment | | **1,177** | 481 |
| IAS 7.21 | Proceeds from sale of investments | | **987** | 849 |
| IAS 7.39 | Disposal of discontinued operation, net of cash disposed of[1] | 7 | **10,890** | - |
| IAS 7.39 | Acquisition of subsidiary, net of cash acquired[2] | 9 | **(2,125)** | - |
| IAS 7.39 | Formation of equity-accounted investee | 20 | **(600)** | - |
| IAS 7.16(a) | Acquisition of property, plant and equipment | | **(15,657)** | (2,228) |
| IAS 7.16(a) | Acquisition of investment property | 19 | **(300)** | (40) |
| IAS 7.21 | Plantations and acquisitions of non-current biological assets | 18 | **(305)** | (437) |
| IAS 7.16(a) | Acquisition of other investments | | **(319)** | (2,411) |
| IAS 24.18 | Dividends from equity-accounted investees | 20 | **21** | - |
| IAS 7.21 | Development expenditure | | **(1,235)** | (503) |
| IAS 7.10 | Net cash used in investing activities[3] | | **(6,886)** | (3,804) |
| | **Cash flows from financing activities** | | | |
| IAS 7.17(a) | Proceeds from issue of share capital | 26 | **1,550** | - |
| IAS 7.17(c) | Proceeds from issue of convertible notes | 28 | **5,000** | - |
| IAS 7.17(c) | Proceeds from issue of redeemable preference shares | 28 | **2,000** | - |
| IAS 7.21 | Proceeds from sale of own shares | 26 | **30** | - |
| IAS 7.21 | Proceeds from exercise of share options | 26 | **50** | - |
| IAS 7.16(h) | Proceeds from settlement of derivatives[4] | | **5** | 11 |
| IAS 7.21 | Payment of transaction costs related to loans and borrowings | 28 | **(311)** | - |
| IAS 7.42A | Acquisition of non-controlling interests | 9 | **(200)** | - |
| IAS 7.17(b) | Repurchase of own shares | 26 | **-** | (280) |
| IAS 7.17(d) | Repayment of borrowings | | **(5,132)** | (4,445) |
| IAS 7.17(e) | Payment of finance lease liabilities | | **(454)** | (394) |
| IAS 7.31 | Dividends paid[5 on page 20] | 26 | **(1,243)** | (571) |
| IAS 7.10 | Net cash from (used in) financing activities[3] | | **1,295** | (5,679) |
| | **Net decrease in cash and cash equivalents** | | **(385)** | (633) |
| | Cash and cash equivalents at 1 January | | **1,568** | 2,226 |
| IAS 7.28 | Effect of exchange rate fluctuations on cash held | | **(12)** | (25) |
| | Cash and cash equivalents at 31 December | 25 | **1,171** | 1,568 |

* See Note 2(e).

*The notes on pages 27 to 219 are an integral part of these consolidated financial statements.*

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## Explanatory note

| | | |
|---|---|---|
| **1.** | *IAS 1.7* | The notes include narrative descriptions or break-downs of amounts disclosed in the primary statements. They also include information about items that do not qualify for recognition in the financial statements. |

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# Notes to the consolidated financial statements[1]


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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IAS 1.36* | When an entity changes its reporting period and annual financial statements are presented for a period that is longer or shorter than one year, it discloses:<br>• the reason for the change; and<br>• the fact that comparative amounts presented are not entirely comparable. |
| **2.** | | If financial statements are prepared on the basis of national accounting standards that are modified or adapted from IFRS, and are made publicly available by publicly traded companies, then the International Organization of Securities Commissions (IOSCO) has recommended the following disclosures:<br>• a clear and unambiguous statement of the reporting framework on which the accounting policies are based;<br>• a clear statement of the entity's accounting policies in all material accounting areas;<br>• an explanation of where the respective accounting standards can be found;<br>• a statement explaining that the financial statements comply with IFRS as issued by the IASB, if this is the case; and<br>• a statement explaining in what regard the standards and the reporting framework used differ from IFRS as issued by the IASB, if this is the case.<br>This issue is discussed in *Statement on Providing Investors with Appropriate and Complete Information on Accounting Frameworks Used to Prepare Financial Statements*, published by the IOSCO in February 2008. |
| **3.** | *IAS 1.19–20, 23* | In the extremely rare circumstances in which management concludes that compliance with a requirement of an IFRS or an interpretation would be so misleading that it would conflict with the objective of financial statements set out in the *Conceptual Framework for Financial Reporting*, the entity may depart from the requirement if the relevant regulatory framework requires or otherwise does not prohibit such a departure. Extensive disclosures are required in these circumstances. |
| **4.** | *IAS 10.17* | An entity discloses the date on which the financial statements were authorised for issue and who gave that authorisation. If the entity's owners or others have the power to amend the financial statements after their issue, then the entity discloses that fact. |
| **5.** | *IAS 1.25, 10.16(b)* | Taking account of specific requirements in its jurisdiction, an entity discloses any material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, whether they arise during the period or after the end of the reporting period. An entity may wish to explain other uncertainties, as illustrated here. See Appendix X for example disclosures for entities that have going concern issues. |
| **6.** | *IAS 21.53* | If the consolidated financial statements are presented in a currency that is not the parent entity's functional currency, then the entity discloses:<br>• that fact;<br>• its functional currency; and<br>• the reason for using a different presentation currency. |
| | *IAS 29.39* | If the functional currency of an entity is hyperinflationary, then the entity discloses:<br>• the fact that the consolidated financial statements have been restated for changes in the general purchasing power of the functional currency, and as a result are stated in terms of the measuring unit current at the end of the reporting period;<br>• whether the consolidated financial statements are based on a historical cost approach or a current cost approach; and<br>• the identity and level of the price index at the end of the reporting period, and the movement in the index during the current and the previous reporting period. |
| | *IAS 21.54* | If there is a change in the functional currency of either the entity or a significant foreign operation, then the entity discloses that fact together with the reason for the change. |

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IAS 1.10(e)

# Notes to the consolidated financial statements

IAS 1.51(a)–(c)

## 1. Reporting entity

IAS 1.138(a)–(b)

[*Name of Company*] (the 'Company') is a company domiciled in [*country x*]. The address of the Company's registered office is [*address*]. The consolidated financial statements of the Company as at and for the year ended 31 December 2012[1] comprise the Company and its subsidiaries (together referred to as the 'Group' and individually as 'Group entities') and the Group's interest in associates and jointly controlled entities. The Group primarily is involved in the manufacture of paper and paper-related products, the cultivation of trees and the sale of wood products (see Note 6).

IAS 1.112(a)

## 2. Basis of preparation

### (a) Statement of compliance

IAS 1.16

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).[2, 3]

IAS 10.17

The consolidated financial statements were authorised for issue by the Board of Directors on [date].[4]

### (b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

IAS 1.117(a)

- derivative financial instruments are measured at fair value;
- non-derivative financial instruments at fair value through profit or loss are measured at fair value;
- available-for-sale financial assets are measured at fair value;
- biological assets are measured at fair value less costs to sell;
- investment property is measured at fair value;
- liabilities for cash-settled share-based payment arrangements are measured at fair value; and
- the defined benefit asset is recognised as plan assets, plus unrecognised past service cost, less the present value of the defined benefit obligation and is limited as explained in Note 3(k)(iv).

IFRS 7.19

As explained in Note 28, Management has been in a process of negotiation with a bank since the Group exceeded its maximum leverage threshold in the third quarter of 2012 resulting in a waiver of the breach of covenant being issued in October 2012. Subsequent to the reporting date, the bank revised the debt covenant ratio (debt to quarterly revenue from continuing operations) from 2.5 to 3.5 times. On the basis of the new covenant and its forecasts, Management believes that the risk of the new covenant being breached is low and therefore that the Company will continue as a going concern for the foreseeable future.[5]

### (c) Functional and presentation currency[6]

IAS 1.51(d)–(e)

These consolidated financial statements are presented in euro, which is the Company's functional currency. All financial information presented in euro has been rounded to the nearest thousand, except when otherwise indicated.

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IAS 1.122–124* | An entity discloses the judgements (other than those involving estimates) that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. The examples that are provided in IAS 1 indicate that such disclosure is based on qualitative information. |
| | *IAS 1.125, 129* | An entity discloses information about the assumptions about the future and other major sources of estimation uncertainty at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next reporting period. The examples that are provided in IAS 1 indicate that such disclosure is based on quantitative data – e.g. appropriate discount rates. |
| **2.** | | When a change in accounting policy is the result of the adoption of a new, revised or amended IFRS, an entity applies the specific transitional requirements in that IFRS. However, in our view an entity nonetheless should comply with the disclosure requirements of IAS 8 to the extent that the transitional requirements do not include disclosure requirements. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (2.8.20). |
| **3.** | *IAS 1.10(f), 8.28–29* | When a change in accounting policy, either voluntarily or as a result of the adoption of a new, revised or amended IFRS, has an effect on the current period or any prior period, an entity discloses, among other things and to the extent practicable, the amount of the adjustment for each financial statement line item affected. |
| | *IAS 8.49* | If any prior-period errors are corrected in the current year's financial statements, then an entity discloses:<br>• the nature of the prior-period error;<br>• to the extent practicable, the amount of the correction for each financial statement line item affected, and basic and diluted earnings per share for each prior period presented;<br>• the amount of the correction at the beginning of the earliest period presented; and<br>• if retrospective restatement is impracticable for a particular prior period, then the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected. |
| **4.** | | The change in accounting policy disclosed in these illustrative financial statements reflects the facts and circumstances of the fictitious entity on which these financial statements are based. It should not be relied on for a complete understanding of amendments to IFRS, completeness of new standards applicable for the period and effects on the financial statements, and should not be used as a substitute for referring to those standards and interpretations themselves. |
| | | For a list of new standards that either are effective for the first time for annual periods beginning on 1 January 2012 or are available for early adoption for the period, see Appendix I. |

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Notes to the consolidated financial statements

## 2. Basis of preparation (continued)

### (d) Use of estimates and judgements[1]

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

*IAS 1.122, 125, 129, 130*

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- note 10 – commission revenue: determination of whether the Group acts as an agent in the transaction rather than as the principal;
- note 28 – accounting for an arrangement containing a lease; and
- note 35 – lease classification.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- note 17 – key assumptions used in discounted cash flow projections;
- note 17 – recoverability of development costs;
- note 22 – utilisation of tax losses;
- note 29 – measurement of defined benefit obligations; and
- notes 32 and 37 – provisions and contingencies.

### (e) Change in accounting policy[2, 3, 4]

#### Deferred tax associated with investment property

*IAS 8.28*

In 2012 the Group adopted *Deferred Tax: Recovery of Underlying Assets* (Amendments to IAS 12) and changed its accounting policy for measuring deferred tax for investment property accounted for under the fair value model (see Note 3(g)).

As a result of the change, the Group measures deferred tax arising from investment property using the assumption that the carrying amount of the property will be recovered entirely through sale.

Previously, the Group measured deferred tax for investment property using a 'blended rate' approach that reflected the dual intention of sale and use.

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Notes to the consolidated financial statements

## 2. Basis of preparation (continued)

### (e) Change in accounting policy (continued)

The following table summarises the adjustments made to the statement of financial position on implementation of the new accounting policy.

*IAS 8.28(f)–(g)*

| *In thousands of euro* | **Deferred tax liabilities** | **Retained earnings** |
|---|---|---|
| Balances at 1 January 2011, as previously reported | 1,471 | 10,565 |
| Impact of the change in accounting policy | (35) | 35 |
| **Restated balances at 1 January 2011** | 1,436 | 10,600 |
| | | |
| Balances at 31 December 2011, as previously reported | 1,614 | 13,559 |
| Impact of the change in accounting policy at 1 January 2011 | (35) | 35 |
| Impact of the change in accounting policy during 2011 | (12) | 12 |
| **Restated balance at 31 December 2011** | 1,567 | 14,006 |

The effects on the statement of comprehensive income were as follows:

| | **For the year ended 31 December** | |
|---|---|---|
| *In thousands of euro* | **2012** | **2011** |
| Decrease in tax expense | **13** | 12 |
| Increase in profit for the year | **13** | 12 |

The change in accounting policy had an immaterial impact on earnings per share for the current and comparative period.

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IAS 1.117(b)* | The accounting policies describe each specific accounting policy that is relevant to an understanding of the financial statements. |
| | *IAS 8.5* | Accounting policies are the specific principles, bases, conventions, rules and practices that an entity applies in preparing and presenting financial statements. |
| **2.** | | The accounting policies disclosed in these illustrative financial statements reflect the facts and circumstances of the fictitious entity on which these financial statements are based. They should not be relied on for a complete understanding of IFRS and should not be used as a substitute for referring to the standards and interpretations themselves. The accounting policy disclosures appropriate for an entity depend on the facts and circumstances of that entity, including the accounting policy choices that an entity makes, and may differ from the disclosures illustrated in these illustrative financial statements. The recognition and measurement requirements of IFRS are discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS*. |
| **3.** | | An entity may also consider a *de facto* control model for the basis of consolidating subsidiaries, in which the ability in practice to control another entity exists and no other party has the power to govern. In our view, whether an entity includes or excludes *de facto* control aspects in its analysis of control is an accounting policy choice, to be applied consistently, that should be disclosed in its accounting policies. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (2.5.30). |

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Notes to the consolidated financial statements

IAS 1.112(a), 117

## 3. Significant accounting policies[1, 2]

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except for the change in accounting policy as explained in Note 2(e).

IAS 1.41

Certain comparative amounts in the consolidated statement of comprehensive income have been reclassified to conform with the current year's presentation (see Note 16). In addition, the comparative statement of comprehensive income has been re-presented as if an operation discontinued during the current year had been discontinued from the start of the comparative year (see Note 7).

### (a) Basis of consolidation

#### (i) Business combinations

IFRS 3.4

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.[3]

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

IFRS 3.58

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

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## Explanatory note

| | | |
|---|---|---|
| **1.** | *IAS 27.41(c)* | If the financial statements of a subsidiary used to prepare the consolidated financial statements are of a date or for a period that is different from that of the parent's financial statements, then the entity discloses:<br>• the end of the reporting period of the subsidiary; and<br>• the reason for using a different date or period. |

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# Notes to the consolidated financial statements

## 3. Significant accounting policies (continued)

### (a) Basis of consolidation (continued)

#### (ii) Non-controlling interests

*IFRS 3.19*

For each business combination, the Group elects to measure any non-controlling interests in the acquiree either:

- at fair value; or
- at their proportionate share of the acquiree's identifiable net assets, which are generally at fair value.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain or loss is recognised in profit or loss.

#### (iii) Subsidiaries[1]

*IAS 27.24*

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

#### (iv) Loss of control

*IAS 27.35*

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently that retained interest is accounted for as an equity-accounted investee (see Note 3(a)(v)) or as an available-for-sale financial asset (see Note 3(c)(i)) depending on the level of influence retained.

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## Explanatory notes

| | |
|---|---|
| **1.** | An associate may have accounting policies for items that do not apply to the investor – e.g. when the investor's financial statements do not include line items in respect of an associate's financial statement items. If disclosure of the accounting policies of an associate is considered necessary for an understanding of income from associates, or the carrying amount of investments in associates in the statement of financial position, then in our view this information should be included in the accounting policy for investments in associates. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (3.5.670.10). |
| **2.** | IFRS does not specify whether the elimination of unrealised gains and losses resulting from transactions with equity-accounted investees is presented as a reduction of the investment in the associate or as a reduction in the underlying asset – e.g. inventory. In our view, either approach is acceptable. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (3.5.430.80). |

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# Notes to the consolidated financial statements

## 3. Significant accounting policies (continued)

### (a) Basis of consolidation (continued)

#### (v) Investments in associates and jointly controlled entities (equity-accounted investees)[1]

*IAS 28.6*

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 percent and 50 percent of the voting power of another entity. Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

*IAS 28.23, 31.57*

Investments in associates and jointly controlled entities are accounted for under the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

*IAS 28.27*

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

*IAS 28.29–30*

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

#### (vi) Jointly controlled operations

*IAS 31.13*

A jointly controlled operation is a joint venture carried on by each venturer using its own assets in pursuit of the joint operations. The consolidated financial statements include the assets that the Group controls and the liabilities that it incurs in the course of pursuing the joint operation, and the expenses that the Group incurs and its share of the income that it earns from the joint operation.

#### (vii) Transactions eliminated on consolidation

*IAS 27.21*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee.[2] Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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## Notes to the consolidated financial statements

### 3. Significant accounting policies (continued)

#### (b) Foreign currency

#### (i) Foreign currency transactions

*IAS 21.21, 23(a)*

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

*IAS 21.23*

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are generally recognised in profit or loss. However, foreign currency differences arising from the retranslation of the following items are recognised in other comprehensive income:

- available-for-sale equity investments (except on impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss);
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- qualifying cash flow hedges to the extent the hedge is effective.

#### (ii) Foreign operations

*IAS 21.39*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to euro at exchange rates at the reporting date. The income and expenses of foreign operations are translated to euro at exchange rates at the dates of the transactions.

*IAS 21.48*

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. However, if the foreign operation is a non-wholly owned subsidiary, then the relevant proportion of the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

*IAS 21.15*

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency gains and losses arising from such item are considered to form part of the net investment in the foreign operation and are recognised in other comprehensive income, and presented in the translation reserve in equity.

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# Notes to the consolidated financial statements

## 3. Significant accounting policies (continued)

### (b) Foreign currency (continued)

#### (iii) Hedge of a net investment in foreign operation

*IAS 39.102*

The Group applies hedge accounting to foreign currency differences arising between the functional currency of the foreign operation and the Company's functional currency (euro), regardless of whether the net investment is held directly or through an intermediate parent.

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognised in other comprehensive income to the extent that the hedge is effective, and are presented in the translation reserve within equity. To the extent that the hedge is ineffective, such differences are recognised in profit or loss. When the hedged net investment is disposed of, the relevant amount in the translation reserve is transferred to profit or loss as part of the gain or loss on disposal.

### (c) Financial instruments

#### (i) Non-derivative financial assets

*IAS 39.AG53–AG56*

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets designated as at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

*IAS 39.17*

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

*IAS 32.42*

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

*IAS 39.45*

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

*IFRS 7.21*

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

A financial asset is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Financial assets are designated as at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, which takes into account any dividend income, are recognised in profit or loss.

Financial assets classified as held-for-trading comprise short-term sovereign debt securities actively managed by the Group's treasury department to address short-term liquidity needs.

*IFRS 7.B5(a)*

Financial assets designated as at fair value through profit or loss comprise equity securities that otherwise would have been classified as available-for-sale.

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## Explanatory note

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|---|---|
| **1.** | Subject to certain exceptions, an entity is not permitted to classify any investments as held-to-maturity if the entity has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount in relation to the total amount of held-to-maturity investments before maturity. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (7.4.80.50). |

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# Notes to the consolidated financial statements

## 3. Significant accounting policies (continued)

### (c) Financial instruments (continued)

### (i) Non-derivative financial assets (continued)

*IFRS 7.21*

#### Held-to-maturity financial assets[1]

*IAS 39.46(b)*

If the Group has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses (see Note 3(j)(i)).

Held-to-maturity financial assets comprise debt securities.

*IFRS 7.21*

#### Loans and receivables

*IAS 39.46(a)*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses (see Note 3(j)(i)).

Loans and receivables comprise cash and cash equivalents, and trade and other receivables.

*IAS 7.46*

**Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

*IFRS 7.21, B5(b)*

#### Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Available-for-sale financial assets are recognised initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see Note 3(j)(i)) and foreign currency differences on available-for-sale debt instruments (see Note 3(b)(i)), are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

Available-for-sale financial assets comprise equity securities and debt securities.

### (ii) Non-derivative financial liabilities

*IAS 39.44*

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

*IAS 39.39*

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, debt securities issued (including certain preference shares (see Note 3(c)(iii)), bank overdrafts, and trade and other payables.

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## Explanatory note

| | |
|---|---|
| **1.** | Issues related to the classification of preference share capital as debt or equity are discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (7.3.310). The disclosures illustrated here are not intended to be a complete description of accounting policies that may apply to preference share capital. |

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# Notes to the consolidated financial statements

## 3. Significant accounting policies (continued)

### (c) Financial instruments (continued)

### (ii) Non-derivative financial liabilities (continued)

*IAS 7.8*

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the statement of cash flows.

*IFRS 7.21*

### (iii) Share capital

#### Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

*IAS 32.AG26*

#### Preference share capital[1]

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Discretionary dividends thereon are recognised as distributions within equity upon approval by the Company's shareholders.

Preference share capital is classified as a financial liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary (see Note 3(c)(ii)). Non-discretionary dividends thereon are recognised as interest expense in profit or loss as accrued.

*IAS 32.33*

#### Repurchase and reissue of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for own shares. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in share premium.

*IAS 32.28–32*

### (iv) Compound financial instruments

Compound financial instruments issued by the Group comprise convertible notes denominated in euro that can be converted to share capital at the option of the holder, when the number of shares to be issued is fixed.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest related to the financial liability is recognised in profit or loss. On conversion, the financial liability is reclassified to equity and no gain or loss is recognised.

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## Explanatory notes

**1.**

In these illustrative financial statements, we illustrate hedge accounting applied to cash flow hedges and hedges of net investments in foreign operations. If fair value hedging is also used by an entity, then the accounting policies and disclosures are tailored accordingly. The following is an example of an accounting policy for fair value hedging.

**Fair value hedges**

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognised in profit or loss. The hedged item is adjusted to reflect changes in its fair value in respect of the risk being hedged; the gain or loss attributable to the hedged risk is recognised in profit or loss with an adjustment to the carrying amount of the hedged item.

**2.** *IAS 39.98–99*

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial item, or a forecast transaction for a non-financial item becomes a firm commitment for which fair value hedge accounting is applied, then an entity has an accounting policy choice, to be applied consistently, to either:

- remove the associated gains or losses that were recognised in other comprehensive income and include them in the initial cost or other carrying amount of the non-financial item; or
- retain the associated gains or losses in other comprehensive income and reclassify them to profit or loss in the same period or periods during which the non-financial item affects profit or loss.

This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (7.7.80).

In these illustrative financial statements, we have illustrated the second approach.

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## Notes to the consolidated financial statements

# 3. Significant accounting policies (continued)

## (c) Financial instruments (continued)

### (v) Derivative financial instruments, including hedge accounting[1]

*IAS 39.11*

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if:

- the economic characteristics and risks of the host contract and the embedded derivative are not closely related;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the combined instrument is not measured at fair value through profit or loss.

*IAS 39.88*

On initial designation of the derivative as a hedging instrument, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80 – 125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that ultimately could affect reported profit or loss.

*IAS 39.46*

Derivatives are recognised initially at fair value; any attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

#### Cash flow hedges

*IAS 39.95*

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

*IAS 39.98, 101*

When the hedged item is a non-financial asset, the amount accumulated in equity is retained in other comprehensive income and reclassified to profit or loss in the same period or periods during which the non-financial item affects profit or loss.[2] In other cases as well, the amount accumulated in equity is reclassified to profit or loss in the same period that the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified to profit or loss.

#### Separable embedded derivatives

Changes in the fair value of separated embedded derivatives are recognised immediately in profit or loss.

#### Other non-trading derivatives

When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in profit or loss.

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## Explanatory note

**1.** If an entity previously adopted IFRS for the first time, and the determination of cost of property, plant and equipment at the date of transition to IFRS is relevant to an understanding of the financial statements, then the entity might include the following accounting policy.

**Deemed cost**

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment at [*the date of transition*], the Group's date of transition to IFRS, was determined with reference to its fair value at that date.

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## Notes to the consolidated financial statements

# 3. Significant accounting policies (continued)

## (d) Property, plant and equipment

IAS 16.73(a)

### (i) Recognition and measurement[1]

IAS 16.30

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

IAS 16.16

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- the cost of materials and direct labour;
- any other costs directly attributable to bringing the assets to a working condition for their intended use;
- when the Group has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- capitalised borrowing costs.

Cost also includes transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

IAS 16.45

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

IAS 16.41, 71

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

### (ii) Reclassification to investment property

IAS 40.62

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on this remeasurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in other comprehensive income and presented in the revaluation reserve in equity. Any loss is recognised immediately in profit or loss.

### (iii) Subsequent costs

IAS 16.13

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

### (iv) Depreciation

IAS 16.55, 73(b)

Items of property, plant and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the asset is completed and ready for use.

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Depreciation is generally recognised in profit or loss, unless the amount is included in the carrying amount of another asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

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Notes to the consolidated financial statements

## 3. Significant accounting policies (continued)

### (d) Property, plant and equipment (continued)

#### (iv) Depreciation (continued)

*IAS 16.73(c)*

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

- buildings 40 years
- plant and equipment 3–12 years
- fixtures and fittings 5–10 years

*IAS 16.51*

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. The useful life and residual value of certain dye equipment were revised in 2012 (see Note 16).

### (e) Intangible assets and goodwill

#### (i) Goodwill

Goodwill that arises on the acquisition of subsidiaries is presented with intangible assets. For the measurement of goodwill at initial recognition, see Note 3(a)(i).

##### Subsequent measurement

*IAS 28.23(a)*

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and any impairment loss is allocated to the carrying amount of the equity accounted investee as a whole.

#### (ii) Research and development

*IAS 38.55*

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred.

*IAS 38.57, 66*

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs. Other development expenditure is recognised in profit or loss as incurred.

*IAS 38.74*

Capitalised development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

#### (iii) Other intangible assets

*IAS 38.74*

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

#### (iv) Subsequent expenditure

*IAS 38.18*

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IAS 41.54(a)–(b)* | If biological assets are measured at cost less any accumulated depreciation and any accumulated impairment losses because their fair value cannot be estimated reliably, then an entity describes such biological assets and explains why their fair value cannot be measured reliably. |
| **2.** | *IAS 40.75(c)* | If the classification of property is difficult, then an entity discloses the criteria developed to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business. |
| **3.** | *IAS 40.56, 79(a)–(b), 79(e)* | If an entity accounts for investment property using the cost model, then it discloses:<br>• the depreciation method;<br>• the useful lives or the depreciation rates used; and<br>• the fair value of such investment property. |

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Notes to the consolidated financial statements

# 3. Significant accounting policies (continued)

## (e) Intangible assets and goodwill (continued)

### (v) Amortisation

*IAS 38.118(a)–(b)*

Except for goodwill, intangible assets are amortised on a straight-line basis in profit or loss over their estimated useful lives, from the date that they are available for use.

The estimated useful lives for the current and comparative years are as follows:

- patents and trademarks 3–20 years
- capitalised development costs 2–5 years
- customer relationships 4–5 years

*IAS 38.104*

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

## (f) Biological assets

*IAS 41.12–13*

Biological assets are measured at fair value less costs to sell, with any change therein recognised in profit or loss.[1] Costs to sell include all costs that would be necessary to sell the assets, including transportation costs. Standing timber is transferred to inventories at its fair value less costs to sell at the date of harvest.

## (g) Investment property

*IAS 40.75(a)*

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.[2] Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss.[3]

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

*IAS 16.41, 71*

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When an investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

*IAS 40.60*

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

## (h) Inventories

*IAS 2.36(a)*

Inventories are measured at the lower of cost and net realisable value.

The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Cost also includes transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventories.

*IAS 2.6*

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

*IAS 2.20*

The cost of standing timber transferred from biological assets is its fair value less costs to sell at the date of harvest.

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## Explanatory notes

| | |
|---|---|
| **1.** | Although these amounts are required to be disclosed separately, there is no guidance on the characterisation of the assets or liabilities related to construction contracts in progress. One approach is to present assets as an accounts receivable or, in the case of liabilities, as deferred revenue. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (4.2.260.40). |
| **2.** | IFRS does not contain specific quantitative thresholds for 'significant' or 'prolonged'. In our view, an entity should establish criteria that it applies consistently to determine whether a decline in a quoted market price is 'significant' or 'prolonged'. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (7.6.490.40–130).<br><br>In our view, apart from significant or prolonged thresholds, an entity can establish additional events triggering impairment. These can include, among other things, a combination of significant and prolonged thresholds based on the particular circumstances and nature of that entity's portfolio. For example, a decline in the fair value in excess of 15 percent persisting for six months could be determined by an entity to be an impairment trigger. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (7.6.490.40–50). |

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# Notes to the consolidated financial statements

## 3. Significant accounting policies (continued)

### (i) Construction contracts in progress[1]

Construction contracts in progress represents the gross amount expected to be collected from customers for contract work performed to date. It is measured at costs incurred plus profits recognised to date (see Note 3(m)(iv)) less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

*IAS 11.40–43*

Construction contracts in progress is presented as part of trade and other receivables in the statement of financial position for all contracts in which costs incurred plus recognised profits exceed progress billings and recognised losses. If progress billings and recognised losses exceed costs incurred plus recognised profits, then the difference is presented as deferred income/revenue in the statement of financial position. Customer advances are presented as deferred income/revenue in the statement of financial position.

### (j) Impairment

#### (i) Non-derivative financial assets

*IFRS 7.B5(f), IAS 39.58–59, 28.31*

A financial asset not classified as at fair value through profit or loss, including an interest in an equity-accounted investee, is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

*IFRS 7.B5(d)*

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline[2] in its fair value below its cost is objective evidence of impairment. The Group considers a decline of 20 percent to be significant and a period of 9 months to be prolonged.

#### Financial assets measured at amortised cost

*IAS 39.63–64*

The Group considers evidence of impairment for financial assets measured at amortised cost (loans and receivables and held-to-maturity financial assets) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

*IAS 39.65–66*

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired asset continues to be recognised. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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## Explanatory note

| | |
|---|---|
| **1.** | IFRS does not specify the line item in the statement of comprehensive income in which an impairment loss is presented. If an entity classifies expenses based on their function, then any impairment loss is allocated to the appropriate function. In our view, in the rare case that an impairment loss cannot be allocated to a function, it should be included in other expenses, with additional information provided in the notes. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (3.10.430.20). |

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Notes to the consolidated financial statements

# 3. Significant accounting policies (continued)

## (j) Impairment (continued)

### (i) Non-derivative financial assets (continued)

#### Available-for-sale financial assets

*IAS 39.67–70*

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in cumulative impairment losses attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

*IAS 28.33*

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with Note 3(j)(ii). An impairment loss is recognised in profit or loss. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

### (ii) Non-financial assets

*IAS 36.9*

The carrying amounts of the Group's non-financial assets, other than biological assets, investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite-lived intangible assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

*IAS 36.18, 80*

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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 or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

*IAS 36.104*

Impairment losses are recognised in profit or loss.[1] Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

*IAS 36.124*

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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## Explanatory note

| | | |
|---|---|---|
| **1.** | *IFRS 2.IG19* | IFRS does not specify whether the remeasurement of the liability in a cash-settled share-based payment arrangement is presented as an employee cost or as finance income or finance cost. In our view, both presentations are permitted and an entity should choose an accounting policy, to be applied consistently. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (4.5.1280.10). |

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# Notes to the consolidated financial statements

## 3. Significant accounting policies (continued)

### (k) Employee benefits

#### (i) Short-term employee benefits

*IAS 19.10*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

#### (ii) Share-based payment transactions

*IFRS 2.15, 19, 21A*

The grant-date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

*IFRS 2.32*

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period that the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date based on the fair value of the share appreciation rights. Any changes in the liability are recognised as employee benefit expenses in profit or loss.[1]

#### (iii) Defined contribution plans

*IAS 19.44*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

#### (iv) Defined benefit plans

*IAS 19.50, 56, 78*

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on corporate bonds, that have a credit rating of at least AA from rating agency [y], that have maturity dates approximating the terms of the Group's obligations and that are denominated in the currency in which the benefits are expected to be paid.

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## Explanatory note

| | |
|---|---|
| **1.** | The components of the statement of comprehensive income charge for defined benefit obligations do not have to be charged or credited in the same line item. An entity should choose an accounting policy, to be applied consistently, either to include the interest cost and expected return on plan assets with interest and other financial income respectively, or to show the net total as employee benefit expense. However, regardless of the accounting policy chosen, disclosure is required of the line items in which the components of the post-employment cost are recognised. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (4.4.1130). |

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## Notes to the consolidated financial statements

# 3. Significant accounting policies (continued)

## (k) Employee benefits (continued)

### (iv) Defined benefit plans (continued)

*IAS 19.64*

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities. When the benefits of a plan are improved, the portion of the increased benefit related to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

*IAS 19.93A, 120A(a)*

The Group recognises all actuarial gains and losses arising from defined benefit plans immediately in other comprehensive income and all expenses related to defined benefit plans in employee benefit expense in profit or loss.[1]

*IAS 19.109*

The Group recognises gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment or settlement comprises any resulting change in the fair value of plan assets, any change in the present value of the defined benefit obligation, any related actuarial gains and losses and past service cost that had not previously been recognised.

### (iii) Other long-term employee benefits

*IAS 19.128*

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on corporate bonds, that have a credit rating of at least AA from rating agency [y], that have maturity dates approximating the terms of the Group's obligations and that are denominated in the currency in which the benefits are expected to be paid. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognised in profit or loss in the period in which they arise.

### (iv) Termination benefits

*IAS 19.133*

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

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# Notes to the consolidated financial statements

## 3. Significant accounting policies (continued)

*IAS 37.14*

### (l) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

#### (i) Warranties

*IAS 37.39*

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

#### (ii) Restructuring

*IAS 37.72(a)*

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

#### (iii) Site restoration

*IAS 37.21*

In accordance with the Group's published environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land, and the related expense, is recognised when the land is contaminated.

#### (iv) Onerous contracts

*IAS 37.66*

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract (see Note 3(j)(ii)).

### (m) Revenue

*IAS 18.35(a)*

#### (i) Sale of goods

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

*IAS 18.15*

The timing of the transfer of risks and rewards varies depending on the individual terms of the sales agreement. For sales of timber and paper products, usually transfer occurs when the product is delivered to the customer's warehouse; however, for some international shipments transfer occurs on loading the goods onto the relevant carrier at the port. Generally, for such products the customer has no right of return. For sales of livestock, transfer occurs on receipt by the customer.

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## Notes to the consolidated financial statements

# 3. Significant accounting policies (continued)

## (m) Revenue (continued)

### (ii) Loyalty programme

*IFRIC 13.6*

The Group has a customer loyalty programme whereby customers are awarded credits known as ‘P-points’ entitling customers to the right to purchase paper products at a discount from the Group. The fair value of the consideration received or receivable in respect of the initial sale is allocated between the P-points and the other components of the sale. The amount allocated to the P-points is estimated by reference to the fair value of the right to purchase paper products at a discount. The fair value of the right to purchase discounted paper products is estimated based on the amount of the discount, adjusted to take into account the expected forfeiture rate. The amount allocated to P-points is deferred and revenue is recognised when the P-points are redeemed and the Group has fulfilled its obligations to supply the discounted paper products. The amount of revenue recognised in those circumstances is based on the number of P-points that have been redeemed in exchange for discounted paper products, relative to the total number of P-points that is expected to be redeemed. Deferred revenue is also released to revenue when it is no longer considered probable that the P-points will be redeemed.

### (iii) Rendering of services

*IAS 18.20, 35(a)*

Revenue from rendering of services is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed with reference to surveys of work performed.

The Group is involved in managing forest resources, as well as performing related services. When the services under a single arrangement are rendered in different reporting periods, the consideration is allocated on a relative fair value basis between the services.

### (iv) Construction contracts

*IAS 11.22, 32, 39(b)–(c)*

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. When the outcome of a construction contract can be estimated reliably, contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract. The stage of completion is assessed by reference to surveys of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

*IAS 11.36*

Contract expenses are recognised as incurred unless they create an asset related to future contract activity. An expected loss on a contract is recognised immediately in profit or loss.

### (v) Commissions

*IAS 18.8*

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Group.

### (vi) Rental income

*IAS 17.50*

Rental income from investment property is recognised as revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Rental income from other property is recognised as other income.

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IAS 20.24* | An entity may also present government grants related to assets as a deduction in arriving at the carrying amount of the asset.<br><br>A government grant may take the form of a transfer of a non-monetary asset. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (4.3.50 and 5.7.70). |
| **2.** | *SIC-27.10(b)* | An entity discloses the accounting treatment applied to any fee received in an arrangement in the legal form of a lease to which lease accounting is not applied because the arrangement does not, in substance, involve a lease. |

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Notes to the consolidated financial statements

## 3. Significant accounting policies (continued)

IAS 20.39

### (n) Government grants

An unconditional government grant related to a biological asset is recognised in profit or loss as other income when the grant becomes receivable. Other government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant, and are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset.[1]

Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the periods in which the expenses are recognised.

### (o) Leases[2]

#### (i) Leased assets

Assets held by the Group under leases which transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Group's statement of financial position.

#### (ii) Lease payments

IAS 17.33, SIC-15.3

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

IAS 17.25

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

IFRIC 4.6

#### (iii) Determining whether an arrangement contains a lease

IFRIC 4.10

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. This will be the case if the following two criteria are met:

- the fulfilment of the arrangement is dependent on the use of a specific asset or assets; and
- the arrangement contains a right to use the asset(s).

IFRIC 4.12–15

At inception or on reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Group's incremental borrowing rate.

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IAS 1.35* | Gains and losses arising from a group of similar transactions are reported on a net basis – e.g. foreign currency gains and losses or gains and losses arising on financial instruments held for trading. However, such gains and losses are reported separately if they are material. |
| **2.** | | An entity may present foreign currency gains and losses on financial assets and liabilities that arise from operating activities (e.g. payables arising on the purchase of goods) as part of income and expenses before finance costs, and foreign currency gains and losses related to financing activities as part of finance income and finance costs. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (7.6.730.10–20). |

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Notes to the consolidated financial statements

## 3. Significant accounting policies (continued)

### (p) Finance income and finance costs

*IFRS 7.20, 24*

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, fair value gains on financial assets at fair value through profit or loss, gains on the remeasurement to fair value of any pre-existing interest in an acquiree in a business combination, gains on hedging instruments that are recognised in profit or loss and reclassifications of net gains previously recognised in other comprehensive income. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and deferred consideration, losses on disposal of available-for-sale financial assets, dividends on preference shares classified as liabilities, fair value losses on financial assets at fair value through profit or loss and contingent consideration, impairment losses recognised on financial assets (other than trade receivables), losses on hedging instruments that are recognised in profit or loss and reclassifications of net losses previously recognised in other comprehensive income.

*IAS 23.8*

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.[1,2]

### (q) Tax

*IAS 12.58*

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

#### (i) Current tax

*IAS 12.46*

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

#### (ii) Deferred tax

*IAS 12.22(c), 39*

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and jointly controlled entities to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

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## Explanatory note

| | |
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| **1.** | It is not clear whether a business that will be disposed of by distribution to owners could be classified as a discontinued operation before its disposal. Although IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* was amended to extend the requirements in respect of non-current assets or disposal groups held for sale to such items held for distribution to owners, the cross-referencing in the amendments does not extend to discontinued operations. In our view, although the definition of a discontinued operation has not been extended explicitly, classification of non-current assets or disposal groups held for distribution to owners as a discontinued operation is appropriate if the remaining criteria of IFRS 5 are met. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (5.4.130.40). |

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Notes to the consolidated financial statements

## 3. Significant accounting policies (continued)

### (q) Tax (continued)

#### (ii) Deferred tax (continued)

*IAS 12.51, 51C*

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For investment property that is measured at fair value, the presumption that the carrying amount of the investment property will be recovered through sale has not been rebutted.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

*IAS 12.71, 74*

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

*IAS 12.56*

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### (iii) Tax exposures

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

### (s) Assets held for sale or held for distribution, and discontinued operations[1]

#### (i) Assets held for sale or held for distribution

*IFRS 5.15, 15A, 19*

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale or held-for-distribution if it is highly probable that they will be recovered primarily through sale or distribution rather than through continuing use.

Immediately before classification as held-for-sale or held-for-distribution, the assets, or components of a disposal group, are remeasured in accordance with the Group's other accounting policies. Thereafter, generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale or held-for-distribution and subsequent gains and losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

*IFRS 5.25,*
*IAS 28.13(a)*

Once classified as held-for-sale or held-for-distribution, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

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## Explanatory note

| | | |
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| **1.** | *IAS 8.30* | If an entity has not applied a new IFRS that has been issued but is not yet effective, then the entity discloses this fact and known or reasonably estimable information relevant to assessing the potential impact that application of the new IFRS will have on the entity's financial statements in the period of initial application. |
| | *IAS 1.31* | When new standards, amendments to standards and interpretations will have no, or no material, effect on the consolidated financial statements of the Group, it is not necessary to list them because such a disclosure would not be material. |

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## Notes to the consolidated financial statements

## 3. Significant accounting policies (continued)

### (s) Assets held for sale or held for distribution, and discontinued operations (continued)

#### (ii) Discontinued operations

*IFRS 5.32, 34*

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held-for-sale, if earlier.

When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

### (t) Segment reporting

*IFRS 8.25*

Segment results that are reported to the Group's CEO (the chief operating decision maker) include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and tax assets and liabilities.

*IAS 8.30–31*

## 4. New standards and interpretations not yet adopted[1]

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

### (a) IFRS 9 *Financial Instruments* (2010), IFRS 9 *Financial Instruments* (2009)

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

IFRS 9 (2010 and 2009) are effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The adoption of IFRS 9 (2010) is expected to have an impact on the Group's financial assets, but not any impact on the Group's financial liabilities.

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## Explanatory note

| | |
|---|---|
| **1.** | **Forthcoming requirements**<br>IFRS 13 *Fair Value Measurement*, published by the IASB in May 2011, replaces existing guidance on fair value measurement in different standards with a single definition of fair value, a framework for measuring fair values and disclosures about fair value measurements.<br>For an illustration of the new requirements, see Appendix IX. |

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Notes to the consolidated financial statements

IAS 8.30–31

## 4. New standards and interpretations not yet adopted (continued)

### (b) IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities* (2011)

IFRS 10 introduces a single control model to determine whether an investee should be consolidated. As a result, the Group may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for these investees (see Note 3(a)(iii)).

Under IFRS 11, the structure of the joint arrangement, although still an important consideration, is no longer the main factor in determining the type of joint arrangement and therefore the subsequent accounting.

- The Group's interest in a joint operation, which is an arrangement in which the parties have rights to the assets and obligations for the liabilities, will be accounted for on the basis of the Group's interest in those assets and liabilities.
- The Group's interest in a joint venture, which is an arrangement in which the parties have rights to the net assets, will be equity-accounted.

The Group may need to reclassify its joint arrangements, which may lead to changes in current accounting for these interests (see Notes 3(a)(v) and (vi)).

IFRS 12 brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Group is currently assessing the disclosure requirements for interests in subsidiaries, interests in joint arrangements and associates and unconsolidated structured entities in comparison with the existing disclosures. IFRS 12 requires the disclosure of information about the nature, risks and financial effects of these interests.

These standards are effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

### (c) IFRS 13 *Fair Value Measurement* (2011)

IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. The Group is currently reviewing its methodologies in determining fair values (see Note 5). IFRS 13 is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

### (d) IAS 19 *Employee Benefits* (2011)

IAS 19 (2011) changes the definition of short-term and other long-term employee benefits to clarify the distinction between the two. For defined benefit plans, removal of the accounting policy choice for recognition of actuarial gains and losses is not expected to have any impact on the Group. However, the Group may need to assess the impact of the change in measurement principles of expected return on plan assets. IAS 19 (2011) is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

## 5. Determination of fair values[1]

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

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## Explanatory note

| | | |
|---|---|---|
| **1.** | *IAS 40.32, 75(e)* | An entity is encouraged, but not required, to determine fair value by reference to a valuation by an independent valuer who holds a recognised and relevant professional qualification, and who has recent experience in the location and category of the investment property being valued. An entity discloses the extent to which the fair value is based on a valuation by an appropriate independent valuer. If there has been no such valuation, then that fact is disclosed. |
| | *IAS 40.77* | When a valuation obtained for investment property is adjusted significantly for the purpose of the financial statements, an entity discloses a reconciliation between the valuation obtained and the adjusted valuation included in the financial statements, showing separately the aggregate amount of any recognised lease obligations that have been added back and any other significant adjustments. |

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Notes to the consolidated financial statements

## 5. Determination of fair values (continued)

### (a) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is the estimated amount for which property could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably. The fair value of items of plant, equipment, fixtures and fittings is based on the market approach and cost approaches using quoted market prices for similar items when available and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.

### (b) Intangible assets

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that are expected to be avoided as a result of the patents or trademarks being owned. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

*IAS 41.47*

### (c) Biological assets

The fair value of standing timber older than 25 years, being the age at which it becomes marketable, is based on the market price of the estimated recoverable wood volumes, net of harvesting and transportation costs. The fair value of younger standing timber is based on the present value of the net cash flows expected to be generated by the plantation at maturity, in its most relevant market, and includes the potential additional biological transformation and the related risks associated with the asset. The fair value of livestock held for sale is based on the market price of livestock of similar age, weight, breed and genetic make-up.

*IAS 40.75(d)–(e)*

### (d) Investment property

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property portfolio every six months.[1] The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably.

In the absence of current prices in an active market, the valuations are prepared by considering the estimated rental value of the property. A market yield is applied to the estimated rental value to arrive at the gross property valuation. When actual rents differ materially from the estimated rental value, adjustments are made to reflect actual rents.

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, the allocation of maintenance and insurance responsibilities between the Group and the lessee, and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices, and when appropriate counter-notices, have been served validly and within the appropriate time.

Investment property under construction is valued by estimating the fair value of the completed investment property and then deducting from that amount the estimated costs to complete construction, financing costs and a reasonable profit margin.

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IFRS 7.27* | An entity discloses for each class of financial instruments the methods and, when a valuation technique is used, the significant assumptions applied in determining the fair values of each class of financial assets and financial liabilities. If there has been a change in valuation technique, then the entity discloses both the change and the reasons for the change. |
| **2.** | *IFRS 7.29(a)* | For financial instruments such as short-term trade receivables and payables, no disclosure of fair value is required when the carrying amount is a reasonable approximation of fair value. |

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Notes to the consolidated financial statements

## 5. Determination of fair values (continued)

### (e) Inventories

*IAS 1.125*

The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

*IFRS 7.27*

### (f) Equity and debt securities[1]

The fair values of investments in equity and debt securities are determined with reference to their quoted closing bid price at the measurement date, or if unquoted, determined using a valuation technique. Valuation techniques employed include market multiples and discounted cash flow analysis using expected future cash flows and a market-related discount rate. Subsequent to initial recognition, the fair values of held-to-maturity investments are determined for disclosure purposes only.

*IFRS 7.27*

### (g) Trade and other receivables[1, 2]

The fair values of trade and other receivables, excluding construction work in progress, are estimated at the present value of future cash flows, discounted at the market rate of interest at the measurement date. Short-term receivables with no stated interest rate are measured at the original invoice amount if the effect of discounting is immaterial. Fair value is determined at initial recognition and, for disclosure purposes, at each annual reporting date.

*IFRS 7.27*

### (h) Forward exchange contracts and interest rate swaps[1]

The fair values of forward exchange contracts and interest rate swaps are based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

*IFRS 7.27*

### (i) Other non-derivative financial liabilities[1, 2]

Other non-derivative financial liabilities are measured at fair value, at initial recognition and for disclosure purposes, at each annual reporting date. Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the measurement date. In respect of the liability component of convertible notes, the market rate of interest is determined with reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined with reference to similar lease agreements.

### (j) Deferred revenue

The amount allocated to P-points, granted through a customer loyalty programme, is estimated by reference to the fair value of paper products for which they could be redeemed, since the fair value of P-points themselves is not directly observable. The fair value of the right to purchase paper products at a discount for which the P-points can be redeemed takes into account the amount of the discount available to customers that have not earned P-points and the expected forfeiture rate.

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IFRS 2.47(b)* | In share-based payment transactions in which the fair value of goods and services received was determined based on the fair value of equity instruments other than share options, an entity discloses how it determined the fair value of such equity instruments. Such disclosure includes:<br>• if fair value was not measured on the basis of an observable market price, then how it was determined;<br>• whether and how expected dividends were incorporated into the measurement of fair value; and<br>• whether and how any other features of the equity instruments granted were incorporated into the measurement of fair value. |
| | *IFRS 2.47(c)* | An entity discloses how it determined the incremental fair value of any share-based payment arrangements that were modified during the period. |
| **2.** | *IFRS 8.2* | IFRS 8 *Operating Segments* applies to entities:<br>• whose debt or equity instruments are traded in a public market; or<br>• that file, or are in the process of filing, their financial statements with a securities commission or other regulatory organisation to issue any class of instruments in a public market. |
| **3.** | *IFRS 8.IN13, 27–28* | Underlying IFRS 8 is a 'management approach' to reporting the financial performance of operating segments, in which an entity presents segment information that is consistent with that reviewed by an entity's chief operating decision maker (CODM). This means that segment information disclosed in the financial statements will not be in accordance with IFRS if this is how the information reported to the CODM is prepared.<br>To help users understand the segment information presented, IFRS 8 requires an entity to disclose:<br>• information about the measurement basis adopted, such as the nature of any differences between the measurements used in reporting segment information and those used in the entity's financial statements, and the nature and effect of any asymmetrical allocations to reportable segments; and<br>• reconciliations of segment information to the corresponding amounts in the entity's IFRS financial statements.<br>In these illustrative financial statements, because the Group's segment information on the basis of internal measures is consistent with the amounts according to IFRS, the reconciling items are generally limited to items that are not allocated to reportable segments, as opposed to a difference in the basis of preparation of the information. |
| **4.** | *IFRS 8.23* | An entity discloses:<br>• a measure of profit or loss for each reportable segment;<br>• a measure of assets and/or liabilities for each reportable segment if such amounts are provided regularly to the entity's CODM; and<br>• the following about each reportable segment if the specified amounts are included in the measure of profit or loss reviewed by the CODM or are otherwise provided regularly to the CODM, even if they are not included in that measure of segment profit or loss:<br>– revenues from external customers;<br>– revenues from transactions with other operating segments of the same entity;<br>– interest revenue;<br>– interest expense;<br>– depreciation and amortisation;<br>– material items of income and expense disclosed in accordance with IAS 1;<br>– equity-accounted earnings;<br>– tax expense or income; and<br>– material non-cash items other than depreciation and amortisation. |
| **5.** | | In these illustrative financial statements the packaging segment, which is also a discontinued operation, is presented as an operating segment. |

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Notes to the consolidated financial statements

## 5. Determination of fair values (continued)

### (k) Share-based payment transactions

IFRS 2.46, 47(a)(i)–(iii)

The fair value of the employee share purchase plan is measured using Monte Carlo Sampling. The fair value of the employee share options and the share appreciation rights is measured using the Black-Scholes formula.[1] Measurement inputs include the share price on the measurement date, the exercise price of the instrument, expected volatility (based on an evaluation of the historical volatility of the Company's share price, particularly over the historical period commensurate with the expected term), expected term of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

### (l) Contingent consideration

The fair value of contingent consideration arising in a business combination is calculated using the income approach based on the expected payment amounts and their associated probabilities. When appropriate, it is discounted to present value.

## 6. Operating segments[2, 3, 4]

IFRS 8.20–22, A

The Group has six reportable segments, as described below, which are the Group's strategic divisions. The strategic divisions offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic divisions, the Group's CEO (the chief operating decision maker) reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments.

- *Standard Papers* includes purchasing, manufacturing and distributing pulp and paper.
- *Recycled Papers* includes purchasing, recycling and distributing pulp and paper.
- *Packaging* includes designing and manufacturing packaging materials; this segment was sold in May 2012 (see Note 7).[5]
- *Forestry* Includes cultivating and managing forest resources as well as related services. (IAS 41.46(a))
- *Timber Products* includes manufacturing and distributing softwood lumber, plywood, veneer, composite panels, engineered lumber, raw materials and building materials.
- *Research and Development* includes research and development activities.

IFRS 8.16, IAS 41.46(a)

Other operations include the cultivation and sale of farm animals (sheep and cattle), the construction of storage units and warehouses, the rental of investment property and the manufacture of furniture and related parts. None of these segments meets the quantitative thresholds for determining reportable segments in 2012 or 2011.

IFRS 8.27(a)

There are varying levels of integration between the Forestry and Timber Products reportable segments, and the Standard Papers and Recycled Papers reportable segments. This integration includes transfers of raw materials and shared distribution services, respectively. Inter-segment pricing is determined on an arm's length basis.

IFRS 8.20

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before tax, as included in the internal management reports that are reviewed by the Group's CEO. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IFRS 8.IG5, 32* | As part of the required 'entity-wide disclosures', an entity discloses revenue from external customers for each product and service, or each group of similar products and services, regardless of whether the information is used by the CODM in assessing segment performance. Such disclosure is based on the financial information used to produce the entity's financial statements.<br><br>In these illustrative financial statements, no additional disclosures of revenue information about products and services are provided in this regard, because they are already provided in the overall table of information about reportable segments. The Group's reportable segments are already based on different products and services, and the segment information has been prepared in accordance with IFRS. |
| **2.** | *IFRS 8.23* | An entity presents interest revenue separately from interest expense for each reportable segment unless a majority of the segment's revenues are from interest, and the CODM relies primarily on net interest revenue to assess the performance of the segment and to make decisions about resources to be allocated to the segment. In that situation, an entity may report that segment's interest revenue net of interest expense and disclose that it has done so. |
| **3.** | *IFRS 8.23* | IFRS 8 requires a measure of segment assets to be disclosed only if the amounts are regularly provided to the CODM. There is an equivalent requirement for measures of segment liabilities. |

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Notes to the consolidated financial statements

## 6. Operating segments (continued)

### Information about reportable segments

| Reference | | Standard Papers | | Recycled Papers | | Packaging (Discontinued)* | | Forestry | | Timber Products | | Research and Development | | All other Segments | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *In thousands of euro* | **2012** | **2011** | **2012** | **2011** | **2012** | **2011** | **2012** | **2011** | **2012** | **2011** | **2012** | **2011** | **2012** | **2011** | **2012** | **2011** |
| *IFRS 8.23(a), 32* | External revenues[1] | **64,118** | 67,092 | **30,367** | 22,060 | **7,543** | 23,193 | **3,967** | 3,646 | **2,700** | 2,985 | **-** | - | **1,564** | 853 | **110,259** | 119,829 |
| *IFRS 8.23(b)* | Inter-segment revenue | **-** | - | **317** | 323 | **940** | 2,835 | **2,681** | 2,676 | **1,845** | 1,923 | **875** | 994 | **891** | 765 | **7,549** | 9,516 |
| | Reportable segment revenue | **64,118** | 67,092 | **30,684** | 22,383 | **8,483** | 26,028 | **6,648** | 6,322 | **4,545** | 4,908 | **875** | 994 | 2,455 | 1,618 | **117,808** | 129,345 |
| *IFRS 8.21(b)* | Reportable segment profit before tax | **6,627** | 4,106 | **5,595** | 1,664 | **(162)** | (466) | **1,212** | 979 | **(263)** | 1,280 | **101** | 67 | **771** | 195 | **13,881** | 7,825 |
| *IFRS 8.23(c)* | Interest revenue[2] | **116** | 103 | **46** | 29 | **-** | - | **48** | 32 | **10** | 7 | **-** | - | **28** | 7 | **248** | 178 |
| *IFRS 8.23(d)* | Interest expense[2] | **(594)** | (586) | **(402)** | (362) | **-** | - | **(353)** | (308) | **(76)** | (63) | **-** | - | **(75)** | (19) | **(1,500)** | (1,338) |
| *IFRS 8.23(e)* | Depreciation and amortisation | **(1,599)** | (1,780) | **(1,487)** | (1,276) | **(623)** | (1,250) | **(1,069)** | (696) | **(233)** | (201) | **(189)** | (165) | **(231)** | (199) | **(5,431)** | (5,567) |
| *IFRS 8.23(g)* | Share of profit of equity accounted investees | **467** | 587 | **-** | - | **-** | - | **74** | 121 | **-** | - | **-** | - | **-** | - | **541** | 708 |
| *IFRS 8.23(i)* | Other material non-cash items: | | | | | | | | | | | | | | | | |
| *IAS 36.129(a)* | – Impairment losses on property, plant and equipment and intangible assets | **-** | (1,408) | **-** | - | **-** | - | **-** | - | **(116)** | - | **-** | - | **-** | - | **(116)** | (1,408) |
| *IAS 36.129(b)* | – Reversal of impairment losses on property, plant and equipment and intangible assets | **493** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **493** | - |
| *IFRS 8.21(b)* | **Reportable segment assets[3]** | **41,054** | 25,267 | **23,025** | 16,003 | **-** | 13,250 | **21,046** | 16,942 | **4,521** | 3,664 | **2,323** | 1,946 | **7,398** | 3,683 | **99,367** | 80,755 |
| *IFRS 8.24(a)* | Equity accounted investees | **2,025** | 1,558 | **-** | - | **-** | - | **2,154** | 2,080 | **-** | - | **-** | - | **-** | - | **4,179** | 3,638 |
| *IFRS 8.24(b)* | Capital expenditure | **9,697** | 1,136 | **6,365** | 296 | **-** | 127 | **1,158** | 722 | **545** | 369 | **1,203** | 123 | **560** | 150 | **19,528** | 2,923 |
| *IFRS 8.21(b)* | **Reportable segment liabilities** | **39,399** | 26,907 | **10,875** | 14,316 | **-** | 2,959 | **5,769** | 7,097 | **1,236** | 1,456 | **169** | 158 | **237** | 454 | **57,685** | 53,347 |

* See Note 7

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## Explanatory note

| | | |
|---|---|---|
| **1.** | *IFRS 8.28(e)* | An entity identifies and describes separately all material reconciling items. |

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Notes to the consolidated financial statements

## 6. Operating segments (continued)

### Reconciliations of reportable segment revenues, profit or loss, assets and liabilities, and other material items

| *In thousands of euro* | 2012 | 2011 |
|---|---|---|
| *IFRS 8.28(a)* **Revenues** | | |
| Total revenue for reportable segments | **114,853** | 127,727 |
| Revenue for other segments | **2,955** | 1,618 |
| | **117,808** | 129,345 |
| Elimination of inter-segment revenue | **(7,549)** | (9,516) |
| Elimination of discontinued operations | **(7,543)** | (23,193) |
| **Consolidated revenue** | **102,716** | 96,636 |
| *IFRS 8.28(b)* **Profit or loss** | | |
| Total profit or loss for reportable segments | **13,110** | 7,630 |
| Profit or loss for other segments | **771** | 195 |
| | **13,881** | 7,825 |
| Elimination of inter-segment profits | **(1,695)** | (1,175) |
| Elimination of discontinued operation | **162** | 466 |
| Unallocated amounts: | | |
| – Other corporate expenses | **(1,960)** | (1,646) |
| – Share of profit of equity accounted investees | **541** | 708 |
| **Consolidated profit from continuing operations before tax** | **10,929** | 6,178 |
| *IFRS 8.28(c)* **Assets** | | |
| Total assets for reportable segments | **91,969** | 77,072 |
| Assets for other segments | **7,398** | 3,683 |
| | **99,367** | 80,755 |
| Equity accounted investees | **4,179** | 3,638 |
| Other unallocated amounts | **1,223** | 2,841 |
| **Consolidated total assets** | **104,769** | 87,234 |
| *IFRS 8.28(d)* **Liabilities** | | |
| Total liabilities for reportable segments | **57,448** | 52,893 |
| Liabilities for other segments | **237** | 454 |
| | **57,685** | 53,347 |
| Other unallocated amounts | **3,650** | 540 |
| **Consolidated total liabilities** | **61,335** | 53,887 |

*IFRS 8.28(e)*

### Other material items (2012)

| *In thousands of euro* | Reportable segment totals | Adjustments[1] | Consolidated totals |
|---|---|---|---|
| Interest revenue | **220** | **(12)** | **208** |
| Interest expense | **1,425** | **(12)** | **1,413** |
| Capital expenditure | **18,968** | **560** | **19,528** |
| Depreciation and amortisation | **5,200** | **586** | **5,786** |
| Impairment losses on intangible assets | **116** | **-** | **116** |
| Reversal of impairment losses on property, plant and equipment and intangible assets | **493** | **-** | **493** |

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## Explanatory note

| | | |
|---|---|---|
| **1.** | *IFRS 8.31–33* | An entity presents entity-wide disclosures related to the following items regardless of whether the information is used by the CODM in assessing segment performance:<br>• revenue from external customers for products and services;<br>• revenue from external customers by geographical areas, both by the entity's country of domicile and by an individual foreign country, if it is material; and<br>• non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising from insurance contracts.<br>The above information is based on the financial information used to produce the entity's financial statements, rather than on the basis as provided regularly to the entity's CODM.<br>In our view, when disclosing revenue from external customers by geographical areas, disclosures by region – e.g. Europe or Asia – does not meet the requirement to disclose the information by an individual foreign country, if it is material. Such information should be disclosed by the individual foreign country – e.g. France, the Netherlands, Singapore – when material.<br>These disclosures apply to all entities subject to IFRS 8, including entities that have only one reportable segment. However, information required by the entity-wide disclosures need not be repeated if it is included already in the segment disclosures (see Explanatory note 1 on page 82). This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (5.2.230.10–13). |

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# Notes to the consolidated financial statements

## 6. Operating segments (continued)

### Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items (continued)

*IFRS 8.28(e)*

#### Other material items (2011)

| *In thousands of euro* | Reportable segment totals | Adjustments | Consolidated totals |
|---|---|---|---|
| Interest revenue | 171 | (20) | 151 |
| Interest expense | 1,319 | (20) | 1,299 |
| Capital expenditure | 2,773 | 150 | 2,923 |
| Depreciation and amortisation | 5,368 | 549 | 5,917 |
| Impairment on property, plant and equipment and intangible assets | 1,408 | - | 1,408 |

### Geographical information[1]

*IFRS 8.33(a)–(b)*

The Standard Papers, Recycled Papers and Forestry segments are managed on a worldwide basis, but operate manufacturing facilities and sales offices primarily in France, the Netherlands, Germany, the United Kingdom and the United States.

In presenting information on the basis of geography, segment revenue is based on the geographical location of customers and segment assets are based on the geographical location of the assets.

#### Revenue

| *In thousands of euro* | 2012 | 2011 |
|---|---|---|
| **a) Country (x)** | **31,696** | 34,298 |
| **b) All foreign countries** | | |
| The Netherlands | **22,654** | 25,641 |
| Germany | **23,556** | 25,877 |
| United States | **22,643** | 23,268 |
| United Kingdom | **4,001** | 5,300 |
| Other countries | **5,709** | 5,445 |
| Packaging (discontinued) | **(7,543)** | (23,193) |
| **Consolidated revenue** | **102,716** | 96,636 |

#### Non-current assets (see note below)

| *In thousands of euro* | 2012 | 2011 |
|---|---|---|
| **a) Country (x)** | **17,013** | 12,993 |
| **b) All foreign countries** | | |
| The Netherlands | **5,983** | 8,986 |
| Germany | **6,104** | 9,877 |
| United States | **7,691** | 7,807 |
| United Kingdom | **2,002** | 1,998 |
| Other countries | **1,049** | 1,735 |
| | **39,842** | 43,396 |

Note: excluding financial instruments, deferred tax assets and employee benefit assets.

#### Major customer

*IFRS 8.34*

Revenues from one customer of the Group's Standard Papers and Recycled Papers segments represents approximately €20,000 thousand (2011: €17,500 thousand) of the Group's total revenues.

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IFRS 5.5A, 5B* | The disclosure requirements of IFRS 5 apply to non-current assets or disposal groups classified as held-for-sale or held-for-distribution, and to discontinued operations. Disclosures required by other IFRSs apply when they refer specifically to non-current assets or disposal groups classified as held-for-sale or to discontinued operations – e.g. the disclosure of earnings per share for a discontinued operation. Disclosures required by other IFRSs may also apply when they relate to assets and liabilities in a disposal group that are not within the measurement scope of IFRS 5. Additional disclosures may be necessary to comply with the general requirements of IAS 1, in particular for a fair presentation and in respect of the sources of estimation uncertainty. |
| **2.** | *IFRS 5.35* | The nature and amount of any adjustments related to the disposal of discontinued operations in prior periods are classified and disclosed separately. |
| **3.** | | In some cases, there may be transactions between the continuing and discontinued operations – e.g. inter-segment sales and purchases. If such transactions are expected to continue after the operations are disposed of, then in our view the presentation of the discontinued operation should reflect the continuance of the relationship because such information enables users of the financial statements to evaluate the financial effects of the discontinued operations. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (5.4.220.12–17). |
| **4.** | *IFRS 5.33(b)* | This information need not be presented for a newly acquired subsidiary that is classified on acquisition as a disposal group held for sale. |
| **5.** | *IFRS 5.33(c)* | The net cash flow attributable to the operating, investing and financing activities of discontinued operations may instead be disclosed separately in the statement of cash flows. This information need not be presented for a newly acquired subsidiary that is classified on acquisition as a disposal group held for sale. |

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Notes to the consolidated financial statements

IFRS 5.30

## 7. Discontinued operation[1,2]

IFRS 5.41(a)–(b), 41(d)

In May 2012, the Group sold its entire Packaging segment (see Note 6). The segment was not a discontinued operation or classified as held-for-sale at 31 December 2011 and the comparative consolidated statement of comprehensive income has been represented to show the discontinued operation separately from continuing operations. Management committed to a plan to sell this segment early in 2012 following a strategic decision to place greater focus on the Group's key competencies, being the manufacture of pulp paper, forestry and the manufacture of timber products.

| Reference | *In thousands of euro* | Note | 2012 | 2011 |
|---|---|---|---|---|
| IAS 1.98(e) | **Results of discontinued operation[3,4]** | | | |
| IFRS 5.33(b)(i) | Revenue | | **7,543** | 23,193 |
| IFRS 5.33(b)(i) | Expenses | | **(7,705)** | (23,659) |
| IFRS 5.33(b)(i) | Results from operating activities | | **(162)** | (466) |
| IAS 12.81(h)(ii) | Tax | 22 | **25** | 44 |
| IFRS 5.33(b)(i) | Results from operating activities, net of tax | | **(137)** | (422) |
| IFRS 5.33(b)(iii) | Gain on sale of discontinued operation | | **846** | - |
| IFRS 5.33(b)(iv), IAS 12.81(h)(i) | Tax on gain on sale of discontinued operation | 22 | **(330)** | - |
| | **Profit (loss) for the year** | | **379** | (422) |
| IAS 33.68 | Basic earnings (loss) per share (euro)[4 on page 14] | 27 | **0.12** | (0.14) |
| IAS 33.68 | Diluted earnings (loss) per share (euro)[4 on page 14] | 27 | **0.12** | (0.14) |

IFRS 5.33(d)

The profit from discontinued operation of €379 thousand (2011: loss of €422 thousand) is attributable entirely to the owners of the Company. Of the profit from continuing operations of €7,558 thousand (2011: €4,378 thousand), an amount of €7,034 thousand is attributable to the owners of the Company (2011: €4,159 thousand).

IFRS 5.33(c), 34

### Cash flows from (used in) discontinued operation[5]

| *In thousands of euro* | 2012 | 2011 |
|---|---|---|
| Net cash used in operating activities | **(225)** | (910) |
| Net cash from investing activities | **10,890** | - |
| Net cash from financing activities | **-** | - |
| **Net cash flows for the year** | **10,665** | (910) |

IAS 7.40(d)

### Effect of disposal on the financial position of the Group

| Reference | *In thousands of euro* | Note | 2012 |
|---|---|---|---|
| | Property, plant and equipment | | **(7,986)** |
| | Inventories | | **(134)** |
| | Trade and other receivables | | **(3,955)** |
| IAS 7.40(c) | Cash and cash equivalents | | **(110)** |
| | Deferred tax liabilities | 22 | **110** |
| | Trade and other payables | | **1,921** |
| | **Net assets and liabilities** | | **(10,154)** |
| IAS 7.40(a)–(b) | Consideration received, satisfied in cash | | **11,000** |
| | Cash and cash equivalents disposed of | | **(110)** |
| | **Net cash inflow** | | **10,890** |

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | | In these illustrative financial statements, the part of the Group's manufacturing facility that has been presented as a disposal group held for sale does not meet the definition of a discontinued operation in IFRS 5. If that part of the manufacturing facility had met the definition of a discontinued operation, then additional disclosures applicable to discontinued operations would have been required. In these illustrative financial statements, we have illustrated disclosures relating to discontinued operations in Note 7. |
| **2.** | *IFRS 5.42* | If there are changes to a plan of sale or distribution and a non-current asset or a disposal group is no longer classified as held-for-sale or held-for-distribution, then the entity discloses, in the period of change:<br>• a description of the non-current asset or disposal group;<br>• a description of the facts and circumstances leading to the decision;<br>• the effect of the decision on the results of operations for the period and any prior periods presented; and<br>• if applicable, the reportable segment in which the non-current asset or disposal group is presented. |
| **3.** | *IFRS 5.38–39* | The major classes of assets and liabilities classified as held-for-sale or held-for-distribution are disclosed separately in the statement of financial position or in the notes. This disclosure is not required if the disposal group is a newly acquired subsidiary that meets the criteria to be classified as held-for-sale on acquisition. |
| **4.** | *IFRS 3.61, B67(e)* | For each material business combination, or in aggregate for individually immaterial business combinations that are material collectively, an entity discloses and explains any gain or loss recognised in the current reporting period that:<br>• relates to the identifiable assets acquired or liabilities assumed in a business combination that was effected in the current or the previous reporting period; and<br>• is of such size, nature or incidence that disclosure is relevant to an understanding of the combined entity's financial performance. |
| **5.** | *IFRS 3.63* | If the specific disclosures according to the requirements of IFRS 3 *Business Combinations* and other IFRSs are not sufficient to enable users of the financial statements to evaluate the nature and financial effects of business combinations effected in the current period, or any adjustments recognised in the current period related to business combinations effected in prior periods, then an entity discloses additional information. |
| **6.** | *IFRS 3.45, B67* | If the initial accounting for an acquisition was based on provisional values, and those provisional values are adjusted within 12 months of the acquisition date, then comparative information is restated, including recognition of any additional depreciation, amortisation or other profit or loss effect resulting from finalising the provisional values. In these illustrative financial statements, there were no acquisitions in the comparative period. |

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Notes to the consolidated financial statements

## 8. Disposal group held for sale[1,2]

IFRS 5.41(a)–(b), 41(d)

Part of a manufacturing facility within the Standard Papers segment is presented as a disposal group held for sale following the commitment of the Group's Management, on 15 June 2012, to a plan to sell part of the facility. Efforts to sell the disposal group have commenced, and a sale is expected by June 2012.

IFRS 5.37, 41(c)

An impairment loss of €25 thousand on the remeasurement of the disposal group to the lower of its carrying amount and its fair value less costs to sell has been included in 'other expenses' in the statement of comprehensive income (see Note 12).

At 31 December 2012, the disposal group comprised the following assets and liabilities.

IFRS 5.38

### Assets of disposal group held for sale[3]

| *In thousands of euro* | 2012 |
|---|---|
| Property, plant and equipment | **8,139** |
| Inventories | **2,775** |
| Trade and other receivables | **3,496** |
| | **14,410** |

IFRS 5.38

### Liabilities of disposal group held for sale[3]

| *In thousands of euro* | Note | 2012 |
|---|---|---|
| Trade and other payables | | **4,270** |
| Deferred tax liabilities | 22 | **140** |
| | | **4,410** |

IFRS 5.38

### Cumulative income or expense included in other comprehensive income

There are no cumulative income or expenses included in other comprehensive income relating to the disposal group.

## 9. Acquisitions of subsidiary and non-controlling interests[4,5]

IFRS 3.59–60

### Acquisition of subsidiary[6]

IFRS 3.B64(a)–(d)

On 31 March 2012, the Group obtained control of Papyrus Pty Limited, a manufacturer and distributor of standard pulp and paper by acquiring 65 percent of the shares and voting interests in the company. As a result, the Group's equity interest in Papyrus increased from 25 to 90 percent.

IFRS 3.B64(d)

Taking control of Papyrus will enable the Group to modernise its production process through access to Papyrus' patented technology. The acquisition is expected to provide the Group with an increased share of the standard paper market through access to the acquiree's customer base. The Group also expects to reduce costs through economies of scale.

IFRS 3.B64(q)

In the nine months to 31 December 2012, Papyrus contributed revenue of €13,678 thousand and profit of €1,562 thousand to the Group's results. If the acquisition had occurred on 1 January 2012, Management estimates that consolidated revenue would have been €107,091 thousand, and consolidated profit for the year would have been €8,257 thousand. In determining these amounts, Management have assumed that the fair value adjustments, determined provisionally, that arose on the acquisition date would have been the same if the acquisition had occurred on 1 January 2012.

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## Explanatory note

| | | |
|---|---|---|
| **1.** | *IFRS 3.B64(g)* | For contingent consideration arrangements and indemnification assets, an entity discloses:<br>• the amount recognised at the acquisition date;<br>• a description of the arrangement and the basis for determining the amount; and<br>• an estimate of the range of outcomes (undiscounted) or, if a range cannot be estimated, this fact and the reasons why a range cannot be estimated. If the maximum payment amount is unlimited, then an entity discloses this fact. |

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Notes to the consolidated financial statements

## 9. Acquisitions of subsidiary and non-controlling interests (continued)

### Acquisition of subsidiary (continued)

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date.

*IFRS 3.B64(f)*

### Consideration transferred

*IAS 7.40(a)*
*IAS 7.43*

| *In thousands of euro* | Note | |
|---|---|---|
| Cash | | **2,500** |
| Equity instruments (8,000 ordinary shares) | 26 | **87** |
| Replacement share-based payment awards – value of past service | | **120** |
| Contingent consideration | | **250** |
| Settlement of pre-existing relationship | | **(326)** |
| | | **2,631** |

#### Equity instruments issued

The fair value of the ordinary shares issued was based on the listed share price of the Company at 31 March 2012 of €10.88 per share.

#### Replacement share-based payment awards

*IFRS 3.B64(l)*

In accordance with the terms of the acquisition agreement, the Group exchanged equity-settled share-based payment awards held by employees of Papyrus (the acquiree's awards) for equity-settled share-based payment awards of the Company (the replacement awards). The details of the acquiree's awards and replacement awards are as follows.

| | Acquiree's awards | Replacement awards |
|---|---|---|
| Terms and conditions | • Grant date 1 April 2011<br>• Vesting date 31 March 2015<br>• Service condition | • Vesting date 31 March 2015<br>• Service condition |
| Market-based measure at acquisition date | €527 thousand | €571 thousand |

The consideration for the business combination includes €120 thousand transferred to employees of Papyrus when the acquiree's awards were substituted by the replacement awards. An amount of €400 thousand will be recognised as post-acquisition compensation cost. The determination of these amounts includes an estimated forfeiture rate of 9 percent. See Note 30 for further details on the replacement awards.

#### Contingent consideration

*IFRS 3.B64(g), B67(b)*

The Group has agreed to pay the selling shareholders in three years' time additional consideration of €600 thousand if the acquiree's cumulative EBITDA over the next three years exceeds €10,000 thousand. The Group has included €250 thousand as contingent consideration related to the additional consideration, which represents its fair value at the acquisition date, using a discount rate of 11 percent. At 31 December 2012, the contingent consideration had increased to €270 thousand.[1]

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Notes to the consolidated financial statements

## 9. Acquisitions of subsidiary and non-controlling interests (continued)

### Acquisition of subsidiary (continued)

#### Consideration transferred (continued)

##### Settlement of pre-existing relationship

*IFRS 3.B64(l)*

The Group and Papyrus were parties to a supply contract under which Papyrus supplied the Group with timber at a fixed price under a long-term contractual agreement. The agreement contained a clause allowing the Group to terminate the agreement by paying Papyrus €326 thousand. At the acquisition date, this pre-existing relationship effectively was terminated as part of the acquisition. The fair value of the agreement at the acquisition date was €600 thousand, of which €400 thousand related to the unfavourable aspect of the contract to the Group relative to market prices. The Group has attributed €326 thousand of the consideration transferred, being the lower of the termination amount and the value of the off-market element of the contract, to the extinguishment of the supply contract with Papyrus. This amount has been included in 'other expenses' in the statement of comprehensive income (see Note 12).

*IFRS 3.B64(i), IAS 7.40(a)–(d)*

#### Identifiable assets acquired and liabilities assumed

*IAS 7.40(c)*

| *In thousands of euro* | **Note** | |
|---|---|---|
| Property, plant and equipment | 16 | **1,955** |
| Intangible assets | 17 | **250** |
| Inventories | | **825** |
| Trade receivables | | **848** |
| Cash and cash equivalents | | **375** |
| Loans and borrowings | | **(500)** |
| Deferred tax liabilities | | **(79)** |
| Contingent liabilities | 32 | **(20)** |
| Site restoration provision | 32 | **(150)** |
| Trade and other payables | | **(460)** |
| | | **3,044** |

*IFRS 3.B67(a)(i)–(ii)*

The following fair values have been determined on a provisional basis.

- The fair value of intangible assets (Papyrus' patented technology and customer relationships) has been determined provisionally pending completion of an independent valuation.

*IFRS 3.B64(j), B67(c), IAS 37.86*

- The contingent liability of €20 thousand represents a present obligation in respect of a claim for contractual penalties made by one of Papyrus' customers. Although the Group acknowledges responsibility, it disputes the amount claimed by the customer of €100 thousand. The claim is expected to go to arbitration in April 2012. The recognised fair value of €20 thousand is based on the Group's interpretation of the underlying contract, taking the range of possible outcomes of the arbitration process into account, and is supported by independent legal advice. There are no reimbursement rights related to the obligation.
- Papyrus's operations are subject to specific environmental regulations. The Group has conducted a preliminary assessment of site restoration provisions arising from these regulations, and has recognised a provisional amount in its initial accounting. However, the Group will continue its review of these matters during the measurement period.

If new information obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised.

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IFRS 3.B64(h)* | An entity discloses the fair value, gross contractual amounts receivable and the best estimate at the acquisition date of the contractual cash flows not expected to be collected for each major class of receivables acquired (e.g. loans, direct finance leases). |
| **2.** | *IFRS 3.B64(n)* | If an acquirer in a business combination makes a bargain purchase, then it discloses:<br>• the amount of the gain recognised;<br>• the line item in the statement of comprehensive income in which the gain is presented; and<br>• a description of the reasons why the transaction resulted in a gain. |
| **3.** | *IFRS 3.B64(o)(ii)* | If an entity chooses to value non-controlling interests at fair value, then the valuation techniques and key model inputs used for determining that value are disclosed. |

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Notes to the consolidated financial statements

## 9. Acquisitions of subsidiary and non-controlling interests (continued)

### Acquisition of subsidiary (continued)

#### Identifiable assets acquired and liabilities assumed (continued)

*IFRS 3.B64(h)*

The trade receivables comprise gross contractual amounts due of €900 thousand, of which €52 thousand was expected to be uncollectible at the acquisition date.[1]

#### Goodwill[2]

Goodwill was recognised as a result of the acquisition as follows.

| *In thousands of euro* | Note | |
|---|---|---|
| Total consideration transferred | | **2,631** |
| Non-controlling interests, based on their proportionate interest in the recognised amounts of the assets and liabilities of Papyrus[3] | | **304** |
| Fair value of pre-existing interest in Papyrus | | **650** |
| Fair value of identifiable net assets | | **(3,044)** |
| | 17 | **541** |

*IFRS 3.B64(o), B64(p)(ii)*
*IFRS 3.B64(p)(i)*

*IFRS 3.B64(p)(ii)*

The remeasurement to fair value of the Group's existing 25 percent interest in Papyrus resulted in a gain of €250 thousand (€650 thousand less €420 thousand carrying amount of equity accounted investee at the acquisition date plus €20 thousand of translation reserve reclassified to profit or loss), which has been included in 'finance income' in the statement of comprehensive income (see Note 15).

*IFRS 3.B64(e), B64(k)*

The goodwill is attributable mainly to the skills and technical talent of Papyrus' work force, and the synergies expected to be achieved from integrating the company into the Group's existing standard paper business. None of the goodwill recognised is expected to be deductible for tax purposes.

#### Acquisition-related costs

*IFRS 3.B64(l), B64(m)*

The Group incurred acquisition-related costs of €50 thousand related to external legal fees and due diligence costs. These costs have been included in 'administrative expenses' in the consolidated statement of comprehensive income (see Note 13).

*IAS 27.30–31*

### Acquisition of non-controlling interests

In June 2012, the Group acquired an additional 15 percent interest in Swissolote AG for €200 thousand in cash, increasing its ownership from 60 to 75 percent. The carrying amount of Swissolote's net assets in the Group's financial statements on the date of the acquisition was €767 thousand. The Group recognised a decrease in non-controlling interests of €115 thousand, a decrease in retained earnings of €93 thousand, and an increase in the translation reserve of €8 thousand.

*IAS 27.41(e)*

The following summarises the effect of changes in the Company's ownership interest in Swissolote.

| *In thousands of euro* | **2012** |
|---|---|
| Company's ownership interest at 1 January | **392** |
| Effect of increase in Company's ownership interest | **115** |
| Share of comprehensive income | **290** |
| **Company's ownership interest at 31 December** | **797** |

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IAS 18.35(c)* | In these illustrative financial statements, it is assumed that there are no barter transactions. If an entity does enter into material barter transactions, then it discloses the amount of revenue arising from exchanges of goods or services included in each significant category of revenue. |
| **2.** | *IAS 18.35(b)* | In IAS 18 *Revenue*, interest and dividends are also referred to as 'revenue'. In our experience, entities other than financial institutions generally present interest and dividends received within finance income. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (4.2.720.20 and 7.8.80.20). |
| **3.** | | In our view, whether changes in the fair value of biological assets should be presented as revenue in a separate line item in the statement of comprehensive income, or as part of other income, depends on the relative significance of agricultural activities. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (3.9.110). |

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# Notes to the consolidated financial statements

## 10. Revenue[1, 2]

| In thousands of euro | Note | Continuing operations 2012 | Continuing operations 2011 | Discontinued operation (see Note 7) 2012 | Discontinued operation (see Note 7) 2011 | Total 2012 | Total 2011 |
|---|---|---|---|---|---|---|---|
| IAS 18.35(b)(i) Sales of goods | | **98,176** | 92,690 | **7,543** | 23,193 | **105,719** | 115,883 |
| IAS 18.35(b)(ii) Rendering of services | | **3,120** | 2,786 | **-** | - | **3,120** | 12,786 |
| IAS 18.35(b)(iv) Commissions | | **451** | 307 | **-** | - | **451** | 307 |
| IAS 40.75(f)(i) Investment property rentals | 35 | **310** | 212 | **-** | - | **310** | 212 |
| IAS 11.39(a) Construction contract revenue | | **659** | 641 | **-** | - | **659** | 641 |
| | | **102,716** | 96,636 | **7,543** | 23,193 | **110,259** | 119,829 |

The Group has a customer loyalty programme to stimulate the sale of certain paper products used in the printing industry. The Group grants P-points when customers buy certain designated paper products. These P-points can be redeemed for discounts on paper products and on their redemption an appropriate amount of deferred revenue is released and included in sales of goods.

At 31 December 2012, the Group has deferred revenue of €50 thousand (2011: €38 thousand), which represents the fair value of that portion of the consideration received or receivable in respect of initial sales of paper products for which P-points have been granted, but not yet redeemed (see Note 31).

*IAS 1.122*

Commission relates to the sale of products in which the Group acts as an agent in the transaction rather than as the principal. Management considered the following factors in distinguishing between an agent and a principal:

- The Group does not take title to the goods and has no responsibility in respect of the goods sold.
- Although the Group collects the revenue from the final customer, all credit risk is borne by the supplier of the goods.
- The Group cannot vary the selling prices set by the supplier by more than 1 percent.

*IAS 11.39(b)*

Construction contract revenue has been determined based on the stage of completion method. The amount of revenue recognised results from the development of a number of storage units and warehouses for some of the Group's customers in the Timber Products segment. These storage units and warehouses are constructed based on specifically negotiated contracts with customers.

*IAS 1.97*

## 11. Other income

| In thousands of euro | Note | 2012 | 2011 |
|---|---|---|---|
| IAS 41.40 Change in fair value of biological assets[3] | 18 | **576** | (71) |
| Net increase in value of biological assets due to births/deaths | 18 | **11** | 15 |
| IAS 40.76(d) Change in fair value of investment property | 19 | **20** | 60 |
| Government grants | 31 | **238** | - |
| IAS 1.98(c) Gain on sale of property, plant and equipment | | **26** | 100 |
| Rental income from property subleases | 35 | **150** | 90 |
| | | **1,021** | 194 |

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IAS 1.87, 1.97* | An entity does not present any items of income and expense as extraordinary items, either in the statement of comprehensive income or in the notes. The nature and amounts of material items are disclosed as a separate line item in the statement of comprehensive income or in the notes. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (4.1.82–86). |
| **2.** | | IFRS is silent about how impairment losses on trade receivables are presented. In these illustrative financial statements, impairment losses on trade receivables are presented as part of other expenses, which is one possible choice of presentation. Other presentations – e.g. as finance costs – are also possible as long as the disclosure requirements of IFRS 7 *Financial Instruments: Disclosures* are met. |
| **3.** | *IAS 1.104* | An entity classifying expenses by function discloses additional information on the nature of expenses – e.g. depreciation, amortisation and employee benefits expenses. The level of disclosure presented in these illustrative financial statements is optional. |

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# Notes to the consolidated financial statements

IAS 1.97

## 12. Other expenses[1]

IFRS 5.41(c)
IFRS 7.20(e)

| In thousands of euro | Note | 2012 | 2011 |
|---|---|---|---|
| Impairment loss on remeasurement of disposal group | 8 | **25** | - |
| Impairment loss on trade receivables[2] | 34 | **150** | 30 |
| Settlement of pre-existing relationship with acquiree | 9 | **326** | - |
| Earthquake-related expenses | | **359** | - |
| | | **860** | 30 |

A wholly owned subsidiary incurred expenses amounting to €359 thousand due to an earthquake. The expenses relate to the survey of facilities and the removal of damaged items.

IAS 1.104

## 13. Expenses by nature[3]

| In thousands of euro | Note | 2012 | 2011 |
|---|---|---|---|
| Changes in inventories of finished goods and work in progress | 23 | **(1,641)** | 1,380 |
| Raw materials and consumables used | 23 | **43,716** | 41,485 |
| Employee benefit expense | 14 | **22,204** | 19,457 |
| Depreciation and amortisation expense | 16, 17 | **5,786** | 5,917 |
| Impairment of property, plant and equipment and goodwill | 16, 17 | **(377)** | 1,408 |
| Consultancy expense | | **4,866** | 4,212 |
| Advertising expense | | **2,550** | 2,650 |
| Maintenance expense | | **12,673** | 12,824 |
| Other expenses | | **2,166** | 831 |
| **Total cost of sales, selling and distribution expenses, administrative expenses and research and development expenses** | | **91,943** | 90,164 |

IAS 1.104

## 14. Employee benefit expenses[3]

IAS 19.46
IFRS 2.51(a)
IFRS 2.51(a)

| In thousands of euro | Note | 2012 | 2011 |
|---|---|---|---|
| Wages and salaries | | **18,285** | 16,209 |
| Compulsory social security contributions | | **1,468** | 1,267 |
| Contributions to defined contribution plans | | **455** | 419 |
| Termination benefits | | **350** | 450 |
| Expenses related to defined benefit plans | 29 | **425** | 500 |
| Increase in liability for long-service leave | | **26** | 12 |
| Equity-settled share-based payments | 30 | **755** | 250 |
| Cash-settled share-based payments | 30 | **440** | 350 |
| | | **22,204** | 19,457 |

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IFRS 7.20* | There is no guidance in IFRS on what is included in finance income and finance costs. An entity discloses as part of its accounting policies which items constitute finance income and finance costs; see accounting policy in Note 3(p). This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (7.8.80.20). |
| **2.** | *IFRS 7.20(b)* | An entity discloses total interest income for financial assets not at fair value through profit or loss. In these illustrative financial statements, we illustrate interest income disaggregated by category of financial asset. Although this level of disaggregation is optional, an entity is required to disclose separately any material items of income, expense and gains and losses resulting from financial assets and financial liabilities. |
| **3.** | | If applicable, an entity also discloses: |
| | *IFRS 7.20(a)(iii)–(v)* | • net gains and losses on held-to-maturity investments, loans and receivables, and financial liabilities measured at amortised cost; |
| | *IFRS 7.20(c)* | • fee income and expense, other than amounts included in determining the effective interest rate; |
| | *IFRS 7.24(a)* | • for fair value hedges, gains and losses on the hedging instrument and on the hedged item attributable to the hedged risk; and |
| | *IFRS 7.24(c)* | • the ineffective portion of the change in fair value of a net investment hedge. |
| **4.** | *IFRS 7.28* | An entity discloses the following in respect of any day one profit and gain or loss:<br>• an accounting policy; and<br>• the aggregate difference still to be recognised in profit or loss, and a reconciliation between the opening and closing balance thereof. |
| **5.** | *IAS 32.40* | Dividends classified as an expense may be presented in the statement of comprehensive income either with interest on other liabilities or as a separate item. If there are differences between interest and dividends with respect to matters such as tax deductibility, then it is desirable to disclose them separately in the statement of comprehensive income. |
| **6.** | *IAS 1.93* | A reclassification adjustment is included with the related component of other comprehensive income in the period that the adjustment is reclassified to profit or loss. |

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Notes to the consolidated financial statements

IAS 1.97

## 15. Finance income and finance costs[1]

### Recognised in profit or loss

| Reference | In thousands of euro | Note | 2012 | 2011 |
|---|---|---|---|---|
| IFRS 7.20(b) | Interest income on unimpaired held-to-maturity investments[2] | | **157** | 89 |
| IFRS 7.20(d) | Interest income on impaired held-to-maturity investments[2] | | **7** | 6 |
| IFRS 7.20(b) | Interest income on available-for-sale financial assets[2] | | **8** | 27 |
| IFRS 7.20(b) | Interest income on loans and receivables[2] | | **36** | 29 |
| IFRS 7.20(b) | Total interest income arising from financial assets not measured at fair value through profit or loss | | **208** | 151 |
| IFRS 3.42, B64(p) | Remeasurement to fair value of pre-existing interest in acquiree | 9 | **250** | - |
| IAS 18.35(b)(v) | Dividend income on available-for-sale financial assets | | **26** | 32 |
| IFRS 7.20(a)(ii) | Net gain on disposal of available-for-sale financial assets reclassified from equity | | **64** | - |
| IFRS 7.23(d) | Net change in fair value of cash flow hedges reclassified from equity | | **31** | 11 |
| IFRS 7.20(a)(i) | Net change in fair value of financial assets at fair value through profit or loss: | | | |
| | – Held-for-trading | | **74** | - |
| | – Designated as such on initial recognition | | **508** | 286 |
| | **Finance income[3, 4]** | | **1,161** | 480 |
| IFRS 7.20(b) | Interest expense on financial liabilities measured at amortised cost[5] | | **(1,413)** | (1,299) |
| IAS 21.52(a) | Net foreign exchange loss | | **(138)** | (293) |
| IFRS 7.20(a)(i) | Net change in fair value of financial assets: | | | |
| | – Held-for-trading | | **-** | (19) |
| | – Designated as at fair value through profit or loss | | **-** | (22) |
| IFRS 7.20(v) | Change in fair value of contingent consideration | 9 | **(20)** | - |
| IAS 37.84(e) | Unwind of discount on site restoration provision | 32 | **(60)** | - |
| IFRS 7.20(e) | Impairment loss on held-to-maturity investments | | **(60)** | - |
| IFRS 7.24(b) | Ineffective portion of changes in fair value of cash flow hedges | | **(16)** | (13) |
| | **Finance costs[3, 4]** | | **(1,707)** | (1,646) |
| | **Net finance costs recognised in profit or loss** | | **(546)** | (1,166) |

### Recognised in other comprehensive income

| Reference | In thousands of euro | Note | 2012 | 2011 |
|---|---|---|---|---|
| IAS 1.7 | Net loss on hedge of net investment in foreign operation | | **(3)** | (8) |
| IFRS 7.23(c) | Effective portion of changes in fair value of cash flow hedges | | **(62)** | 77 |
| IFRS 7.23(d) | Net change in fair value of cash flow hedges reclassified to profit or loss[6] | | **(31)** | (11) |
| IFRS 7.20(a)(ii), IAS 1.82(g) | Net change in fair value of available-for-sale financial assets | | **199** | 94 |
| IFRS 7.20(a)(ii) | Net change in fair value of available-for-sale financial assets reclassified to profit or loss[6] | | **(64)** | - |
| IAS 1.90–91 | Tax on finance income and finance costs recognised in other comprehensive income[9 on page 12] | 22 | **(14)** | (53) |
| | **Finance income recognised in other comprehensive income, net of tax** | | **25** | 99 |

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## Explanatory note

**1.**

*IAS 16.73(d)–(e)*

An entity discloses a reconciliation of the carrying amount of property, plant and equipment from the beginning to the end of the reporting period. The separate reconciliations of the gross carrying amount and accumulated depreciation illustrated in these illustrative financial statements are not required and a different format may be used. However, an entity is required to disclose the gross carrying amount and accumulated depreciation at the beginning and at the end of the reporting period.

*IAS 16.74(d)*

An entity discloses the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in profit or loss.

*IAS 16.77*

If an entity uses the revaluation model to account for property, plant and equipment, then it discloses:

- the effective date of the revaluation;
- whether an independent valuer was involved;
- the methods and significant assumptions applied in estimating the items' fair values;
- the extent to which the items' fair values were determined directly with reference to observable prices in an active market, or recent market transactions on arm's length terms, or were estimated using other valuation techniques;
- for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been measured under the cost model (i.e. not revalued); and
- the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.

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Notes to the consolidated financial statements

## 16. Property, plant and equipment[1]

| | In thousands of euro | Note | Land and buildings | Plant and equip-ment | Fixtures and fittings | Under construc-tion | Total |
|---|---|---|---|---|---|---|---|
| IAS 16.73(d)–(e) | **Cost** | | | | | | |
| IAS 16.73(d) | Balance at 1 January 2011 | | 7,328 | 29,509 | 5,289 | - | 42,126 |
| IAS 16.73(e)(i) | Additions | | 193 | 1,540 | 675 | - | 2,408 |
| IAS 16.73(e)(ii) | Disposals | | - | (1,081) | - | - | (1,081) |
| IAS 16.73(e)(viii) | Effect of movements in exchange rates | | - | 316 | 171 | - | 487 |
| IAS 16.73(d) | **Balance at 31 December 2011** | | 7,521 | 30,284 | 6,135 | - | 43,940 |
| IAS 16.73(d) | Balance at 1 January 2012 | | **7,521** | **30,284** | **6,135** | **-** | **43,940** |
| IAS 16.73(e)(iii) | Acquisitions through business combinations | 9 | **185** | **1,580** | **190** | **-** | **1,955** |
| IAS 16.73(e)(i), 74(b) | Other additions | | **1,750** | **9,544** | **657** | **4,100** | **16,051** |
| IAS 16.73(e)(ix) | Offset of accumulated depreciation on building transferred to investment property | | **(300)** | **-** | **-** | **-** | **(300)** |
| IAS 16.73(e)(ix) | Revaluation of building reclassified to investment property | | **200** | **-** | **-** | **-** | **200** |
| IAS 16.73(e)(ix) | Reclassification to investment property | 19 | **(800)** | **-** | **-** | **-** | **(800)** |
| IAS 16.73(e)(ii) | Reclassification to assets held for sale | 8 | **-** | **(9,222)** | **-** | **-** | **(9,222)** |
| IAS 16.73(e)(ii) | Disposals | | **-** | **(11,972)** | **(2,100)** | **-** | **(14,072)** |
| IAS 16.73(e)(viii) | Effect of movements in exchange rates | | **-** | **91** | **50** | **-** | **141** |
| IAS 16.73(d) | **Balance at 31 December 2012** | | **8,556** | **20,305** | **4,932** | **4,100** | **37,893** |
| | **Accumulated depreciation and impairment losses** | | | | | | |
| IAS 16.73(d) | Balance at 1 January 2011 | | 693 | 5,557 | 939 | - | 7,189 |
| IAS 16.73(e)(vii) | Depreciation for the year | 13 | 123 | 4,240 | 759 | - | 5,122 |
| IAS 16.73(e)(vi) | Impairment loss | 17 | - | 1,123 | - | - | 1,123 |
| IAS 16.73(e)(ii) | Disposals | | - | (700) | - | - | (700) |
| IAS 16.73(e)(viii) | Effect of movements in exchange rates | | - | 98 | 59 | - | 157 |
| IAS 16.73(d) | **Balance at 31 December 2011** | | 816 | 10,318 | 1,757 | - | 12,891 |
| IAS 16.73(d) | Balance at 1 January 2012 | | **816** | **10,318** | **1,757** | **-** | **12,891** |
| IAS 16.73(e)(vii) | Depreciation for the year | 13 | **120** | **4,140** | **741** | **-** | **5,001** |
| IAS 16.73(e)(vi) | Reversal of impairment loss | 17 | **-** | **(393)** | **-** | **-** | **(393)** |
| IAS 16.73(e)(ix) | Offset of accumulated depreciation on building reclassified to investment property | | **(300)** | **-** | **-** | **-** | **(300)** |
| IAS 16.73(e)(ii) | Reclassification to assets held for sale | 8 | **-** | **(1,058)** | **-** | **-** | **(1,058)** |
| IAS 16.73(e)(ii) | Disposals | | **-** | **(3,808)** | **(1,127)** | **-** | **(4,935)** |
| IAS 16.73(e)(viii) | Effect of movements in exchange rates | | **-** | **63** | **38** | **-** | **101** |
| IAS 16.73(d) | **Balance at 31 December 2012** | | **636** | **9,262** | **1,409** | **-** | **11,307** |
| IAS 16.73(e), 1.78(a) | **Carrying amounts** | | | | | | |
| | **At 1 January 2011** | | 6,635 | 23,952 | 4,350 | - | 34,937 |
| | **At 31 December 2011** | | 6,705 | 19,966 | 4,378 | - | 31,049 |
| | **At 31 December 2012** | | **7,920** | **11,043** | **3,523** | **4,100** | **26,586** |

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IAS 36.131* | In respect of the aggregate amount of impairment losses or reversals that are not disclosed because they are not considered material, an entity discloses:<br>• the main classes of assets affected by impairment losses or reversals; and<br>• the main events and circumstances that led to the losses or reversals. |
| **2.** | *IAS 8.39–40* | An entity discloses the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods. However, if the amount of the effect in future periods is not disclosed because estimating it is impracticable, then the entity discloses that fact. |
| **3.** | *IAS 1.42* | If reclassifying comparative amounts is impracticable, then the entity discloses:<br>• the reason for not reclassifying the amounts; and<br>• the nature of the adjustments that would have been made if the amounts had been reclassified. |

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Notes to the consolidated financial statements

## 16. Property, plant and equipment (continued)

### Impairment loss and subsequent reversal[1]

During 2011, due to regulatory restrictions imposed on the manufacture of a new product in the Standard Papers segment, the Group tested the related product line for impairment and recognised an impairment loss of €1,123 thousand with respect to plant and equipment. In 2012, €393 thousand of the loss was reversed. See Note 17 for further details of the impairment loss and subsequent reversal.

### Leased plant and machinery

*IAS 17.31(a), (e)*

The Group leases production equipment under a number of finance lease agreements. Some leases provide the Group with the option to purchase the equipment at a beneficial price. One of the leases is an arrangement that is not in the legal form of a lease, but is accounted for as such based on its terms and conditions. The leased equipment secures lease obligations. At 31 December 2012, the net carrying amount of leased plant and equipment was €1,646 thousand (2011: €1,972 thousand). During the year, the Group acquired leased assets of €200 thousand (2011: €180 thousand) (see Note 28).

*IAS 7.43*

Other non-cash investing and financing transactions have been disclosed in Note 26.

### Security

*IAS 16.74(a)*

At 31 December 2012, properties with a carrying amount of €5,000 thousand (2011: €4,700 thousand) are subject to a registered debenture to secure bank loans (see Note 28).

### Property, plant and equipment under construction

*IAS 16.74(b)*

During the year, the Group acquired land with the intention of constructing a new factory on the site. The cost of acquisition was €3,100 thousand. The Group commenced construction of the new factory and costs incurred up to the reporting date totalled €1,000 thousand (2011: nil).

*IAS 23.26*

Included in the above are capitalised borrowing costs related to the acquisition of the land and the construction of the new factory amounted to €194 thousand (2011: nil), with a capitalisation rate of 5.2 percent (2011: not applicable).

### Change in estimates

During the year, the Group conducted an operational efficiency review at one of its plants, which resulted in changes in the expected usage of certain items of property, plant and equipment. Certain dye equipment, which management previously intended to sell after five years of use, is now expected to remain in production for 12 years from the date of purchase. As a result, the expected useful lives of these assets increased and their estimated residual values decreased. The effect of these changes on actual and expected depreciation expense, included in 'cost of sales', in current and future years respectively is as follows.[2]

*IAS 8.39, 16.76*

| *In thousands of euro* | **2012** | **2013** | **2014** | **2015** | **2016** | **Later** |
|---|---|---|---|---|---|---|
| (Decrease) increase in depreciation expense | **(256)** | (113) | 150 | 150 | 130 | 170 |

### Change in classification

*IAS 1.41(a), (c)*

*IAS 1.41(b)*

During the current year, the Group modified the consolidated statement of comprehensive income classification of depreciation expense on certain office space from 'administrative expenses' to 'selling and distribution expenses' to reflect more appropriately the way in which economic benefits are derived from the use of the office space. Comparative amounts in the consolidated statement of comprehensive income were reclassified for consistency, which resulted in €120 thousand being reclassified from 'administrative expenses' to 'selling and distribution expenses'.[3]

Since the amounts are reclassifications within operating activities in the consolidated statements of comprehensive income, this reclassification did not have any effect on the consolidated statements of financial position.

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IAS 38.122* | An entity discloses the following:<br>• for an intangible asset assessed as having an indefinite useful life, the carrying amount of that asset and the reasons supporting the assessment of an indefinite useful life. In giving these reasons, the entity describes the factor(s) that played a significant role in determining that the asset has an indefinite useful life;<br>• a description, the carrying amount and remaining amortisation period of any individual intangible asset that is material to the financial statements;<br>• for intangible assets acquired by way of a government grant and recognised initially at fair value:<br>– the fair value recognised initially for these assets;<br>– their carrying amount; and<br>– whether they are measured after recognition under the cost model or the revaluation model;<br>• the existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities; and<br>• the amount of contractual commitments for the acquisition of intangible assets. |
| | *IFRS 3.61, B67(d)(iii)–(v), IAS 38.118* | In presenting a reconciliation of the carrying amount of intangible assets and goodwill, an entity also discloses, if applicable:<br>• assets classified as held-for-sale or included in a disposal group classified as held-for-sale in accordance with IFRS 5, and other disposals;<br>• decreases and increases in the carrying amount of intangible assets during the period resulting from impairment losses recognised or reversed in other comprehensive income; and |
| | *IFRS 3.67, IAS 12.68(a)* | • adjustments to goodwill resulting from the recognition of deferred tax assets subsequent to a business combination. |
| | *IAS 38.124* | If an entity uses the revaluation model to account for intangible assets, then it discloses:<br>• the effective date of the revaluation for each class of the intangible assets;<br>• the carrying amount of each class of revalued intangible assets;<br>• the carrying amount that would have been recognised had the revalued class of intangible assets been measured after recognition using the cost model;<br>• the amount of the revaluation surplus that relates to intangible assets at the beginning and end of the reporting period, indicating the changes during the period and any restrictions on the distribution of the balance to shareholders; and<br>• the methods and significant assumptions applied in estimating the assets' fair values. |
| **2.** | *IAS 28.23* | In our view, it is not necessary to provide the disclosures for goodwill arising in a business combination in respect of goodwill on equity accounted investees. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (3.5.660). |

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# Notes to the consolidated financial statements

## 17. Intangible assets and goodwill[1]

| | In thousands of euro | Note | Goodwill[2] | Patents and trade-marks | Develop-ment costs | Other | Total |
|---|---|---|---|---|---|---|---|
| IFRS 3.61, IAS 38.118(c), (e) | **Cost** | | | | | | |
| IFRS 3.B67(d)(i), IAS 38.118 | Balance at 1 January 2011 | | 3,545 | 1,264 | 4,111 | - | 8,920 |
| IAS 38.118(e)(i) | Acquisitions – internally developed | | - | - | 515 | - | 515 |
| IAS 38.118(e)(vii) | Effect of movements in exchange rates | | - | (171) | (75) | - | (246) |
| IFRS 3.B67(d)(viii), IAS 38.118 | **Balance at 31 December 2011** | | 3,545 | 1,093 | 4,551 | - | 9,189 |
| IFRS 3.B67(d)(i), IAS 38.118 | Balance at 1 January 2012 | | **3,545** | **1,093** | **4,551** | **-** | **9,189** |
| IFRS 3.B67(d)(ii), IAS 38.118(e)(i) | Acquisitions through business combinations | 9 | **541** | **170** | **-** | **80** | **791** |
| IAS 38.118(e)(i) | Other acquisitions – internally developed | | **-** | **-** | **1,272** | **-** | **1,272** |
| IAS 38.118(e)(vii) | Effect of movements in exchange rates | | **-** | **186** | **195** | **-** | **381** |
| IFRS 3.B67(d)(viii), IAS 38.118 | **Balance at 31 December 2012** | | **4,086** | **1,449** | **6,018** | **80** | **11,633** |
| | **Accumulated amortisation and impairment losses** | | | | | | |
| IFRS 3.B67(d)(i), IAS 38.118 | Balance at 1 January 2011 | | 138 | 552 | 2,801 | - | 3,491 |
| IAS 38.118(e)(vi) | Amortisation for the year | 13 | - | 118 | 677 | - | 795 |
| IAS 38.118(e)(iv) | Impairment loss | | - | - | 285 | - | 285 |
| IAS 38.118(e)(vii) | Effect of movements in exchange rates | | - | (31) | (12) | - | (43) |
| IFRS 3.B67(d)(viii), IAS 38.118(c) | **Balance at 31 December 2011** | | 138 | 639 | 3,751 | - | 4,528 |
| IFRS 3.B67(d)(i), IAS 38.118 | Balance at 1 January 2012 | | **138** | **639** | **3,751** | **-** | **4,528** |
| IAS 38.118(e)(iv) | Amortisation for the year | 13 | **-** | **129** | **646** | **10** | **785** |
| IFRS 3.B67(d)(v) | Impairment loss | | **116** | **-** | **-** | **-** | **116** |
| IAS 38.118(e)(v) | Reversal of impairment loss | | **-** | **-** | **(100)** | **-** | **(100)** |
| IAS 38.118(e)(vii) | Effect of movements in exchange rates | | **-** | **61** | **17** | **-** | **78** |
| IFRS 3.B67(d)(viii), IAS 38.118 | **Balance at 31 December 2012** | | **254** | **829** | **4,314** | **10** | **5,407** |
| | **Carrying amounts** | | | | | | |
| IAS 38.118(c) | **At 1 January 2011** | | 3,407 | 712 | 1,310 | - | 5,429 |
| IAS 38.118(c) | **At 31 December 2011** | | 3,407 | 454 | 800 | - | 4,661 |
| IAS 38.118(c) | **At 31 December 2012** | | **3,832** | **620** | **1,704** | **70** | **6,226** |

### Amortisation and impairment loss

*IAS 38.118(d)*

The amortisation of patents, trademarks and development costs is allocated to the cost of inventory and is included in 'cost of sales' as inventory is sold; the amortisation of other intangible assets is included in 'cost of sales'. The impairment loss is included in 'cost of sales' in the statement of comprehensive income.

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IAS 36.132* | An entity is encouraged to disclose assumptions used to determine the recoverable amount of assets and cash-generating units, and this publication illustrates the disclosure of the discount rate and terminal growth rate. Paragraph 134 of IAS 36 *Impairment of Assets* only requires these disclosures for cash-generating units containing goodwill or indefinite-lived intangibles, which this cash-generating unit does not have. |
| **2.** | *IAS 36.130(f)* | If the recoverable amount of an individual asset, including goodwill, or a cash-generating unit is determined based on its fair value less costs to sell, and a material impairment loss is recognised or, in the case of intangible assets other than goodwill (a reversal is prohibited for goodwill impairments), is reversed during the period, then an entity discloses the basis used to determine fair value less costs to sell. |
| | *IAS 36.130(c)* | If a material impairment loss is recognised for an individual asset, then an entity discloses:<br>• the nature of the asset; and<br>• if the entity reports segment information in accordance with IFRS 8, then the reportable segment to which the asset belongs. |
| | *IAS 36.130(d)(iii)* | If a material impairment loss is recognised for a cash-generating unit, and the aggregation of assets for identifying the cash-generating unit has changed since the previous estimate of recoverable amount, then an entity describes the current and former ways of aggregating assets and the reasons for changing the way in which the cash-generating unit is identified. |
| | *IAS 36.126(c)–(d)* | If applicable, an entity discloses the amount of impairment losses or reversals of impairment losses on revalued assets included in other comprehensive income during the period. |
| **3.** | *IAS 36.126* | If an entity classifies expenses based on their function, then any loss is allocated to the appropriate function. In our view, in the rare case that an impairment loss cannot be allocated to a function, then it should be included in other expenses as a separate line item if it is significant (e.g. impairment of goodwill), with additional information given in a note. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (3.10.430.20).<br>In our view, an impairment loss that is recognised in published interim financial statements should be presented in the same line item in the annual financial statements, even if the asset is subsequently sold and the gain or loss on disposal is included in a line item different from impairment losses in the annual financial statements. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (3.10.430.30). |

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Notes to the consolidated financial statements

## 17. Intangible assets and goodwill (continued)

### Recoverability of development costs[1]

IAS 36.132

The carrying amount of an intangible asset representing a development project for a new process in one of the Group's factories in the Standard Papers segment is €400 thousand. An impairment test was triggered during the year because the regulatory approval that would allow this new process to be implemented was delayed, such that the benefit of the new process will not be realised as soon as previously expected. The recoverable amount of the CGU (the factory using the process) was estimated based on its value in use, assuming that the regulation would be passed by July 2012 and using a pre-tax discount rate of 12 percent and a growth rate of 2 percent from 2016. The recoverable amount was estimated to be higher than the carrying amount of the CGU, and no impairment was required.

IAS 1.125, 129

Management considers it possible that the regulatory approval will be delayed by a further year to July 2013. Revenue from the unmodified process continues to decline and the effect of a further delay of a year would be an impairment of approximately €100 thousand in the carrying amount of the factory.

### Impairment loss and subsequent reversal

IAS 36.130(a), 130(d)(i)

During 2011, due to regulatory restrictions imposed on the manufacture of a new product in the Standard Papers segment, the Group assessed the recoverable amount of the related product line. The product line relates to a cutting edge new product that was expected to be available-for-sale in 2012. However, a regulatory inspection in 2011 revealed that the product did not meet certain environmental standards, necessitating substantial changes to the manufacturing process. As a result, production was deferred and the expected launch date was delayed.

IAS 36.130(e)

The recoverable amount of the CGU (the production line that will produce the product) was estimated based on its value in use,[2] assuming that the production line would go live in August 2014. Based on the assessment in 2011, the carrying amount of the product line was determined to be €1,408 thousand higher than its recoverable amount, and an impairment loss was recognised (see below). In 2012, following certain changes to the recovery plan, the Group reassessed its estimates and €493 thousand of the initially recognised impairment has been reversed.

IAS 36.130(g)

The estimate of value in use was determined using a pre-tax discount rate of 10.5 percent (2011: 9.8 percent).

IAS 36.126(a)–(b), 130(b), 130(d)(ii)

The impairment loss and its subsequent reversal was allocated pro rata to the individual assets constituting the production line (part of the Standard Papers segment) as follows.

| *In thousands of euro* | **Original carrying amount** | **Loss in 2011** | **Reversal in 2012** |
|---|---|---|---|
| Plant and equipment (see Note 16) | 1,987 | 1,123 | **(393)** |
| Capitalised development costs | 504 | 285 | **(100)** |
| | 2,491 | 1,408 | **(493)** |

IAS 36.126(a)–(b)

The impairment loss and subsequent reversal were included in 'cost of sales'.[3]

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IAS 36.84–85, 96, 133* | When goodwill allocated to a cash-generating unit arose in a business combination in the reporting period, that goodwill is tested for impairment before the end of that reporting period. However, when the acquisition accounting can be determined only provisionally, it also may not be possible to complete the allocation of goodwill to cash-generating units before the end of the annual period in which the business combination occurred. In such cases, an entity discloses the amount of unallocated goodwill, together with the reason for not allocating the goodwill to cash-generating units. However, the allocation of goodwill to cash-generating units should be completed before the end of the first annual reporting period beginning after the acquisition date. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (3.10.480.20). |
| **2.** | *IAS 36.99* | Instead of calculating the recoverable amount, an entity may use its most recent previous calculation of the recoverable amount of a cash-generating unit containing goodwill, if all of the following criteria are met:<br>• there have been no significant changes in the assets and liabilities making up the unit since the calculation;<br>• the calculation resulted in a recoverable amount that exceeded the carrying amount of the unit by a substantial margin; and<br>• based on an analysis of the events and circumstances since the calculation, the likelihood that the current recoverable amount would be less than the current carrying amount of the unit is remote. |
| **3.** | *AS 36.134* | Estimates used to measure recoverable amount are disclosed for each cash-generating unit containing goodwill or indefinite-lived intangible assets, if the allocated carrying amount is significant in comparison with the total carrying amount of goodwill or indefinite-lived intangible assets. It is common for the disclosures for relevant cash-generating units to be provided on a combined basis. However, in these illustrative financial statements, such disclosures are provided in separate subsections to clearly illustrate the disclosure requirements for value in use vs fair value less costs to sell. |
| **4.** | | In our experience, the most common technique used in determining fair value less costs to sell is a discounted cash flow model. In that case, the assumptions used in determining fair value are consistent with those that a market participant would make; therefore, the special rules in IAS 36 for estimating the cash flows used in a value in use calculation are not applicable (e.g. cash flows related to a restructuring discussed in Explanatory note 5 below). This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (3.10.190.40). |
| **5.** | *IAS 36.46-47* | In determining fair value less costs to sell, a restructuring would be taken into account to the extent that a market participant acquiring the cash-generating unit would restructure. However, in determining value in use, cash flows related to a restructuring are excluded from the cash flow forecast until the entity is committed to the restructuring – i.e. when it meets the criteria to recognise a restructuring provision. |

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Notes to the consolidated financial statements

## 17. Intangible assets and goodwill (continued)

### Impairment testing for cash-generating units containing goodwill[1, 2]

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions. The aggregate carrying amount of goodwill allocated to each CGU is as follows.

*IAS 36.134(a)*

| *In thousands of euro* | 2012 | 2011 |
|---|---|---|
| European paper manufacturing and distribution | **2,676** | 2,135 |
| Timber products | **960** | 1,076 |
| | **3,636** | 3,211 |
| Multiple units without significant goodwill | **196** | 196 |
| | **3,832** | 3,407 |

*IAS 36.135* (Multiple units without significant goodwill)

### European paper manufacturing and distribution[3]

*IAS 36.134(c), (e)*

The European paper manufacturing and distribution CGU's impairment test was based on fair value less costs to sell in 2011 which was estimated using discounted cash flow projections[4].

*IAS 36.134(e)(i)*

Key assumptions used in the calculation of recoverable amounts are discount rates, terminal value growth rates and EBITDA growth rate. The values assigned to the key assumptions represented management's assessment of future trends in the forestry, pulp and paper industries and were based on both external and internal sources (historical data). The key assumptions were as follows, and reflect a weighted average of all CGUs comprising the respective operating divisions:

| **Weighted average** *(in percent)* | 2012 | 2011 |
|---|---|---|
| Discount rate | **8.7** | 8.5 |
| Terminal value growth rate | **1.0** | 0.9 |
| Budgeted EBIDTA growth rate (average of next five years) | **5.2** | 4.8 |

*IAS 36.134(e)(v), 134(f)(ii)* (Discount rate)
*IAS 36.134(e)(iv)* (Terminal value growth rate)
*IAS 36.134(e)(i), 134(f)(ii)* (Budgeted EBIDTA growth rate)

*IAS 36.134(e)(ii)*

The discount rate was a post-tax measure estimated based on past experience, and an industry average weighted average cost of capital, which is based on a possible range of debt leveraging of 40 percent at a market interest rate of 7 percent.

*IAS 36.134(e)(ii)–(iii)*

Five years of cash flows were included in the discounted cash flow model. A long-term growth rate into perpetuity was determined based on management's estimate of the long-term compound annual growth rate in EBITDA, which management believed was consistent with the assumption that a market participant would make.

*IAS 36.134(e)(ii)*

Budgeted EBITDA was based on expectation of future outcomes taking into account past experience, adjusted for the following.

- In the first year of the business plan, revenue was projected using the same rate of growth experienced in 2012. The anticipated annual revenue growth included in the cash flow projections for the years 2014 to 2017 was based on average growth levels experienced over the last five years.
- Once these base revenue numbers were estimated, it was assumed that prices would increase in line with forecast inflation for the next five years.
- Weighted probabilities of significant one-off environmental costs have been factored into the budgeted EBITDA, reflecting various potential regulatory developments in a number of European countries in which the CGU operates. Other environmental costs are assumed to grow with inflation in other years.
- Estimated cash flows related to a restructuring that is expected to be carried out in 2013 were reflected in the budgeted EBIDTA[5].

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IAS 36.50(b), 55, A20* | IAS 36 prima facie requires value in use to be determined using pre-tax cash flows and a pre-tax discount rate. However, in practice it is more common to use post-tax cash flows and a post-tax discount rate such as weighted average cost of capital. There are no such requirements for the calculation of fair value less costs to sell. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (3.10.310.10). |
| **2.** | | The risk-free rate is generally obtained from the yield on high-quality government bonds in the same currency as the cash flows that have the same or a similar time to maturity as the asset or cash-generating unit, this often leads to 10- or 20-year government bonds being considered as a proxy for the longest time horizon available. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (3.10.300.120). |
| **3.** | *IAS 36.33, 35* | The value-in-use calculation is based on reasonable and supportable assumptions concerning projections of cash flows approved by management (as part of the budget) and adjusted to the requirements of IFRS. These cash flow forecasts should cover a maximum of five years unless a longer period can be justified. The cash flows after the forecast period are extrapolated into the future over the useful life of the asset or cash-generating unit using a steady or declining growth rate that is consistent with that of the product, industry or country, unless there is clear evidence to suggest another basis; these cash flows form the basis of what is referred to as the 'terminal value'. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (3.10.230.10). |

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# Notes to the consolidated financial statements

## 17. Intangible assets and goodwill (continued)

### Impairment testing for cash-generating units containing goodwill (continued)

#### European paper manufacturing and distribution (continued)

*IAS 36.134(f)*

The estimated recoverable amount of the CGU exceeded its carrying amount by approximately €300 thousand (2011: €250 thousand). Management has identified two key assumptions for which there could be a reasonably possible change that could cause the carrying amount to exceed the recoverable amount. The following table shows the amount by which these two assumptions would need to change individually in order for the estimated recoverable amount of the CGU to be equal to the carrying amount.

| | | Change required for carrying amount to equal recoverable amount | |
|---|---|---|---|
| | **Weighted average** *(in percent)* | **2012** | **2011** |
| *IAS 36.134(f)(iii)* | Discount rate | **1.6** | 1.3 |
| *IAS 36.134(f)(iii)* | Budgeted EBITDA growth | **(4.4)** | (3.6) |

#### Timber products

*IAS 36.134(c)–(d), 1.125*

The recoverable amount of the Timber products CGU was based on its value in use, determined by discounting the future cash flows to be generated from the continuing use of the CGU. Value in use in 2012 was determined in a similar manner as in 2011. The carrying amount of the CGU was determined to be higher than its recoverable amount and an impairment loss of €116 thousand (2011: nil) was recognised. The impairment loss was fully allocated to goodwill and included in 'cost of sales'.

*IAS 36.134(d)(i), 134(d)(v)*

Key assumptions used in the calculation of value in use were discount rate, terminal value growth rate and the EBIDTA growth rate. These assumptions were as follows and reflect a weighted average of all CGUs comprising the respective operating divisions.

| | **Weighted average** *(in percent)* | **2012** | **2011** |
|---|---|---|---|
| *IAS 36.134(d)(v)* | Discount rate | **9.6** | 10.0 |
| *IAS 36.134(d)(iv)* | Terminal value growth rate | **1.8** | 2.0 |
| *IAS 36.134(d)(i)* | Budgeted EBIDTA growth rate (average of next five years) | **8.0** | 9.0 |

*IAS 36.134(d)(ii)*

The discount rate was a pre-tax measure[1] based on the risk-free rate obtained from the yield on 10-year bonds[2] issued by the government in the relevant market and in the same currency as the cash flows, adjusted for a risk premium to reflect both the increase risk of investing in equities generally and the systemic risk of the specific CGU.

*IAS 36.134(d)(ii)–(iii)*

Five years of cash flows are included in the discounted cash flow model[3]. A long-term growth rate into perpetuity has been determined as the lower of the nominal GDP rates for the countries in which the CGU operates and the long-term compound annual growth rate in EBIDTA estimated by management.

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## Explanatory note

**1.**

| | |
|---|---|
| *IAS 41.43* | Entities are encouraged, but not required, to provide a quantified description of each group of biological assets, distinguishing between consumable and bearer biological assets or between mature and immature biological assets. An entity discloses the basis for making any such distinctions. |
| *IAS 41.54(a)–(f)* | When fair value cannot be determined reliably, an entity discloses:<br>• a description of the biological assets;<br>• an explanation of why fair value cannot be measured reliably;<br>• the depreciation method and useful lives used;<br>• if possible, the range of estimates within which fair value is highly likely to lie; and<br>• the gross carrying amount and the accumulated depreciation, aggregated with accumulated impairment losses, at the beginning and end of the reporting period. |
| *IAS 41.55* | When biological assets are measured at cost less accumulated depreciation and accumulated impairment losses, an entity discloses separately any gain or loss recognised on the disposal of such biological assets, and a reconciliation of changes in their carrying amount at the beginning and at the end of the reporting period, including impairment losses, reversals of impairment losses and depreciation. |
| *IAS 41.56* | If the fair value of biological assets measured previously at cost less accumulated depreciation and accumulated impairment losses becomes reliably measurable, then an entity discloses:<br>• a description of the biological assets;<br>• an explanation of why fair value has become reliably measurable; and<br>• the effect of the change. |
| *IAS 41.49(a)* | An entity discloses the existence and carrying amounts of biological assets whose title is restricted and the carrying amount of biological assets pledged as security for liabilities. |
| *IAS 41.49(b)* | An entity discloses the amount of commitments for the development or acquisition of biological assets. |
| *IAS 41.50(e)* | An entity discloses increases in biological assets due to business combinations. |
| *IAS 41.53* | If an agricultural activity is exposed to climatic, disease and other natural risks, and an event occurs that gives rise to a material item of income and expense, then an entity discloses the nature and amount of the item of income and expense. |

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Notes to the consolidated financial statements

## 17. Intangible assets and goodwill (continued)

Budgeted EBITDA was based on expectations of future outcomes taking into account past experience, adjusted for the following.

- In the first year of the business plan revenue was projected using the same rate of growth experienced in 2012. The anticipated annual revenue growth included in the cash flow projections for the years 2014 to 2017 was based on average growth levels experienced over the last five years.
- Once these base revenue numbers were estimated, it was assumed that sales price growth would be a constant small margin above forecast inflation for the next five years in line with information obtained from external brokers who publish a statistical analysis of long-term market price trends.

Following the impairment loss recognised in the Group's timber products CGU, the recoverable amount is equal to the carrying amount. Therefore, any adverse movement in a key assumption would lead to a further impairment.

### Development costs

*IAS 23.26(a)–(b)*

Included in capitalised development costs is an amount of €37 thousand (2011: €12 thousand), that represents borrowing costs capitalised during the year using a capitalisation rate of 5.1 percent (2011: 5.4 percent).

## 18. Biological assets[1]

| Reference | *In thousands of euro* | Standing timber | Livestock | Total |
|---|---|---|---|---|
| | Balance at 1 January 2011 | 5,713 | 800 | 6,513 |
| *IAS 41.50(b)* | Increase due to purchases | 415 | 22 | 437 |
| *IAS 41.50(c)* | Decrease due to sales | - | (63) | (63) |
| *IAS 41.50(g)* | Net increase due to births/deaths | - | 15 | 15 |
| *IAS 41.40, 50(a)* | Change in fair value less costs to sell: | | | |
| *IAS 41.51* | – Due to price changes | (101) | 8 | (93) |
| *IAS 41.51* | – Due to physical changes | 15 | 7 | 22 |
| *IAS 41.50(d)* | Harvested timber transferred to inventories | (168) | - | (168) |
| *IAS 41.50(f)* | Effect of movements in exchange rates | 68 | 45 | 113 |
| *IAS 41.50* | **Balance at 31 December 2011** | 5,942 | 834 | 6,776 |
| | Non-current | 5,907 | 729 | 6,636 |
| | Current | 35 | 105 | 140 |
| | | 5,942 | 834 | 6,776 |
| | Balance at 1 January 2012 | **5,942** | **834** | **6,776** |
| *IAS 41.50(b)* | Increase due to purchases | **294** | **11** | **305** |
| *IAS 41.50(c)* | Decrease due to sales | **-** | **(127)** | **(127)** |
| *IAS 41.50(g)* | Net increase due to births/deaths | **-** | **11** | **11** |
| *IAS 41.40, 50(a)* | Change in fair value less costs to sell: | | | |
| *IAS 41.51* | – Due to price changes | **(8)** | **18** | **10** |
| *IAS 41.51* | – Due to physical changes | **415** | **151** | **566** |
| *IAS 41.50(d)* | Harvested timber transferred to inventories | **(2,480)** | **-** | **(2,480)** |
| *IAS 41.50(f)* | Effect of movements in exchange rates | **30** | **14** | **44** |
| *IAS 41.50* | **Balance at 31 December 2012** | **4,193** | **912** | **5,105** |
| | Non-current | **4,083** | **777** | **4,860** |
| | Current | **110** | **135** | **245** |
| | | **4,193** | **912** | **5,105** |

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# Explanatory notes

| | | |
|---|---|---|
| **1.** | *IAS 40.75(f)–(h)* | An entity discloses:<br>• rental income and direct operating expenses arising from investment property that generated rental income separately from those arising from investment property that did not generate rental income;<br>• the cumulative change in fair value recognised in profit or loss on a sale of investment property from a pool of assets in which the cost model is used into a pool in which the fair value model is used;<br>• the existence and amounts of restrictions on the realisability of investment property or the remittance of income and proceeds of disposal; and<br>• any material contractual obligations to buy, construct or develop investment property or for repairs, maintenance or enhancements. |
| | *IAS 40.76* | In presenting a reconciliation of carrying amounts from the beginning to the end of the reporting period, an entity discloses changes in the carrying amounts of investment property resulting from:<br>• additions, identifying separately subsequent expenditure;<br>• acquisitions through business combinations;<br>• amounts classified as held-for-sale;<br>• net gains or losses from fair value adjustments;<br>• translation differences;<br>• transfers to and from inventories and owner-occupied property;<br>• disposals; and<br>• foreign currency differences. |
| | *IAS 40.78* | For items for which fair value cannot be determined reliably, an entity discloses:<br>• a description of the investment property;<br>• an explanation of why fair value cannot be measured reliably;<br>• if possible, the range of estimates within which fair value is highly likely to lie; and<br>• on disposal of investment property not carried at fair value, the fact that the entity has disposed of investment property not carried at fair value, the carrying amount at the time of sale and the gain or loss recognised. |

| | | |
|---|---|---|
| **2.** | *IAS 1.77, 40.74–79* | Since IAS 40 *Investment Property* makes no reference to making disclosures on a class-by-class basis, it could be assumed that the minimum requirement is to make the disclosures on an aggregate basis for the whole investment property portfolio. When investment property represents a significant portion of the assets, we prefer entities to disclose additional analysis – e.g. portfolio by type of investment property. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (3.4.270.20). |

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Notes to the consolidated financial statements

## 18. Biological assets (continued)

*IAS 41.41, 43, 46(b)(i)–(ii)*

At 31 December 2012, standing timber comprised approximately 2,160 hectares of pine tree plantations (2011: 3,230 hectares), which range from newly established plantations to plantations that are 30 years old. €601 thousand of the standing timber is less than one year old and considered to be immature assets. During the year the Group harvested approximately

*IAS 41.48*

74,242 tonnes of wood (2011: 5,295 tonnes), which had a fair value less costs to sell of €2,480 thousand at the date of harvest (2011: €168 thousand).

*IAS 41.41, 43, 46(b)(i)*

At 31 December 2012, livestock comprised 1,875 cattle and 3,781 sheep (2011: 2,160 cattle and 4,010 sheep). €587 thousand of this livestock is less than one year old and considered to be immature assets. During the year the Group sold 279 cattle and 286 sheep (2011: 150 cattle and 175 sheep).

*IAS 41.49(c)*

The Group is exposed to the following risks relating to its pine tree plantations.

### Regulatory and environmental risks

The Group is subject to laws and regulations in various countries in which it operates. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws.

### Supply and demand risk

The Group is exposed to risks arising from fluctuations in the price and sales volume of pine. When possible the Group manages this risk by aligning its harvest volume to market supply and demand. Management performs regular industry trend analyses for projected harvest volumes and pricing.

### Climate and other risks

The Group's pine plantations are exposed to the risk of damage from climatic changes, diseases, forest fires and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks, including regular forest health inspections and industry pest and disease surveys. The Group is also insured against natural disasters such as floods and hurricanes.

## 19. Investment property[1,2]

| | *In thousands of euro* | Note | 2012 | 2011 |
|---|---|---|---|---|
| | Balance at 1 January | | **1,050** | 950 |
| *IAS 40.76(a)* | Acquisitions | | **300** | 40 |
| *IAS 40.76(f)* | Reclassification from property, plant and equipment | 16 | **800** | - |
| *IAS 40.76(d)* | Change in fair value | 11 | **20** | 60 |
| *IAS 40.76* | **Balance at 31 December** | | **2,170** | 1,050 |

*IAS 17.56(c)*

Investment property comprises a number of commercial properties that are leased to third parties. Each of the leases contains an initial non-cancellable period of 10 years, with annual rents indexed to consumer prices. Subsequent renewals are negotiated with the lessee and on average renewal periods are 4 years. No contingent rents are charged. See Note 35 for further information. One property has been transferred from property, plant and equipment (see Note 16) to investment property, since the building was no longer used by the Group and as such it was decided that the building would be leased to a third party.

*IAS 40.75(d)*

The range of yields applied to the net annual rentals to determine the fair value of property for which current prices in an active market are unavailable is as follows.

| | Yields | |
|---|---|---|
| **Offices** | **2012** | **2011** |
| The Netherlands | **5.1%–7.9%** | 5.8%–8.5% |
| France | **4.8%–6.8%** | 5.2%–7.5% |

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IAS 28.37(b)* | An entity discloses summarised financial information of equity-accounted investees, including the aggregated amounts of assets, liabilities, revenues and profit or loss, not adjusted for the percentage of ownership held by the entity. In these illustrative financial statements, we have presented financial information for each of the investees, as well as in total. |
| | *IAS 31.56* | A venturer discloses a listing and description of interests in significant joint ventures and the proportion of ownership interest held. A venturer that uses equity accounting or the line-by-line reporting format for proportionate consolidation discloses the aggregate amounts of each of current assets, long-term assets, current liabilities, long-term liabilities, and income and expenses related to its interests in joint ventures. In these illustrative financial statements, we have illustrated these disclosures together with the disclosures for associates. Other methods of presentation may be used. |
| | *IAS 28.37(d)* | If an entity has an interest of 20 percent or more in an investment but does not account for it as an investment in an associate, then the reasons for this are disclosed. |
| **2.** | *IAS 28.37(e)–(f)* | Further disclosures are required if the entity has used financial statements of an equity-accounted investee with a different end of reporting period from its own in preparing the consolidated financial statements, and/or there are restrictions over the ability of the investee to transfer funds to the entity. |
| **3.** | *IAS 28.37(b), 31.56* | IAS 28 *Investments in Associates* does not require this information to be disclosed for associates. However, IAS 31 *Interests in Joint Ventures* requires it for joint ventures for which the entity uses equity accounting or the line-by-line reporting format for proportionate consolidation. |
| **4.** | *IAS 28.37(b), 31.56* | IAS 31 does not require this information to be disclosed for joint ventures, but IAS 28 requires it to be disclosed for associates. |

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## 20. Equity-accounted investees[1]

*IAS 28.37(g)*

The Group's share of profit in its equity accounted investees for the year was €467 thousand (2011: €587 thousand). The Group has not recognised losses related to Cellulose S.A., totalling €15 thousand in 2012, since the Group has no obligation in respect of these losses.

*IAS 24.18(a), 19(d)*

In 2012, the Group received dividends of €21 thousand from its investments in equity accounted investees (2011: nil).

*IAS 28.37(a)*

None of the Group's equity accounted investees are publicly listed entities and consequentially do not have published price quotations, except for Cellulose S.A., which is listed on the Swiss Stock Exchange. Based on its closing price of €2.28 at the reporting date, the fair value of the Group's investment is €175 thousand.

*IAS 28.37(c)*

Whilst the Group has 20 percent ownership of Cellulose S.A., it has less than 20 percent of the voting rights of Cellulose S.A. However, the Group is considered to have significant influence because it has representation on the Board of Directors of the investee.

*IAS 28.37(b), 31.56*

Summary financial information for equity accounted investees is as follows.

| *In thousands of euro* | **Reporting date[2]** | **Ownership[3]** | Current assets[3] | Non-current assets[3] | **Total assets[4]** | Current liabilities[3] | Non-current liabilities[3] | **Total liabilities[4]** | **Net assets** | Income | Expenses[3] | **Profit (loss)[4]** | **Group share of net assets** | **Carrying amount** | **Group's share of profit (loss)** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2011** | | | | | | | | | | | | | | | |
| Papyrus Pty Ltd (associate) | 31 December | 25% | 1,470 | 1,810 | 3,280 | 670 | 720 | 1,390 | 1,890 | 27400 | (26,850) | 550 | 472 | 472 | 138 |
| Paletel AB (joint venture) | 31 December | 40% | 310 | 3,259 | 3,569 | 1,130 | 1,320 | 2,450 | 1,119 | 21,405 | (20,725) | 680 | 448 | 848 | 272 |
| Cellulose S.A. (associate) | 31 December | 20% | 4,220 | 7,030 | 11,250 | 3,250 | 6,810 | 10,060 | 1,190 | 16,600 | (15,715) | 885 | 238 | 238 | 177 |
| Silver Fir S.A. (associate) | 31 December | 45% | 122 | 4,652 | 4,774 | 249 | 403 | 652 | 4,122 | 494 | (225) | 269 | 1,855 | 2,080 | 121 |
| | | | 6,122 | 16,751 | 22,873 | 5,299 | 9,253 | 14,552 | 8,321 | 65,899 | (63,515) | 2,384 | 3,013 | 3,638 | 708 |
| **2012** | | | | | | | | | | | | | | | |
| Papyrus Pty Ltd (associate)* | 31 December | 25% | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **4,375** | **(3,949)** | **426** | **-** | **-** | **106** |
| Paletel AB (joint venture) | 31 December | 40% | **348** | **5,953** | **6,301** | **543** | **1,716** | **2,259** | **4,042** | **25,796** | **(22,821)** | **2,975** | **1,617** | **2,017** | **1,190** |
| Cellulose S.A. (associate) | 31 December | 20% | **3,210** | **4,790** | **8,000** | **2,220** | **5,855** | **8,075** | **(75)** | **32,635** | **(33,900)** | **(1,265)** | **(15)** | **-** | **(253)** |
| Paper Web SARL (associate) | 31 December | 49% | **3,460** | **7,592** | **11,052** | **2,850** | **8,185** | **11,035** | **17** | **-** | **(1,207)** | **(1,207)** | **8** | **8** | **(591)** |
| Silver Fir S.A. (associate) | 31 December | 45% | **72** | **4,998** | **5,070** | **259** | **524** | **783** | **4,287** | **346** | **(181)** | **165** | **1,929** | **2,154** | **74** |
| | | | **8,090** | **23,333** | **30,423** | **5,872** | **16,280** | **22,152** | **8,271** | **63,152** | **(62,058)** | **1,094** | **3,539** | **4,179** | **526** |
| Unrecognised losses related to Cellulose S.A. | | | | | | | | | | | | | | | **15** |
| | | | | | | | | | | | | | | | **541** |

* see Note 9

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## Explanatory note

**1.** *IFRS 7.30*

If investments in unquoted equity instruments or derivatives linked to, and to be settled in, such equity instruments are measured at cost because their fair value cannot be measured reliably, then an entity discloses that fact; a description of the financial instruments; their carrying amount; an explanation of why fair value cannot be measured reliably; information about whether and how the entity intends to dispose of the financial instruments; information about the market for the financial instruments; and when the financial assets are derecognised the fact that they have been derecognised; their carrying amount at the time of derecognition; and the gain or loss recognised.

**2.** *IFRS 7.42B, 42D*

An entity may have transferred financial assets in such a way that part or all of the transferred financial assets do not qualify for derecognition. If the entity either continues to recognise all of the asset or continues to recognise the asset to the extent of the entity's continuing involvement, then it discloses information that enables users of its financial statements:

- to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and
- to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets.

To meet the above objectives, an entity discloses at the end of each reporting period for each class of transferred financial assets that are not derecognised in their entirety:

- the nature of the assets, the nature of the risks and rewards of ownership retained;
- a description of the nature of the relationship between the assets and the associated liabilities, including restrictions on use;
- when recourse for the associated liabilities is limited to the transferred assets, a schedule that sets out the fair value of the assets, the fair value of the associated liabilities and the net position;
- the carrying amount of the asset and associated liabilities, when the asset remains recognised in its entirety; and
- the carrying amount of the original asset, the amount that continues to be recognised and the carrying amount of the associated liabilities, when the asset remains recognised to the extent of continuing involvement.

*IFRS 7.42E, 42G*

When an entity derecognises transferred financial assets in their entirety but has continuing involvement in them, it discloses at the end of each reporting period for each type of continuing involvement:

- the carrying amount and fair value;
- the amount that best represents the entity's maximum exposure to loss from its continuing involvement in the derecognised financial assets and information showing how the maximum exposure to loss is determined;
- undiscounted cash flows to repurchase derecognised financial assets or other amounts payable;
- a maturity analysis of the above; and
- qualitative information that explains the above and the gain or loss recognised at the date of transfer and income and expenses recognised in the reporting period and cumulatively.

**3.** *IFRS 7.14*

If an entity has pledged any financial asset as collateral, then it discloses:

- the carrying amount of financial assets pledged as collateral for liabilities or contingent liabilities; and
- the terms and conditions related to the pledge.

*IFRS 7.15*

If an entity has accepted collateral that it is permitted to sell or repledge in the absence of a default by the owner of the collateral, then it discloses the fair value of collateral accepted (financial and non-financial assets); the fair value of any such collateral sold or repledged and whether the entity has an obligation to return it; and the terms and conditions associated with its use of this collateral.

*IFRS 7.12*

If an entity has reclassified a financial asset as one measured at cost or amortised cost rather than at fair value, then it discloses the amount of the reclassification and the reason for that reclassification.

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Notes to the consolidated financial statements

## 20. Equity-accounted investees (continued)

On 31 March 2012, the Group's equity interest in Papyrus Pty Limited increased from 25 to 90 percent and Papyrus Pty Limited became a subsidiary from that date (see Note 9). Accordingly, the information relating to Papyrus Pty Limited presented in the above table is only for the period from 1 January 2012 to 31 March 2012.

During the year the Group, together with other companies in the paper industry, established Paper Web SARL, a web-based marketing operation. The Group's contribution to set up the investment was €600 thousand and resulted in the Group obtaining a 49 percent investment in Paper Web SARL. This contribution represented start-up costs and as a result there is no goodwill included in the €600 thousand investment. The Group provides management services to the investee (see Note 38).

## 21. Other investments[1, 2, 3]

| | *In thousands of euro* | 2012 | 2011 |
|---|---|---|---|
| | **Non-current investments** | | |
| *IFRS 7.8(b)* | Corporate debt securities – held-to-maturity | **2,436** | 2,256 |
| *IFRS 7.8(d)* | Corporate debt securities – available-for-sale | **118** | 373 |
| *IFRS 7.8(d)* | Equity securities – available-for-sale | **710** | 511 |
| *IFRS 7.8(a)* | Equity securities – designated as at fair value through profit or loss | **251** | 254 |
| *IFRS 7.22(b)* | Interest rate swaps used for hedging | **116** | 131 |
| | | **3,631** | 3,525 |
| | **Current investments** | | |
| *IFRS 7.8(a)* | Sovereign debt securities – held-for-trading | **243** | 568 |
| *IFRS 7.22(b)* | Forward exchange contracts used for hedging | **297** | 375 |
| | Other forward exchange contracts | **122** | 89 |
| | | **662** | 1,032 |

*IFRS 7.7*

Corporate debt securities classified as available-for-sale investments with a carrying amount of €118 thousand at 31 December 2012 (2011: €373 thousand) have stated interest rates of 5.2 to 7.0 percent (2011: 6.5 to 8.0 percent) and mature in 1 to 2 years. Corporate debt securities classified as held-to-maturity investments with a carrying amount of €2,436 thousand (2011: €2,256 thousand) have interest rates of 6.3 to 7.8 percent (2011: 7.5 to 8.3 percent) and mature in 2 to 5 years.

Sovereign debt securities classified as held-for-trading have stated interest rates of 3.5 to 4.0 percent (2011: 3.2 to 3.8 percent) and mature within 1 year.

*IFRS 7.B5(a)(i), (iii)*

The financial assets designated as at fair value through profit or loss are equity securities that otherwise would have been classified as available-for-sale. The performance of these equity securities is actively monitored and they are managed on a fair value basis.

The Group's exposure to credit and market risks and fair value information related to other investments are disclosed in Note 34.

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## Explanatory note

| | |
|---|---|
| **1.** | The disclosure of share of tax of equity-accounted investees is not specifically required. |

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# Notes to the consolidated financial statements

## 22. Taxes

### Tax recognised in profit or loss

| | | *In thousands of euro* | Note | 2012 | 2011 Restated* |
|---|---|---|---|---|---|
| | | **Current tax expense** | | | |
| *IAS 12.80(a)* | | Current year | | **988** | 1,225 |
| *IAS 12.80(b)* | | Adjustment for prior years | | **97** | (34) |
| | | | | **1,085** | 1,191 |
| | | **Deferred tax expense** | | | |
| *IAS 12.80(c)* | | Origination and reversal of temporary differences | | **2,371** | 856 |
| *IAS 12.80(d)* | | Reduction in tax rate | | **(15)** | - |
| *IAS 12.80(f)* | | Recognition of previously unrecognised tax losses | | **(50)** | (240) |
| *IAS 12.80(g)* | | Change in recognised deductible temporary differences | | **(7)** | 5 |
| *IAS 12.80(h)* | | Change in accounting policy | 2(e) | **(13)** | (12) |
| | | | | **2,286** | 609 |
| | | **Tax expense from continuing operations** | | **3,371** | 1,800 |

*IAS 12.81(h)(i)–(ii)*

Tax expense from continuing operations excludes the Group's share of tax expense of the Group's equity-accounted investees[1] of €251 thousand (2011: €316 thousand), which is included in 'share of profit of equity accounted investees, net of tax' in the statement of comprehensive income. The amount also excludes the tax income from discontinued operation of € 25 thousand (2011: €44 thousand) and the tax expense on the gain on sale of discontinued operation of €330 thousand (2011: nil); both of these are included in 'profit (loss) from discontinued operation, net of tax' in the statement of comprehensive income (see Note 7).

The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience.

*IAS 12.81(a)*

### Tax recognised directly in equity

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| *In thousands of euro* | Before tax | Tax | Net of tax | Before tax | Tax | Net of tax |
| Convertible notes | **163** | **(54)** | **109** | - | - | - |

* See Note 2(e).

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## Explanatory note

| | | |
|---|---|---|
| **1** | *IAS 12.85* | The reconciliation of the effective tax rate is based on an applicable tax rate that provides the most meaningful information to users. In these illustrative financial statements, the reconciliation is based on the entity's domestic tax rate, with a reconciling item in respect of tax rates applied by the Group entities in other jurisdictions. However, in some cases it might be more meaningful to aggregate separate reconciliations prepared using the domestic tax rate in each individual jurisdiction. |
| | *IAS 12.81(c)* | In these illustrative financial statements, both a numerical reconciliation between total tax expense and the product of accounting profit multiplied by the applicable tax rates, and a numerical reconciliation between the average effective tax rate and the applicable tax rate is disclosed. An entity explains the relationship using either or both of these numerical reconciliations and discloses the basis on which the applicable tax rate is computed. |

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Notes to the consolidated financial statements

## 22. Taxes (continued)

IAS 12.81(ab)

### Tax recognised in other comprehensive income[9 on page 12]

IAS 1.90

| In thousands of euro | 2012 Before tax | 2012 Tax (expense) benefit | 2012 Net of tax | 2011 Before tax | 2011 Tax (expense) benefit | 2011 Net of tax |
|---|---|---|---|---|---|---|
| Foreign currency translation differences for foreign operations | **521** | **-** | **521** | 330 | - | 330 |
| Reclassification of foreign currency differences on loss of significant influence | **(20)** | **-** | **(20)** | - | - | - |
| Hedge of net investment in foreign operation | **(3)** | **-** | **(3)** | (8) | - | (8) |
| Revaluation of property, plant and equipment | **200** | **(66)** | **134** | - | - | - |
| Cash flow hedges | **(93)** | **31** | **(62)** | 66 | (22) | 44 |
| Available-for-sale financial assets | **135** | **(45)** | **90** | 94 | (31) | 63 |
| Defined benefit plan actuarial gains (losses) | **72** | **(24)** | **48** | (15) | 5 | (10) |
| | **812** | **(104)** | **708** | 467 | (48) | 419 |

IAS 12.81(c)

### Reconciliation of effective tax rate[1]

| In thousands of euro | 2012 | 2012 | 2011 | 2011 Restated* |
|---|---|---|---|---|
| Profit before tax from continuing operations | | **10,929** | | 6,178 |
| Tax using the Company's domestic tax rate | **33.00%** | **3,606** | 33.00% | 2,039 |
| Effect of tax rates in foreign jurisdictions | **(0.81%)** | **(89)** | (0.84%) | (52) |
| Reduction in tax rate | **(0.14%)** | **(15)** | - | - |
| Non-deductible expenses | **0.88%** | **96** | 0.58% | 36 |
| Tax exempt income | **(0.72%)** | **(79)** | (1.13%) | (70) |
| Tax incentives | **(1.32%)** | **(144)** | (0.50%) | (31) |
| Recognition of tax effect previously unrecognised tax losses | **(0.46%)** | **(50)** | (3.88%) | (240) |
| Current year losses for which no deferred tax asset recognised | **0.14%** | **15** | 2.06% | 127 |
| Change in recognised deductible temporary differences | **(0.12%)** | **(13)** | 0.08% | 5 |
| Changes in estimates related to prior years | **0.16%** | **17** | (0.23%) | (14) |
| | **30.84%** | **3,371** | 29.14% | 1,800 |

* See Note 2(e).

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## Explanatory note

| | | |
|---|---|---|
| **1.** | *IAS 12.87, 81(f)* | An entity discloses the aggregate amount of *temporary differences* associated with investments in subsidiaries, branches and associates and joint ventures for which deferred tax liabilities have not been recognised. Although it is not required, entities are also encouraged to disclose the amounts of unrecognised deferred tax liabilities, where practicable. In these illustrative financial statements, both the amounts of unrecognised deferred tax liability and temporary differences have been disclosed. |

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Notes to the consolidated financial statements

## 22. Taxes (continued)

### Unrecognised deferred tax liabilities[1]

IAS 12.81(f), 87

At 31 December 2012, a deferred tax liability of €150 thousand (2011: €86 thousand) for temporary differences of €500 thousand (2011: €287 thousand) related to an investment in a subsidiary was not recognised because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

IAS 12.82A

In some of the countries in which the Group operates, local tax laws provide that gains on the disposal of certain assets are tax exempt, provided that the gains are not distributed. At 31 December 2012, the total tax exempt reserves amounted to €600 thousand (2011: €540 thousand), which would result in a tax liability of €198 thousand (2011: €178 thousand) should the subsidiaries pay dividends from these reserves.

IAS 12.81(e)

### Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items.

| *In thousands of euro* | **2012** | **2011** |
|---|---|---|
| Deductible temporary differences | **161** | 200 |
| Tax losses | **644** | 796 |
| | **805** | 996 |

The tax losses will expire in 2014. The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

IAS 1.125, 129

In 2011, €720 thousand of previously unrecognised tax losses were recognised as management considered it probable that future taxable profits would be available against which they can be utilised. Management revised its estimates following the pilot of a new type of paper, which is proving popular with customers and is increasing the subsidiary's results from operating activities. An additional €152 thousand of previously unrecognised tax losses were recognised in 2012, following a further change in estimates of the subsidiary's future results from operating activities. Management has assumed that the recoverability of the balance of losses of €644 thousand is still in doubt because a trend of profitable growth in the subsidiary is not yet fully established. If profitable growth continues for a further year, then the remaining unrecognised deferred tax asset will be recognised, resulting in additional tax income of €213 thousand.

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IAS 12.81(g)* | An entity is required to disclose, in respect of each type of temporary difference, the amount of deferred tax assets and liabilities recognised in the statement of financial position. IFRS is unclear on what constitutes a 'type' of a temporary difference. Disclosures presented in these illustrative financial statements are based on the statement of financial position captions related to the temporary differences. Another possible interpretation is to present disclosures based on the reason for the temporary difference – e.g. depreciation.<br><br>In our view, it is not appropriate to disclose gross deductible temporary differences with the related valuation allowance shown separately because, under IFRS, it is temporary differences for which deferred tax is recognised that are required to be disclosed.<br><br>These issues are discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (3.13.1000.40–50). |
| **2.** | *IAS 12.82* | An entity discloses the nature of the evidence supporting the recognition of a deferred tax asset when:<br><br>• utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences; and<br><br>• the entity has suffered a loss in either the current or the preceding period in the tax jurisdiction to which the deferred tax asset relates. |

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Notes to the consolidated financial statements

## 22. Taxes (continued)

### Recognised deferred tax assets and liabilities[1]

*IAS 12.81(g)(i)*

Deferred tax assets and liabilities are attributable to the following:

| *In thousands of euro* | Assets[2] 2012 | Assets[2] 2011 | Liabilities 2012 | Liabilities 2011 Restated* | Net 2012 | Net 2011 Restated* |
|---|---|---|---|---|---|---|
| Property, plant and equipment | **(10)** | (373) | **2,182** | 843 | **2,172** | 470 |
| Intangible assets | **(61)** | (94) | **824** | 495 | **763** | 401 |
| Biological assets | **-** | - | **345** | 127 | **345** | 127 |
| Investment property | **-** | - | **220** | 160 | **220** | 160 |
| Financial assets at fair value through profit or loss | **-** | - | **167** | 73 | **167** | 73 |
| Available-for-sale financial assets | **-** | - | **160** | 115 | **160** | 115 |
| Held-to-maturity investments | **(7)** | - | **-** | - | **(7)** | - |
| Derivatives | **(9)** | (4) | **177** | 197 | **168** | 193 |
| Inventories | **(83)** | (41) | **-** | - | **(83)** | (41) |
| Loans and borrowings | **-** | - | **136** | - | **136** | - |
| Employee benefits | **-** | - | **99** | 149 | **99** | 149 |
| Share-based payment transactions | **(583)** | (317) | **-** | - | **(583)** | (317) |
| Provisions | **(557)** | (528) | **-** | - | **(557)** | (528) |
| Other items | **(100)** | (225) | **-** | - | **(100)** | (225) |
| Tax loss carry-forwards | **(436)** | (386) | **-** | - | **(436)** | (386) |
| **Tax (assets) liabilities before set off** | **(1,846)** | (1,968) | **4,298** | 2,159 | **2,464** | 191 |
| Set off of tax | **1,846** | 592 | **(1,846)** | (592) | **-** | - |
| **Net tax (assets) liabilities** | **-** | (1,376) | **2,464** | 1,567 | **2,464** | 191 |

* See Note 2(e).

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## Explanatory note

| | | |
|---|---|---|
| **1.** | *IAS 12.81(g)(ii)* | When the amount of deferred tax recognised in profit or loss in respect of each type of temporary difference is apparent from the changes in the amounts recognised in the statement of financial position, disclosure of this amount is not required. |

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## 22. Taxes (continued)

IAS 12.81(g)(ii)

### Movement in deferred tax balances during the year[1]

| *In thousands of euro* | Balance 1 January 2011 Restated* | Recognised in profit or loss | Recognised in other comprehen-sive income | Balance 31 December 2011 Restated* | Recognised in profit or loss | Recognised directly in equity | Recognised in other comprehen-sive income | Acquired in business combinations (see Note 9) | Other (see Notes 7 and 8) | Balance 31 December 2012 |
|---|---|---|---|---|---|---|---|---|---|---|
| Property, plant and equipment | (320) | 790 | - | 470 | **1,811** | **-** | **66** | **35** | **(210)** | **2,172** |
| Intangible assets | 98 | 303 | - | 401 | **324** | **-** | **-** | **38** | **-** | **763** |
| Biological assets | 106 | 21 | - | 127 | **218** | **-** | **-** | **-** | **-** | **345** |
| Investment property | 115 | 45 | - | 160 | **60** | **-** | **-** | **-** | **-** | **220** |
| Financial assets at fair value through profit or loss | 47 | 26 | - | 73 | **94** | **-** | **-** | **-** | **-** | **167** |
| Available-for-sale financial assets | 84 | - | 31 | 115 | **-** | **-** | **45** | **-** | **-** | **160** |
| Held-to-maturity investments | - | - | - | - | **(7)** | **-** | **-** | **-** | **-** | **(7)** |
| Derivatives | 163 | 8 | 22 | 193 | **6** | **-** | **(31)** | **-** | **-** | **168** |
| Inventories | - | (41) | - | (41) | **(5)** | **-** | **-** | **3** | **(40)** | **(83)** |
| Loans and borrowings | - | - | - | - | **73** | **54** | **-** | **9** | **-** | **136** |
| Employee benefits | 194 | (40) | (5) | 149 | **(74)** | **-** | **24** | **-** | **-** | **99** |
| Share-based payment transactions | (211) | (106) | - | (317) | **(266)** | **-** | **-** | **-** | **-** | **(583)** |
| Provisions | (438) | (90) | - | (528) | **(23)** | **-** | **-** | **(6)** | **-** | **(557)** |
| Other items | (158) | (67) | - | (225) | **125** | **-** | **-** | **-** | **-** | **(100)** |
| Tax loss carry-forwards | (146) | (240) | - | (386) | **(50)** | **-** | **-** | **-** | **-** | **(436)** |
| | (466) | 609 | 48 | 191 | **2,286** | **54** | **104** | **79** | **(250)** | **2,464** |

* See Note 2(e).

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IAS 2.39* | When an entity presents an analysis of expenses using classification based on the nature of expenses in the statement of comprehensive income, it discloses:<br>• the costs recognised as an expense for raw materials and consumables, labour and other costs; and<br>• the amount of the net change in inventories for the period. |
| **2.** | *IAS 1.61* | In these illustrative financial statements, it is assumed that inventories are expected to be recovered no more than 12 months after the end of the reporting period. If that were not the case, then the entity would disclose the amount of inventories that are expected to be recovered after more than 12 months from the reporting date. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (3.8.440.10). |
| **3.** | *IAS 2.34* | In our view, if an entity presents an analysis of expenses by function in the statement of comprehensive income, then write-downs of inventory to net realisable value as well as any reversals of such write-downs should be included in 'cost of sales'. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (3.8.440.70). |
| **4.** | *IFRS 7.9(a)–(d)* | When an entity has designated a loan or receivable (or group of loans or receivables) at fair value through profit or loss, it discloses:<br>• the maximum exposure to credit risk of the loan or receivable (or group of loans or receivables) at the end of the reporting period;<br>• the amount by which any related credit derivative or similar instrument mitigates the maximum exposure to credit risk;<br>• the amount of change during the period and cumulatively in the fair value of the loan or receivable, or group of loans or receivables, that is attributable to changes in credit risk, determined either:<br>– as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk; or<br>– using an alternative method that more faithfully represents the amount of change in its fair value that is attributable to changes in credit risk; and<br>• the amount of the change in the fair value of any related credit derivative or similar instrument that has occurred during the period and cumulatively since the loan or receivable was designated. |

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Notes to the consolidated financial statements

## 23. Inventories[1, 2]

| | *In thousands of euro* | 2012 | 2011 |
|---|---|---|---|
| IAS 1.78(c), 2.36(b) | Raw materials and consumables | **4,860** | 5,753 |
| IAS 1.78(c), 2.36(b) | Work in progress | **2,543** | 1,661 |
| IAS 1.78(c), 2.36(b) | Finished goods | **5,464** | 4,705 |
| | **Inventories** | **12,867** | 12,119 |
| IAS 2.36(h) | Carrying amount of inventories subject to retention of title clauses | **1,650** | 2,090 |

*IAS 1.98(a), 104, 2.36(d)–(f)*

In 2012 raw materials, consumables and changes in finished goods and work in progress included in 'cost of sales' amounted to €42,075 thousand (2011: €42,865 thousand). In 2012, the write-down of inventories to net realisable value amounted to €345 thousand (2011: €125 thousand). The reversal of write-downs amounted to €10 thousand as discussed below (2011: nil). The write-downs and reversals are included in 'cost of sales'.[3]

During 2011, due to regulatory restrictions imposed on the manufacture of a new product in the Standard Papers segment, the Group tested the related product line for impairment and also wrote down the related inventories to their net realisable value, which resulted in a loss of €42 thousand.

*IAS 2.36(g)*

In 2012, following a change in estimates, €10 thousand of the write-down was reversed (see Note 17). These amounts are included in the total amount of write-downs and reversals above.

## 24. Trade and other receivables[4]

| | *In thousands of euro* | Note | 2012 | 2011 |
|---|---|---|---|---|
| IAS 1.78(b) | Trade receivables due from related parties | 38 | **1,236** | 642 |
| | Loans to directors | 38 | **78** | 32 |
| IAS 1.78(b) | Other trade receivables | 32 | **24,801** | 17,045 |
| IFRS 7.8(c) | **Loans and receivables** | | **26,115** | 17,719 |
| IAS 1.78(b), 11.40(a) | Construction contracts in progress | | **348** | 280 |
| | | | **26,463** | 17,999 |
| | Non-current | | **213** | - |
| | Current | | **26,250** | 17,999 |
| | | | **26,463** | 17,999 |

*IAS 11.40(a)*

At 31 December 2012, aggregate costs incurred under open construction contracts and recognised profits, net of recognised losses, amounted to €570 thousand (2011: €530 thousand).

*IAS 11.40(c)*

At 31 December 2012, trade receivables include retentions of €200 thousand (2011: €180 thousand) related to construction contracts in progress.

The Group's exposure to credit and market risks, and impairment losses related to trade and other receivables, excluding construction contracts in progress, are disclosed in Note 34.

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# Explanatory notes

| | | |
|---|---|---|
| **1.** | *IAS 7.48* | An entity discloses, together with a commentary from management, the amount of significant cash and cash equivalent balances not available for use by the entity. |
| **2.** | *IAS 1.79(a)(ii)* | An entity discloses the number of shares issued but not fully paid. |
| | *IAS 1.79(a)(vii)* | An entity discloses details of shares reserved for issue under options and sales contracts, including the terms and amounts. |
| **3.** | *IAS 1.79(a)(iii)* | If shares have no par value, then an entity discloses that fact. |

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# Notes to the consolidated financial statements

IAS 7.45

## 25. Cash and cash equivalents[1]

| *In thousands of euro* | 2012 | 2011 |
|---|---|---|
| Bank balances | **51** | 988 |
| Call deposits | **1,454** | 862 |
| **Cash and cash equivalents** | **1,505** | 1,850 |
| Bank overdrafts used for cash management purposes | **(334)** | (282) |
| **Cash and cash equivalents in the statement of cash flows** | **1,171** | 1,568 |

## 26. Capital and reserves

### Share capital and share premium

IAS 1.79(a)(iv), IAS 7.43, IAS 1.79(a)(ii), IAS 1.79(a)(i), 79(a)(iii)

| | Ordinary shares | | Non-redeemable preference shares | |
|---|---|---|---|---|
| *In thousands of shares* | 2012 | 2011 | 2012 | 2011 |
| In issue at 1 January | **3,100** | 3,100 | **1,750** | 1,750 |
| Issued for cash | **130** | - | **-** | - |
| Exercise of share options | **5** | - | **-** | - |
| Issued in business combination | **8** | - | **-** | - |
| **In issue at 31 December – fully paid[2]** | **3,243** | 3,100 | **1,750** | 1,750 |
| Authorised – par value €3[3] | **10,000** | 10,000 | **2,000** | 2,000 |

### Ordinary shares

IAS 1.79(a)(v)

All shares rank equally with regard to the Company's residual assets, except that preference shareholders participate only to the extent of the face value of the shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. In respect of the Company's shares that are held by the Group, all rights are suspended until those shares are reissued.

#### Issue of ordinary shares

IAS 1.79(a)

In October 2012, the general meeting of shareholders decided on the issue of 130,000 ordinary shares at an exercise price of €11.92 per share (2011: nil).

Additionally, 5,000 ordinary shares were issued as a result of the exercise of vested options arising from the 2007 share option programme granted to key management (2011: nil). Options were exercised at an average price of €10 per option (see Note 30).

Finally, 8,000 ordinary shares were issued as a result of the acquisition of Papyrus Pty Limited (see Note 9) (2011: nil).

### Non-redeemable preference shares

Holders of non-redeemable preference shares receive a non-cumulative dividend of 25.03 cents per share at the Company's discretion, or whenever dividends to ordinary shareholders are declared. They do not have the right to participate in any additional dividends declared for ordinary shareholders. Non-redeemable preference shares do not carry the right to vote.

### Nature and purpose of reserves

### Translation reserve

IAS 1.79(b)

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations, as well as the effective portion of any foreign currency differences arising from hedges of a net investment in a foreign operation.

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IAS 16.77(f)* | If items of property, plant and equipment are stated at revalued amounts, then the entity discloses the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders. |
| **2.** | *IAS 1.79(a)(vi), 32.34* | An entity discloses separately the amount of treasury shares held, either on the face of the statement of financial position or in the notes. In these illustrative financial statements, we disclose this information in the notes. |
| **3.** | *IAS 32.34* | If any of the shares are acquired from the Group's related parties, then an entity discloses details of the transaction in accordance with IAS 24 *Related Party Disclosures*. |
| **4.** | *IAS 1.137(b)* | An entity discloses the amount of any cumulative preference dividends not recognised. |
| **5.** | *IAS 12.81(i), 87A* | An entity discloses the amount of tax consequences of dividends to shareholders that were proposed or declared before the financial statements were authorised for issue, but that are not recognised as a liability in the financial statements. An entity also discloses the important features of the tax system(s) and the factors that will affect the amount of the potential tax consequences of dividends. |

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Notes to the consolidated financial statements

## 26. Capital and reserves (continued)

### Hedging reserve

*IAS 1.79(b)*

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flows (see Note 3(c)(v)).

### Fair value reserve

*IAS 1.79(b)*

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the assets are derecognised or impaired.

### Revaluation reserve[1]

*IAS 1.79(b)*

The revaluation reserve relates to the revaluation of property, plant and equipment immediately before its reclassification as investment property (see Note 16).

### Convertible notes

The reserve for convertible notes comprises the amount allocated to the equity component for the convertible notes issued by the Group in May 2012 (see Note 28).

### Reserve for own shares

*IAS 1.79(a)(vi), 79(b), 32.33–34*

The reserve for the Company's own shares comprises the cost of the Company's shares held by the Group. At 31 December 2012, the Group held 48,000 of the Company's shares (2011: 50,000).[2, 3]

### Dividends

*IAS 1.107*

The following dividends were declared and paid by the Company for the year ended 31 December.

| *In thousands of euro* | **2012** | **2011** |
|---|---|---|
| 25.25 cents per qualifying ordinary share (2011: 4.28 cents) | **805** | 133 |
| 25.03 cents per non-redeemable preference share (2011: 25.03 cents) | **438** | 438 |
| | **1,243** | 571 |

*IAS 1.137(a), 10.13, 12.81(i)*

After the end of the reporting period, the following dividends were proposed by the directors. The dividends have not been provided for and there are no tax consequences.[4, 5]

| *In thousands of euro* | **2012** | **2011** |
|---|---|---|
| 27.92 cents per qualifying ordinary share (2011: 26.40 cents) | **892** | 805 |
| 25.03 cents per non-redeemable preference share (2011: 25.03 cents) | **438** | 438 |
| | **1,330** | 1,243 |

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## Explanatory note

| | | |
|---|---|---|
| **1.** | *IAS 1.106A* | Entities are allowed to show the disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income in either the statement of changes in equity or the notes. In these illustrative financial statements, we present this information in the notes. |

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## 26. Capital and reserves (continued)

IAS 1.106(d)(ii)

### Other comprehensive income, net of tax[1]

| | In thousands of euro | Attributable to owners of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Translation reserve | Hedging reserve | Fair value reserve | Revaluation reserve | Retained earnings | Total | Non-controlling interests | Total other comprehensive income |
| | **2012** | | | | | | | | |
| IAS 1.82(g), 21.52(b) | Foreign currency translation differences for foreign operations | **494** | **-** | **-** | **-** | **-** | **494** | **27** | **521** |
| IAS 1.82(g) | Reclassification of foreign currency differences on loss of significant influence | **(20)** | **-** | **-** | **-** | **-** | **(20)** | **-** | **(20)** |
| IAS 1.82(g) | Net loss on hedge of net investment in foreign operation | **(3)** | **-** | **-** | **-** | **-** | **(3)** | **-** | **(3)** |
| IAS 1.82(g) | Revaluation of property, plant and equipment, net of tax | **-** | **-** | **-** | **134** | **-** | **134** | **-** | **134** |
| IFRS 7.23(c), IAS 1.82(g) | Effective portion of changes in fair value of hedging instruments used in cash flow hedges, net of tax | **-** | **(41)** | **-** | **-** | **-** | **(41)** | **-** | **(41)** |
| IFRS 7.23(d), IAS 1.82(g) | Net changes in fair value of hedging instruments used in cash flow hedges reclassified to profit or loss, net of tax | **-** | **(21)** | **-** | **-** | **-** | **(21)** | **-** | **(21)** |
| IFRS 7.20(a)(ii), IAS 1.82(g) | Net change in fair value of available-for-sale financial assets, net of tax | **-** | **-** | **133** | **-** | **-** | **133** | **-** | **133** |
| IFRS 7.20(a)(ii), IAS 1.82(g) | Net change in fair value of available-for-sale financial assets reclassified to profit or loss, net of tax | **-** | **-** | **(43)** | **-** | **-** | **(43)** | **-** | **(43)** |
| IAS 19.93(b) | Defined benefit plan actuarial gains, net of tax | **-** | **-** | **-** | **-** | **48** | **48** | **-** | **48** |
| | **Total other comprehensive income, net of tax** | **471** | **(62)** | **90** | **134** | **48** | **681** | **27** | **708** |
| | **2011** | | | | | | | | |
| IAS 1.82(g), 21.52(b) | Foreign currency translation differences for foreign operations | 308 | - | - | - | - | 308 | 22 | 330 |
| IAS 1.82(g) | Net loss on hedge of net investment in foreign operation | (8) | - | - | - | - | (8) | - | (8) |
| IFRS 7.23(c), IAS 1.82(g) | Effective portion of changes in fair value of hedging instruments used in cash flow hedges, net of tax | - | 52 | - | - | - | 52 | - | 52 |
| IFRS 7.23(d), IAS 1.82(g) | Net change in fair value of hedging instruments used in cash flow hedges reclassified to profit or loss, net of tax | - | (8) | - | - | - | (8) | - | (8) |
| IFRS 7.20(a)(ii), IAS 1.82(g) | Net change in fair value of available-for-sale financial assets, net of tax | - | - | 63 | - | - | 63 | - | 63 |
| IAS 19.93(b) | Defined benefit plan actuarial losses, net of tax | - | - | - | - | (10) | (10) | - | (10) |
| | **Total other comprehensive income, net of tax** | 300 | 44 | 63 | - | (10) | 397 | 22 | 419 |

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IAS 33.64* | When earnings per share calculations reflect changes in the number of shares due to events that occurred after the end of the reporting period, an entity discloses that fact. |

| | | |
|---|---|---|
| **2.** | *IAS 33.73* | If an entity discloses, in addition to basic and diluted earnings per share, per share amounts using a reported component of profit other than profit or loss for the period attributable to ordinary shareholders, then such amounts are calculated using the weighted average number of ordinary shares determined in accordance with IAS 33. |
| | *IAS 33.73* | If a component of profit is used that is not reported as a line item in the statement of comprehensive income, then an entity presents a reconciliation between the component used and a line item that is reported in the statement of comprehensive income. |

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Notes to the consolidated financial statements

## 27. Earnings per share[1,2]

### Basic earnings per share

The calculation of basic earnings per share at 31 December 2012 was based on the profit attributable to ordinary shareholders of €6,975 thousand (2011: €3,299 thousand), and a weighted average number of ordinary shares outstanding of 3,083,000(2011: 3,060,000), calculated as follows.

*IAS 33.70(a)*

### Profit attributable to ordinary shareholders (basic)

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| *In thousands of euro* | Continuing operations | Discontinued operation | Total | Continuing operations | Discontinued operation | Total |
| Profit (loss) for the year, attributable to the owners of the Company | **7,034** | **379** | **7,413** | 4,159 | (422) | 3,737 |
| Dividends on non-redeemable preference shares | **(438)** | **-** | **(438)** | (438) | - | (438) |
| **Profit (loss) attributable to ordinary shareholders** | **6,596** | **379** | **6,975** | 3,721 | (422) | 3,299 |

*IAS 33.70(b)*

### Weighted average number of ordinary shares (basic)

| *In thousands of shares* | Note | 2012 | 2011 |
|---|---|---|---|
| Issued ordinary shares at 1 January | 26 | **3,100** | 3,100 |
| Effect of own shares held | | **(49)** | (40) |
| Effect of share options exercised | | **3** | - |
| Effect of shares issued related to a business combination | 9 | **6** | - |
| Effect of shares issued in October 2012 | | **23** | - |
| **Weighted average number of ordinary shares at 31 December** | | **3,083** | 3,060 |

### Diluted earnings per share

The calculation of diluted earnings per share at 31 December 2012 was based on profit attributable to ordinary shareholders of €7,036 thousand (2011: €3,299 thousand), and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 3,278,000 (2011: 3,078,000), calculated as follows.

*IAS 33.70(a)*

### Profit attributable to ordinary shareholders (diluted)

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| *In thousands of euro* | Continuing operations | Discontinued operation | Total | Continuing operations | Discontinued operation | Total |
| Profit (loss) attributable to ordinary shareholders (basic) | **6,596** | **379** | **6,975** | 3,721 | (422) | 3,299 |
| Interest expense on convertible notes, net of tax | **61** | **-** | **61** | - | - | - |
| **Profit (loss) attributable to ordinary shareholders (diluted)** | **6,657** | **379** | **7,036** | 3,721 | (422) | 3,299 |

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | | In our view, this reconciliation is not required if basic and diluted earnings per share are equal. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (5.3.370.50). |
| **2.** | | In our view, the method used to determine the average market value of the entity's shares for the purpose of calculating the dilutive effect of outstanding share options should be disclosed, particularly with respect to unquoted equity instruments. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (5.3.170.62–70). |
| **3.** | *IFRS 7.8(e)* | If an entity has designated financial liabilities at fair value through profit or loss, then it discloses the carrying amount of financial liabilities designated as at fair value through profit or loss separately from the carrying amount of financial liabilities held for trading. Although this explanatory note is attached to the loans and borrowings disclosure, this is not meant to indicate that liabilities designated at fair value through profit or loss would be classified as loans and borrowings. |
| | *IFRS 7.10–11* | An entity discloses the following if a financial liability is designated as at fair value through profit or loss:<br>• the change in fair value of the financial liability, during the period and cumulatively, that is attributable to changes in credit risk, and the method used to comply with this disclosure requirement; if the entity believes that this disclosure does not faithfully represent the change in fair value attributable to changes in credit risk, then it discloses the reasons and the relevant factors; and<br>• the difference between the carrying amount of the financial liability and the amount that the entity is contractually required to pay at maturity. |
| **4.** | *IFRS 7.18–19* | For loans payable recognised at the end of the reporting period, an entity discloses information about any defaults that occurred during the period or any other breach of the terms of a loan. |
| | *IAS 1.74–76* | When a breach of a loan agreement occurred during the period, and the breach has not been remedied or the terms of the loan have not been renegotiated by the end of the reporting period, the entity determines the effect of the breach on the current/non-current classification of the loan. |
| | *IFRS 7.18* | For loans recognised at the end of the reporting period, an entity discloses:<br>• details of any defaults during the period of principal, interest, sinking fund or redemption terms of those loans;<br>• the carrying amount of the loans in default at the end of the reporting period; and<br>• whether the default was remedied, or that the terms of the loans were renegotiated, before the financial statements were authorised for issue. |
| **5.** | *IAS 1.71–73* | The current portion of long-term debt is classified as current even if an agreement to refinance or reschedule payments on a long-term basis is completed after the end of the reporting period but before the financial statements are authorised for issue. However, if at the end of the reporting period an entity expects and is able, solely at its own discretion, to refinance or roll over an obligation for at least 12 months after the end of the reporting period under an existing loan facility, then it classifies the obligation as non-current even if the loan otherwise would be current. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (3.1.45.10). |

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Notes to the consolidated financial statements

## 27. Earnings per share (continued)

*IAS 33.70(b)*

### Weighted average number of ordinary shares (diluted)[1]

| *In thousands of shares* | Note | 2012 | 2011 |
|---|---|---|---|
| Weighted average number of ordinary shares (basic) | | **3,083** | 3,060 |
| Effect of conversion of convertible notes | 28 | **148** | - |
| Effect of share options on issue | | **47** | 18 |
| **Weighted average number of ordinary shares (diluted) at 31 December** | | **3,278** | 3,078 |

*IAS 33.70(c)*

At 31 December 2012, 135,000 options (2011: 44,000) were excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.[2]

## 28. Loans and borrowings[3, 4]

*IFRS 7.7–8*

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk arising from these loans and borrowings, see Note 34.

| *In thousands of euro* | 2012 | 2011 |
|---|---|---|
| **Non-current liabilities[5]** | | |
| Secured bank loans | **6,576** | 7,093 |
| Unsecured bond issues | **6,136** | 9,200 |
| Convertible notes | **4,678** | - |
| Redeemable preference shares | **1,939** | - |
| Finance lease liabilities | **1,613** | 1,913 |
| Loan from associate (*IAS 1.77*) | **-** | 1,000 |
| | **20,942** | 19,206 |
| **Current liabilities** | | |
| Current portion of secured bank loans | **3,500** | 4,000 |
| Unsecured bank loans | **524** | 117 |
| Dividends on redeemable preference shares | **51** | - |
| Current portion of finance lease liabilities | **315** | 269 |
| | **4,390** | 4,386 |

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IFRS 7.7* | An entity discloses information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance. These illustrative financial statements illustrate one possible method of disclosing significant information related to loans and borrowings. An entity assesses the extent of information provided throughout the financial statements to determine if it has met the disclosure requirements of IFRS 7. |
| **2.** | *IFRS 7.17* | If an entity has issued an instrument that contains both a liability and an equity component and the instrument has multiple embedded derivative features, the values of which are interdependent (such as a callable convertible debt instrument), then the entity discloses the existence of those features. |

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Notes to the consolidated financial statements

## 28. Loans and borrowings (continued)

IFRS 7.7

### Terms and debt repayment schedule[1]

Terms and conditions of outstanding loans were as follows:

| *In thousands of euro* | Currency | Nominal interest rate | Year of maturity | 31 December 2012 Face value | 31 December 2012 Carrying amount | 31 December 2011 Face value | 31 December 2011 Carrying amount |
|---|---|---|---|---|---|---|---|
| Secured bank loan | CHF | 3.90% | 2016 | **4,324** | **4,324** | 1,257 | 1,257 |
| Secured bank loan | USD | 4.70% | 2012-2013 | **460** | **447** | 523 | 521 |
| Secured bank loan | euro | 4.50% | 2013-2017 | **4,460** | **4,460** | 4,460 | 4,460 |
| Secured bank loan | GBP | LIBOR+1% | 2012-2013 | **850** | **845** | 4,850 | 4,855 |
| Unsecured bank loan | USD | 3.80% | 2013 | **554** | **524** | - | - |
| Unsecured bank facility | euro | 5.50% | 2012 | **-** | **-** | 117 | 117 |
| Unsecured bond issues | euro | LIBOR+½% | 2016 | **1,023** | **1,023** | 1,023 | 1,023 |
| Unsecured bond issues | euro | LIBOR+1% | 2017 | **5,113** | **5,113** | 5,113 | 5,113 |
| Unsecured bond issues | euro | LIBOR | 2014 | **-** | **-** | 3,064 | 3,064 |
| Loan from associate | euro | 4.80% | 2013 | **-** | **-** | 1,000 | 1,000 |
| Convertible notes | euro | 3.00% | 2015 | **5,000** | **4,678** | - | - |
| Redeemable preference shares | euro | 4.40% | 2018 | **2,000** | **1,939** | - | - |
| Dividends on redeemable preference shares | euro | - | 2013 | **51** | **51** | - | - |
| Finance lease liabilities | euro | 6.5-7.0% | 2012-2026 | **2,663** | **1,928** | 3,186 | 2,182 |
| **Total interest-bearing liabilities** | | | | **26,498** | **25,332** | 24,593 | 23,592 |

IFRS 7.7, IAS 16.74(a)

The secured bank loans are secured over land and buildings with a carrying amount of €5,000 thousand (2011: €4,700 thousand) (see Note 16).

### Breach of loan covenant

IFRS 7.18–19

The Group has a secured bank loan with a carrying amount of €4,460 thousand at 31 December 2012. According to the terms of the agreement, this loan is repayable in tranches over the next 5 years. However, the loan contains a debt covenant stating that at the end of each quarter the Group's debt (in the covenant defined as the Group's loans and borrowings and trade and other payables) cannot exceed 2.5 times the Group's quarterly revenue from continuing operations.

The Group has experienced an increase in leverage and as such the Group exceeded its maximum leverage threshold in the third quarter of 2012. The Management obtained a waiver from the bank in October 2012. Accordingly, the loan is not payable on demand at 31 December 2012 (see Note 2(b)).

### Convertible notes[2]

| *In thousands of euro* | |
|---|---|
| Proceeds from issue of convertible notes (1,250,000 notes at €4 par value) | **5,000** |
| Transaction costs | **(250)** |
| **Net proceeds** | **4,750** |
| Amount classified as equity | **(163)** |
| Accreted interest | **91** |
| **Carrying amount of liability at 31 December 2012** | **4,678** |

The amount of the convertible notes classified as equity of €163 thousand is net of attributable transaction costs of €9 thousand.

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IFRIC 2.13* | When a change in prohibition against redemption of a financial instrument leads to a transfer between financial liabilities and equity, the entity discloses separately the amount, timing and reason for the transfer. |

| | | |
|---|---|---|
| **2.** | *IAS 17.31(d)* | An entity discloses the total minimum lease payments expected to be received under non-cancellable subleases at the end of the reporting period. |
| | *IAS 17.31(e)(iii)* | An entity discloses any restrictions imposed by lease arrangements, such as those concerning dividends, additional debt and further leasing. |

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# Notes to the consolidated financial statements

## 28. Loans and borrowings (continued)

### Convertible notes (continued)

The notes are convertible into 250,000 ordinary shares in May 2015 at the option of the holder, which is a rate of one share for every five convertible notes; unconverted notes become repayable on demand. These notes were issued on 29 May 2012.

Convertible notes become repayable on demand if the Group's net debt to adjusted equity exceeds 1.95 (see Note 34).

### Redeemable preference shares[1]

| *In thousands of euro* | |
|---|---|
| Proceeds from issue of redeemable preference shares | **2,000** |
| Transaction costs | **(61)** |
| **Carrying amount at 31 December 2012** | **1,939** |

During the year 1,000,000 redeemable preference shares were issued with a par value of €2 per share (2011: nil). All issued shares are fully paid. Redeemable preference shares do not carry the right to vote and rank equally with other shares with regard to the Company's residual assets, except that holders of redeemable preference shares participate only to the extent of the face value of the shares.

The redeemable preference shares are mandatorily redeemable at par on 31 May 2018 and the Group is obliged to pay holders of redeemable preference shares annual dividends of 4.4 percent of the par amount on 31 May each year until and including on maturity.

### Finance lease liabilities

*IAS 17.31(b)*

Finance lease liabilities are payable as follows.[2]

| | Future minimum lease payments | | Interest | | Present value of minimum lease payments | |
|---|---|---|---|---|---|---|
| *In thousands of euro* | **2012** | **2011** | **2012** | **2011** | **2012** | **2011** |
| Less than one year | **535** | 531 | **220** | 262 | **315** | 269 |
| Between one and five years | **1,128** | 1,124 | **343** | 385 | **785** | 739 |
| More than five years | **1,000** | 1,531 | **172** | 357 | **828** | 1,174 |
| | **2,663** | 3,186 | **735** | 1,004 | **1,928** | 2,182 |

*IAS 17.31(c), 31(e)(i)–(ii)*

Certain leases provide for additional payments that are contingent on changes in the market rental rate. Contingent rents included in profit or loss under finance leases amounted to €17 thousand (2011: €15 thousand).

*IAS 1.122, 17.31(e)*

During 2011, the Group entered into an arrangement whereby a supplier built a set of equipment, which the supplier will use to provide a specific chemical used in manufacturing a new product in the American paper manufacturing and distribution division for a minimum period of 16 years. Due to the unusual nature of the product and the manufacturing process, the supplier is unlikely to be able to sell the chemical to other customers. It would not be economically feasible for the supplier to produce the chemical using different equipment. The Group pays a fixed annual fee over the term of the arrangement, plus a variable charge based on the quantity of chemical delivered.

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## Explanatory notes

**1.** *IAS 19.118*

Entities are not required to split post-employment benefit assets and liabilities into current and non-current classifications.

*IAS 19.122*

When an entity has more than one defined benefit plan, the disclosures may be made in total, separately for each plan, or in such groupings as are considered to be the most useful; for example, the entity may distinguish groupings by criteria such as geographical location or the risks related to the plans.

*IAS 19.30*

For any multi-employer defined benefit plans for which sufficient information is not available to use defined benefit accounting, an entity discloses that fact and the reason why sufficient information is not available. To the extent that a surplus or deficit in the plan may affect the amount of future contributions, an entity discloses any available information about that surplus or deficit, the basis used to determine that surplus or deficit and the implications, if any, for the entity.

**2.** *IAS 19.120A(f)(i)–(iv)*

If applicable, an entity discloses the following in the reconciliation of defined benefit obligations and plan assets to the liability (asset) included in the statement of financial position:

- net actuarial gains and losses not recognised;
- past service cost not recognised;
- any amount not recognised as an asset because of the limit in Paragraph 58(b) of IAS 19 *Employee Benefits*, which is the total of any cumulative unrecognised net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan; and
- the fair value at the end of the reporting period of any reimbursement right recognised as an asset, with a brief description of the link between the reimbursement right and the related obligation.

**3.** *IAS 19.116*

An entity is able to offset an asset related to one plan against a liability related to another plan when, and only when, the entity:

- has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan; and
- intends either to settle the obligations on a net basis or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

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Notes to the consolidated financial statements

## 28. Loans and borrowings (continued)

### Finance lease liabilities (continued)

Although the arrangement is not in the legal form of a lease, the Group concluded that the arrangement contains a lease of the equipment, because fulfilment of the arrangement is economically dependent on the use of the equipment, and it is unlikely that any parties other than the Group will receive more than an insignificant part of the output. The lease was classified as a finance lease. The Group found it impracticable to estimate reliably the relative fair values of the lease element and other elements of the required payments. Therefore, at inception of the lease the Group recognised an asset and a liability at an amount equal to the estimated fair value of the equipment (see Note 16). The imputed finance costs on the liability were determined based on the Group's incremental borrowing rate (6.5 percent).

## 29. Employee benefits[1, 2]

| Reference | *In thousands of euro* | Note | 2012 | 2011 |
|---|---|---|---|---|
| | **Plan A[3]** | | | |
| *IAS 19.120A(d)* | Fair value of plan assets | | **(2,242)** | (2,450) |
| *IAS 19.120A(d), 120A(f)* | Present value of obligations | | **1,607** | 1,719 |
| *IAS 19.120A(f)* | **Total employee benefit (asset)[3]** | | **(635)** | (731) |
| | **Plan B** | | | |
| *IAS 19.120A(d)* | Fair value of plan assets | | **-** | - |
| *IAS 19.120A(d), 120A(f)* | Present value of obligations | | **335** | 280 |
| *IAS 19.120A(f)* | **Deficit in the plan[3]** | | **335** | 280 |
| | Liability for long-service leave | | **207** | 181 |
| *IFRS 2.51(b)(i)* | Cash-settled share-based payment liability | 30 | **440** | 380 |
| | **Total employee benefit liabilities** | | **982** | 841 |

*IAS 19.120A(b)*

The Group makes contributions to two non-contributory defined benefit plans that provide pension and medical benefits for employees on retirement, respectively. Plan A entitles a retired employee to receive an annual payment equal to 1/60 of final salary for each year of service that the employee provided. Plan B entitles a retired employee to the reimbursement of certain medical costs.

The Group also makes contributions to a separate defined benefit plan for its directors and executive officers. A description of this plan is given in Note 38. Amounts in respect of this defined benefit plan have been combined with those of Plan A in the disclosures above.

*IFRIC 14.10*

The Group has determined that, in accordance with the terms and conditions of the defined benefit plans, and in accordance with statutory requirements (such as minimum funding requirements) of the plans of the respective jurisdictions, the present value of refunds or reductions in future contributions is not lower than the balance of the total fair value of the plan assets less the total present value of obligations. This determination is made on a plan-by-plan basis. As such, no decrease in the defined benefit asset is necessary at 31 December 2012 (31 December 2011: no decrease in defined benefit asset).

The following tables analyse plan assets, present value of defined benefit obligations, expense recognised in profit or loss, actuarial assumptions and other information for Plans A and B, combined.

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IAS 19.120A(c)(iii), 120A(c)(v), 120A(c)(vii)–(x)* | If applicable, an entity discloses the following in the reconciliation of the opening and closing balances of the defined benefit obligations:<br>• past service cost;<br>• contributions by plan participants;<br>• business combinations;<br>• curtailments; and<br>• settlements. |
| **2.** | *IAS 19.120A(e)(iii), 120A(e)(v), 120A(e)(vii)–(viii)* | If applicable, an entity discloses the following in the reconciliation of the opening and closing balances of plan assets:<br>• contributions by plan participants;<br>• business combinations; and<br>• settlements. |
| **3.** | *IAS 19.120A(g)(iv)–(viii), 120A(m)* | If applicable, an entity discloses the total expense recognised in profit or loss for each of the following items:<br>• expected return on any reimbursement right recognised as an asset;<br>• actuarial gains and losses;<br>• past service cost;<br>• the effect of any curtailment or settlement; and<br>• the effect of the limit in Paragraph 58(b) of IAS 19.<br>In addition, if applicable, an entity discloses the actual return on any reimbursement right recognised as an asset. |

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Notes to the consolidated financial statements

## 29. Employee benefits (continued)

### Plan assets

*IAS 19.120A(j)*

Plan assets comprise:

| *In thousands of euro* | 2012 | 2011 |
|---|---|---|
| Equity securities | **902** | 1,127 |
| Government bonds | **1,044** | 1,062 |
| Qualifying insurance policies | **90** | 48 |
| Property occupied by the Group (*IAS 19.120A(k)(ii)*) | **153** | 162 |
| Company's own ordinary shares (*IAS 19.120A(k)(i)*) | **53** | 51 |
| | **2,242** | 2,450 |
| Actual return on plan assets (*IAS 19.120A(m)*) | **140** | 162 |

*IAS 19.120A(c)*

### Movement in the present value of the defined benefit obligations[1]

| *In thousands of euro* | 2012 | 2011 |
|---|---|---|
| Defined benefit obligations at 1 January | **1,999** | 1,913 |
| Benefits paid by the plan (*IAS 19.120A(c)(vi)*) | **(505)** | (568) |
| Current service costs and interest (see below) (*IAS 19.120A(c)(i)–(ii)*) | **656** | 636 |
| Curtailment gain (*IAS 19.120A(c)(ix)*) | **(100)** | - |
| Actuarial (gains) losses in other comprehensive income (see below) (*IAS 19.120A(c)(iv)*) | **(82)** | 18 |
| Effect of movement in exchange rates (*IAS 19.120A(c)(v)*) | **(26)** | - |
| **Defined benefit obligations at 31 December** | **1,942** | 1,999 |

*IAS 19.120A(e)*

### Movement in the fair value of plan assets[2]

| *In thousands of euro* | 2012 | 2011 |
|---|---|---|
| Fair value of plan assets at 1 January | **2,450** | 2,500 |
| Contributions paid into the plan (*IAS 19.120A(e)(iv)*) | **299** | 379 |
| Benefits paid by the plan (*IAS 19.120A(e)(vi)*) | **(505)** | (568) |
| Expected return on plan assets (*IAS 19.120A(e)(i)*) | **131** | 136 |
| Actuarial (losses) gains in other comprehensive income (see below) (*IAS 19.120A(e)(ii)*) | **(10)** | 3 |
| Effect of movement in exchange rates (*IAS 19.120A(e)(iii)*) | **(123)** | - |
| **Fair value of plan assets at 31 December** | **2,242** | 2,450 |

*IAS 19.120A(g)*

### Expense recognised in profit or loss[3]

| *In thousands of euro* | 2012 | 2011 |
|---|---|---|
| Current service costs (*IAS 19.120A(g)(i)*) | **494** | 502 |
| Interest on obligation (*IAS 19.120A(g)(ii)*) | **162** | 134 |
| Curtailment gain (*IAS 19.120A(g)(vii)*) | **(100)** | - |
| Expected return on plan assets (*IAS 19.120A(g)(iii)*) | **(131)** | (136) |
| | **425** | 500 |

As a result of a curtailment in the pension arrangement for a number of employees in France, the Group's defined benefit pension obligation decreased by €100 thousand (31 December 2011: nil). A corresponding curtailment gain is included in the Group's statement of comprehensive income at 31 December 2012.

*IAS 19.120A(g)*

The expense is recognised in the following line items in the statement of comprehensive income:

| *In thousands of euro* | 2012 | 2011 |
|---|---|---|
| Cost of sales | **216** | 297 |
| Selling and distribution expenses | **109** | 154 |
| Administrative expenses | **100** | 49 |
| | **425** | 500 |

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IAS 19.120A(n)* | An entity discloses the principal actuarial assumptions used at the end of the reporting period. This includes, if applicable, the expected rate of return for periods presented on any reimbursement right recognised as an asset. Principal actuarial assumptions are disclosed in absolute terms and not, for example, as a margin between different percentages or other variables. |
| **2.** | *IAS 19.120A(n) (vi)* | If mortality rates are considered a principal actuarial assumption in measuring a defined benefit plan, then an entity discloses the mortality assumptions used at the end of the reporting period. Mortality rates may be significant when, for example, pension benefits are paid as annuities over the lives of participants, rather than as lump sum payments on retirement. |

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# Notes to the consolidated financial statements

## 29. Employee benefits (continued)

### Actuarial gains and losses recognised in other comprehensive income

| | *In thousands of euro* | 2012 | 2011 |
|---|---|---|---|
| *IAS 19.120A(i)* | Amount accumulated in retained earnings at 1 January | **(103)** | (88) |
| *IAS 19.120A(h)(i)* | Recognised during the year | **72** | (15) |
| *IAS 19.120A(i)* | **Amount accumulated in retained earnings at 31 December** | **(31)** | (103) |

*IAS 1.125*

### Actuarial assumptions[1]

*IAS 19.120A(n)*

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages).

| | | 2012 | 2011 |
|---|---|---|---|
| *IAS 19.120A(n)(i)* | Discount rate at 31 December | **5.1%** | 4.8% |
| *IAS 19.120A(n)(ii)* | Expected return on plan assets at 1 January | **5.8%** | 5.9% |
| *IAS 19.120A(n)(iv)* | Future salary increases | **2.5%** | 2.5% |
| *IAS 19.120A(n)(v)* | Medical cost trend rate | **4.5%** | 4.0% |
| *IAS 19.120A(n)(vi)* | Future pension increases | **3.0%** | 2.0% |

*IAS 19.120A(n)(vi)*

Assumptions regarding future mortality are based on published statistics and mortality tables. The current longevities underlying the values of the liabilities in the defined benefit plans are as follows.[2]

| | 31 December 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| | Plan A | Plan B | Plan A | Plan B |
| **Longevity at age 65 for current pensioners** | | | | |
| Males | **18.5** | **18.2** | 18.3 | 18.0 |
| Females | **21.0** | **19.0** | 21.0 | 18.8 |
| **Longevity at age 65 for current members aged 45** | | | | |
| Males | **19.2** | **19.0** | 19.0 | 18.7 |
| Females | **22.9** | **20.5** | 22.9 | 20.0 |

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## Explanatory note

| | | |
|---|---|---|
| **1.** | *IFRS 2.52* | An entity provides additional disclosures if the required disclosures in IFRS 2 are not sufficient to enable the user to understand the nature and extent of the share-based payment arrangements, how the fair value of services have been determined for the period and the effect on profit or loss. |

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Notes to the consolidated financial statements

## 29. Employee benefits (continued)

### Actuarial assumptions (continued)

*IAS 1.125, 129*

The calculation of the defined benefit obligation is sensitive to the mortality assumptions set out above. As the actuarial estimates of mortality continue to be refined, an increase of one year in the lives shown above is considered reasonably possible in the next financial year. The effect of this change would be an increase in the employee benefit liability of €300 thousand.

*IAS 19.120A(l)*

The overall expected long-term rate of return on assets is 5.8 percent. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The expected return is based on market expectations, at the beginning of the period, for returns over the entire life of the related obligation.

*IAS 19.120A(o)*

Assumed healthcare cost trend rates have a significant effect on the amounts recognised in profit or loss. A one percentage point change in assumed healthcare cost trend rates would have the following effects.

| | One percentage point increase | One percentage point decrease |
|---|---|---|
| Effect on the aggregate service and interest cost | **20** | **(14)** |
| Effect on defined benefit obligation | **380** | **(250)** |

*IAS 19.120A(p)*

### Historical information

| *In thousands of euro* | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Present value of the defined benefit obligation *(IAS 19.120A(p)(i))* | **1,942** | 1,999 | 1,913 | 2,101 | 2,040 |
| Fair value of plan assets *(IAS 19.120A(p)(i))* | **(2,242)** | (2,450) | (2,500) | (2,483) | (2,475) |
| **Surplus in the plan** *(IAS 19.120A(p)(i))* | **(300)** | (451) | (587) | (382) | (435) |
| Experience adjustments arising on plan liabilities *(IAS 19.120A(p)(ii)(a))* | **(110)** | (50) | 32 | (10) | 49 |
| Experience adjustments arising on plan assets *(IAS 19.120A(p)(ii)(b))* | **(10)** | 3 | (9) | (12) | (13) |

*IAS 19.120A(q)*

The Group expects €350 thousand in contributions to be paid to its defined benefit plans in 2013.

## 30. Share-based payment arrangements[1]

*IFRS 2.44*

### Description of the share-based payment arrangements

At 31 December 2012, the Group has the following share-based payment arrangements.

#### Share option programmes (equity-settled)

*IFRS 2.45(a)*

On 1 January 2008 and 1 January 2011, the Group established share option programmes that entitle key management personnel to purchase shares in the Company. On 1 January 2012, a further grant on similar terms (except for exercise price) was offered to key management personnel and senior employees. In accordance with these programmes, holders of vested options are entitled to purchase shares at the market price of the shares at the date of grant.

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Notes to the consolidated financial statements

## 30. Share-based payment arrangements (continued)

### Description of the share-based payment arrangements (continued)

#### Share option programmes (equity-settled) (continued)

The terms and conditions related to the grants of the share option programmes are as follows; all options are to be settled by physical delivery of shares.

*IFRS 2.45(a)*

| Grant date/employees entitled | Number of instruments in thousands | Vesting conditions | Contractual life of options |
|---|---|---|---|
| **Options granted to key management** | | | |
| On 1 January 2008 | **400** | 3 years' service from the grant date and 5% increase in operating income in each of the 3 years | 7 years |
| On 1 January 2011 | **200** | 3 years' service from the grant date and 5% increase in operating income in each of the 3 years | 10 years |
| On 1 January 2012 | **225** | 3 years' service from the grant date and 5% increase in operating income in each of the 3 years | 10 years |
| **Options granted to senior employees** | | | |
| On 1 January 2012 | **100** | 3 years' service from the grant date | 10 years |
| **Total share options** | **925** | | |

#### Replacement awards (equity-settled)

In connection with the acquisition of Papyrus Pty Limited, the Group exchanged equity-settled share-based payment awards held by employees of Papyrus (the acquiree's awards) for 150,000 equity-settled share-based payment awards of the Group with a contractual life of nine years (the replacement awards) (see Note 9).

#### Share purchase plan (equity-settled)

*IFRS 2.44, 45(a)*

On 1 January 2012, the Group offered 26 of its employees the opportunity to participate in an employee share purchase plan. To participate in the plan, the employees are required to save an amount of 5 percent of their gross monthly salary, up to a maximum of €300 per month, for a period of 36 months. Under the terms of the plan, at the end of the three-year period the employees are entitled to purchase shares using funds saved at a price 20 percent below the market price at the grant date. Only employees that remain in service and save the required amount of their gross monthly salary for 36 consecutive months will become entitled to purchase the shares. Employees who cease their employment, do not save the required amount of their gross monthly salary in any month before the 36-month period expires, or elect not to exercise their options to purchase shares – e.g. because the share price is below the exercise price – will be refunded their saved amounts.

#### Share appreciation rights (cash-settled)

*IFRS 2.45(a)*

On 1 January 2009 and 1 January 2012, the Group granted 100,000 and 300,000 share appreciation rights (SARs), respectively, to employees that entitle them to a cash payment after three years of service. SARs expire at the end of a five-year period after the grant date. The amount of the cash payment is determined based on the increase in the share price of the Company between grant date and the time of exercise.

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## Explanatory note

| | | |
|---|---|---|
| **1.** | *IFRS 2.52* | Disclosures of the inputs for fair value measurement for cash-settled share based payments – e.g. share appreciation rights – are not required specifically in IFRS 2. However, they should be provided in accordance with the general disclosure requirements in Paragraphs 44 and 50 of IFRS 2 if the cash-settled share-based payments are material to the entity either at grant date or at the end of the reporting period. We believe that the following disclosures should be provided:<br>• for awards granted during the period, disclosures on measurement of fair value at grant date and at the end of the reporting period; and<br>• for awards granted in previous periods but unexercised at the end of the reporting period, disclosures on measurement of fair value at the end of the reporting period.<br>This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (4.5.1330.10). |

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# Notes to the consolidated financial statements

## 30. Share-based payment arrangements (continued)

### Measurement of fair values

The fair value of the rights granted through the share purchase payment plan was measured based on Monte Carlo simulation. The fair value of all other share-based payment plans was measured based on the Black-Scholes formula. Expected volatility is estimated by considering historical volatility of the Company's share price over the period commensurate with the expected term.

### Equity-settled share-based payment plans

The inputs used in the measurement of the fair values at grant date of the equity-settled share-based payment plans were as follows.

IFRS 2.47(a)

| | Share option programme Key management personnel | | Senior employees | Replace-ment awards | Share purchase plan |
|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2012 | 2012 |
| Fair value at grant date | **€3.54** | €3.75 | **€3.14** | **€3.81** | **€4.02** |
| Share price at grant date | **€10.10** | €10.50 | **€10.10** | **€10.88** | **€10.10** |
| Exercise price | **€10.10** | €10.50 | **€10.10** | **€10.30** | **€8.08** |
| Expected volatility (weighted average) | **40.1%** | 40.9% | **40.1%** | **42.4%** | **43.3%** |
| Expected life (weighted average) | **8.6 years** | 8.8 years | **5.4 years** | **5.9 years** | **3.0 years** |
| Expected dividends | **3.2%** | 3.2% | **3.2%** | **3.2%** | **3.2%** |
| Risk-free interest rate (based on government bonds) | **3.9%** | 3.8% | **3.8%** | **3.9%** | **3.9%** |

IFRS 2.47(a)(iii)

The requirement that the employee has to save in order to purchase shares under the share purchase plan is a non-vesting condition. This feature has been incorporated into the fair value at grant date by applying a discount to the valuation obtained. The discount has been determined by estimating the probability that the employee will stop saving based on historic behaviour.

At 31 December 2012, a total amount of €78 thousand was invested by the participants in the share purchase plan (see Note 38) and is included in 'trade and other payables' (see Note 33).

### Cash-settled share-based payment plan[1]

The inputs used in the measurement of the fair values at grant date and measurement date of the share appreciation rights were as follows.

IFRS 2.52

| | SARs 2012 Grant date 1 January 2012 | SARs 2012 Measurement date 31 December 2012 |
|---|---|---|
| Fair value | **€2.82** | **€4.40** |
| Share price | **€10.10** | **€12.70** |
| Exercise price | **€10.10** | **€10.10** |
| Expected volatility (weighted average) | **40.3%** | **43.1%** |
| Expected life (weighted average) | **3.6 years** | **2.8 years** |
| Expected dividends | **3.2%** | **3.3%** |
| Risk-free interest rate (based on government bonds) | **4.4%** | **4.5%** |

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# Notes to the consolidated financial statements

## 30. Share-based payment arrangements (continued)

### Expense recognised in profit or loss

| | *In thousands of euro* | Note | 2012 | 2011 |
|---|---|---|---|---|
| | **Equity-settled share-based payment transactions** | | | |
| IFRS 2.51(a) | Share options granted in 2011 | | **250** | 250 |
| IFRS 2.51(a) | Share options granted in 2012 | | **370** | - |
| IFRS 2.51(a) | Rights under employee share purchase plan granted in 2012 | | **35** | - |
| IFRS 2.51(a) | Replacement awards granted in 2012 | 9 | **100** | - |
| | **Total expense recognised for equity-settled share-based payment** | 14 | **755** | 250 |
| | **Cash-settled share-based payment transactions** | | | |
| IFRS 2.51(a)–(b) | Expense arising from SARs granted in 2009 | | **-** | 350 |
| IFRS 2.51(a)–(b) | Expense arising from SARs granted in 2012 | | **440** | - |
| | **Total expense recognised for cash-settled share-based payment** | 14 | **440** | 350 |
| IFRS 2.51(a) | **Total employee benefit expense recognised for share-based payment** | | **1,195** | 600 |
| IFRS 2.51(b)(i) | Total carrying amount of liabilities for cash-settled arrangements | | **440** | 380 |
| IFRS 2.51(b)(ii) | Total intrinsic value of liabilities for vested benefits | | **-** | 380 |

The carrying amount of the liabilities at 31 December 2011 was settled during 2012.

### Reconciliation of outstanding share options

*IFRS 2.45(b)* The number and weighted average exercise prices of shares / options under share option programme, replacement awards as well as shares to be issued under the share purchase plan are as follows.

| | *In thousands of options* | Number of options 2012 | Weighted average exercise price 2012 | Number of options 2011 | Weighted average exercise price 2011 |
|---|---|---|---|---|---|
| IFRS 2.45(b)(i) | Outstanding at 1 January | **550** | **€10.18** | 400 | €10.00 |
| IFRS 2.45(b)(iii) | Forfeited during the year | **(50)** | **€10.00** | (50) | €10.00 |
| IFRS 2.45(b)(iv) | Exercised during the year | **(5)** | **€10.00** | - | - |
| IFRS 2.45(b)(v) | Expired during the year | **-** | **-** | - | - |
| IFRS 2.45(b)(ii) | Granted during the year | **505** | **€10.04** | 200 | €10.50 |
| IFRS 2.45(b)(vi) | **Outstanding at 31 December** | **1,000** | **€10.12** | 550 | €10.18 |
| IFRS 2.45(b)(vii) | Exercisable at 31 December | **295** | **€10.00** | 350 | €10.00 |

*IFRS 2.45(d)* The options outstanding at 31 December 2012 have an exercise price in the range of €8.08 to €10.50 (2011: €10.00 to €10.50) and a weighted average contractual life of 6.4 years (2011: 5.2 years).

*IFRS 2.45(c)* The weighted average share price at the date of exercise for share options exercised in 2012 was €12.00 (2011: no options exercised).

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | | Although it is not required by IFRIC 13 *Customer Loyalty Programmes*, we have illustrated disclosures that entities may wish to present because users may find them useful. Additional disclosure items may be necessary if a customer loyalty programme is significant.<br><br>In these illustrative financial statements, it is assumed that there is no restriction on the ability to redeem points and as such deferred revenue in relation to this programme is presented as current. In practice, there may be customer loyalty programmes with restrictions on the ability to redeem points that could give rise to a non-current presentation of the related deferred revenue. |
| **2.** | | Deferred income related to a government grant is generally classified as a non-current liability. The portion that will be recognised in profit or loss in the next year is shown as a current liability. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (4.3.130.60). |
| **3.** | *IAS 20.39(c), 41.57(b)–(c)* | An entity discloses any unfulfilled condition and other contingencies attaching to government grants. For government grants related to agricultural activity, an entity also discloses significant decreases expected in the level of grants. |
| **4.** | *IAS 37.92* | In extremely rare cases, disclosure of some or all of the information required in respect of provisions can be expected to seriously prejudice the position of the entity in a dispute with other parties. In such cases, only the following is disclosed:<br>• the general nature of the dispute;<br>• the fact that the required information has not been disclosed; and<br>• the reason why. |
| **5.** | *IAS 37.84* | There is no requirement to disclose comparative information in the reconciliation of provisions. |
| **6.** | *IAS 1.97–1.98(f)–(g)* | An entity discloses separately items of income and expense related to material reversals of litigation settlements and other provisions.<br><br>In our view, the reversal of a provision should be presented in the same statement of comprehensive income line item as the original estimate. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (3.12.850). |
| **7.** | | Provisions that will be utilised within one year are classified as current liabilities. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (3.12.770.10). |

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Notes to the consolidated financial statements

## 31. Deferred income/revenue

| *In thousands of euro* | | Note | 2012 | 2011 |
|---|---|---|---|---|
| | Government grants | | **1,425** | 1,462 |
| *IAS 11.40(b)* | Customer advances | | **110** | 117 |
| *IAS 11.41* | Billing in advance of work completed | | **17** | 13 |
| | Customer loyalty claims[1] | 10 | **50** | 38 |
| | | | **1,602** | 1,630 |
| | Non-current[2] | | **1,389** | 1,436 |
| | Current | | **213** | 194 |
| | | | **1,602** | 1,630 |

*IAS 20.39(b)*

The Group has been awarded two government grants.[3] One of the grants, received in 2011, amounted to €1,462 thousand and was conditional on the acquisition of factory premises in a specified region. The factory has been in operation since early 2012 and the grant, recognised as deferred income, is being amortised over the useful life of the building. The second grant, received in 2012, was unconditional, amounted to €201 thousand and related to pine trees. It was included in 'other income' when it became receivable.

## 32. Provisions[4, 5]

| | *In thousands of euro* | Warranties | Restructuring | Site restoration | Onerous contracts | Legal | Total |
|---|---|---|---|---|---|---|---|
| *IAS 37.84(a)* | Balance at 1 January 2012 | 200 | 600 | 800 | - | - | 1,600 |
| *IFRS 3.23* | Assumed in a business combination (see Note 9) | - | - | 150 | - | 20 | 170 |
| *IAS 37.84(b)* | Provisions made during the year | 280 | 400 | 600 | 160 | - | 1,440 |
| *IAS 37.84(c)* | Provisions used during the year | (200) | (500) | (800) | - | - | (1,500) |
| *IAS 37.84(d)* | Provisions reversed during the year[6] | - | (100) | - | - | - | (100) |
| *IAS 37.84(e)* | Unwind of discount | - | - | 60 | - | - | 60 |
| *IAS 37.84(a)* | **Balance at 31 December 2012** | 280 | 400 | 810 | 160 | 20 | 1,670 |
| | Non-current | 100 | - | 810 | 100 | - | 1,010 |
| | Current[7] | 180 | 400 | - | 60 | 20 | 660 |
| | | 280 | 400 | 810 | 160 | 20 | 1,670 |

### Warranties

*IAS 37.85(a)–(c)*

The provision for warranties relates mainly to paper sold during the years ended 31 December 2011 and 2012. The provision is based on estimates made from historical warranty data associated with similar products and services. The Group expects to settle the majority of the liability over the next year. An expected reimbursement of warranty expense incurred of €25 thousand has been included in 'other trade receivables' (see Note 24) following a supplier accepting responsibility for the defective products.

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IFRS 5.31–36A, IAS 37.9* | IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* applies to provisions for restructuring, including in the context of discontinued operations. When a restructuring meets the definition of a discontinued operation, additional disclosures may be required by IFRS 5. |
| **2.** | *IFRIC 5.11* | An entity discloses its interest in and the nature of any decommissioning, restoration and environmental rehabilitation funds, as well as any restrictions on access to the funds' assets. |
| | *IAS 37.85(c), IFRIC 5.13* | If a right to receive reimbursement from the fund has been recognised as an asset, then an entity discloses the amounts of the asset and expected reimbursement. |
| | *IAS 37.86, IFRIC 5.12* | If an obligation to make contributions to the fund has not been recognised as a liability, then an entity discloses the estimated financial effect of the obligation, a description of uncertainties related to the amount or timing of contributions, and any possible reimbursement. |
| **3.** | *IAS 34.26* | For entities that present interim financial reports, if an estimate of an amount reported in an interim period is changed significantly during the final interim period of the financial year but a separate financial report is not published for that final interim period, then the nature and amount of that change in estimate are disclosed in a note to the annual financial statements for that financial year. |

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Notes to the consolidated financial statements

## 32. Provisions (continued)

### Restructuring

IAS 1.98(b), 125, 37.85(a)–(b)

During 2011, the Group committed to a plan to restructure one of the product lines in the American paper manufacturing and distribution division due to a decrease in demand as a result of deteriorated economic circumstances. Following the announcement of the plan, the Group recognised a provision of €600 thousand for expected restructuring costs, including contract termination costs, consulting fees and employee termination benefits. Estimated costs were based on the terms of the relevant contracts. €500 thousand of the provision was used in 2012. The restructuring was completed in 2012. The unused provision of €100 thousand was reversed and has been included in 'cost of sales' in the statement of comprehensive income.

During the year a provision of €400 thousand was made to cover the costs associated with restructuring part of a manufacturing facility within the Standard Papers segment that will be retained when the remainder of the facility is sold (see Note 8). Estimated restructuring costs mainly include employee termination benefits and are based on a detailed plan agreed between Management and employee representatives. The restructuring and the sale are expected to be completed by June 2013.

Restructuring costs expensed as incurred amounted to €68 thousand in 2012 and were included in 'administrative expenses' (2011: nil)[1].

IAS 1.125

### Site restoration[2]

IAS 37.85(a)

A provision of €800 thousand was made during 2011 in respect of the Group's obligation to rectify environmental damage in France. The required work was completed during 2012 at a cost of €800 thousand.

IAS 1.129, 37.85(a)–(b)

In accordance with Romanian law, land contaminated by the Group's subsidiary in Romania is required to be restored to its original condition before the end of 2014. During the year the Group provided €600 thousand for this purpose. Because of the long-term nature of the liability, the greatest uncertainty in estimating the provision is the costs that will be incurred. In particular, the Group has assumed that the site will be restored using technology and materials that are available currently. The Group has been provided with a range of reasonably possible outcomes of the total cost, which range from €500 thousand to €700 thousand, reflecting different assumptions about pricing of the individual components of the cost. The provision has been calculated using a discount rate of 5.9 percent, which is the risk-free rate in the jurisdiction of the liability. The rehabilitation is expected to occur in the next two to three years.

IAS 34.26

The provision has increased as compared to the amount of €500 thousand reported in the Company's interim report[3] as at and for the six months ended 30 June 2012 due to a change in estimated costs. At the time of preparing the interim report the extent of restoration work required was uncertain, as the inspection report by the Romanian authorities had not yet been finalised. The estimates were revised subsequently based on the final report.

As part of the acquisition of Papyrus Pty Limited the Group recognised environmental provisions of €150 thousand, determined on a provisional basis (see Note 9).

### Onerous contracts

IAS 37.85(a)–(b)

In 2011, the Group entered into a non-cancellable lease for office space. Due to changes in its activities, the Group ceased to use the premises on 30 September 2012 (see Note 35). The lease will expire in 2015. The facilities have been sublet for the remaining lease term, but changes in market conditions have meant that the rental income is lower than the rental expense. The obligation for the discounted future payments, net of expected rental income, has been provided for.

IAS 1.125, 37.86(a)–(b)

### Legal

As a result of the acquisition of Papyrus Pty Limited, the Group assumed a contingent liability of €20 thousand, determined on a provisional basis (see Note 9).

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | | Accounting for financial instruments is complex and appropriate disclosures will depend on the circumstances of the individual entity. In these illustrative financial statements, the disclosures in respect of financial instruments have been presented to illustrate different potential scenarios and situations that an entity may encounter. An entity tailors its respective disclosures for the specific facts and circumstances relative to its business and risk management practices and takes into account the significance of exposure to risks from the use of financial instruments. Issues related to the accounting for financial instruments are discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (Section 7). |
| **2.** | *IFRS 7.31–32* | An entity is required to disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period. Those risks typically include, but are not limited to, credit risk, liquidity risk and market risk. |
| | *IFRS 7.33* | For each type of risk, an entity discloses:<br>(1) the exposures to risk and how they arise;<br>(2) its objectives, policies and processes for managing the risk and the methods used to measure the risk; and<br>(3) any changes in (1) or (2) from the previous period. |
| | *IFRS 7.32A* | An entity makes qualitative disclosures in the context of quantitative disclosures that enable users to link related disclosures and therefore form an overall picture of the nature and extent of risks arising from financial instruments. Interaction between qualitative and quantitative disclosures contributes to disclosure of information in a way that better enables users to evaluate an entity's exposure to risks. |
| | *IFRS 7.3, 5* | The disclosure requirements of IFRS 7 are limited to financial instruments that fall within the scope of that standard; therefore, operational risks that do not arise from the entity's financial instruments are excluded from the requirements, as are commodity contracts that meet the 'own use' exemption detailed in Paragraphs 5–7 of IAS 39 *Financial Instruments: Recognition and Measurement*. |

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Notes to the consolidated financial statements

IFRS 7.8(f)

## 33. Trade and other payables

| *In thousands of euro* | Note | 2012 | 2011 |
|---|---|---|---|
| **Trade payables** | | | |
| **Current** | | | |
| Trade payables due to related parties | 38 | **174** | 351 |
| Other trade payables | | **22,995** | 23,525 |
| Accrued expenses | | **312** | 487 |
| | | **23,481** | 24,363 |
| **Other payables** | | | |
| **Current** | | | |
| Derivatives used for hedging[4 on page 8] | 34 | **8** | 7 |
| **Non-current** | | | |
| Derivatives used for hedging[4 on page 8] | 34 | **20** | 5 |
| Contingent consideration | 9 | **270** | - |
| | | **298** | 12 |
| | | **23,779** | 24,375 |

### Trade and other payables

| *In thousands of euro* | 2012 | 2011 |
|---|---|---|
| Non-current | **290** | 5 |
| Current | **23,489** | 24,370 |
| | **23,779** | 24,375 |

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 34.

## 34. Financial instruments[1]

### Financial risk management[2]

#### Overview

IFRS 7.31

The Group has exposure to the following risks arising from financial instruments:

- credit risk
- liquidity risk
- market risk.

IFRS 7.33

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

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# Explanatory notes

| | | |
|---|---|---|
| **1.** | *IFRS 7.34* | IFRS 7 requires the disclosure of summary quantitative data about an entity's risk exposure based on the information provided internally to the entity's key management personnel, as defined in IAS 24 – e.g. the entity's board of directors or chief executive. |
| | | However, certain minimum disclosures are also required to the extent that they are otherwise not covered by the disclosures made under the 'management approach' above. |
| | *IFRS 7.35, IG20* | If the quantitative data at the end of the reporting period is not representative of an entity's risk exposure during the year, then the entity provides further information that is representative – e.g. the entity's average exposure to risk during the year. For example, if an entity's business is seasonal and the balance of loans and receivables fluctuates materially during the year, then a sensitivity analysis based solely on the position at the end of the reporting period would not be representative. |
| **2.** | *IFRS 7.36(a)* | An entity discloses information about the nature and extent of its exposure to credit risk. The disclosure of the maximum exposure to credit risk ignores any collateral held or other credit enhancement. However, this disclosure is not required for financial instruments whose carrying amount best represents the maximum exposure to credit risk. |
| | *IFRS 7.B9–B10* | The maximum credit risk exposure is typically the gross carrying amount of the financial asset, net of any amounts offset in accordance with IAS 32 *Financial Instruments: Presentation* and any impairment losses recognised in accordance with IAS 39. |
| | *IFRS 7.IG21–IG29* | The IFRS 7 implementation guidance provides additional guidance on the disclosures without specifying a minimum standard disclosure. |
| **3.** | *IFRS 7.36, B1–B3* | The disclosures in respect of credit risk apply to each 'class' of financial asset, which is not defined in IFRS 7. 'Classes' are distinct from the 'categories' of financial instruments specified in IAS 39. In determining classes of financial instruments, an entity at a minimum distinguishes instruments measured at amortised cost from those measured at fair value, and treats as a separate class or classes those financial instruments outside the scope of IFRS 7. |

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Notes to the consolidated financial statements

## 34. Financial instruments (continued)

### Risk management framework

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and *ad hoc* reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

### Credit risk[1]

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

### Exposure to credit risk

*IFRS 7.36(a)*

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the end of the reporting period was as follows.[2, 3]

| | | Carrying amount | |
|---|---|---|---|
| *In thousands of euro* | **Note** | **2012** | **2011** |
| Sovereign debt securities – held-for-trading | 21 | **243** | 568 |
| Corporate debt securities – available-for-sale | 21 | **118** | 373 |
| Corporate debt securities – held-to-maturity | 21 | **2,436** | 2,256 |
| Trade and other receivables | 24 | **26,115** | 17,719 |
| Cash and cash equivalents | 25 | **1,505** | 1,850 |
| Interest rate swaps used for hedging: | | | |
| – Assets | 21 | **116** | 131 |
| Forward exchange contracts used for hedging: | | | |
| – Assets | 21 | **297** | 375 |
| Other forward exchange contracts | 21 | **122** | 89 |
| | | **30,952** | 23,361 |

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Notes to the consolidated financial statements

# 34. Financial instruments (continued)

## Credit risk (continued)

### Exposure to credit risk (continued)

#### Trade and other receivables

*IFRS 7.31, 33*

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk. For details of concentration of revenue, see Note 6.

The Risk Management Committee has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from the Risk Management Committee; these limits are reviewed quarterly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

More than 85 percent of the Group's customers have been transacting with the Group for over four years, and no impairment loss has been recognised against these customers. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale, retail or end-user customer, geographic location, industry, aging profile, maturity and existence of previous financial difficulties. Trade and other receivables relate mainly to the Group's wholesale customers. Customers that are graded as 'high risk' are placed on a restricted customer list and monitored by the Risk Management Committee, and future sales are made on a prepayment basis.

*IFRS 7.33(c)*

The Group is closely monitoring the economic environment in the Eurozone and is taking actions to limit its exposure to customers in countries experiencing particular economic volatility. In 2012, certain purchase limits have been redefined, particularly for customers operating in [countries a, b, c, d and e], since the Group's experience is that the recent economic volatility has had a greater impact for customers in those countries than for customers in other countries.

*IFRS 7.36(b)*

Goods are sold subject to retention of title clauses, so that in the event of non-payment the Group may have a secured claim. The Group otherwise does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IFRS 7.B8, IG18–IG19* | The identification of concentrations of risk requires judgement taking into account the circumstances of the entity. For example, concentrations of credit risk may arise from industry sectors, credit rating or other measures of credit quality, geographical distribution or a limited number of individual counterparties. Therefore, the disclosure of risk concentrations includes a description of the shared characteristics. |
| **2.** | *IFRS 7.37(a)* | An entity discloses an ageing analysis of financial assets that are past due at the end of the reporting period, but not impaired.<br>This disclosure is required for all classes of financial assets. However, in these illustrative financial statements, only trade and other receivables include amounts that are past due but not impaired. Therefore, this is the only class of financial asset in respect of which this disclosure requirement is relevant. |
| **3.** | *IFRS 7.36(b)* | An entity discloses a description of collateral held by the entity as security and other credit enhancements and their financial effect in respect of the amount that best represents maximum exposure to credit risk. |

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Notes to the consolidated financial statements

## 34. Financial instruments (continued)

### Credit risk (continued)

#### Exposure to credit risk (continued)

##### Trade and other receivables (continued)

*IFRS 7.34(a)*

The maximum exposure to credit risk for trade and other receivables at the end of the reporting period by geographic region was as follows.[1]

| *In thousands of euro* | Carrying amount 2012 | Carrying amount 2011 |
|---|---|---|
| [Countries a, b, c, d and e] | **843** | 1,232 |
| Other Eurozone countries | **13,826** | 7,550 |
| United Kingdom | **3,029** | 2,590 |
| United States | **7,939** | 5,938 |
| Other regions | **478** | 409 |
| | **26,115** | 17,719 |

*IFRS 7.34(a)*

The maximum exposure to credit risk for trade and other receivables at the end of the reporting period by type of counterparty was as follows.[1]

| *In thousands of euro* | Carrying amount 2012 | Carrying amount 2011 |
|---|---|---|
| Wholesale customers | **19,060** | 11,231 |
| Retail customers | **6,478** | 5,600 |
| End-user customers | **239** | 856 |
| Other | **338** | 32 |
| | **26,115** | 17,719 |

*IFRS 7.34(a)*

The Group's most significant customer, a European wholesaler, accounts for €8,034 thousand of the trade and other receivables carrying amount at 31 December 2012 (2011: €4,986 thousand).

#### Impairment losses

*IFRS 7.37(a)*

The aging of trade and other receivables at the end of the reporting period that were not impaired was as follows.[2, 3]

| *In thousands of euro* | 2012 | 2011 |
|---|---|---|
| Neither past due nor impaired | **23,408** | 15,057 |
| Past due 1–30 days | **2,150** | 2,360 |
| Past due 31–90 days | **300** | 87 |
| Past due 91–120 days | **30** | 20 |
| | **25,888** | 17,524 |

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Notes to the consolidated financial statements

## 34. Financial instruments (continued)

### Credit risk (continued)

#### Exposure to credit risk (continued)

##### Trade and other receivables (continued)

**Impairment losses (continued)**

*IFRS 7.16*

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows.

| *In thousands of euro* | Individual impairments | Collective impairments |
|---|---|---|
| Balance at 1 January 2011 | 6 | 20 |
| Impairment loss recognised | 6 | 24 |
| Amounts written off | (2) | - |
| **Balance at 31 December 2011** | 10 | 44 |
| Impairment loss recognised | **144** | **6** |
| Amounts written off | **(4)** | **-** |
| **Balance at 31 December 2012** | **150** | **50** |

*IFRS 7.37(b)*

At 31 December 2012, an impairment loss of €60 thousand relates to a customer that was declared bankrupt during the year. Although the goods sold to the customer were subject to a retention of title clause, the Group has no indication that the customer is still in possession of the goods. At 31 December 2012, an impairment loss of €20 thousand relates to trade receivables acquired as part of the acquisition of Papyrus Pty Limited (see Note 9). The remainder of the impairment loss at 31 December 2012 relates to several customers that have indicated that they are not expecting to be able to pay their outstanding balances, mainly due to economic circumstances.

The Group believes that the unimpaired amounts that are past due by more than 30 days are still collectible in full, based on historic payment behaviour and extensive analysis of customer credit risk, including underlying customers' credit ratings, when available.

*IFRS 7.36(c)*

The credit quality of trade and other receivables is assessed based on a credit policy established by the Risk Management Committee. The Group has monitored customer credit risk, by grouping trade and other receivables based on their characteristics. An analysis of the credit quality of trade and other receivables not impaired is as follows.

| *In thousands of euro* | 2012 | 2011 |
|---|---|---|
| External credit ratings at least A1 from rating agency [x] or A from rating agency [y] | **15,255** | 10,529 |
| Other customers: | | |
| – Four or more years trading history with the Group* | **9,014** | 5,941 |
| – Less than four years of trading history with the Group* | **1,545** | 1,004 |
| – Higher risk | **74** | 45 |
| | **25,888** | 17,524 |

* Excluding higher risk

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IFRS 7.36(c)* | An entity discloses information about the credit quality of financial assets that are neither past due nor impaired. |
| **2.** | *IFRS 7.38* | If an entity obtains financial or non-financial assets during the period by taking possession of collateral that it holds as security or calling in on other credit enhancements (e.g. guarantees), and such assets meet the recognition criteria in other IFRSs, then it discloses for assets held at the end of the reporting period:<br>• the nature and carrying amount of the assets; and<br>• its policy for disposing of collateral that is not readily convertible into cash. |

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# Notes to the consolidated financial statements

## 34. Financial instruments (continued)

### Credit risk (continued)

#### Exposure to credit risk (continued)

##### Trade and other receivables (continued)

**Impairment losses (continued)**

Amounts in the above table include all trade and other receivables at the end of the reporting period that were not impaired. No trade and other receivables that were neither past due nor impaired are included in the higher risk category in the above table.[1]

Based on the Group's monitoring of customer credit risk, the Group believes that, except as indicated above, no impairment allowance is necessary in respect of trade receivables not past due.

##### Debt securities

The Group limits its exposure to credit risk by investing only in liquid debt securities and only with counterparties that have a credit rating of at least A1 from rating agency [x] and A from rating agency [y]. Management actively monitors credit ratings and given that the Group only has invested in securities with high credit ratings, management does not expect any counterparty to fail to meet its obligations, except for impaired debt securities described below.

*IFRS 7.34(a)*

The maximum exposure to credit risk for debt securities classified as held-to-maturity, available-for-sale, and trading at the end of the reporting period by geographic region was as follows.

| | Carrying amount | |
|---|---|---|
| *In thousands of euro* | **2012** | **2011** |
| Domestic | **1,625** | 2,328 |
| [Countries a, b, c, d and e] | **69** | 115 |
| Other Eurozone countries | **368** | 273 |
| United Kingdom | **436** | 430 |
| United States | **299** | 51 |
| | **2,797** | 3,197 |

*IFRS 7.16*

The movement in the allowance for impairment in respect of corporate debt securities – held-to-maturity during the year was as follows.

| *In thousands of euro* | **2012** | **2011** |
|---|---|---|
| Balance at 1 January | **20** | 20 |
| Impairment loss recognised | **60** | - |
| **Balance at 31 December** | **80** | 20 |

The Group did not have any debt securities that were past due but not impaired at 31 December 2012 (2011: nil).

*IFRS 7.37(b)*

An impairment loss of €60 thousand in respect of held-to-maturity investments was recognised during the current year owing to significant financial difficulties being experienced by the issuer of some of these securities. The Group has no collateral in respect of this investment.[2]

*IFRS 7.16, B5(d), IAS 39.64*

The allowance accounts in respect of trade and other receivables and held-to-maturity investments are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts are considered irrecoverable and are written off against the financial asset directly.

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## Explanatory note

| | | |
|---|---|---|
| **1.** | *IFRS 7.B11F* | The IFRS 7 application guidance provides guidance on an entity's disclosure of how it manages the liquidity risk inherent in the maturity analysis of financial liabilities. In particular, it lists factors that an entity might consider when providing this disclosure. |

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# Notes to the consolidated financial statements

## 34. Financial instruments (continued)

### Credit risk (continued)

#### Exposure to credit risk (continued)

##### Cash and cash equivalents

*IFRS 7.34(a), 36(a), 36(c)*

The Group held cash and cash equivalents of €1,505 thousand at 31 December 2012 (2011: €1,850 thousand), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with bank and financial institution counterparties, which are rated AA- to AA+, based on rating agency [y] ratings.

*IFRS 7.36(c)*

##### Derivatives

The derivatives are entered into with bank and financial institution counterparties, which are rated AA- to AA+, based on rating agency [y] ratings.

##### Guarantees

The Group's policy is to provide financial guarantees only to wholly owned subsidiaries. At 31 December 2012, no guarantees were outstanding (2011: none).

*IFRS 7.31, 33*

### Liquidity risk[1]

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

*IFRS 7.34(a), B10A*

The Group uses activity-based costing to cost its products and services, which assists it in monitoring cash flow requirements and optimising its cash return on investments. The Group aims to maintain the level of its cash and cash equivalents and other highly marketable debt investments at an amount in excess of expected cash outflows on financial liabilities (other than trade payables) over the succeeding 60 days. The ratio of investments to outflows was 1.65 at 31 December 2012 (2011: 1.58). The Group also monitors the level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables. At 31 December 2012, the expected cash flows from trade and other receivables maturing within two months were €24,331 thousand (2011: €16,940 thousand). This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

*IAS 7.50(a)*

In addition, the Group maintains the following lines of credit.

- €10 million overdraft facility that is unsecured. Interest would be payable at the rate of Euribor plus 150 basis points (2011: Euribor plus 160 basis points).
- €15 million that can be drawn down to meet short-term financing needs. The facility has a 30-day maturity that renews automatically at the option of the Group. Interest would be payable at a rate of Euribor plus 100 basis points (2011: Euribor plus 110 basis points).

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IFRS 7.34(a), B10A* | An entity discloses summary quantitative data about its exposure to liquidity risk, based on information that is provided internally to key management personnel (see Explanatory note 1 on page 170).<br><br>An entity explains how those data are determined. In addition, if the outflows of cash (or another financial asset) included in the liquidity risk data could either:<br>• occur significantly earlier than indicated in the data; or<br>• be of significantly different amounts from those indicated in the data,<br><br>then the entity states that fact and provides quantitative information that enables users of its financial statements to evaluate the extent of the liquidity risk, unless that information is included in the contractual maturity analysis. |
| | *IFRS 7.39, B11B* | As a minimum, IFRS 7 requires the disclosure of a contractual maturity analysis for financial liabilities. This maturity analysis should show the remaining contractual maturities for non-derivative financial liabilities and for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows. The latter would, for example, be the case for all loan commitments and for an interest rate swap with a remaining maturity of five years in a cash flow hedge of a variable-rate financial asset or financial liability. |
| | *IFRS 7.B11* | In preparing the maturity analyses for financial liabilities, an entity uses its judgement to determine an appropriate number of time bands. This issue is further discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (7.8.390.80). |
| | *IFRS 7.B11D* | Contractual cash flows are undiscounted and therefore may not agree with the carrying amounts in the statement of financial position. |
| | *IFRS 7.B11E* | An entity discloses how it manages liquidity risk inherent in its maturity analyses for derivative and non-derivative financial liabilities. An entity also discloses a maturity analysis of financial assets that it holds for managing liquidity risk, if such information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. |
| **2.** | | IFRS 7 does not define contractual maturities. Therefore, it leaves open to interpretation the amounts that need to be included in the analysis for certain types of financial liabilities, such as derivatives and perpetual instruments. In our view, both the interest and principal cash flows should be included in the analysis, because this best represents the liquidity risk being faced by the entity. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (7.8.390.70). |
| **3.** | | In these illustrative financial statements, it is assumed that disclosure of contractual maturities for derivative financial liabilities held for risk management purposes is essential for an understanding of the timing of the cash flows. |

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Notes to the consolidated financial statements

## 34. Financial instruments (continued)

IFRS 7.33

### Liquidity risk (continued)[1 on page 20]

IFRS 7.39(a)

The following are the remaining contractual maturities at the end of the reporting period of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:[1, 2]

**31 December 2012**

IFRS 7.39(a), B11A–B11D

IFRS 7.39(b), B11A–B11D

| *In thousands of euro* | Carrying amount | Contractual cash flows Total | 2 months or less | 2–12 months | 1–2 years | 2–5 years | More than 5 years |
|---|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | | |
| Secured bank loans | 10,076 | (11,036) | (1,039) | (2,798) | (820) | (6,379) | - |
| Unsecured bond issues | 6,136 | (6,596) | (18) | (87) | (105) | (6,386) | - |
| Convertible notes | 4,678 | (5,375) | - | (150) | (150) | (5,075) | - |
| Redeemable preference shares | 1,939 | (2,528) | (15) | (73) | (88) | (264) | (2,088) |
| Dividend on redeemable preference shares | 51 | (51) | (51) | - | - | - | - |
| Finance lease liabilities | 1,928 | (2,663) | (178) | (357) | (450) | (678) | (1,000) |
| Unsecured bank loan | 524 | (547) | (231) | (316) | - | - | - |
| Trade payables | 23,481 | (23,487) | (23,403) | - | - | (84) | - |
| Contingent consideration | 270 | (330) | - | - | - | (330) | - |
| Bank overdraft | 334 | (334) | (334) | - | - | - | - |
| | 49,417 | (52,947) | (25,269) | (3,781) | (1,613) | (19,196) | (3,088) |
| **Derivative financial liabilities**[3] | | | | | | | |
| Interest rate swaps used for hedging | (20) | (21) | (1) | (6) | (6) | (8) | - |
| Forward exchange contracts used for hedging: | | | | | | | |
| – Outflow | (8) | (152) | (91) | (61) | - | - | - |
| – Inflow | - | 142 | 85 | 57 | - | - | - |
| | (28) | (31) | (7) | (10) | (6) | (8) | - |

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# Notes to the consolidated financial statements

## 34. Financial instruments (continued)

### Liquidity risk (continued)

IFRS 7.39(a)

**31 December 2011**

IFRS 7.39(a), B11A–B11D

IFRS 7.39(b), B11A–B11D

| *In thousands of euro* | Carrying amount | Contractual cash flows: Total | 2 months or less | 2–12 months | 1–2 years | 2–5 years | More than 5 years |
|---|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | | |
| Secured bank loans | 11,093 | (12,112) | (720) | (3,605) | (2,518) | (4,357) | (912) |
| Unsecured bond issues | 9,200 | (9,828) | (22) | (108) | (130) | (4,409) | (5,159) |
| Finance lease liabilities | 2,182 | (3,186) | (177) | (354) | (458) | (666) | (1,531) |
| Loan from associate | 1,000 | (1,048) | (8) | (1,040) | - | - | - |
| Unsecured bank loan | 117 | (125) | (63) | (62) | - | - | - |
| Trade payables | 24,363 | (24,363) | (24,363) | - | - | - | - |
| Bank overdraft | 282 | (282) | (282) | - | - | - | - |
| | 48,237 | (50,944) | (25,635) | (5,169) | (3,106) | (9,432) | (7,602) |
| **Derivative financial liabilities** | | | | | | | |
| Interest rate swaps used for hedging | (5) | (5) | - | (2) | (1) | (2) | - |
| Forward exchange contracts used for hedging: | | | | | | | |
| – Outflow | (7) | (41) | (25) | (16) | - | - | - |
| – Inflow | - | 32 | 19 | 13 | - | - | - |
| | (12) | (14) | (6) | (5) | (1) | (2) | - |

IFRS 7.39(b)–(c), B11D

The gross inflows/(outflows) disclosed in the previous table represent the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes and which are usually not closed out before contractual maturity. The disclosure shows net cash flow amounts for derivatives that are net cash-settled and gross cash inflow and outflow amounts for derivatives that have simultaneous gross cash settlement – e.g. forward exchange contracts.

IFRS 7.B10A

As disclosed in Notes 2(b) and 28, the Group has a secured bank loan which contains a debt covenant. A future breach of covenant may require the Group to repay the loan earlier than indicated in the above table. In addition, as disclosed in Note 28, convertible notes become repayable on demand if the Group's net debt to adjusted equity ratio exceeds 1.95. The interest payments on variable interest rate loans and bond issues in the table above reflect market forward interest rates at the period end and these amounts may change as market interest rates change. The future cash flows on contingent consideration (see Note 9) and derivative instruments may be different from the amount in the above table as interest rates and exchange rates or the relevant conditions underlying the contingency change. Except for these financial liabilities, it is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.[1] on page 182

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## Explanatory note

| | | |
|---|---|---|
| **1.** | *IFRS 7.34* | IFRS 7 requires the disclosure of summary quantitative risk information to be based on the information provided internally to the entity's key management personnel, as defined in IAS 24 – e.g. the entity's board of directors or chief executive. |
| | *IFRS 7.35, IG20* | If the quantitative data at the end of the reporting period is not representative of an entity's risk exposure during the year, then an entity provides further information that is representative – e.g. the entity's average exposure to risk during the year. For example, the IFRS 7 implementation guidance indicates that if an entity typically has a large exposure to a particular currency but unwinds that position at the end of the reporting period, then it might present a graph that shows the currency exposure at various times during the period or disclose the highest, lowest and average exposures. |
| | | IFRS 7 deals only with risks arising from financial instruments and contracts to buy or sell a non-financial item that are within the scope of IAS 39. Consequently, some purchase-and-sale contracts for non-financial items that are to be settled in a foreign currency and some highly probable forecast transactions are excluded from the scope of IFRS 7, even though they may give rise to financial risk for the entity. If an entity manages its financial risk based on its total exposure – i.e. including risk arising from those items not included within the scope of IFRS 7, and such exposures are included in reports to key management personnel – then in our view IFRS 7 does not prohibit an entity from providing additional disclosures about its total financial risk exposure rather than just the risk arising from financial instruments. However, all such additional disclosures should be clearly separated from those required by IFRS 7. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (7.8.320.30). |

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## Notes to the consolidated financial statements

### 34. Financial instruments (continued)

*IFRS 7.33*

#### Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Risk Management Committee. Generally the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

#### Currency risk[1]

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the euro, but also Swiss Francs (CHF). The currencies in which these transactions primarily are denominated are euro, USD, GBP and CHF.

*IFRS 7.22*

At any point in time the Group hedges 75 to 85 percent of its estimated foreign currency exposure in respect of forecast sales and purchases over the following six months. The Group also hedges at least 80 percent of all trade receivables and trade payables denominated in a foreign currency. The Group uses forward exchange contracts to hedge its currency risk, most with a maturity of less than one year from the end of the reporting period. Such contracts are generally designated as cash flow hedges.

*IFRS 7.22*

Currency risks related to the principal amounts of the Group's GBP and USD bank loans, taken out by euro functional currency Group entities, have been fully hedged using forward contracts that mature on the same dates that the loans are due for repayment. These contracts are designated as cash flow hedges.

Interest on borrowings is denominated in the currency of the borrowing. Generally, borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily euro, but also CHF. This provides an economic hedge without derivatives being entered into and therefore hedge accounting is not applied in these circumstances.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group's policy is to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

*IFRS 7.22*

The Group's investment in its Swiss subsidiary, Oy Kossu AG is hedged by a CHF-denominated secured bank loan (carrying amount €1,047 thousand (2011: €1,020 thousand)), which mitigates the foreign currency translation risk arising from the subsidiary's net assets. The fair value of the borrowing at 31 December 2012 was €1,090 thousand (2011: €1,050 thousand). The loan is designated as a net investment hedge. No ineffectiveness was recognised from the net investment hedge. The Group's investments in other subsidiaries are not hedged.

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## Explanatory note

| | |
|---|---|
| **1.** | This disclosure does not form part of the minimum disclosure requirements in IFRS 7, because estimated forecast sales and purchases are not financial instruments. However, in these illustrative financial statements it is assumed that such information is relevant to an understanding of the Group's exposure to currency risk and that such information is provided internally to the Group's key management personnel. |
| **2.** | This disclosure is not required by IFRS but illustrates an example disclosure that may be significant for certain entities. |

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Notes to the consolidated financial statements

## 34. Financial instruments (continued)

*IFRS 7.33*

### Market risk (continued)

#### Currency risk (continued)

*IFRS 7.34(a)*

##### Exposure to currency risk

The summary quantitative data about the Group's exposure to currency risk as reported to the Management of the Group based on its risk management policy was as follows:

| | 31 December 2012 | | | | 31 December 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| *In thousands of* | **euro** | **USD** | **GBP** | **CHF** | **euro** | **USD** | **GBP** | **CHF** |
| Trade receivables | **1,977** | **8,365** | **2,367** | **-** | 3,099 | 6,250 | 1,780 | - |
| Secured bank loans | **-** | **(500)** | **(850)** | **(4,324)** | - | (500) | (4,850) | (1,257) |
| Unsecured bank loan | **-** | **(554)** | **-** | **-** | - | - | - | - |
| Trade payables | **(876)** | **(7,956)** | **(4,347)** | **-** | (5,411) | (10,245) | (2,680) | - |
| **Net statement of financial position exposure** | **1,101** | **(645)** | **(2,830)** | **(4,324)** | (2,312) | (4,495) | (5,750) | (1,257) |
| Next six month's forecast sales[1] | **9,000** | **22,000** | **8,000** | **-** | 18,700 | 16,000 | 24,000 | - |
| Next six month's forecast purchases[1] | **(10,000)** | **(20,000)** | **(12,000)** | **-** | (9,800) | (10,000) | (17,000) | - |
| **Net forecast transaction exposure** | **(1,000)** | **2,000** | **4,000** | **-** | 8,900 | 6,000 | 7,000 | - |
| Forward exchange contracts | **-** | **(950)** | **(946)** | **-** | - | (1,042) | (870) | - |
| **Net exposure** | **101** | **405** | **224** | **(4,324)** | 6,588 | 463 | 380 | (1,257) |

*IFRS 7.31*

The following significant exchange rates applied during the year.[2]

| | Average rate | | Reporting date spot rate | |
|---|---|---|---|---|
| *euro* | **2012** | **2011** | **2012** | **2011** |
| USD 1 | **0.760** | 0.679 | **0.711** | 0.710 |
| GBP 1 | **1.113** | 1.256 | **1.108** | 1.027 |
| CHF 1 | **0.674** | 0.631 | **0.664** | 0.672 |

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## Explanatory note

| | | |
|---|---|---|
| **1.** | *IFRS 7.40(a)* | An entity discloses how profit or loss and equity would have been affected by changes in a relevant risk variable that were reasonably possible at the end of the reporting period. Such a sensitivity analysis is disclosed for each type of market risk to which the entity is exposed at the end of the reporting period. |
| | *IFRS 7.40(b)–(c)* | The entity also discloses:<br>• the methods and assumptions used in preparing the sensitivity analysis; and<br>• changes from the previous period in the methods and assumptions used, and the reasons for such changes. |

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Notes to the consolidated financial statements

## 34. Financial instruments (continued)

IFRS 7.33

### Market risk (continued)

### Currency risk (continued)

IFRS 7.40

#### Sensitivity analysis[1]

A strengthening (weakening) of the euro, USD, GBP or CHF against all other currencies at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases. The analysis is performed on the same basis for 2011, albeit that the reasonably possible foreign exchange rate variances were different, as indicated below.

| | Equity | | Profit or loss | |
|---|---|---|---|---|
| *Effect in thousands of euros* | **Strengthening** | **Weakening** | **Strengthening** | **Weakening** |
| **31 December 2012** | | | | |
| EUR (9% movement) | **25** | **(26)** | **(33)** | **36** |
| USD (10% movement) | **(7)** | **6** | **25** | **23** |
| GBP (8% movement) | **(5)** | **4** | **17** | **(16)** |
| CHF (3% movement) | **(30)** | **30** | **2** | **(2)** |
| **31 December 2011** | | | | |
| EUR (10% movement) | 28 | (29) | (37) | 35 |
| USD (12% movement) | (8) | 7 | 85 | (76) |
| GBP (10% movement) | (7) | 6 | 92 | (84) |
| CHF (5% movement) | (50) | 50 | 6 | (6) |

### Interest rate risk

IFRS 7.22

The Group adopts a policy of ensuring that between 45 and 65 percent of its exposure to changes in interest rates on borrowings is on a fixed-rate basis, taking into account assets with exposure to changes in interest rates. The Group enters into and designates interest rate swaps as hedges of the variability in cash flows attributable to interest rate risk.

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## Explanatory note

| | |
|---|---|
| **1.** | In these illustrative financial statements, this sensitivity analysis relates to fixed-rate instruments classified as available-for-sale (see Note 21). |

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# Notes to the consolidated financial statements

## 34. Financial instruments (continued)

IFRS 7.33

### Market risk (continued)

IFRS 7.34(a)

#### Profile

At the end of the reporting period the interest rate profile of the Group's interest-bearing financial instruments as reported to the Management of the Group was as follows.

| *In thousands of euro* | Nominal amount 2012 | Nominal amount 2011 |
|---|---|---|
| **Fixed rate instruments** | | |
| Financial assets | **4,059** | 4,479 |
| Financial liabilities | **(7,009)** | (7,067) |
| Interest rate swaps | **(8,000)** | (7,500) |
| | **(10,950)** | (10,088) |
| **Variable rate instruments** | | |
| Financial assets | **535** | 595 |
| Financial liabilities | **(18,685)** | (17,819) |
| Interest rate swaps | **8,000** | 7,500 |
| | **(10,150)** | (9,724) |

#### Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the end of the reporting period would not affect profit or loss.

A change of 100 basis points[1 on page 190] in interest rates would have increased or decreased equity by €15 thousand (2011: €6 thousand).[1]

IFRS 7.40(a)

#### Cash flow sensitivity analysis for variable rate instruments[1 on page 190]

A change of 100 basis points[1] in interest rates at the end of the reporting period would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

| *Effect in thousands of euros* | Profit or loss 100 bp increase | Profit or loss 100 bp decrease | Equity 100 bp increase | Equity 100 bp decrease |
|---|---|---|---|---|
| **31 December 2012** | | | | |
| Variable rate instruments | **(66)** | **66** | **-** | **-** |
| Interest rate swaps | **61** | **(61)** | **310** | **(302)** |
| **Cash flow sensitivity (net)** | **(5)** | **5** | **310** | **(302)** |
| **31 December 2011** | | | | |
| Variable rate instruments | (142) | 142 | - | - |
| Interest rate swaps | 61 | (61) | 280 | (275) |
| **Cash flow sensitivity (net)** | (81) | 81 | 280 | (275) |

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## Explanatory note

| | | |
|---|---|---|
| **1.** | *IAS 1.134–136* | An entity discloses the following information, based on the information provided internally to the entity's key management personnel – e.g. the entity's board of directors or chief executive – that enables users of its financial statements to evaluate its objectives, policies and processes for managing capital.<br>• Summary quantitative information about what it manages as capital.<br>• Qualitative information about its objectives, policies and processes for managing capital.<br>• Changes in quantitative and qualitative information as compared to the prior period.<br>When an entity is subject to externally imposed capital requirements, the nature of those requirements, a statement of whether it has complied with those requirements, any instances of non-compliance and how those requirements are incorporated into the management of capital.<br>When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or distorts a financial statement user's understanding of an entity's capital resources, the entity discloses separate information for each capital requirement to which the entity is subject. |

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Notes to the consolidated financial statements

## 34. Financial instruments (continued)

*IFRS 7.33*

### Market risk (continued)

#### Other market price risk

Equity price risk arises from available-for-sale equity securities held for meeting partially the unfunded portion of the Group's defined benefit pension obligations as well as investments at fair value through profit or loss. Management of the Group monitors the mix of debt and equity securities in its investment portfolio based on market indices. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Risk Management Committee.

*IFRS 7.B5(a)(iii)*

The primary goal of the Group's investment strategy is to maximise investment returns in order to meet partially the Group's unfunded defined benefit obligations; management is assisted by external advisers in this regard. In accordance with this strategy, certain investments are designated as at fair value through profit or loss because their performance is actively monitored and they are managed on a fair value basis.

The Group does not enter into commodity contracts other than to meet the Group's expected usage and sale requirements; such contracts are not settled net.

*IFRS 7.40(a)*

#### Sensitivity analysis – equity price risk[1 on page 190]

All of the Group's listed equity investments are listed on either the London Stock Exchange or the New York Stock Exchange. For such investments classified as available-for-sale, a 2 percent increase in the FTSE 100 plus a 3 percent increase in the Dow Jones Industrial Average at the end of the reporting period would have increased equity by €28 thousand after tax (2011: an increase of €18 thousand); an equal change in the opposite direction would have decreased equity by €28 thousand after tax (2011: a decrease of €18 thousand). For such investments classified as at fair value through profit or loss, the impact on profit or loss and equity would have been an increase or decrease of €16 thousand after tax (2011: €18 thousand). The analysis is performed on the same basis for 2011 and assumes that all other variables remain the same.

*IAS 1.134, 135(a)–(b)*

### Capital management[1]

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of total equity, less amounts accumulated in equity related to cash flow hedges. The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders.

*IAS 1.135(a)*

Currently management is discussing alternatives for extending the Group's share option programme beyond key management and other senior employees; at present other employees are awarded share appreciation rights and participate in an employee share purchase programme. The Group is in discussions with employee representatives, but no decisions have been made.

*IAS 1.135(a)*

The Board of Directors seek to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The Group's target is to achieve a return on capital above 23 percent; in 2012 the return was 29.9 percent (2011: 24.3 percent). In comparison, the weighted average interest expense on interest-bearing borrowings (excluding liabilities with imputed interest) was 5.8 percent (2011: 5.5 percent).

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Notes to the consolidated financial statements

## 34. Financial instruments (continued)

### Capital management (continued)

The Group monitors capital using an adjusted net debt to equity ratio, which is adjusted net debt divided by adjusted equity. For this purpose, adjusted net debt is defined as total liabilities (which includes interest bearing loans and borrowings and obligations under finance leases) plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted equity comprises all components of equity other than amounts recognised in equity relating to cash flow hedges, less unaccrued proposed dividends.

The Group's policy is to keep the ratio below 2.00. The Group's adjusted net debt to equity ratio at the end of the reporting period was as follows.

*IAS 1.135(b)*

| *In thousands of euro* | **2012** | **2011** |
|---|---|---|
| Total liabilities | **61,335** | 53,887 |
| Less: cash and cash equivalents | **1,505** | 1,850 |
| **Net debt** | **59,830** | 52,037 |
| Total equity | **43,434** | 33,347 |
| Less: amounts accumulated in equity related to cash flow hedges | **416** | 478 |
| **Adjusted equity** | **43,018** | 32,869 |
| **Net debt to adjusted equity ratio at 31 December** | **1.39** | 1.58 |

*IAS 1.135(a)*

From time to time the Group purchases its own shares on the market; the timing of these purchases depends on market prices. Primarily the shares are intended to be used for issuing shares under the Group's share option programme. Buy and sell decisions are made on a specific transaction basis by the Risk Management Committee; the Group does not have a defined share buy-back plan.

*IAS 1.135(c)*

There were no changes in the Group's approach to capital management during the year.

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## Explanatory note

| | | |
|---|---|---|
| **1.** | *IFRS 7.23(b)* | An entity also describes any forecast transaction for which hedge accounting has been used previously, but which is no longer expected to occur. |

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## 34. Financial instruments (continued)

### Derivative assets and liabilities designated as cash flow hedges

*IFRS 7.23(a)*

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur and the fair values of the related hedging instruments.[1]

| | 2012 | | | | | | | 2011 | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Expected cash flows | | | | | | | Expected cash flows | | | | | |
| *In thousands of euro* | Fair value | Total | 2 months or less | 2–12 months | 1–2 years | 2–5 years | More than 5 years | Carrying amount | Total | 2 months or less | 2–12 months | 1–2 years | 2–5 years | More than 5 years |
| **Interest rate swaps** | | | | | | | | | | | | | | |
| Assets | **116** | **140** | **12** | **36** | **27** | **54** | **11** | 131 | 155 | 15 | 24 | 33 | 59 | 24 |
| Liabilities | **(20)** | **(21)** | **(1)** | **(6)** | **(6)** | **(8)** | **-** | (5) | (5) | - | (2) | (1) | (2) | - |
| **Forward exchange contracts** | | | | | | | | | | | | | | |
| Assets | **297** | **326** | **150** | **176** | **-** | **-** | **-** | 375 | 405 | 185 | 220 | - | - | - |
| Liabilities | **(8)** | **(10)** | **(6)** | **(4)** | **-** | **-** | **-** | (7) | (9) | (6) | (3) | - | - | - |
| | **385** | **435** | **155** | **202** | **21** | **46** | **11** | 494 | 546 | 194 | 239 | 32 | 57 | 24 |

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to impact profit or loss and the fair values of the related hedging instruments.

| | 2012 | | | | | | | 2011 | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Expected cash flows | | | | | | | Expected cash flows | | | | | |
| *In thousands of euro* | Fair value | Total | 2 months or less | 2–12 months | 1–2 years | 2–5 years | More than 5 years | Carrying amount | Total | 2 months or less | 2–12 months | 1–2 years | 2–5 years | More than 5 years |
| **Interest rate swaps** | | | | | | | | | | | | | | |
| Assets | **116** | **140** | **12** | **36** | **27** | **54** | **11** | 131 | 155 | 15 | 24 | 33 | 59 | 24 |
| Liabilities | **(20)** | **(21)** | **(1)** | **(6)** | **(6)** | **(8)** | **-** | (5) | (5) | - | (2) | (1) | (2) | - |
| **Forward exchange contracts** | | | | | | | | | | | | | | |
| Assets | **297** | **326** | **105** | **123** | **98** | **-** | **-** | 375 | 405 | 175 | 178 | 52 | - | - |
| Liabilities | **(8)** | **(10)** | **(6)** | **(2)** | **(2)** | **-** | **-** | (7) | (9) | (6) | (2) | (1) | - | - |
| | **385** | **435** | **110** | **151** | **117** | **46** | **11** | 494 | 546 | 184 | 198 | 83 | 57 | 24 |

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IFRS 7.25, B1–B3* | The disclosures in respect of fair values apply to each 'class' of financial asset, which is not defined in IFRS 7. See Explanatory note 3 on page 170. |
| **2.** | *IFRS 7.8(f), B2(a)* | An entity discloses the carrying amounts of financial liabilities measured at amortised cost either in the statement of financial position or in the notes. In this table, assets and liabilities carried at amortised cost have been presented separately from those carried at fair value, in order to meet the disclosure requirements of IFRS 7. Different presentation methods may be desirable depending on circumstances, and the information that is provided internally to key management personnel should be considered in order to determine classes of financial instruments. |

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## 34. Financial instruments (continued)

*IFRS 7.6, 8, 25*

### Accounting classifications and fair values[1, 2]

#### Fair values vs carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows.

| *In thousands of euro* | Note | Trading | Designated at fair value | Fair value – hedging instruments | Held-to-maturity | Loans and receivables | Available-for-sale | Other financial liabilities | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|---|---|---|---|
| **31 December 2012** | | | | | | | | | | |
| Cash and cash equivalents | 25 | - | - | - | - | 1,505 | - | - | 1,505 | 1,505 |
| Trade and other receivables | 24 | - | - | - | - | 26,115 | - | - | 26,115 | 26,115 |
| Interest rate swaps used for hedging | 21 | - | - | 116 | - | - | - | - | 116 | 116 |
| Forward exchange contracts used for hedging | 21 | - | - | 297 | - | - | - | - | 297 | 297 |
| Other forward exchange contracts | 21 | 122 | - | - | - | - | - | - | 122 | 122 |
| Sovereign debt securities | 21 | 243 | - | - | - | - | - | - | 243 | 243 |
| Corporate debt securities – held-to-maturity | 21 | - | - | - | 2,436 | - | - | - | 2,436 | 2,450 |
| Corporate debt securities – available-for-sale | 21 | - | - | - | - | - | 118 | - | 118 | 118 |
| Equity securities | 21 | - | 251 | - | - | - | 710 | - | 961 | 961 |
| | | 365 | 251 | 413 | 2,436 | 27,620 | 828 | - | 31,913 | 31,927 |
| Interest rate swaps used for hedging | 33 | - | - | (20) | - | - | - | - | (20) | (20) |
| Forward exchange contracts used for hedging | 33 | - | - | (8) | - | - | - | - | (8) | (8) |
| Secured bank loans | 28 | - | - | - | - | - | - | (10,076) | (10,076) | (10,402) |
| Unsecured bond issues | 28 | - | - | - | - | - | - | (6,136) | (6,136) | (5,675) |
| Convertible notes – liability component | 28 | - | - | - | - | - | - | (4,678) | (4,678) | (5,216) |
| Redeemable preference shares | 28 | - | - | - | - | - | - | (1,939) | (1,939) | (1,936) |
| Finance lease liabilities | 28 | - | - | - | - | - | - | (1,928) | (1,928) | (1,856) |
| Dividends on redeemable shares | 28 | - | - | - | - | - | - | (51) | (51) | (51) |
| Unsecured bank loan | 28 | - | - | - | - | - | - | (524) | (524) | (524) |
| Trade payables | 33 | - | - | - | - | - | - | (23,481) | (23,481) | (23,481) |
| Contingent consideration | 33 | - | (270) | - | - | - | - | - | (270) | (270) |
| Bank overdraft | 25 | - | - | - | - | - | - | (334) | (334) | (334) |
| | | - | (270) | (28) | - | - | - | (49,147) | (49,445) | (49,773) |

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## 34. Financial instruments (continued)

IFRS 7.6, 8, 25

### Accounting classifications and fair values (continued)

#### Fair values vs carrying amounts (continued)

| *In thousands of euro* | Note | Trading | Designated at fair value | Fair value – hedging instruments | Held-to-maturity | Loans and receivables | Available-for-sale | Other financial liabilities | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|---|---|---|---|
| **31 December 2011** | | | | | | | | | | |
| Cash and cash equivalents | 25 | - | - | - | - | 1,850 | - | - | 1,850 | 1,850 |
| Trade and other receivables | 24 | - | - | - | - | 17,719 | - | - | 17,719 | 17,719 |
| Interest rate swaps used for hedging | 21 | - | - | 131 | - | - | - | - | 131 | 131 |
| Forward exchange contracts used for hedging | 21 | - | - | 375 | - | - | - | - | 375 | 375 |
| Other forward exchange contracts | 21 | 89 | - | - | - | - | - | - | 89 | 89 |
| Sovereign debt securities | 21 | 568 | - | - | - | - | - | - | 568 | 568 |
| Corporate debt securities – held-to-maturity | 21 | - | - | - | 2,256 | - | - | - | 2,256 | 2,265 |
| Corporate debt securities – available-for-sale | 21 | - | - | - | - | - | 373 | - | 373 | 373 |
| Equity securities | 21 | - | 254 | - | - | - | 511 | - | 765 | 765 |
| | | 657 | 254 | 506 | 2,256 | 19,569 | 884 | - | 24,126 | 24,135 |
| Interest rate swaps used for hedging | 33 | - | - | (5) | - | - | - | - | (5) | (5) |
| Forward exchange contracts used for hedging | 33 | - | - | (7) | - | - | - | - | (7) | (7) |
| Secured bank loans | 28 | - | - | - | - | - | - | (11,093) | (11,093) | (10,984) |
| Unsecured bond issues | 28 | - | - | - | - | - | - | (9,200) | (9,200) | (9,346) |
| Loan from associate | 28 | - | - | - | - | - | - | (1,000) | (1,000) | (1,040) |
| Finance lease liabilities | 28 | - | - | - | - | - | - | (2,182) | (2,182) | (2,078) |
| Unsecured bank loan | 28 | - | - | - | - | - | - | (117) | (117) | (117) |
| Trade payables | 33 | - | - | - | - | - | - | (24,363) | (24,363) | (24,363) |
| Bank overdraft | 25 | - | - | - | - | - | - | (282) | (282) | (282) |
| | | - | - | (12) | - | - | - | (48,237) | (48,249) | (48,222) |

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## Explanatory note

| | | |
|---|---|---|
| **1.** | *IFRS 7.27B* | For fair value measurements recognised in the statement of financial position, an entity discloses the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety. |

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Notes to the consolidated financial statements

## 34. Financial instruments (continued)

### Accounting classifications and fair values (continued)

*IFRS 7.27*

#### Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, where applicable, are based on the government yield curve at the end of the reporting period plus an appropriate credit spread, and were as follows.

| | 2012 | 2011 |
|---|---|---|
| Derivatives | **2.5%–4.5%** | 3.0%–4.5% |
| Loans and borrowings | **4.0%–7.5%** | 4.0%–7.0% |
| Leases | **6.0%–10.0%** | 5.5%–9.0% |

*IFRS 7.27A–27B, BC39C*

#### Fair value hierarchy[1]

The table below analyses financial instruments carried at fair value, by the levels in the fair value hierarchy. The different levels have been defined as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| *In thousands of euro* | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **31 December 2012** | | | | |
| Corporate debt securities | **78** | **40** | **-** | **118** |
| Equity securities – available-for-sale | **710** | **-** | **-** | **710** |
| Equity securities designated as at fair value through profit or loss | **251** | **-** | **-** | **251** |
| Sovereign debt securities | **243** | **-** | **-** | **243** |
| Interest rate swaps used for hedging | **-** | **116** | **-** | **116** |
| Forward exchange contracts used for hedging | **-** | **297** | **-** | **297** |
| Other forward exchange contracts | **-** | **122** | **-** | **122** |
| **Total assets** | **1,282** | **575** | **-** | **1,857** |
| Forward exchange contracts used for hedging | **-** | **(8)** | **-** | **(8)** |
| Interest rate swaps used for hedging | **-** | **(20)** | **-** | **(20)** |
| Contingent consideration | **-** | **-** | **(270)** | **(270)** |
| **Total liabilities** | **-** | **(28)** | **(270)** | **(298)** |
| **31 December 2011** | | | | |
| Corporate debt securities | 373 | - | - | 373 |
| Equity securities – available-for-sale | 286 | - | 225 | 511 |
| Equity securities designated as at fair value through profit or loss | 254 | - | - | 254 |
| Sovereign debt securities | 568 | - | - | 568 |
| Interest rate swaps used for hedging | - | 131 | - | 131 |
| Forward exchange contracts used for hedging | - | 375 | - | 375 |
| Other forward exchange contracts | - | 89 | - | 89 |
| **Total assets** | 1,481 | 595 | 225 | 2,301 |
| Forward exchange contracts used for hedging | - | (7) | - | (7) |
| Interest rate swaps used for hedging | - | (5) | - | (5) |
| **Total liabilities** | - | (12) | - | (12) |

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Notes to the consolidated financial statements

## 34. Financial instruments (continued)

### Accounting classifications and fair values (continued)

#### Fair value hierarchy (continued)

*IFRS 7.27B(b)*

On 1 September 2012, available-for-sale corporate debt securities with a carrying amount of €40 thousand were transferred from Level 1 to Level 2 because quoted prices in the market for such debt securities became no longer regularly available (2011: nil). In order to determine the fair value of such debt securities, management used a valuation technique in which all significant inputs were based on observable market data. There have been no transfers from Level 2 to Level 1 in 2012 (2011: no transfers in either direction).

*IFRS 7.27B(c), IG13B*

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy.

| | *In thousands of euro* | Equity securities available-for-sale | Contingent considera-tion |
|---|---|---|---|
| | **2012** | | |
| | Balance at 1 January | **225** | **-** |
| | Total gains and losses recognised in: | | |
| *IFRS 7.27B(c)(i)* | – in profit or loss | **-** | **(20)** |
| *IFRS 7.27B(c)(ii)* | – in other comprehensive income | **18** | **-** |
| *IFRS 7.27B(c)(iii)* | Arising from business combination | **-** | **(250)** |
| *IFRS 7.27B(c)(iv)* | Transfers out of Level 3 | **(243)** | **-** |
| | **Balance at 31 December** | **-** | **(270)** |

Change in fair value of contingent consideration of (€20) thousand relates to the liability incurred at 31 December 2012 and is included in 'finance cost' in the consolidated statement of comprehensive income.

| | *In thousands of euro* | Equity securities available-for-sale |
|---|---|---|
| | **2011** | |
| | Balance at 1 January | - |
| *IFRS 7.27B(c)(ii)* | Total gains and losses recognised in other comprehensive income | 13 |
| *IFRS 7.27B(c)(iii)* | Purchases | 212 |
| | **Balance at 31 December** | 225 |

#### Equity securities – transfers out of Level 3

*IFRS 7.27*

During 2011, the Group acquired 2.5 percent of the common shares of Tall Trees PLC a company concentrating on business-to-business opportunities of paper related products and services through the Internet. The Group paid €212 thousand for its investment. The investment has a fair value of €243 thousand at 31 December 2012 (31 December 2011: €225 thousand).

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Notes to the consolidated financial statements

## 34. Financial instruments (continued)

### Accounting classifications and fair values (continued)

#### Fair value hierarchy (continued)

##### Equity securities – transfers out of Level 3 (continued)

*IFRS 7.27B(e)*

As Tall Trees PLC was not listed on any stock exchange in 2011, a quoted market price was not available, and the fair value of the investment was determined to be Level 3 under the fair value hierarchy at 31 December 2011. The fair value of the investment in Tall Trees PLC was calculated by using expected cash flows and risk-adjusted discount rates based on the probability weighted average of the Group's ranges of possible outcomes. Key inputs and assumptions used in the model at 31 December 2011 include the following.

**Discount rate**

The discount rate applied to the cash flows of Tall Trees PLC operations was based on the risk-free rate for the 10-year bonds issued by the government in the relevant market, adjusted for a risk premium to reflect the increased risk of investing in equities, the systematic risk of Tall Trees PLC and entity specific risk to the extent not already reflected in the cash flows.

**Budgeted EBITDA**

Budgeted EBITDA was based on the forecasts provided by management based on the five-year business plan of Tall Trees PLC.

*IFRS 7.27B(c)(iv)*

During the current period, Tall Trees PLC listed its equity shares on an exchange, and they are currently actively traded in that market. Because the equity shares now have a published price quotation in an active market, the fair value measurement was transferred from Level 3 to Level 1 of the fair value hierarchy at the end of the period.

See Note 9 for information in relation to the contingent consideration liability arising from the business combination.

For fair value measurements in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects.

| | Profit or loss | | Other comprehensive income | |
|---|---|---|---|---|
| *In thousands of euro* | **Favourable** | **(Unfavourable)** | **Favourable** | **(Unfavourable)** |
| **2012** | | | | |
| Contingent consideration | **60** | **(60)** | **-** | **-** |

| | Other comprehensive income | |
|---|---|---|
| *In thousands of euro* | **Favourable** | **(Unfavourable)** |
| **2011** | | |
| Equity securities – available-for-sale | 40 | (39) |

The favourable and unfavourable effects of using reasonably possible alternative assumptions have been calculated by recalibrating the model values using alternative estimates of expected cash flows and risk-adjusted discount rates that might reasonably have been considered by a market participant to price the instruments at the end of the reporting period.

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *SIC-27.10* | If an entity has any arrangement that is in the legal form of a lease but to which lease accounting is not applied because it does not, in substance, involve a lease, then it provides appropriate disclosures in order for users of the financial statements to understand the arrangement and the accounting treatment, including at least the following:<br>• the significant terms of the arrangement, including its life, the underlying asset and any restrictions on its use, and the transactions that are linked together, including any options; and<br>• the amount recognised as income in the period and the line item of the statement of comprehensive income in which it is included. |
| | *IFRIC 4.13, 15* | In the case of an arrangement that is not in the legal form of a lease, but to which lease accounting is applied because it contains a lease, payments and other consideration required by such an arrangement are separated into those for the lease and those for other elements, on the basis of their relative fair values. If an entity concludes, in the case of an operating lease, that it is impracticable to separate the payments reliably, then it:<br>• treats all payments as future minimum lease payments for disclosure purposes;<br>• discloses those payments separately from the minimum lease payments of other arrangements that do not include payments for non-lease elements; and<br>• states that the disclosed payments also include payments for non-lease elements in the arrangement. |

| | | |
|---|---|---|
| **2.** | *IAS 17.35(d)(iii)* | An entity discloses any restrictions imposed by lease agreements, such as restrictions on dividends, additional debt and further leasing. |

| | | |
|---|---|---|
| **3.** | *IAS 17.15A* | In assessing the classification of each element as a finance or an operating lease, land and buildings are assessed separately in accordance with IAS 17 *Leases*. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (5.1.230) and *IFRS Practice Issues: Leases of land*. |

| | | |
|---|---|---|
| **4.** | *IAS 17.47* | If an entity is a lessor in a finance lease, then it discloses:<br>• a reconciliation between the total gross investment in the lease at the end of the reporting period and the present value of minimum lease payments receivable at the end of the reporting period;<br>• the total gross investment in the lease and the present value of minimum lease payments receivable at the end of the reporting period grouped as follows: not later than one year; later than one year but not later than five years; and later than five years;<br>• unearned finance income;<br>• the unguaranteed residual values accruing to the benefit of the lessor;<br>• the accumulated allowance for uncollectible minimum lease payments receivable;<br>• contingent rents recognised as income in the period; and<br>• a general description of the entity's material leasing arrangements. |
| | *IAS 17.48* | It is also useful to disclose the gross investment less unearned income in new business added during the reporting period, after deducting the relevant amounts for cancelled leases. |

| | | |
|---|---|---|
| **5.** | *IAS 17.56(b)* | An entity also discloses the amount of contingent rents recognised as income during the period. |

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Notes to the consolidated financial statements

## 35. Operating leases[1]

### Leases as lessee

IAS 17.35(a)

At the end of the reporting period, the future minimum lease payments under non-cancellable operating leases are payable as follows.

| *In thousands of euro* | **2012** | 2011 |
|---|---|---|
| Less than one year | **417** | 435 |
| Between one and five years | **419** | 486 |
| More than five years | **1,764** | 1,805 |
| | **2,600** | 2,726 |

IAS 17.35(d)(i)–(ii)

The Group leases a number of warehouse and factory facilities under operating leases.[2] The leases typically run for a period of 10 years, with an option to renew the lease after that date. Lease payments are increased every five years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in a local price index.

IAS 17.35(b)

One of the leased properties has been sublet by the Group. The lease and sublease expire in 2015. Sublease payments of €50 thousand are expected to be received during 2013. The Group has recognised a provision of €160 thousand in respect of this lease (see Note 32).

IAS 17.35(c)

During the year an amount of €435 thousand was recognised as an expense in profit or loss in respect of operating leases (2011: €447 thousand). Contingent rent recognised as an expense amounted to €40 thousand (2011: €30 thousand). An amount of €150 thousand was included in 'other income' in respect of subleases (2011: €90 thousand) (see Note 11).

IFRS 7.15A,
IAS 1.122

The warehouse and factory leases were entered into many years ago as combined leases of land and buildings. The Group determined that the land and building elements of the warehouse and factory leases are operating leases. The rent paid to the landlord is increased to market rent at regular intervals, and the Group does not participate in the residual value of the land and buildings. As a result, it was determined that substantially all the risks and rewards of the land and buildings are with the landlord.[3]

### Leases as lessor[4]

IAS 17.56(a)

The Group leases out its investment property (see Note 19). At the end of the reporting period, the future minimum lease payments under non-cancellable leases are receivable as follows.

| *In thousands of euro* | **2012** | 2011 |
|---|---|---|
| Less than one year | **332** | 290 |
| Between one and five years | **1,470** | 1,360 |
| More than five years | **445** | 320 |
| | **2,247** | 1,970 |

IAS 40.75(f)(i)–(ii)

During the year €310 thousand was included in 'rental revenue' in profit or loss (2011: €212 thousand).[5] Repairs and maintenance expense, included in 'cost of sales', was as follows (see Note 13).

| *In thousands of euro* | **2012** | 2011 |
|---|---|---|
| Income-generating property | **45** | 30 |
| Vacant property | **20** | 15 |
| | **65** | 45 |

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IAS 38.122(e), 40.75(h), 41.49(b)* | An entity also discloses the amount of contractual commitments for the acquisition of intangible assets, development or acquisition of biological assets, and for the purchase, construction, development, repairs and maintenance of investment property. |
| **2.** | *IAS 37.89* | In respect of a contingent asset, an entity discloses a brief description of its nature and, when practicable, an estimate of its financial effect. |
| | *IAS 37.91* | When it is impracticable to estimate the potential financial effect of a contingent liability or an asset, an entity discloses that fact. |
| | *IAS 37.92* | In extremely rare cases, disclosure of some or all of the information required in respect of contingencies can be expected to seriously prejudice the position of the entity in a dispute with other parties. In such cases, only the following is disclosed:<br>• the general nature of the dispute;<br>• the fact that the required information has not been disclosed; and<br>• the reason why. |
| | *IAS 28.40* | An entity discloses its share of the contingent liabilities of an associate incurred jointly with other investors, and those contingent liabilities that arise because the investor is severally liable for all or part of the liabilities of the associate. |
| | *IAS 31.54(a)–(c)* | An entity discloses:<br>• any contingencies that it has incurred in relation to its investments in joint ventures, and its share in each of the contingencies that have been incurred jointly with other venturers;<br>• its share of the contingencies of joint ventures for which it is contingently liable; and<br>• those contingencies that arise because the venturer is contingently liable for the liabilities of the other venturers of a joint venture. |
| | *IAS 19.125, 141* | An entity may be required to disclose information about contingent liabilities arising from post-employment benefits plans, and about termination benefits when there is uncertainty over the number of employees who will accept the offer of termination benefits and the possibility of an outflow in settlement is not remote. |
| **3.** | | For example disclosures for government-related entities that apply the exemption in Paragraph 25 of IAS 24, see Appendix XII. |
| **4.** | *IAS 1.138(c), 24.13* | An entity discloses the name of its parent and ultimate controlling party if that is different. It also discloses the name of its ultimate parent if this is not disclosed elsewhere in information published with the financial statements. In our view, the 'ultimate parent' and the 'ultimate controlling party' are not necessarily synonymous. This is because the definition of parent refers to an entity. Accordingly, an entity may have an ultimate parent and an ultimate controlling party. Therefore, if the ultimate controlling party of the entity is an individual or a group of individuals, then the identity of that individual or group of individuals and that relationship should be disclosed. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (5.5.90.10). |
| **5.** | *IAS 24.24* | Items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of the related party transactions on the financial statements of the entity. |

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Notes to the consolidated financial statements

## 36. Capital commitments[1]

*IAS 16.74(c)*

During the year, the Group entered into a contract to purchase property, plant and equipment in 2013 for €1,465 thousand (2011: nil).

*IAS 31.55(a)–(b)*

In respect of its interest in a joint venture (see Note 20), the joint venture is committed to incur capital expenditure of €23 thousand (2011: €11 thousand), of which the Group's share of this commitment is €9 thousand (2011: €4 thousand). The Group is itself committed to incur capital expenditure of €150 thousand (2011: €45 thousand). These commitments are expected to be settled in 2013.

## 37. Contingencies[2]

*IAS 1.125, 37.86(a)–(c)*

A subsidiary is defending an action brought by an environmental agency in Europe. Although liability is not admitted, if defence against the action is unsuccessful, then fines and legal costs could amount to €950 thousand, of which €250 thousand would be reimbursable under an insurance policy. Based on legal advice, the directors do not expect the outcome of the action to have a material effect on the Group's financial position.

As part of the acquisition of Papyrus Pty Limited, the Group recognised a contingent liability of €20 thousand in respect of a claim for contractual penalties made by one of Papyrus' customers (see Notes 9 and 32).

## 38. Related parties[3]

### Parent and ultimate controlling party

*IAS 1.138(c), 24.13*

During the year, a majority of the Company's shares were acquired by Cameron Paper Co from Brown Products Corporation. As a result, the new ultimate controlling party of the Group is AJ Pennypacker.[4]

*IAS 24.18*

### Transactions with key management personnel

#### Loans to directors

Unsecured loans to directors issued during the year amounted to €85 thousand (2011: €32 thousand). No interest is payable by the directors, and the loans are repayable in cash in full 12 months after the issue date. At 31 December 2012, the balance outstanding was €78 thousand (2011: €32 thousand) and is included in 'trade and other receivables' (see Note 24).[5]

#### Key management personnel compensation

*IAS 19.124(b)*

In addition to their salaries, the Group also provides non-cash benefits to directors and executive officers, and contributes to a post-employment defined benefit plan on their behalf. In accordance with the terms of the plan, directors and executive officers retire at age 60 and are entitled to receive annual payments equivalent to 70 percent of their salary at the date of retirement until the age of 65, at which time their entitlement falls to 50 percent of their salary at the date of retirement (see Note 29).

Executive officers also participate in the Group's share option programme (see Note 30). Furthermore, all employees of the holding company are entitled to participate in a share purchase programme (see Note 30) if they meet the criteria of investing a percentage of each month's salary for a period of 36 months. Consequently, the Group has deducted €78 thousand from the salaries of all employees concerned (including an amount of €37 thousand that relates to key management personnel), to satisfy the criteria. The amounts withheld are included in 'trade and other payables' (see Note 33).

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | | In our view, materiality considerations cannot be used to override the explicit requirements of IAS 24 for the disclosure of elements of key management personnel compensation. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (5.5.110.20). |
| **2.** | *IAS 19.124, 24.19* | The entity is required to disclose the related party information about the transactions and outstanding balances for each category of the related parties, including key management personnel and post-employment benefits. The level of disclosure illustrated in these illustrative financial statements is not required specifically by IAS 24. Disclosure about individual transactions could be combined without this level of detail. |

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## Notes to the consolidated financial statements

## 38. Related parties (continued)

### Transactions with key management personnel (continued)

### Key management personnel compensation (continued)

*IAS 24.17(d)*

Certain executive officers are subject to a mutual term of notice of 12 months. On resignation at the Group's request, they are entitled to termination benefits of up to 24 months' gross salary, depending on the number of years completed as an executive officer.

*IAS 24.17*

Key management personnel compensation comprised the following.[1]

| *In thousands of euro* | **2012** | 2011 |
|---|---|---|
| Short-term employee benefits | **502** | 420 |
| Post-employment benefits | **475** | 450 |
| Termination benefits | **25** | - |
| Other long-term benefits | **420** | 430 |
| Share-based payments | **516** | 250 |
| | **1,938** | 1,550 |

### Key management personnel and director transactions

Directors of the Company control 12 percent of the voting shares of the Company. A relative of a director of a subsidiary has a 10 percent share in the Group's joint venture.

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

*IAS 24.18(b)(i)*

A number of these entities transacted with the Group during the year. The terms and conditions of these transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

*IAS 24.18(a), 18(b)(i)*

The aggregate value of transactions and outstanding balances related to key management personnel and entities over which they have control or significant influence were as follows.[2]

| *In thousands of euro* | | | Transaction values for the year ended 31 December | | Balance outstanding as at 31 December | |
|---|---|---|---|---|---|---|
| **Director** | **Transaction** | **Note** | **2012** | **2011** | **2012** | **2011** |
| F D Adair | Legal fees | (i) | **12** | 13 | **-** | - |
| H W James | Repairs and maintenance | (ii) | **410** | 520 | **-** | 351 |
| B Q Barton | Inventory purchases – paper | (iii) | **66** | - | **-** | - |

*IAS 24.18(b)(i)*

(i) The Group used the legal services of Mr F D Adair in relation to advice over the sale of certain non-current assets of the Company. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

(ii) In 2011, the Group entered into a two-year contract with On Track Limited, a company controlled by Mr H W James, to purchase repairs and maintenance services on production equipment. The total contract value is €986 thousand. The contract terms are based on market rates for these types of services, and amounts are payable on a quarterly basis for the duration of the contract.

(iii) The Group purchased various paper supplies from Alumfab Limited, a company that is controlled by Mr B Q Barton. Amounts were billed based on normal market rates for such supplies and were due and payable under normal payment terms.

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | | Payments by an entity may relate to services provided to third parties, and not to the paying entity. If an entity acts as an agent and makes payments to an individual on behalf of another party, then in our view the entity is required to disclose only compensation paid as consideration for services rendered *to the entity*.<br><br>In our view, an entity is required to disclose the portions of transactions with joint ventures or associates that are not eliminated in the consolidated financial statements.<br><br>These issues are discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (5.5.110.40 and 120.30). |
| **2.** | *IAS 24.18(c)–(d)* | An entity also discloses provisions for doubtful debts and the expense recognised during the period in respect of bad or doubtful debts related to the amount of outstanding balances from related parties. |
| **3.** | *IAS 24.23* | Related party transactions are described as having been made on an arm's length basis only if such terms can be substantiated. |
| **4.** | *IAS 24.18(b)(ii)* | An entity discloses details of any guarantees given or received in respect of outstanding balances with related parties. |
| **5.** | *IAS 24.21, 1.114(d)(i)* | An entity discloses commitments to do something if a particular event occurs or does not occur in the future, including executory contracts (recognised and unrecognised), with a related party. |

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Notes to the consolidated financial statements

## 38. Related parties (continued)

### Transactions with key management personnel (continued)

#### Key management personnel and director transactions (continued)

From time to time directors of the Group, or their related entities, may purchase goods from the Group. These purchases are on the same terms and conditions as those entered into by other Group employees or customers.

IAS 24.18

#### Other related party transactions[1]

| | Transaction values for the year ended 31 December | | Balance outstanding as at 31 December | |
|---|---|---|---|---|
| *In thousands of euro* | **2012** | **2011** | **2012** | **2011** |
| **Sale of goods and services[2]** (IAS 24.18(a)–(b)) | | | | |
| Parent of the Group – Cameron Paper Co (2011: Brown Products Corporation) | **350** | 320 | **220** | 250 |
| Associate | **1,145** | 400 | **916** | 41 |
| **Other** | | | | |
| Associate – administrative services | **623** | 678 | **96** | 339 |
| Associate – interest expense | **16** | 25 | **-** | 12 |
| Associate – dividends (see Note 20) | **21** | - | **-** | - |

IAS 24.18(b)(i)

All outstanding balances with these related parties are priced on an arm's length basis and are to be settled in cash within two months of the reporting date.[3] None of the balances is secured.[4] During the current year there were no transactions or outstanding balances with Brown Products Corporation, the previous parent entity of the Group.

In addition, during the year the Group repaid a loan of €1,000 thousand received from one of its associates (see Note 28).

IAS 19.143

As a result of the termination of the employment of one of the Group's executives in France, the executive received an enhanced retirement entitlement. Accordingly, the Group has recognised an expense of €25 thousand during the year (2011: nil).

The Group's joint venture makes the results of its research and development activities available to the Group as well as to one of the other joint venturers. No amount is paid by any of the venturers. From time to time, to support the activities of the joint venture, the venturers increase their investment in the joint venture.

Purchase obligations in relation to recycled paper products arise from supply and service contracts signed by the Group. During 2012, the Group has entered into a €89 thousand supply financing agreement with Cameron Paper Co. At 31 December 2012, the Group has utilised €25 thousand of its commitment under the agreement.[5]

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IAS 24.13* | IAS 24 requires a disclosure of the relationships between parents and subsidiaries irrespective of whether there have been transactions between those related parties.<br><br>In our experience, many entities include a list of significant subsidiaries in their consolidated financial statements, either to follow the requirements of a local law or regulator, or as a legacy of a previous GAAP. These illustrative financial statements include a list of significant subsidiaries to reflect this practice. |
| **2.** | *IAS 27.41(d)* | An entity discloses the nature and extent of any significant restrictions – e.g. resulting from borrowing arrangements or regulatory requirements – on the ability of subsidiaries to transfer funds to the parent in the form of cash dividends or to repay loans or advances. |
| **3.** | *IAS 27.41(b)* | Where applicable, an entity discloses the reasons why the ownership, directly or indirectly through subsidiaries, of more than half of the voting or potential voting power of an investee does not constitute control. |
| **4.** | *IAS 10.21(b)* | If the financial effect of a material non-adjusting event after the end of the reporting period cannot be estimated, then an entity discloses that fact. |
| **5.** | *IFRS 3.59(b), 5.41, IAS 10.21, 22, 33.70(d)* | For each material category of non-adjusting event after the end of the reporting period, an entity discloses the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made. IAS 10 *Events after the Reporting Period* provides examples of non-adjusting events that would normally require disclosure. |
| **6.** | *IFRS 3.59(b), B66* | When a business combination happens after the end of the reporting period but before the financial statements are authorised for issue, an entity discloses the information as prescribed by IFRS 3 to enable users of its financial statements to evaluate the nature and financial effect of each business combination. The disclosure requirements are the same as those required for business combinations effected during the period. If disclosure of any information is impracticable, then an entity discloses this fact and the reasons for it. |

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Notes to the consolidated financial statements

## 39. Group entities

IAS 24.13

### Significant subsidiaries[1, 2, 3]

| | Note | Country of incorporation | Ownership interest % 2012 | 2011 |
|---|---|---|---|---|
| Baguette S.A. | | France | **100** | 100 |
| Mermaid A / S | | Denmark | **100** | 100 |
| Lei Sure Limited | | Romania | **100** | 100 |
| Papier GmbH | | Germany | **100** | 100 |
| Oy Kossu AG | | Switzerland | **90** | 90 |
| Swisolote AG | 9 | Switzerland | **75** | 60 |
| Papyrus Pty Limited | 9 | US | **90** | 25 |
| Maple-leaf Inc | | Canada | **48** | 48 |
| Paper Pabus Co | | UK | **100** | 100 |
| Hemy Payo Products N.V. | | Netherlands | **100** | 100 |
| Sloan Bio-Research Co | | UK | **-** | - |
| MayCo | | US | **-** | - |

IAS 27.41(a)

Although the Company does not hold any ownership interests in Sloan Bio-Research Co and MayCo, it receives substantially all of the benefits related to their operations and net assets based on the terms of agreements under which these entities were established. Consequently, the Company consolidates these entities.

IAS 27.41(a)

Although the Group owns less than half of Maple-leaf Inc and consequentially has less than half of the voting power, it is able to govern the financial and operating policies of the company by virtue of an agreement with the other investors of Maple-leaf Inc. Consequently, the Group consolidates the company.

IAS 10.21

## 40. Subsequent events[4, 5, 6]

### Restructuring

At the end of January 2013, the Group announced its intention to implement a cost-reduction programme and to take further measures to reduce costs. Additionally, to enable the Group to adapt its size to current market conditions, it is intended to reduce the Group's workforce by 400 positions worldwide by the end of 2013, by means of non-replacement whenever possible. The Group expects the restructuring associated with the reduction in positions to cost between €600 thousand and €850 thousand in 2013.

### Other

Subsequent to 31 December 2012, one of the Group's major trade debtors went into liquidation following a natural disaster in February 2013 that damaged its operating plant. Of the €100 thousand owed by the debtor, the Group expects to recover less than €10 thousand. No allowance for impairment has been made in the consolidated financial statements.

As reported in the condensed interim financial statements, on 22 July 2012 the Group announced its intention to acquire all of the shares of ABC Company for €6,500 thousand. On 4 January 2013, the Group's shareholders approved the transaction and the Group is now awaiting approval from regulatory authorities before proceeding with the acquisition. Management anticipates that this approval will be received by April 2013.

See also Notes 2(b) and 28.

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## Explanatory note

| | |
|---|---|
| **1.** | Applies only to first-time adopters of IFRS. |

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# Appendix I

## New standards or amendments first effective for 2012 and forthcoming requirements

Since the September 2011 edition of this publication, a number of standards, amendments to or interpretations of standards have been issued. This Appendix lists these new standards, amendments to or interpretations of standards in issue at 1 October 2012, which were not yet effective for periods beginning on 1 January 2011 and therefore may need to be considered for the first time when preparing IFRS financial statements for an annual period beginning on 1 January 2012.

This Appendix contains two tables.

- **New currently effective requirements:** This table lists the recent changes to IFRS that are required to be adopted in annual periods beginning *on* 1 January 2012.
- **Forthcoming requirements:** This table lists the recent changes to IFRS that are available for early adoption in annual periods beginning on or after 1 January 2012, although they are not yet mandatory until a later period.

The tables also include a cross-reference to the relevant sections in these illustrative financial statements that set out the related example disclosures.

All of the effective dates in the table refer to the beginning of an annual accounting period.

### New currently effective requirements

| Effective date | New standards that are first effective from 1 January 2012 | Relevant sections in this publication |
|---|---|---|
| 1 July 2011 | *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* (Amendments to IFRS 1)[1] | - |
| | *Disclosures – Transfers of Financial Assets* (Amendments to IFRS 7) | - |
| 1 January 2012 | *Deferred Tax: Recovery of Underlying Assets* (Amendments to IAS 12) | Notes 2(e) and 3(q)(ii) |

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | | Applies only to first-time adopters of IFRS. |
| **2.** | *IAS 32.97L* | Earlier application is permitted if an entity also makes the disclosures required by the amendments to IFRS 7. |
| **3.** | | For annual periods beginning on or after 1 January 2015, an entity applies IFRS 9 (2010) *Financial Instruments*. For annual periods beginning before 1 January 2015, an entity may elect to early adopt IFRS 9 (2009) instead of IFRS 9 (2010). See Explanatory note 1 on page 232. |

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# New standards or amendments first effective for 2012 and forthcoming requirements (continued)

## Forthcoming requirements

| Effective date | Forthcoming requirements available for early adoption in 2012 | Relevant sections in this publication |
|---|---|---|
| 1 July 2012 | *Presentation of Items of Other Comprehensive Income* (Amendments to IAS 1) | Appendix IV |
| 1 January 2013 | *Government Loans* (Amendments to IFRS 1)[1] | Not applicable |
| | *Disclosures – Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7) | - |
| | IFRS 10 *Consolidated Financial Statements* | Appendix VII |
| | IFRS 11 *Joint Arrangements* | Appendix VII |
| | IFRS 12 *Disclosure of Interests in Other Entities* | Appendix VII, VIII |
| | *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (Amendments to IFRS 10, IFRS 11 and IFRS 12) | Appendix VII, VIII |
| | IFRS 13 *Fair Value Measurement* | Appendix IX |
| | IAS 19 *Employee Benefits* (2011) | Appendix VI |
| | IAS 27 *Separate Financial Statements* (2011) | Not applicable |
| | IAS 28 *Investments in Associates and Joint Ventures* (2011) | Appendix VII |
| | *Annual Improvements to IFRSs – 2009–2011 Cycle* | - |
| | IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* | - |
| 1 January 2014 | *Offsetting Financial Assets and Financial Liabilities* (Amendments to IAS 32)[2] | - |
| 1 January 2015 | IFRS 9 *Financial Instruments* (2010)[3] | Appendix V |
| | IFRS 9 *Financial Instruments* (2009)[3] | - |

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## Explanatory note

| | | |
|---|---|---|
| **1.** | *IAS 1.10, 81(b)* | This Appendix illustrates the two-statement approach to presenting comprehensive income, consisting of a separate income statement displaying profit or loss, and a second statement displaying the components of other comprehensive income. |
| | *IAS 1.12* | An entity may present the components of profit or loss either as part of a single statement of comprehensive income or in a separate income statement. When an entity elects to present two statements, the separate income statement is part of a complete set of financial statements and is presented immediately before the statement of comprehensive income. |

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# Appendix II

## Consolidated income statement[1]

| | In thousands of euro | Note | 2012 | 2011 Restated* |
|---|---|---|---|---|
| IAS 1.10(b), 38, 81(a), 113 | For the year ended 31 December | | | |
| | **Continuing operations** | | | |
| IAS 1.82(a) | Revenue | 10 | **102,716** | 96,636 |
| IAS 1.99, 103 | Cost of sales | 13 | **(55,708)** | (56,186) |
| IAS 1.103 | Gross profit | | **47,008** | 40,450 |
| IAS 1.85 | Other income | 11 | **1,021** | 194 |
| IAS 1.99, 103 | Selling and distribution expenses | 13 | **(17,984)** | (18,012) |
| IAS 1.99, 103 | Administrative expenses | 13 | **(17,142)** | (15,269) |
| IAS 1.99, 103, 38.126 | Research and development expenses | 13 | **(1,109)** | (697) |
| IAS 1.99, 103 | Other expenses | 12 | **(860)** | (30) |
| IAS 1.85 | **Results from operating activities** | | **10,934** | 6,636 |
| IAS 1.85 | Finance income | 15 | **1,161** | 480 |
| IAS 1.82(b) | Finance costs | 15 | **(1,707)** | (1,646) |
| IAS 1.85 | **Net finance costs** | | **(546)** | 1,166 |
| IAS 1.82(c) | Share of profit of equity accounted investees, net of tax | 20 | **467** | 587 |
| | **Profit before tax** | | **10,929** | 6,178 |
| IAS 1.82(d) | Tax expense | 22 | **(3,371)** | (1,800) |
| | **Profit from continuing operations** | | **7,558** | 4,378 |
| IFRS 5.33(a), | **Discontinued operation** | | | |
| IAS 1.82(e) | Profit (loss) from discontinued operation, net of tax | 7 | **379** | (422) |
| IAS 1.82(f) | **Profit for the year** | | **7,937** | 3,956 |
| | **Profit attributable to:** | | | |
| IAS 1.83(a)(ii) | Owners of the Company | | **7,413** | 3,737 |
| IAS 1.83(a)(i) | Non-controlling interests | | **524** | 219 |
| | **Profit for the year** | | **7,937** | 3,956 |
| IAS 33.4 | **Earnings per share** | | | |
| IAS 33.66, 67A | Basic earnings per share (euro) | 27 | **2.26** | 1.08 |
| IAS 33.66, 67A | Diluted earnings per share (euro) | 27 | **2.16** | 1.07 |
| | **Earnings per share – continuing operations** | | | |
| IAS 33.66, 67A | Basic earnings per share (euro) | 27 | **2.14** | 1.22 |
| IAS 33.66, 67A | Diluted earnings per share (euro) | 27 | **2.03** | 1.21 |

* See Notes 2(e), 7 and 16.

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# Consolidated statement of comprehensive income

For the year ended 31 December

| | *In thousands of euro* | Note | 2012 | 2011 Restated* |
|---|---|---|---|---|
| | **Profit for the year** | | **7,937** | 3,956 |
| | **Other comprehensive income** | | | |
| *IAS 1.82(g), 21.52(b)* | Foreign currency translation differences – foreign operations | | **680** | 499 |
| *IAS 28.39, 1.82(h)* | Foreign currency translation differences – equity accounted investees | | **(159)** | (169) |
| *IAS 1.82(g), 1.92* | Reclassification of foreign currency differences on loss of significant influence | | **(20)** | - |
| *IAS 1.82(g)* | Net loss on hedge of net investment in foreign operation | 15 | **(3)** | (8) |
| *IAS 1.82(g)* | Revaluation of property, plant and equipment | 16 | **200** | - |
| *IFRS 7.23(c), IAS 1.82(g)* | Effective portion of changes in fair value of cash flow hedges | 15 | **(62)** | 77 |
| *IFRS 7.23(d), IAS 1.92* | Net change in fair value of cash flow hedges reclassified to profit or loss | 15 | **(31)** | (11) |
| *IFRS 7.20(a)(ii), IAS 1.82(g)* | Net change in fair value of available-for-sale financial assets | 15 | **199** | 94 |
| *IFRS 7.20(a)(ii), IAS 1.92* | Net change in fair value of available-for-sale financial assets reclassified to profit or loss | 15 | **(64)** | - |
| *IAS 1.82(g), 19.93B* | Defined benefit plan actuarial gains (losses) | 29 | **72** | (15) |
| *IAS 1.91(b)* | Tax on other comprehensive income | 22 | **(104)** | (48) |
| *IAS 1.85* | **Other comprehensive income for the year, net of tax** | | **708** | 419 |
| *IAS 1.82(i)* | **Total comprehensive income for the year** | | **8,645** | 4,375 |
| | **Total comprehensive income attributable to:** | | | |
| *IAS 1.83(b)* | Owners of the Company | | **8,094** | 4,134 |
| *IAS 1.83(b)* | Non-controlling interests | | **551** | 241 |
| | | | **8,645** | 4,375 |

* See Notes 2(e), 7 and 16.

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# Appendix III

## Consolidated statement of cash flows (direct method)

For the year ended 31 December

| *In thousands of euro* | Note | 2012 | 2011 Restated* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash receipts from customers | | **96,049** | 97,996 |
| Cash paid to suppliers and employees | | **(88,839)** | (86,225) |
| **Cash generated from operating activities** | | **7,210** | 11,771 |
| Interest paid | | **(1,604)** | (1,521) |
| Income taxes paid | | **(400)** | (1,400) |
| Net cash from operating activities | | **5,206** | 8,850 |
| **Cash flows from investing activities** | | | |
| Interest received | | **211** | 155 |
| Dividends received | | **369** | 330 |
| Proceeds from sale of property, plant and equipment | | **1,177** | 481 |
| Proceeds from sale of investments | | **987** | 849 |
| Disposal of discontinued operation, net of cash disposed of | 7 | **10,890** | - |
| Acquisition of subsidiary, net of cash acquired | 9 | **(2,125)** | - |
| Formation of equity accounted investee | 20 | **(600)** | - |
| Acquisition of property, plant and equipment | | **(15,657)** | (2,228) |
| Acquisition of investment property | 19 | **(300)** | (40) |
| Plantations and acquisitions of non-current biological assets | 18 | **(305)** | (437) |
| Acquisition of other investments | | **(319)** | (2,411) |
| Dividends from equity accounted investees | | **21** | - |
| Development expenditure | | **(1,235)** | (503) |
| Net cash used in investing activities | | **(6,886)** | (3,804) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of share capital | 26 | **1,550** | - |
| Proceeds from issue of convertible notes | 28 | **5,000** | - |
| Proceeds from issue of redeemable preference shares | 28 | **2,000** | - |
| Proceeds from sale of own shares | 26 | **30** | - |
| Proceeds from exercise of share options | 26 | **50** | - |
| Proceeds from settlement of derivatives | | **5** | 11 |
| Payment of transaction costs related to loans and borrowings | 28 | **(311)** | - |
| Acquisition of non-controlling interests | 9 | **(200)** | - |
| Repurchase of own shares | 26 | **-** | (280) |
| Repayment of borrowings | | **(5,132)** | (4,445) |
| Payment of finance lease liabilities | | **(454)** | (394) |
| Dividends paid | 26 | **(1,243)** | (571) |
| Net cash from (used in) financing activities | | **1,295** | (5,679) |
| **Net decrease in cash and cash equivalents** | | **(385)** | (633) |
| Cash and cash equivalents at 1 January | | **1,568** | 2,226 |
| Effect of exchange rate fluctuations on cash held | | **(12)** | (25) |
| Cash and cash equivalents at 31 December | 25 | **1,171** | 1,568 |

* See Note 2(e).

*The notes on pages 27 to 219 are an integral part of these consolidated financial statements.*

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## Explanatory notes

| | |
|---|---|
| **1.** | This Appendix helps in preparing disclosures in annual financial statements on early adoption of *Presentation of Items of Other Comprehensive Income* (Amendments to IAS 1 *Presentation of Financial Statements*). It illustrates one possible format for the new presentation requirements; other formats are possible. |
| **2.** | The amendments to IAS 1 do not change the existing option to present total comprehensive income in one or two statements. |
| **3.** | The amendments to IAS 1 change the title of the statement of comprehensive income to the ‘Statement of profit or loss and other comprehensive income’. However, other titles are allowed. |

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# Appendix IV

## Example disclosures for entities that early adopt *Presentation of Items of Other Comprehensive Income* (Amendments to IAS 1 *Presentation of Financial Statements*)[1, 2]

### Extract of statement of profit or loss and other comprehensive income[3]

For the year ended 31 December

| *In thousands of euro* | Note | 2012 | 2011 Restated* |
|---|---|---|---|
| **Other comprehensive income** | | | |
| **Items that will not be reclassified to profit or loss:** | | | |
| Revaluation of property, plant and equipment | 16 | **200** | - |
| Defined benefit plan actuarial gains (losses) | 29 | **72** | (15) |
| Tax on items that will not be reclassified to profit or loss | | **(90)** | 5 |
| **Total items that will not be reclassified to profit or loss** | | **182** | (10) |
| **Items that are or may be reclassified subsequently to profit or loss:** | | | |
| Net loss on hedge of net investment in foreign operation | 15 | **(3)** | (8) |
| Foreign currency translation differences – foreign operations | | **680** | 499 |
| Foreign currency translation differences – equity accounted investees | | **(159)** | (169) |
| Reclassification of foreign currency differences on loss of significant influence | | **(20)** | - |
| Effective portion of changes in fair value of cash flow hedges | 15 | **(62)** | 77 |
| Net change in fair value of cash flow hedges reclassified to profit or loss | 15 | **(31)** | (11) |
| Net change in fair value of available-for-sale financial assets | 15 | **199** | 94 |
| Net change in fair value of available-for-sale financial assets reclassified to profit or loss | 15 | **(64)** | - |
| Tax on items that are or may be reclassified subsequently to profit or loss | 22 | **(14)** | (53) |
| **Total items that are or may be reclassified subsequently to profit or loss** | | **526** | 429 |
| **Other comprehensive income for the year, net of tax** | | **708** | 419 |

*The notes on pages 27 to 219 are an integral part of these consolidated financial statements.*

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## Explanatory notes

**1.**

All paragraph references in this Appendix are to IFRS 9 *Financial Instruments* (2010) (IFRS 9 (2010)), as amended by *Mandatory Effective Date and Transition Disclosures* (Amendments to IFRS 9 and IFRS 7) (2011), unless otherwise noted. IFRS 9 is effective for annual periods beginning on or after 1 January 2015.

This Appendix illustrates the disclosures in annual financial statements on early adoption of IFRS 9 (2010). It illustrates disclosures about the transition of IFRS 9 and additional disclosures required under IFRS 9's consequential amendments to IFRS 7. It illustrates one possible format for the disclosures; other formats are possible (see the IFRS 9 (2010) implementation guidance for another format). It does not illustrate all the required disclosures about financial instruments (see Note 34).

Further guidance on this standard is included in the 9th Edition 2012/13 of our publication *Insights into IFRS* (7A).

*IFRS 9.7.1.1, 7.3.2, IG.IE6*

We assume that the Group has not already applied IFRS 9 *Financial Instruments* (2009) (IFRS 9 (2009)) in an earlier period and is therefore required to apply all of the requirements of IFRS 9 (2010) at the same time. For annual periods beginning before 1 January 2015, an entity may elect to apply IFRS 9 (2009) instead of applying IFRS 9 (2010). Therefore, other IFRS 9 (2009) and IFRS 9 (2010) adoption scenarios are possible.

**2.** *IFRS 9.7.1.1, 7.2.2*

For entities initially applying IFRS 9 (2010) on or after 1 January 2011, the 'date of initial application' is the beginning of the first reporting period in which the entity adopts IFRS (2010). In our view, if an entity sequentially adopts IFRS 9 (2009) then IFRS 9 (2010), then the entity may have two different dates of initial application; one with respect to IFRS 9 (2009) and one with respect to IFRS 9 (2010). The date of initial application related to IFRS 9 (2009) is determined when the entity adopts IFRS 9 (2009) and applies its transition requirements. The second date of initial application, related to IFRS 9 (2010), is determined when the entity adopts IFRS 9 (2010). This second date of initial application does not generally impact the previous adoption of IFRS 9 (2009) but is used with respect to applying the incremental transition reliefs of IFRS 9 (2010) that relate to classification and measurement of financial liabilities. However, if the entity previously elected not to restate comparative information on adoption of IFRS 9 (2009), but elects to restate comparative information on adoption of IFRS 9 (2010), then the restated financial statements are required to reflect *all* the requirements in IFRS 9 (2010). This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (7A.563).

**3.** *IFRS 9.7.2.14*

When an entity adopts IFRS 9 (2010), the following different transition requirements apply, depending on the date of the beginning of the current reporting period.

| Reporting periods beginning | Requirements |
|---|---|
| Before 1 January 2012 | The entity need not restate prior periods and need not provide the transition disclosures set out in Paragraphs 44S–44W of IFRS 7. |
| On or after 1 January 2012 and before 1 January 2013 | The entity elects either to restate prior periods or to provide the disclosures set out in Paragraphs 44S–44W of IFRS 7. |
| On or after 1 January 2013 | The entity provides the disclosures set out in Paragraphs 44S–44W of IFRS 7. It need not restate prior periods. |

In this Appendix, the Group has elected to apply the new standard from 1 January 2012 without restatement of comparatives.

**4.** *IFRS 7.2.2, 9.7.2.3*

If an entity elects a date of initial application that is not the beginning of the reporting period (which is possible only if the date of initial application is before 1 January 2011), then it discloses that fact and the reasons for applying the standard from that date.

**5.** *IFRS 9.7.2.14*

If an entity does not restate prior periods, then it recognises any differences between:

- the previously reported carrying amount; and
- the new carrying amount at the beginning of the annual period that includes the date of initial application in the opening retained earnings (or other component of equity, as appropriate).

This issue is further explained in the 9th Edition 2012/13 of our publication *Insights into IFRS* (7A.660.10).

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# Appendix V

## Example disclosures for entities that early adopt IFRS 9 *Financial Instruments* (2010)[1, 2]

## 2. Basis of preparation

### (x) Change in accounting policy[3, 4]

#### Non-derivative financial assets and non-derivative financial liabilities

*IFRS 9.7.2.1, IAS 8.28(a)*

The Group has early adopted IFRS 9 *Financial Instruments* (2010) (IFRS 9 (2010)) with a date of initial application of 1 January 2012.[2]

*IAS 8.28(b), (d)–(e)*

As a result, the Group has classified its financial assets as subsequently measured at either amortised cost or fair value depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. These changes in accounting policy are applied on a retrospective basis, except as described below, from 1 January 2012. In accordance with the transitional provisions of IFRS 9 (2010), the classification of financial assets that the Group held at the date of initial application was based on the facts and circumstances of the business model in which the financial assets were held at that date. IFRS 9 (2010) requires entities with a date of initial application on or after 1 January 2012 and before 1 January 2013 either to provide certain additional transitional disclosures or to restate prior periods. The Group has elected not to restate prior period, but rather provide additional transitional disclosures.[5]

Because the Group does not have any financial liabilities designated at fair value through profit or loss, the adoption of IFRS 9 (2010) did not impact the Group's accounting policies for financial liabilities as disclosed in its consolidated financial statements as at and for the year ended 31 December 2011.

*IFRS 9.7.2.4*

#### Impact of change in accounting policy

*IAS 8.28(f)*

As a result of the application of IFRS 9 (2010), €20 thousand (€14 thousand net of tax of €6 thousand) was reclassified at 1 January 2012 from the fair value reserve to other investments, because certain debt securities were reclassified from available-for-sale to financial assets measured at amortised cost. The €6 thousand tax adjustment to the fair value reserve was recognised as a decrease in deferred tax liabilities.

The change in accounting policy did not have a significant effect on earnings per share for the current year.

For further details of the impact of adoption of IFRS 9 (2010), see Note Y.

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# Explanatory notes

| | | |
|---|---|---|
| **1.** | *IFRS 9.4.1.5–6, 4.2.2–3* | At initial recognition, if certain criteria are met, then entities have an irrevocable option to designate a financial asset or a financial liability at fair value through profit or loss. If an entity elects to exercise this option, then it presents the additional disclosures specified in IFRS 7 – e.g. Paragraphs 10 and 11 of IFRS 7.<br><br>Recognition and measurement issues are discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (7A). |
| **2.** | *IFRS 9.B5.7.1* | The election to present in other comprehensive income gains and losses on investments in equity instruments that are not held for trading is available on an instrument-by-instrument basis. |

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Notes to the consolidated financial statements

# 3. Significant accounting policies

## (x) Financial instruments

IFRS 7.21

### (i) Non-derivative financial assets

IAS 8.28(c)

#### Policy applicable from 1 January 2012 (IFRS 9)

The Group initially recognises financial assets on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Financial assets are initially measured at fair value. If the financial asset is not subsequently measured at fair value through profit or loss, then the initial measurement includes transaction costs that are directly attributable to the asset's acquisition or origination. The Group subsequently measures financial assets at either at amortised cost or fair value.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

On initial recognition, the Group classifies its financial assets as subsequently measured at either amortised cost or fair value, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. In accordance with the transitional provisions of IFRS 9 (2010), the classification of financial assets that the Group held at the date of initial application was based on the facts and circumstances of the business model in which the financial assets were held at that date.

**Financial assets measured at amortised cost**

A financial asset is subsequently measured at amortised cost using the effective interest method and net of any impairment loss, if:

- the asset is held within a business model with an objective to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest.

The Group's policy on impairment is the same as applied in its consolidated financial statements for the reporting period ended on 31 December 2011 for loans and receivables and held-to-maturity investments (see Note 3(i)).

IFRS 7.21, B5(aa)

**Financial assets measured at fair value**

Financial assets other than those classified as financial assets measured at amortised cost are subsequently measured at fair value with all changes in fair value recognised in profit or loss.[1]

However, for investments in equity instruments that are not held-for-trading, the Group may elect at initial recognition to present gains and losses in other comprehensive income.[2] For instruments measured at fair value through other comprehensive income, gains and losses are never reclassified to profit or loss and no impairments are recognised in profit or loss. Dividends earned from such investments are recognised in profit or loss unless the dividends clearly represent a repayment of part of the cost of the investment.

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Notes to the consolidated financial statements

# 3. Significant accounting policies (continued)

## (x) Financial instruments (continued)

IFRS 7.21

### (i) Non-derivative financial assets

IAS 8.28(c)

#### Policy applicable prior to 1 January 2012 (IAS 39)

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets designated as at fair value through profit or loss) were recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously. The Group classified non-derivative financial assets as: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables or available-for-sale financial assets.

IFRS 7.21, B5(aa)

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

A financial asset was classified as at fair value through profit or loss if it was classified as held-for-trading or was designated as such on initial recognition. Financial assets were designated as at fair value through profit or loss if the Group managed such investments and made purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Attributable transaction costs were recognised in profit or loss as incurred. Financial assets at fair value through profit or loss were measured at fair value, and changes therein were recognised in profit or loss.

Financial assets classified as held-for-trading comprised short-term sovereign debt securities actively managed by the Group's treasury department to address short-term liquidity needs.

Financial assets designated at fair value through profit or loss included equity securities that would otherwise have been classified as available-for-sale.

#### Held-to-maturity financial assets

If the Group had the positive intent and ability to hold debt securities to maturity, then such financial assets were classified as held-to-maturity. Held-to-maturity financial assets were recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets were measured at amortised cost using the effective interest method, less any impairment losses.

Held-to-maturity financial assets comprised debt securities.

#### Loans and receivables

Loans and receivables were financial assets with fixed or determinable payments that were not quoted in an active market. Such assets were recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables were measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprised cash and cash equivalents, and trade and other receivables.

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## 3. Significant accounting policies (continued)

### (x) Financial instruments (continued)

IFRS 7.21

### (i) Non-derivative financial assets (continued)

IAS 8.28(c)

#### Policy applicable prior to 1 January 2012 (IAS 39) (continued)

**Available-for-sale financial assets**

Available-for-sale financial assets were non-derivative financial assets that were designated as available-for-sale and that were not classified in any of the previous categories. The Group's investments in equity securities and certain debt securities were classified as available-for-sale financial assets.

Subsequent to initial recognition, they were measured at fair value and changes therein, other than foreign currency differences on available-for-sale debt instruments which were included in profit or loss and impairment losses, were recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment was derecognised, the cumulative gain or loss in other comprehensive income was transferred to profit or loss.

Available-for-sale financial assets comprised equity securities and debt securities.

IFRS 7.21

### (ii) Non-derivative financial liabilities

#### Policy applicable from 1 January 2012 (IFRS 9)

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. Financial liabilities for contingent consideration payable in a business combination are recognised at the acquisition date. All other financial liabilities are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group classifies all other non-derivative financial liabilities into the amortised cost measurement category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

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## 3. Significant accounting policies (continued)

### (x) Financial instruments (continued)

*IFRS 7.21*

### (ii) Non-derivative financial liabilities (continued)

#### Policy applicable prior to 1 January 2012 (IAS 39)

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. Financial liabilities for contingent consideration payable in a business combination are recognised at the acquisition date. All other financial liabilities are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group classifies all other non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

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## Explanatory note

| | | |
|---|---|---|
| **1.** | *IFRS 7.44I* | When an entity first applies IFRS 9 (2010), it discloses (in tabular format unless another format is more appropriate) for each class of financial assets and financial liabilities at the date of initial application:<br>• the original measurement category and carrying amount determined in accordance with IAS 39;<br>• the new measurement category and carrying amount determined in accordance with IFRS 9 (2010); and<br>• the amount of any financial assets and financial liabilities in the statement of financial position that were previously designated as measured at fair value through profit or loss but are no longer so designated, distinguishing between:<br>– those that IFRS 9 (2010) requires an entity to reclassify; and<br>– those that an entity elects to reclassify. |
| | *IFRS 7.44J* | In addition, the entity discloses qualitative information to enable users to understand:<br>• how it applied the classification requirements in IFRS 9 (2010) to those financial assets whose classification has changed as a result of applying IFRS 9 (2010); and<br>• the reasons for any designation or de-designation of financial assets or financial liabilities as measured at fair value through profit or loss. |

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Notes to the consolidated financial statements

## (Y). Adoption of IFRS 9 (2010)[1]

*IFRS 7.44I*

The following tables summarise the classification and measurement changes to the Group's financial assets and liabilities on 1 January 2012, the Group's date of initial application of IFRS 9 (2010).

### Financial assets

| *In thousands of euro* | Note | Original measurement category under IAS 39 | New measurement category under IFRS 9 (2010) | Original carrying amount under IAS 39 | New carrying amount under IFRS 9 (2010) |
|---|---|---|---|---|---|
| Financial assets designated at fair value through profit or loss | (a) | Fair value through profit or loss | Fair value through profit or loss | 254 | 254 |
| Financial assets classified as held-for-trading | | Fair value through profit or loss | Fair value through profit or loss | 568 | 568 |
| Forward exchange contracts not used for hedging | | Fair value through profit or loss | Fair value through profit or loss | 89 | 89 |
| Debentures | | Held-to-maturity investments | Amortised cost | 2,256 | 2,256 |
| Trade receivables due from related parties and loans to directors | | Loans and receivables | Amortised cost | 674 | 674 |
| Other trade receivables | | Loans and receivables | Amortised cost | 17,045 | 17,045 |
| Cash and cash equivalents | | Loans and receivables | Amortised cost | 1,850 | 1,850 |
| Debt securities | (b) | Available-for-sale | Amortised cost | 373 | 353 |
| Equity securities | (c) | Available-for-sale | Fair value through other comprehensive income | 511 | 511 |
| Interest rate swaps used for hedging | | Hedging instrument | Hedging instrument | 131 | 131 |
| Forward exchange contracts used for hedging | | Hedging instrument | Hedging instrument | 375 | 375 |

*IFRS 7.44I(c), 44J(b)*

(a) These financial assets were previously designated at fair value through profit or loss. They now meet the criteria for measurement at fair value through profit or loss under IFRS 9 (2010). This is because they are investments in equity instruments for which the Group has not made an election to present changes in fair value in other comprehensive income.

*IFRS 7.44J(a)*

(b) These debt securities are held by the Group's treasury unit in a separate portfolio to provide interest income, but may be sold in order to meet unexpected liquidity shortfalls. The Group considers that these securities are held within a portfolio whose objective is to hold assets to collect the contractual cash flows representing principal and interest. These assets have therefore been classified as financial assets measured at amortised cost under IFRS 9 (2010).

*IFRS 7.11A, 44I(c), IAS 8.28(d)*

(c) These equity investments represent investment holdings that the Group intends to hold for the long-term for strategic purposes. As permitted by IFRS 9 (2010), the Group has designated these investments to be measured at fair value through other comprehensive income at the date of initial application.

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## (Y). Adoption of IFRS 9 (2010) (continued)

### Financial liabilities

| *In thousands of euro* | Note | Original measurement category under IAS 39 | New measurement category under IFRS 9 (2010) | Original carrying amount under IAS 39 | New carrying amount under IFRS 9 (2010) |
|---|---|---|---|---|---|
| Secured bank loans | (a) | Other financial liabilities | Amortised cost | 11,093 | 11,093 |
| Unsecured bond issues | (a) | Other financial liabilities | Amortised cost | 9,200 | 9,200 |
| Loan from associate | (a) | Other financial liabilities | Amortised cost | 1,000 | 1,000 |
| Unsecured bank loans | (a) | Other financial liabilities | Amortised cost | 117 | 117 |
| Trade payables | (a) | Other financial liabilities | Amortised cost | 24,363 | 24,363 |
| Bank overdraft | (a) | Other financial liabilities | Amortised cost | 282 | 282 |
| Interest rate swaps used for hedging | (a) | Hedging instrument | Hedging instrument | 5 | 5 |
| Forward exchange contracts used for hedging | (a) | Hedging instrument | Hedging instrument | 7 | 7 |

(a) Other financial liabilities were measured at amortised cost under IAS 39.

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## Explanatory note

**1.**

*IFRS 7.44S, 9.7.2.14*

When an entity first applies IFRS 9 (2010), it presents the disclosures, at the date of initial application, as set out in IFRS 7.44T–44W if it elects to, or is required to do so (see Explanatory notes 3 and 5 on page 232).

*IFRS 7.44T*

An entity discloses changes in the classification of financial assets and financial liabilities, showing separately:

- the changes in the carrying amounts on the basis of their measurement categories in accordance with IAS 39 (i.e. not resulting from a change in measurement attribute on transition to IFRS 9 (2010)); and
- the changes in the carrying amounts arising from a change in measurement attribute on transition to IFRS 9 (2010).

These disclosures need not be made after the annual period in which IFRS 9 (2010) is initially applied.

In these financial statements, zero amounts have been included to aid those entities with more complex transition circumstances.

*IFRS 7.44V*

Transition disclosures under Paragraphs 44S–44U of IFRS 7 and disclosures under Paragraph 28 of IAS 8 during the reporting period containing the date of initial application should permit reconciliation between:

- the measurement categories in accordance with IAS 39 and IFRS 9 (2010); and
- the line items presented in the statements of financial position.

*IFRS 7.25, 44W*

Transition disclosures under Paragraphs 44S–44U of IFRS 7 and disclosures under Paragraph 25 of IFRS 7 relating to the fair value of each class of financial assets and financial liabilities should permit reconciliation between:

- the measurement categories in accordance with IAS 39 and IFRS 9 (2010); and
- the classes of financial instruments at the date of initial application.

*IFRS 7.44U*

In the reporting period in which IFRS 9 (2010) is initially applied, an entity discloses the following for financial assets and financial liabilities that have been reclassified so that they are measured at amortised cost as a result of the transition to IFRS 9 (2010):

- the fair value of the financial assets or financial liabilities at the end of the reporting period;
- the fair value gain or loss that would have been recognised in profit or loss or other comprehensive income during the reporting period if the financial assets or financial liabilities had not been reclassified;
- the effective interest rate determined on the date of reclassification; and
- the interest expense or income recognised.

*IFRS 9.7.2.10*

If an entity treats the fair value of a financial asset or a financial liability as its amortised cost at the date of initial application, then the disclosures in the third and fourth bullet point above are made for each reporting period following reclassification until derecognition. Otherwise, none of the disclosures above needs to be made after the reporting period containing the date of initial application.

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Notes to the consolidated financial statements

## (Y). Adoption of IFRS 9 (2010) (continued)[1]

IFRS 7.44S–44W

### Financial assets

*In thousands of euro*

| **31 December 2011** | | **31 December 2011** | | **31 December 2011** | |
|---|---|---|---|---|---|
| **Fair value through profit or loss (IAS 39) (see note (a))** | **911** | **Available-for-sale (IAS 39) (see note (a))** | **884** | **Loans and receivables (IAS 39) (see note (b))** | **19,569** |
| | | | | **Held-to-maturity (IAS 39) (see note (a))** | **2,256** |
| *Reclassifications:* | | *Reclassifications:* | | *Reclassifications:* | |
| From available-for-sale (IAS 39) | - | From fair value through profit or loss (IAS 39) | - | From available-for-sale (IAS 39) | **373** |
| From amortised cost (IAS 39) | - | From cost (IAS 39) | - | From fair value through profit or loss (IAS 39) | - |
| To amortised cost (IFRS 9) | - | To fair value through profit or loss (IFRS 9) | - | To fair value through profit or loss (IFRS 9) | - |
| | | To amortised cost (IFRS 9) **(see note (f))** | **(373)** | | |
| *Remeasurements:* | | *Remeasurements:* | | *Remeasurements:* | |
| From available-for-sale (IAS 39) | - | From fair value option (IAS 39) | - | From available-for-sale (IAS 39) **(see note (e))** | **(20)** |
| From amortised cost (IAS 39) | - | From cost (IAS 39) | - | From fair value through profit or loss (IAS 39) | - |
| **1 January 2012** | | **1 January 2012** | | **1 January 2012** | |
| **Fair value through profit or loss (IFRS 9) (see note (c))** | **911** | **Fair value through other comprehensive income (IFRS 9) (see note (c))** | **511** | **Amortised cost (IFRS 9) (see note (d))** | **22,178** |

(a) Included in 'Other investments, including derivatives' in the statement of financial position at 31 December 2011.

(b) Included in 'cash and cash equivalents' (€1,850 thousand) and 'trade and other receivables' (€17,719 thousand) in the statement of financial position at 31 December 2011.

(c) Included in 'other investments, including derivatives' in the statement of financial position at 1 January 2012.

(d) Included in 'cash and cash equivalents' (€1,850 thousand) and 'trade and other receivables' (€17,719 thousand) and 'other investments, including derivatives' (€2,609 thousand) in the statement of financial position at 1 January 2012.

(e) The effects of remeasurements were recognised as an adjustment to the fair value reserve of €14 thousand (net of tax of €6 thousand) at 1 January 2012. There was no effect on retained earnings.

IFRS 7.44U

(f) At 31 December 2012, the fair value of the available-for-sale debt securities that were reclassified to amortised cost is €335 thousand. The fair value loss that would have been recognised in other comprehensive income during the year ended 31 December 2012 if IFRS 9 (2010) had not been applied is €18 thousand. The annual effective interest rates determined on the date of reclassification are 5.2% to 7%. The interest income recognised during the year ended 31 December 2012 is €22 thousand.

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## (Y). Adoption of IFRS 9 (2010) (continued)

Additionally, the Group had included €506 thousand of derivative financial assets measured at fair value designated as hedging instruments in 'other investments, including derivatives' in the statement of financial position at 31 December 2011. The accounting for those hedging instruments was unaffected by the adoption of IFRS 9 (2010).

### Financial liabilities

At 31 December 2011, the Group had €46,055 thousand of other financial liabilities measured at amortised cost under IAS 39. Those financial liabilities are included in 'loans and borrowings – non-current' (€17,293 thousand), 'bank overdraft' (€282 thousand), 'loans and borrowings – current' (€4,117 thousand) and 'trade payables' (€24,363 thousand) in the statement of financial position at 31 December 2011. After adoption of IFRS 9 (2010), those financial liabilities continue to be measured at amortised cost, and there were no reclassifications to or from the amortised cost measurement category. Those financial liabilities are also included in the same line items in the statement of financial position at 1 January 2012 as at 31 December 2011.

Additionally, the Group had €12 thousand of derivative financial liabilities measured at fair value, which were designated as hedging instruments and included in 'derivatives' (€5 thousand) and 'other payables' (€7 thousand) in the statement of financial position at 31 December 2011. The accounting for those hedging instruments was unaffected by the adoption of IFRS 9 (2010).

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## Explanatory note

| | | |
|---|---|---|
| **1.** | *IFRS 9.7.2.14* | In these illustrative financial statements, the Group adopts IFRS 9 (2010) with a date of initial application of 1 January 2012 without restatement of comparatives, and presents the disclosures set out in Paragraphs 44S–44W of IFRS 7. As a result, the difference between the previously reported carrying amount and the new carrying amount applying the new standard at that date is recognised in opening retained earnings or another component of equity, as appropriate. |

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IFRS 9.7.2.14

# Consolidated statement of changes in equity – extract

For the year ended 31 December 2012

| *In thousands of euro* | Note | Attributable to owners of the Company | | | | | | | | | | Non-con-trolling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Share capital | Share premium | Trans-lation reserve | Hedging reserve | Fair value reserve | Revalua-tion reserve | Reserve for own shares | Convert-ible notes | Retained earnings | Total | | |
| Balance at 31 December 2011 | | **14,550** | **3,500** | **171** | **478** | **80** | **-** | **(280)** | **-** | **14,006** | **32,505** | **842** | **33,347** |
| Impact of adopting IFRS 9 at 1 January 2012[1] | 3, Y | **-** | **-** | **-** | **-** | **(14)** | **-** | **-** | **-** | **-** | **(14)** | **-** | **(14)** |
| **Restated balance at 1 January 2012** | | **14,550** | **3,500** | **171** | **478** | **66** | **-** | **(280)** | **-** | **14,006** | **32,491** | **842** | **33,333** |

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IFRS 7.11A(d), 11B* | If an entity derecognised investments in equity instruments measured at fair value through other comprehensive income during the reporting period, then it discloses:<br>• the reasons for disposing of the investments;<br>• the fair value of the investments at the date of derecognition; and<br>• the cumulative gain or loss on disposal.<br>Additionally, dividends recognised during the period are presented separately for investments held at the end of the reporting period and those disposed of during the reporting period. |

| | | |
|---|---|---|
| **2.** | *IFRS 7.12B* | An entity discloses if it has reclassified any financial assets:<br>• the date of reclassification;<br>• a detailed explanation of the change in business model and a qualitative description of its effect on the entity's financial statements; and<br>• the amount reclassified into and out of each category. |
| | *IFRS 7.12C* | For each reporting period following reclassification until derecognition, an entity discloses for assets reclassified so that they are measured at amortised cost:<br>• the effective interest rate determined on the date of reclassification; and<br>• the interest income or expense recognised. |
| | *IFRS 7.12D* | If an entity has reclassified financial assets so that they are measured at amortised cost since the end of its last annual reporting period, then it discloses:<br>• the fair value of the financial assets at the end of the reporting period; and<br>• the fair value gain or loss that would have been recognised in profit or loss during the reporting period if the financial assets had not been reclassified. |

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Notes to the consolidated financial statements

## 34. Financial instruments (continued)

### Financial assets at fair value through other comprehensive income

*IFRS 7.11A(a)–(b)*

At 1 January 2012, the Group designated certain of its investments in equity securities as at fair value through other comprehensive income as listed below.[1] These investments are designated as available-for-sale in the 2011 comparative information. This designation was chosen as the investments are expected to be held for the long-term for strategic purposes.

*IFRS 7.11A(c)–(d)*

| | Fair value as at 31 December | | Dividend income recognised for the year ended | |
|---|---|---|---|---|
| *In thousands of euro* | **2012** | **2011** | **2012** | **2011** |
| Investment in Tall Trees PLC | **243** | 225 | **5** | 5 |
| Investment in Aussiepine Ltd | **467** | 286 | **15** | 21 |
| | **710** | 511 | **20** | 26 |

*IFRS 7.11A(e)*

There were no transfers of any cumulative gain or loss within equity during the year.

### Reclassifications[2]

*IFRS 7.12B*

There were no re-classifications of financial assets since the date of initial application of IFRS 9, being 1 January 2012.

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IAS 19.165* | All paragraph references in this Appendix are to IAS 19 *Employee Benefits* (2011) (IAS 19 (2011)). IAS 19 (2011) is effective for annual periods beginning on or after 1 January 2013.<br><br>This Appendix illustrates the disclosure requirements related to defined benefit plans in the annual financial statements on adoption of IAS 19 (2011). It illustrates one possible format for the disclosures required; other formats are possible.<br><br>The changes would affect different entities to a different extent. In this Appendix, we have only illustrated the change in the measurement of expected return on plan assets as a change in accounting policy. The Group already recognises all actuarial gains and losses immediately in other comprehensive income under the previous IAS 19 and all other changes as a result of IAS 19 (2011) are assumed to be immaterial. It does not illustrate disclosures related to other types of employee benefits, such as short-term employee benefits and termination benefits (see Notes 3(k) and 29).<br><br>Further guidance on IAS 19 (2011) is included in our publication *First Impressions: Employee Benefits* (July 2011). |
| **2.** | *IAS 19.124* | Where applicable, net interest also includes the interest on the effect of the asset ceiling. |

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# Appendix VI

Example disclosures for entities that early adopt IAS 19 *Employee Benefits* (2011)[1]

## 2. Basis of preparation

### (x) Change in accounting policy

#### Defined benefit plans

*IAS 19.172–173*
*IAS 8.28*

The Group early adopted IAS 19 *Employee Benefits* (2011) with a date of initial application of 1 January 2012 and changed its basis for determining the income or expense related to defined benefit plans.

*IAS 19.8, 123–124*

As a result of the change, the Group now determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset) at the beginning of the annual period. It takes into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. The net interest on the net defined benefit liability (asset) comprises:

- interest cost on the defined benefit obligation; and
- interest income on plan assets.[2]

Previously, the Group determined interest income on plan assets based on their long-term rate of expected return.

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IAS 19.173, BC269* | The amendments to IAS 19 are generally to be applied retrospectively, in accordance with IAS 8. However, for existing IFRS preparers there are two exceptions to this requirement.<br>• An entity need not adjust the carrying amount of assets outside the scope of IAS 19 (such as inventories and property, plant and equipment) for changes in employee benefit costs that were included in their carrying amount before the date of initial application. The date of initial application is the beginning of the earliest prior period presented in the first financial statements in which the entity adopts the amended standard.<br>• In financial statements for periods beginning before 1 January 2014, an entity need not present comparative information for the disclosures required about the sensitivity of the defined benefit obligation. |
| **2.** | *IAS 19.57(d), 120(c)* | IAS 19 (2011) requires all remeasurements to be recognised directly in other comprehensive income. In these illustrative financial statements, the Group already recognised actuarial gains and losses directly in other comprehensive income under the previous IAS 19. |
| | *IAS 1.10(f)* | The adoption of IAS 19 (2011) will affect the profit or loss of entities that currently recognise actuarial gains and losses in profit or loss either immediately or on a deferred basis under the corridor method. In addition, entities that use the corridor method will get a different and more volatile net defined benefit liability (asset) in their statement of financial position. Such entities may also need to consider presenting a third statement of financial position on adoption of IAS 19 (2011). |

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## 2. Basis of preparation (continued)

### (x) Change in accounting policy (continued)

#### Impact of change in accounting policy[1, 2]

*IAS 8.28*

The change in accounting policy has been applied retrospectively.

It increased the defined benefit expense recognised in profit or loss and correspondingly reduced the defined benefit plan remeasurement loss recognised in other comprehensive income by €17 thousand for the reporting period ending 31 December 2012 (€25 thousand for the period ending 31 December 2011).

The following table summarises the financial effects on the statement of comprehensive income on implementation of the new accounting policy:

| | For the year ended 31 December | |
|---|---|---|
| *In thousands of euro* | **2012** | **2011** |
| Increase in: | | |
| Cost of sales | **9** | 15 |
| Selling and distribution expenses | **4** | 8 |
| Administrative expenses | **4** | 2 |
| **Reduction in defined benefit plan remeasurement loss** | **17** | 25 |

The change in accounting policy had no impact on net assets as at 31 December 2011 or 31 December 2012 and had an immaterial impact on income taxes and earnings per share for the current and comparative period.

For further details, see Note Y.

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## 3. Significant accounting policies

### (x) Employee benefits

### (i) Defined benefit plans

*IAS 19.8, 123–124*

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset).

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA from rating agency [y] that have maturity dates approximating the terms of the Group's obligations and that are denominated in the currency in which the benefits are expected to be paid.

*IAS 19.8, 67*

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

*IAS 19.122, 127–130*

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Group recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

*IAS 19.103*

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in profit or loss when the plan amendment or curtailment occurs.

*IAS 19.109–110*

The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs. The gain or loss on a settlement is the difference between the present value of the defined benefit obligation being settled as determined on the date of settlement and the settlement price, including any plan assets transferred and any payments made directly by the Group in connection with the settlement.

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## Explanatory note

| | | |
|---|---|---|
| **1.** | *IAS 19.93* | For contributory plans, the accounting requirements are as follows. |
| | | Contributions from employees set out in the formal terms of the plan either reduce service cost (if they are linked to service) or reduce remeasurements of the net defined benefit liability (asset) (e.g. if the contributions are required to reduce a deficit arising from losses on plan assets or actuarial losses). |
| | *IAS 19.70, 93* | Employee contributions in respect of service are attributed to periods of service as a negative benefit under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher benefit than in earlier years, then an entity is required to attribute benefit on a straight-line basis from:<br>• the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on future service); until<br>• the date when further service will lead to no material amount of further benefits under the plan, other than from further salary increases. |

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Notes to the consolidated financial statements

## (Y). Employee benefits

| *In thousands of euro* | | Note | 2012 | 2011 |
|---|---|---|---|---|
| | **Plan A** | | | |
| *IAS 19.140a(i)* | Fair value of plan assets | | **(2,242)** | (2,450) |
| *IAS 19.140a(ii)* | Present value of obligations | | **1,607** | 1,719 |
| *IAS 19.120A(f)* | **Total employee benefit (asset)** | | **(635)** | (731) |
| | **Plan B** | | | |
| *IAS 19.140a(i)* | Fair value of plan assets | | **-** | - |
| *IAS 19.140a(ii)* | Present value of obligations | | **335** | 280 |
| *IAS 19.140(a)* | **Deficit in the plan** | | **335** | 280 |
| | Liability for long-service leave | | **207** | 181 |
| *IFRS 2.51(b)(i)* | Cash-settled share-based payment liability | 30 | **440** | 380 |
| | **Total employee benefit liabilities** | | **982** | 841 |

*IAS 19.139(a)*

The Group makes contributions to a non-contributory defined benefit plan[1] that entitles a retired employee to receive an annual pension payment equal to 1/60 of final salary for each year of service that the employee provided (plan A). The Group has an unfunded plan (plan B) providing reimbursement of certain medical costs for employees after retirement.

In addition, the Group makes contributions to a separate defined benefit plan for its directors and executive officers. A description of this plan is given in Note XX (see Note 38). Amounts in respect of this defined benefit plan have been combined with those of plan A in the disclosures above.

The defined benefit plans are administered by the same pension fund that is legally separated from the Group. The Board of the pension fund is composed of three employee and two employer representatives and an independent chair. The Board of the pension fund is required by law to act in the best interest of the plan participants and is responsible for setting certain policies (e.g. investment, contribution and indexation policies) of the fund.

*IAS 19.139(b)*

The pension plans expose the Group to actuarial risks, such as longevity risk, currency risk, interest rate risk and market (investment) risk.

*IAS 19.139(c)*

In 2012, the pension arrangements for a number of employees in France have been adjusted to reflect new legal requirements in that country. As a consequence of the change in the retirement age, a past service cost (credit) was recognised immediately in the profit or loss.

*IFRIC 14.10*

The Group has determined that, in accordance with the terms and conditions of the defined benefit plans, and in accordance with statutory requirements (such as minimum funding requirements) of the plans of the respective jurisdictions, the present value of refunds or reductions in future contributions is not lower than the balance of the total fair value of the plan assets less the total present value of obligations. This determination is made on a plan-by-plan basis. As such, no decrease in the defined benefit asset is necessary at 31 December 2012 (31 December 2011: no decrease in defined benefit asset).

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## Notes to the consolidated financial statements

# (Y). Employee benefits (continued)

### Plan assets

IAS 19.140(a)(i), 142

Plan assets comprise:

| *In thousands of euro* | 2012 | 2011 |
|---|---|---|
| Cash and cash equivalents | **-** | - |
| Equity securities: | | |
| – Consumer markets | **502** | 600 |
| – Pharmaceuticals | **175** | 181 |
| – Oil and Gas industry | **63** | 78 |
| – Telecoms and ICT | **100** | 85 |
| – Financial institutions | **62** | 183 |
| | **902** | 1,127 |
| Government bonds | **1,044** | 1,062 |
| Derivatives: | | |
| – Interest rate swaps | **8** | 12 |
| – Forward foreign currency contracts | **54** | 23 |
| – Longevity swaps | **28** | 13 |
| | **90** | 48 |
| Property occupied by the Group | **153** | 162 |
| Company's own ordinary shares | **53** | 51 |
| | **2,242** | 2,450 |

IAS 19.142(b); IAS 19.142(c); IAS 19.142(e); IAS 19.143; IAS 19.143

IAS 19.142, 146

All equity securities and government bonds have quoted prices in active markets. All government bonds are issued by European governments and are AAA- or AA-rated.

At the end of each reporting period, an Asset-Liability Matching (ALM) study is performed by the pension fund's asset manager in which the consequences of the strategic investment policies are analysed. The strategic investment policy of the pension fund can be summarised as follows:

- a strategic asset mix comprising 40-50% equity securities, 40-50% government bonds and 0-10% other investments;
- interest rate risk is managed with the objective of reducing the risk by 40% by the use of debt instruments (government bonds) and interest rate swaps;
- foreign currency risk is managed with the objective of reducing the risk by 30% by the use of forward foreign currency contracts; and
- longevity risk is managed with the objective of reducing the risk by 25% by the use of longevity swaps.

IAS 19.141

### Movement in the present value of the defined benefit obligations

| *In thousands of euro* | 2012 | 2011 |
|---|---|---|
| Defined benefit obligations at 1 January | **1,999** | 1,913 |
| Current service costs | **494** | 502 |
| Past service cost (credit) | **(100)** | - |
| Interest cost | **162** | 134 |
| Remeasurements: | | |
| – Experience adjustments | **(30)** | 6 |
| – Actuarial (gains) losses from changes in demographic assumptions | **(31)** | 4 |
| – Actuarial (gains) losses from changes in financial assumptions | **(21)** | 8 |
| Benefits paid by the plan | **(505)** | (568) |
| Effect of movement in exchange rates | **(26)** | - |
| **Defined benefit obligations at 31 December** | **1,942** | 1,999 |

IAS 19.141(a); IAS 19.141(d); IAS 19.141(b); IAS 19.141(c); IAS 19.141(g); IAS 19.141(e)

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IAS 19.147(c)* | This disclosure may also include other information about the distribution of the timing of benefit payments, such as a maturity analysis of the benefit payments. |
| **2.** | *IAS 19.130* | Administration expenses do not include the costs of managing the plan assets. These costs are deducted from the return on plan assets. |

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Notes to the consolidated financial statements

## (Y). Employee benefits (continued)

IAS 19.137

The defined benefit obligation can be allocated to the plans' participants as follows:

- Active plan participants: 32.0% (2011: 32.7%)
- Deferred plan participants: 48.9% (2011: 48.3%)
- Retirees: 19.1% (2011: 19.0%)

All benefits are vested at the end of the reporting period.

IAS 19.147(c)

The weighted average duration of the defined benefit obligation at the end of the reporting period is 17.1 years (2011: 17.5 years).[1]

IAS 19.141

### Movement in the fair value of plan assets

| *In thousands of euro* | | **2012** | **2011 Restated** |
|---|---|---|---|
| Fair value of plan assets at 1 January | | **2,450** | 2,500 |
| Contributions paid into the plan | IAS 19.141(f) | **299** | 379 |
| Interest income | IAS 19.141(b) | **114** | 111 |
| Return on plan assets, excluding interest income | IAS 19.141(c) | **9** | 29 |
| Benefits paid by the plan | IAS 19.141(g) | **(505)** | (568) |
| Effect of movement in exchange rates | IAS 19.141(e) | **(123)** | - |
| Administration expenses[2] | | **(2)** | (1) |
| **Fair value of plan assets at 31 December** | | **2,242** | 2,450 |

IAS 19.141

### Expense recognised in profit or loss

| *In thousands of euro* | | **2012** | **2011 Restated** |
|---|---|---|---|
| Current service costs | IAS 19.141(a) | **494** | 502 |
| Net interest on net defined benefit liability | IAS 19.141(b) | **48** | 23 |
| Past service cost (credit) | IAS 19.141(d) | **(100)** | - |
| | | **442** | 525 |

The actual return on plan assets over 2012 was 123 (2011: 140).

As a result of the plan amendment regarding the pension arrangement for a number of employees in France, the Group's defined benefit pension obligation decreased by €100 thousand (31 December 2011: nil). A corresponding past service cost (credit) is included in the Group's statement of comprehensive income at 31 December 2012.

The expense is included in the following line items in the statement of comprehensive income:

| *In thousands of euro* | **2012** | **2011 Restated** |
|---|---|---|
| Cost of sales | **225** | 312 |
| Selling and distribution expenses | **113** | 162 |
| Administrative expenses | **104** | 51 |
| | **442** | 525 |

IAS 1.125

### Actuarial assumptions

IAS 19.144

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages).

| | | **2012** | **2011** |
|---|---|---|---|
| Discount rate at 31 December | IAS 19.144 | **5.1%** | 4.8% |
| Future salary increases | IAS 19.144 | **2.5%** | 2.5% |
| Medical cost trend rate | IAS 19.144 | **4.5%** | 4.0% |
| Future pension increases | IAS 19.144 | **3.0%** | 2.0% |

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# Notes to the consolidated financial statements

## (Y). Employee benefits (continued)

### Actuarial assumptions (continued)

*IAS 1.125*

*IAS 19.144*

Assumptions regarding future mortality are based on published statistics and mortality tables. The current longevities underlying the values of the liabilities in the defined benefit plans are as follows.

| | 31 December 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| | Plan A | Plan B | Plan A | Plan B |
| **Longevity at age 65 for current pensioners** | | | | |
| Males | **18.5** | **18.2** | 18.3 | 18.0 |
| Females | **21.0** | **19.0** | 21.0 | 18.8 |
| **Longevity at age 65 for current members aged 45** | | | | |
| Males | **19.2** | **19.0** | 19.0 | 18.7 |
| Females | **22.9** | **20.5** | 22.9 | 20.0 |

### Sensitivity analysis

*IAS 1.125, 129, 19.145*

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarises how the impact on the defined benefit obligation at the end of the reporting period would have increased (decreased) as a result of a change in the respective assumptions by one percent.

| | Defined benefit obligation | |
|---|---|---|
| *Effect in thousands of euros* | 1 percent increase | 1 percent decrease |
| Discount rate | **(335)** | **350** |
| Future salary growth | **180** | **(172)** |
| Future pension | **175** | **(168)** |
| Medical cost trend rate | **380** | **(250)** |

As the actuarial estimates of mortality continue to be refined, an increase of one year in the lives shown above is considered reasonably possible in the next financial year. The effect of this change would be an increase in the defined benefit obligation of €60 thousand.

The above sensitivities are based on the average duration of the benefit obligation determined at the date of the last full actuarial valuation at 30 November 2012 and are applied to adjust the defined benefit obligation at the end of the reporting period for the assumptions concerned. Whilst the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation to the sensitivity of the assumptions shown.

### Funding

*IAS 19.147(a)*

Plan A is fully funded by the Group's subsidiaries, except for the separate defined benefit plan for directors and executive officers which is funded by the parent company. Plan B is an unfunded plan. The funding requirements are based on the pension fund's actuarial measurement framework set out in the funding policies of the plan. The funding of plan A is based on a separate actuarial valuation for funding purposes for which the assumptions may differ from the assumptions above. Employees are not required to contribute to the plans.

*IAS 19.147(b)*

The Group expects to pay €350 thousand in contributions to its defined benefit plans in 2013.

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | | This Appendix illustrates the disclosures in annual financial statements on adoption of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*, as amended by *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (Amendments to IFRS 10, IFRS 11 and IFRS 12). IFRS 10, IFRS 11 and IFRS 12 are effective for annual periods beginning on or after 1 January 2013.<br><br>This Appendix focuses on how the disclosures in an entity's annual financial statements could change as a result of applying IFRS 10, IFRS 11 and IFRS 12. It does not repeat other disclosures related to interests in other entities that are not expected to be affected by the early adoption of these standards. For example, this Appendix does not include example disclosures for the effects on the equity attributable to owners of the parent of any changes in its ownership in a subsidiary that do not result in a loss of control (see Notes 3(a)(iv) and 9). This Appendix illustrates one possible format for the disclosures required; other formats are possible. Further guidance on these new standards is included in the 9th Edition 2012/13 of our publication *Insights into IFRS* (2.5A and 3.6A) and *IFRS Practice Issues: Adopting the consolidation suite of standards*.<br><br>If an entity applies any of IFRS 10, IFRS 11 and IFRS 12 earlier, then it should apply IFRS 10, IFRS 11 and IFRS 12, IAS 27 *Separate Financial Statements* (2011) and IAS 28 *Investments in Associates and Joint Ventures* (2011) at the same time. |
| **2.** | *IFRS 12.1–4, B2–B6* | The objective of IFRS 12 is to require an entity to disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.<br><br>If the disclosures required by IFRS 12, together with disclosures required by other IFRSs, do not meet the above objective, then an entity discloses whatever additional information is necessary to meet the objective.<br><br>An entity considers the level of detail necessary to satisfy the above disclosure objective and how much emphasis to place on each of the requirements in IFRS 12. The entity decides, in light of its circumstances, how it aggregates or disaggregates disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics. As a minimum, the entity presents information separately for interests in subsidiaries, joint ventures, joint operations, associates and unconsolidated structured entities. |
| **3.** | *IFRS 10.C2B, C4, C4A, C5, C5A* | For the purposes of IFRS 10, the 'date of initial application' is the beginning of the annual reporting period for which the IFRS is applied for the first time. At this date, an entity tests whether there is a change in the consolidation conclusion for its investees. If the consolidation conclusion does not change, then the entity is not required to make adjustments to the previous accounting for its involvement with the investees.<br><br>On the other hand, if at this date an entity determines that the consolidation conclusion changes and therefore it consolidates an investee previously not consolidated, then the entity retrospectively adjusts the accounting for the investee as if the entity had been consolidated from the date when the entity obtained control of that investee on the basis of IFRS 10. If such retrospective application is impracticable, then the entity applies the requirements of IFRS 3 accordingly as of the beginning of the earliest period for which retrospective application is practicable, which may be the current period. |

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# Appendix VII

Example disclosures for entities that early adopt IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* (2011)[1, 2, 3]

## 2. Basis of preparation

IAS 8.28

### (e) Change in accounting policy

The Group has early adopted IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*, as well as the consequential amendments to IAS 28 *Investments in Associates and Joint Ventures* (2011), with a date of initial application of 1 January 2012.

#### Subsidiaries

As a result of the adoption of IFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 introduces a new control model that is applicable to all investees; among other things, it requires the consolidation of an investee if the Group controls the investee on the basis of *de facto* circumstances.

In accordance with the transitional provisions of IFRS 10, the Group re-assessed the control conclusion for its investees at 1 January 2012. As a consequence, the Group has changed its control conclusion in respect of its investment in Silver Fir S.A. Although the Group owns less than half of the voting power of the investee, the directors have determined that it has acquired *de facto* control over the investee when it acquired the investment on 1 January 2009, because the Group has held significantly more voting rights than any other vote holders or organised group of vote holders and the other shareholdings are widely dispersed. Accordingly, the Group applied acquisition accounting to the investment at 1 January 2009, as if the investee had been consolidated from that date. Previously, the investment in Silver Fir S.A. was accounted for as an associate using the equity method.

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IFRS 10.C2A, IFRS 11.C1B* | When IFRS 10 and IFRS 11 are first applied, an entity is only required to disclose the quantitative impact of the change in accounting policy as required by Paragraph 28(f) of IAS 8 for the immediately preceding period. The entity may elect also to present this information for the current period or for any earlier comparative periods, but is not required to do so.<br><br>In these illustrative financial statements, the Group has elected to present this information only for the immediately preceding period, but not for the current period. |
| **2.** | *IAS 1.10(f), 39* | Although it is not illustrated in this Appendix, a third statement of financial position and related notes are also presented if the effect of the change in accounting policy is material. |
| **3.** | *IFRS 10.C4A* | In this Appendix, it is assumed that the retrospective application of IFRS 10 does not have any impact on the equity attributable to owners of the Company at the beginning of the immediately preceding period.<br><br>However, there could be an impact on the opening equity in other cases. For example, if the Group had obtained control over another investee for the purposes of IFRS 10 in stages in 2009, and IFRS 3 (2008) had been applied to the acquisition, then any remeasurement of the previously held equity interest in that investee on the initial application of IFRS 10 would have been recognised as an adjustment to equity at the beginning of the immediately preceding period. |

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Notes to the consolidated financial statements

IAS 8.28

## 2. Basis of preparation (continued)

### (e) Change in accounting policy (continued)

#### Subsidiaries (continued)

The following table summarises the adjustments made to the Group's statements of financial position at 1 January 2011 and 31 December 2011, and its statements of comprehensive income and cash flows for the year ended 31 December 2011 as a result of the consolidation of Silver Fir S.A.

#### Statement of financial position[1, 2, 3]

| | 1 January 2011 | | |
|---|---|---|---|
| *In thousands of euro* | **As previously reported** | **Adjustments** | **As restated** |
| Intangible assets and goodwill | 5,429 | 225 | 5,654 |
| Property, plant and equipment | 34,937 | 3,798 | 38,735 |
| Biological assets | 6,111 | 360 | 6,471 |
| Equity-accounted investees | 3,099 | (1,959) | 1,140 |
| Trade and other receivables | 16,311 | (222) | 16,089 |
| Cash and cash equivalents | 2,529 | 222 | 2,751 |
| **Overall impact on total assets** | | 2,424 | |
| Trade and other payables | (30,627) | (305) | (30,932) |
| **Overall impact on total liabilities** | | (305) | |
| Non-controlling interests | (601) | (2,119) | (2,720) |
| **Overall impact on total equity** | | (2,119) | |

| | 31 December 2011 | | |
|---|---|---|---|
| *In thousands of euro* | **As previously reported** | **Adjustments** | **As restated** |
| Intangible assets and goodwill | 4,661 | 225 | 4,886 |
| Property, plant and equipment | 31,049 | 4,222 | 35,271 |
| Biological assets | 6,636 | 430 | 7,066 |
| Equity-accounted investees | 3,638 | (2,080) | 1,558 |
| Trade and other receivables | 17,999 | (122) | 17,877 |
| Cash and cash equivalents | 1,850 | 244 | 2,094 |
| **Overall impact on total assets** | | 2,919 | |
| Trade and other payables | (24,375) | (652) | (25,027) |
| **Overall impact on total liabilities** | | (652) | |
| Non-controlling interests | (842) | (2,267) | (3,109) |
| **Overall impact on total equity** | | (2,267) | |

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## Explanatory note

| | | |
|---|---|---|
| **1.** | *IAS 8.28(f), IFRS 10.C2A* | If IAS 33 applies to the financial statements of an entity, then the entity also discloses the effect of applying IFRS 10 on basic and diluted earnings per share for the annual period immediately preceding the date of initial application of IFRS 10. The entity may present this information for the current period or for any earlier comparative periods if presented, but it is not required to do so. |

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IAS 8.28

## 2. Basis of preparation (continued)

### (e) Change in accounting policy (continued)

### Subsidiaries (continued)

#### Statement of comprehensive income[1]

| In thousands of euro | For the year ended 31 December 2011 | | |
|---|---|---|---|
| | As previously reported | Adjustments | As restated |
| Share in profit of equity-accounted investees, net of tax | 708 | (121) | 587 |
| Revenue | 96,636 | 494 | 97,130 |
| Cost of sales | (56,186) | (91) | (56,277) |
| Administrative expenses | (18,012) | (15) | (18,027) |
| Finance costs | (1,646) | (2) | (1,648) |
| Tax expense | (1,800) | (117) | (1,917) |
| **Overall impact on profit and total comprehensive income attributable to non-controlling interests** | | 148 | |

The change in accounting policy had an immaterial impact on earnings per share for the comparative period ended 31 December 2011.

#### Statement of cash flows

| In thousands of euro | For the year ended 31 December 2011 | | |
|---|---|---|---|
| | As previously reported | Adjustments | As restated |
| Net cash from operating activities | 8,850 | (100) | 8,750 |
| **Overall impact on cash and cash equivalents** | | (100) | |

### Joint arrangements

As a result of the adoption of IFRS 11, the Group has changed its accounting policy with respect to its interests in joint arrangements.

Under IFRS 11, the Group classifies its interests in joint arrangements as either joint operations or joint ventures depending on the Group's rights to the assets and obligations for the liabilities of the arrangements. When making this assessment, the Group considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. Previously, the structure of the arrangement was the sole focus of classification.

The Group has re-evaluated its involvement in its only joint arrangement and has reclassified the investment from jointly controlled entity to joint venture. Notwithstanding the reclassification, the investment continues to be recognised by applying the equity method and there has been no impact on the recognised assets, liabilities and comprehensive income of the Group.

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Notes to the consolidated financial statements

## 3. Significant accounting policies

### (a) Basis of consolidation

#### (iii) Subsidiaries

*IFRS 10.6*

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

#### (v) Investments in associates

*IAS 28 (2011).3, 5*

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

*IAS 28 (2011).10*

Investments in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investments includes transaction costs.

*IAS 28 (2011).35*

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

*IAS 28 (2011).38–39*

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

#### (vi) Joint arrangements

*IFRS 11.4, 6, 15–16, 20, 24*

Joint arrangements are arrangements of which the Group has joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangements' returns. They are classified and accounted for as follows:

- Joint operation – when the Group has rights to the assets, and obligations for the liabilities, relating to an arrangement, it accounts for each of its assets, liabilities and transactions, including its share of those held or incurred jointly, in relation to the joint operation.
- Joint venture – when the Group has rights only to the net assets of the arrangements, it accounts for its interest using the equity method, as for associates (see Note (v) above).

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | | In this Appendix, the disclosures relating to interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities are all included in a single note. In the main body of these illustrative financial statements, the disclosures are included in Notes 20 and 39. |
| **2.** | *IFRS 12.7–9, IAS 1.122* | An entity discloses information about significant judgements and assumptions that it has made in determining:<br>• that it has control of another entity;<br>• that it has joint control of an arrangement or significant influence over another entity; and<br>• the type of joint arrangement (i.e. joint operation or joint venture) when the arrangement has been structured through a separate vehicle.<br>The above disclosures include changes to those judgements and assumptions, and those made when changes in facts and circumstances are such that the conclusion about when the entity has control, joint control or significant influence changes during the reporting period. |
| **3.** | *IFRS 12.10(b)(ii), 14–17* | An entity discloses information that enables users of its consolidated financial statements to evaluate the nature of, and changes in, the risks associated with its interests in consolidated structured entities.<br>The entity discloses the terms of any contractual arrangements that could require the parent or its subsidiaries to provide financial support to a consolidated structured entity, including events and circumstances that could expose the entity to a loss – e.g. liquidity arrangements.<br>If during the reporting period a parent or any of its subsidiaries has, without a contractual obligation to do so, provided financial or other support to a consolidated structured entity, then the entity discloses:<br>• the type and amount of support provided, including situations in which the parent or its subsidiaries assisted the structured entity in obtaining financial support; and<br>• the reasons for providing the support.<br>In addition, if the above non-contractual financial or other support was provided to a previously unconsolidated structured entity and that provision of support resulted in the entity controlling the structured entity, then the entity discloses an explanation of the relevant factors in reaching that decision.<br>An entity also discloses any current intentions to provide financial or other support to a consolidated structured entity, including intentions to assist the structured entity in obtaining financial support. |

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Notes to the consolidated financial statements

## 39. Interests in other entities[1]

### Subsidiaries including consolidated structured entities

IFRS 12.10(a)–(b), 12(b)

#### Subsidiaries

Set out below is a list of the significant subsidiaries of the Group.

| | Principal place of business | Ownership interest 2012 | Ownership interest 2011 |
|---|---|---|---|
| Baguette S.A. | France | **100** | 100 |
| Mermaid A / S | Denmark | **100** | 100 |
| Lei Sure Limited | Romania | **100** | 100 |
| Papier GmbH | Germany | **100** | 100 |
| Oy Kossu AG | Switzerland | **90** | 90 |
| Swissolote AG | Switzerland | **75** | 60 |
| Papyrus Pty Limited | US | **90** | 25 |
| Maple-leaf Inc | Canada | **48** | 48 |
| Paper Pabus Co | UK | **100** | 100 |
| Hemy Payo Products N.V. | Netherlands | **100** | 100 |
| Silver Fir S.A. | Spain | **45** | 45 |
| Sloan Bio-Research Co | UK | **-** | - |
| MayCo | US | **-** | - |

IFRS 12.7(a), 9(b), 14, IAS 1.122

Although the Group owns less than half of Maple-leaf Inc and Silver Fir S.A. and less than half of the voting power of these entities, the directors have determined that the Group controls these two entities. The Group controls Maple-leaf Inc by virtue of an agreement with its other investors; the Group has *de facto* control over Silver Fir S.A., on the basis that the remaining voting rights in the investee are widely dispersed and that there is no indication that all other shareholders exercise their votes collectively.[2]

IFRS 12.10(b)(ii)

The Group does not hold any ownership interests in two structured entities, Sloan Bio-Research Co and MayCo. However, based on the terms of agreements under which these entities were established, the Group receives substantially all of the returns related to their operations and net assets (Sloan Bio-Research Co and MayCo perform research activities exclusively for the Group) and has the current ability to direct these entities' activities that most significantly affect these returns. Because the owners' interests in these entities are presented as liabilities of the Group, there are no non-controlling interests for these entities.[2]

IFRS 12.14

The Group has issued a guarantee to certain banks in respect of the credit facilities amounting to €700 thousand granted to these entities.[3]

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IFRS 12.10(a)(ii), 12, B10–B11, B17* | An entity discloses information that enables users of its consolidated financial statements to understand the interest that non-controlling interests have in the group activities and cash flows. The entity discloses the following information for each of its subsidiaries that has non-controlling interests that are material to the entity:<br>• the name of the subsidiary and its principal place of business (and country of incorporation if it is different from the principal place of business);<br>• the proportion of ownership interests and the proportion of voting rights held by non-controlling interests if it is different from the proportion of ownership interests held;<br>• the profit or loss allocated to non-controlling interests of the subsidiary during the reporting period;<br>• accumulated non-controlling interests of the subsidiary at the end of the reporting period;<br>• dividends paid to non-controlling interests; and<br>• summarised financial information of the subsidiary (before inter-company eliminations).<br>However, if an entity's interest in a subsidiary is classified as held-for-sale in accordance with IFRS 5, then it is not required to present the summarised financial information for that subsidiary. |
| **2.** | *IFRS 12.10(b)(i), 13* | If applicable, an entity discloses information that enables users of its consolidated financial statements to evaluate the nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the group. In this regard, it discloses:<br>• significant restrictions on its ability to access or use the assets and settle the liabilities of the group, such as:<br>– those that restrict the ability of a parent or its subsidiaries to transfer cash or other assets to (or from) other entities within the group; or<br>– guarantees or other requirements that may restrict dividends and other capital distributions being paid, or loans and advances being made or repaid, to (or from) other entities within the group;<br>• the nature and extent to which protective rights of non-controlling interests can significantly restrict the entity's ability to access or use the assets to settle the liabilities of the group (such as when a parent is obliged to settle liabilities of a subsidiary before settling its own liabilities, or approval of non-controlling interests is required either to access the assets or to settle the liabilities of a subsidiary); and<br>• the carrying amounts in the consolidated financial statements of the assets and liabilities to which those restrictions apply. |
| **3.** | | Although not required by IFRS 12, we have illustrated the reconciliation between summarised financial information about subsidiaries with material non-controlling interests and the amounts included in the consolidated financial statements. An entity may wish to present this reconciliation as users may find it useful. |

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# 39. Interests in other entities (continued)

## Subsidiaries including consolidated structured entities (continued)

### Non-controlling interests in subsidiaries[1, 2]

*IFRS 12.10(a)(ii), 12, B10–B11*

The following table summarises the information relating to each of the Group's subsidiaries that has material non-controlling interests (NCI), before any intra-group eliminations.

| | 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| *In thousands of euro* | Papyrus Pty Limited | Oy Kossu AG | Swissolote AG | Maple-leaf Inc. | Silver Fir S.A. | Other individually immaterial subsidiaries | Total |
| **NCI percentage** | 10% | 10% | 25% | 52% | 55% | | |
| Non-current assets | 3,890 | 6,520 | 7,438 | 1,200 | 4,998 | | |
| Current assets | 1,230 | 1,578 | 1,112 | 740 | 72 | | |
| Non-current liabilities | - | 2,315 | 6,580 | 980 | 524 | | |
| Current liabilities | 520 | 983 | 910 | 278 | 259 | | |
| **Net assets** | 4,600 | 4,800 | 1,060 | 682 | 4,287 | | |
| Carrying amount of NCI[3] | 460 | 480 | 265 | 355 | 2,358 | 22 | 3,940 |
| Revenue | 20,409 | 10,930 | 9,540 | 3,555 | 346 | | |
| Profit | 1,560 | 1,030 | 476 | 296 | 165 | | |
| **Total comprehensive income** | 1,560 | 1,150 | 528 | 300 | 165 | | |
| Profit (loss) allocated to NCI[3] | 156 | 103 | 119 | 154 | 91 | (8) | 615 |
| Cash flows from operating activities | 430 | 210 | 166 | (268) | (135) | | |
| Cash flows from investment activities | (120) | 510 | 75 | - | (46) | | |
| Cash flows from financing activities, before dividends to NCI | 12 | (600) | (320) | - | 130 | | |
| Cash flows from financing activities – cash dividends to NCI | - | - | - | - | - | | |
| **Net increase (decrease) in cash and cash equivalents** | 322 | 120 | (79) | (268) | (51) | | |

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# 39. Interests in other entities (continued)

## Subsidiaries including consolidated structured entities (continued)

### Non-controlling interests in subsidiaries (continued)

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| *In thousands of euro* | Oy Kossu AG | Swissolote AG | Maple-leaf Inc. | Silver Fir S.A. | Other individually immaterial subsidiaries | Total |
| **NCI percentage** | **10%** | **25%** | **52%** | **55%** | | |
| Non-current assets | 6,120 | 7,322 | 1,190 | 4,652 | | |
| Current assets | 1,960 | 1,278 | 850 | 122 | | |
| Non-current liabilities | 2,900 | 6,900 | 1,200 | 403 | | |
| Current liabilities | 1,430 | 1,049 | 447 | 249 | | |
| **Net assets** | 3,650 | 652 | 383 | 4,122 | | |
| Carrying amount of NCI | 365 | 261 | 201 | 2,287 | 15 | 3,109 |
| Revenue | 8,660 | 9,390 | 15,810 | 494 | | |
| Profit | 240 | 237 | 198 | 269 | | |
| **Total comprehensive income** | 320 | 252 | 206 | 269 | | |
| Profit (loss) allocated to NCI | 24 | 95 | 103 | 148 | (3) | 367 |
| Cash flows from operating activities | 300 | 115 | 530 | (120) | | |
| Cash flows from investment activities | (25) | (40) | (788) | (30) | | |
| Cash flows from financing activities, before dividends to NCI | (200) | (50) | 190 | 130 | | |
| Cash flows from financing activities – cash dividends to NCI | - | - | - | - | | |
| **Net increase (decrease) in cash and cash equivalents** | 75 | 25 | (78) | (20) | | |

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# Explanatory note

**1.** *IFRS 12.20–23*

An entity discloses information that enables users of its financial statements to evaluate the nature, extent and financial effects of its interests in joint arrangements and associates and the nature of, and changes in, the risks associated with its interests in joint ventures and associates.

To provide information on the nature, extent and financial effects of an entity's interests in joint arrangements and associates, IFRS 12 contains specific disclosure requirements:

- for each joint arrangement and associate that is material to the entity, name, principal place of business, relationship with investor, the proportion owned;
- for each joint arrangement and associate that is material to the entity, the accounting model, summarised financial information, the fair value of equity-accounted investment that has a quoted market price; and
- in aggregate for all individually immaterial joint ventures and, separately, in aggregate for all individually immaterial associates, the carrying amount, the amount of the entity's share of those joint ventures' or associates' profit or loss from continuing operations, post-tax profit or loss from discontinued operations, other comprehensive income and total comprehensive income.

In addition, the entity discloses:

- the nature and extent of any significant restrictions on the ability of joint ventures or associates to transfer funds to the entity in the form of cash dividends, or to repay loans or advances made by the entity;
- when the financial statements of a joint venture or associate used in applying the equity method are as of a date or for a period that is different from that of the entity:
  - the date of the end of the reporting period of the financial statements of that joint venture or associate; and
  - the reason for using a different date or period; and
- the unrecognised share of losses of a joint venture or associate, both for the reporting period and cumulatively, if the entity has stopped recognising its share of losses of the joint venture or associate when applying the equity method.

In the context of information on risks associated with interests in joint ventures and associates, total commitments relating to interests in joint ventures and that may give rise to a future outflow of cash or other resources and contingent liabilities incurred relating to interests in joint ventures or associates.

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Notes to the consolidated financial statements

## 39. Interests in other entities (continued)

### Joint venture[1]

*IFRS 12.20(a), 21*

Paletel AG (Paletel), the only joint arrangement in which the Group participates, is principally engaged in the production of paper pulp in Himmerland, Denmark. Paletel is one of the strategic suppliers of the Group providing access to paper pulp.

*IFRS 12.7(c)*

Paletel is structured as a separate vehicle and provides the Group rights to the net assets of the entity. Accordingly, the Group has classified the investment in Paletel as a joint venture.

*IFRS 12.20(b), 23(a), B18*

In accordance with the agreement under which Paletel is established, the Group and the other investor to the joint venture have agreed to make additional contribution in proportion to their interests to make up any losses, if required, up to a maximum amount of €6,000 thousand. This commitment has not been recognised in the consolidated financial statements.

*IFRS 12.21(b), B12, B14*

The following tables summarise the financial information of Paletel, as adjusted for any differences in accounting policies. The tables also reconcile the summarised financial information to the carrying amount of the Group's interest in Paletel, which is accounted for using the equity method.

| *In thousands of euros* | **2012** | **2011** |
|---|---|---|
| **Percentage of interest** | **40%** | 40% |
| Non-current assets | **5,953** | 3,259 |
| Current assets (including cash and cash equivalents amounting to 2012: €200, 2011: €150) | **348** | 310 |
| Non-current liabilities | **1,716** | 1,320 |
| Current liabilities (including trade and other payables and provisions amounting to 2012: €422, 2011: €930) | **543** | 1,130 |
| **Net assets** | **4,042** | 1,119 |
| Group's share of net assets | **1,617** | 448 |
| Carrying amount in the statement of financial position | **2,017** | 848 |
| Revenue | **25,796** | 21,405 |
| Depreciation and amortisation | **445** | 350 |
| Interest expense | **396** | 218 |
| Income tax expense | **1,275** | 290 |
| **Profit and total comprehensive income** | **2,975** | 680 |
| Group's share of profit and total comprehensive income (40%) | **1,190** | 272 |
| Cash dividends received by the Group | **21** | - |

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# Explanatory note

**1.**

In this Appendix, all the Group's interests in joint venture and associates are assumed to be individually material. If the interests are individually immaterial, then the extent of disclosures required by IFRS 12 will be different; in such cases, an entity may present the summarised financial information as follows.

### Associates

*IFRS 12.21(c), B16*

The Group has interests in a number of associates none of which is regarded as individually material. The following table summarises, in aggregate, the financial information of all individually immaterial associates that are accounted for using the equity method:

| *In thousands of euro* | **2012** | **2011** |
|---|---|---|
| Carrying amount of interests in associates | [ ] | [ ] |
| Share of: | | |
| – Profit (loss) from continuing operations | [ ] | [ ] |
| – Post-tax profit (loss) from discontinued operations | [ ] | [ ] |
| – Other comprehensive income | [ ] | [ ] |
| – Total comprehensive income | [ ] | [ ] |

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## 39. Interests in other entities (continued)

### Associates[1]

*IFRS 12.21(a), B12, B14*

The following table summarises the information of each of the Group's material associates, adjusted for any differences in accounting policies and reconciles the carrying amount of the Group's interest in associates and the share of profit and other comprehensive income of equity-accounted investees (net of tax).

*IFRS 12.21(a)(iii)*

*IFRS 12.21(b)*

| | 2012 | | | |
|---|---|---|---|---|
| *In thousands of euro* | **Cellulose S.A.** | **Paper Web SARL** | **Papyrus Pty Limited** | **Total** |
| **Place of business** | **Switzerland** | **France** | **Australia** | |
| **Percentage of interest** | **20%** | **49%** | **25%*** | |
| Non-current assets | **4,790** | **7,592** | | |
| Current assets | **3,210** | **3,460** | | |
| Non-current liabilities | **5,855** | **8,185** | | |
| Current liabilities | **2,220** | **2,850** | | |
| **Net assets** | **(75)** | **17** | | |
| Group's share of net assets and carrying amount | **-** | **8** | **-** | **8** |
| Revenue | **32,635** | **-** | **6,230** | |
| (Loss) profit | **(1,265)** | **(1,207)** | **426** | |
| Other comprehensive income | **-** | **(2)** | **(632)** | |
| **Total comprehensive income** | **(1,265)** | **(1,209)** | **(206)** | |
| Group's share of (loss) profit | **(238)** | **(591)** | **106** | **(723)** |
| Group's share of total comprehensive income | **(238)** | **(592)** | **(52)** | **(882)** |
| Dividends received | **-** | **-** | **-** | **-** |

| | 2011 | | |
|---|---|---|---|
| *In thousands of euro* | **Cellulose S.A.** | **Papyrus Pty Limited** | **Total** |
| **Percentage of interest** | **20%** | **25%** | |
| Non-current assets | 7,030 | 1,810 | |
| Current assets | 4,220 | 1,470 | |
| Non-current liabilities | 6,810 | 720 | |
| Current liabilities | 3,250 | 670 | |
| **Net assets** | 1,190 | 1,890 | |
| Group's share of net assets and carrying amount | 238 | 472 | 710 |
| Revenue | 16,600 | 27,400 | |
| Profit | 885 | 550 | |
| Other comprehensive income | - | (636) | |
| **Total comprehensive income** | - | (86) | |
| Group's share of profit | 177 | 138 | 315 |
| Group's share of total comprehensive income | 177 | (22) | 155 |
| Dividends received | - | - | - |

* In March 2012 the Group acquired the control of Papyrus (see Note 9). The Group includes Papyrus' financial statements in the consolidated financial statements as from that date.

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## 39. Interests in other entities (continued)

### Associates (continued)

During the year the Group, together with other companies in the paper industry, established Paper Web SARL, a web-based marketing operation. The Group's contribution to set up the investment was €600 thousand and resulted in the Group obtaining a 49% investment in Paper Web SARL. This contribution represented start-up costs and as a result there is no goodwill included in the €600 thousand investment.

On 31 March 2012, the Group's equity interest in Papyrus Pty Ltd increased from 25 to 90 percent and Papyrus Pty Ltd became a subsidiary from that date (see Note 9). Accordingly, the information relating to Papyrus Pty Ltd presented in the above table is only for the period from 1 January 2012 to 31 March 2012.

*IFRS 12.22(c)*

The Group has not recognised losses related to Cellulose S.A., totalling €15 thousand in 2012 (2011: nil), since the Group has no obligation in respect of these losses.

*IFRS 12.7(b), 9(e), IAS 1.122*

Although the Group has 20% ownership in the equity interests of Cellulose S.A., it has less than 20% of the voting rights. However, the Group has determined that it has significant influence because it has representation on the board of Cellulose S.A.

*IFRS 12.21(b)(iii)*

None of the Group's equity-accounted investees are publicly listed entities and consequentially do not have published price quotations, except for Cellulose S.A., which is listed on the Swiss Stock Exchange. Based on its closing price of €2.28 at the reporting date, the fair value of the Group's investment is €175 thousand.

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | | This Appendix illustrates the disclosures that may be necessary to provide information about an entity's interest in unconsolidated structured entities, when the entity adopts IFRS 12. It focuses on how the disclosures in an entity's annual financial statements could change as a result of IFRS 12. It does not illustrate all the disclosure requirements in respect of unconsolidated structured entities in IFRS 12.<br><br>Although this Appendix contains certain illustrative disclosures about transfers of financial assets in accordance with the Amendments to IFRS 7 *Disclosures – Transfers of Financial Assets*, it does not illustrate all the disclosures for transfers of financial assets as required by IFRS 7. Further guidance on the disclosure requirements in this regard can be found in the 9th Edition 2012/13 of our publication *Insights into IFRS* (7.8). |
| **2.** | *IFRS 12.C2B* | The disclosure requirements related to its interests in unconsolidated structured entities may be presented prospectively as from the first annual period for which IFRS 12 is applied. |
| **3.** | *IFRS 12.24-31* | The disclosure objective in respect of an entity's interests in unconsolidated structured entities is to provide information that helps users of its financial statements:<br><br>• to understand the nature and extent of its interests in unconsolidated structured entities; and<br><br>• to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities.<br><br>In order to meet this disclosure objective, IFRS 12 requires extensive qualitative and quantitative disclosures about the nature of an entity's interests and the nature of its risks. In particular, the standard requires certain disclosures if an entity has sponsored an unconsolidated structured entity for which it does not have an interest at the end of the reporting period. An entity discloses additional information that is necessary to meet the disclosure objective.<br><br>Determining whether an entity has an 'interest' in another entity that requires disclosures could involve significant judgement. Further guidance on the disclosure requirements is included in the 9th edition 2012/13 of our publication *Insights into IFRS* (2.5A). |

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# Appendix VIII

## Example disclosures for interests in unconsolidated structured entities[1]

### Extract of Note 39 'Interests in other entities'

#### Interests in unconsolidated structured entities[2, 3]

*IFRS 7.42A, 42B, 42E, 42G, 12.29*

In December 2012, the Group entered into a factoring arrangement under which it sold certain trade receivables to an unconsolidated structured entity, Compello Trust. Compello Trust was established by a bank to facilitate the factoring of receivables for a number of unrelated entities.

Under the terms of the factoring arrangement, the Group provided a guarantee to reimburse Compello Trust for any credit losses related to the transferred trade receivables exceeding the expected losses of 5%.

As a result of the transfer, trade receivables of €[ ] were derecognised in their entirety; the difference between the carrying amount of the trade receivables and the proceeds received, which amounted to €[ ], was recognised in profit or loss. The liability for the guarantee of €[ ] has been recognised as a financial guarantee and included in 'Trade and other payables' in the consolidated statement of financial position. The Group's maximum exposure to loss arising from its interests in Compello Trust, representing the maximum amount of loss that it could be required to reimburse under the guarantee, amounted to €[ ] at 31 December 2012. Since the inception, there has been no impact in profit or loss.

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IFRS 13.6–7, C2* | This Appendix illustrates the disclosures in annual financial statements on adoption of IFRS 13 *Fair Value Measurement*. IFRS 13 is effective for annual periods beginning on or after 1 January 2013. It illustrates one possible format for the disclosures required; other formats are possible.<br><br>IFRS 13 disclosure requirements relate to assets and liabilities measured at fair value or for which fair value disclosures are made, with limited explicit exceptions. Other currently effective IFRSs also include some disclosure requirements on such assets and liabilities e.g. IFRS 7 requires extensive disclosures on financial instruments, IAS 41 requires disclosures on biological assets stated at fair value, and IAS 40 requires disclosures on investment properties stated at fair value and disclosure of the fair value of properties stated at cost, which in some cases overlap with the IFRS 13 disclosure requirements.<br><br>To avoid any duplication, this appendix does not include detailed disclosures for financial instruments, because these disclosures are illustrated in Note 34. However, IFRS 13 includes additional disclosure requirements on recurring fair value measurements categorised within Level 3, including a narrative description of the sensitivity of the fair value measurements to changes in unobservable inputs, inter-relationships with another unobservable input and, for financial assets and liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly.<br><br>IFRS 13 is applied prospectively as of the beginning of the annual period in which it is initially applied. Prospective application will mean that any changes from adjustments to valuation techniques from the date of adoption will be recognised in the period of adoption either in profit or loss or other comprehensive income, when a gain or loss is recognised in other comprehensive income in accordance with the IFRS that requires or permits fair value measurement. Further guidance on this standard is included in the 9th edition 2012/13 of our publication *Insights into IFRS* (2.4A). |
| **2.** | *IFRS 13.93(a)–(b)* | When applicable, the fair value and the hierarchy within which the fair value measurements are categorised are separately disclosed for recurring and non-recurring fair value measurements.<br><br>Recurring fair value measurements of assets or liabilities are those that IFRS requires or permits in the statement of financial position at the end of the reporting period. Non-recurring fair value measurements of assets or liabilities are those that IFRS requires or permits in the statement of financial position in particular circumstances. |
| **3.** | *IFRS 13.93(f)* | The information provided corresponds only to fair value measurement for standing timber and livestock items under Level 3.<br><br>In this particular example, because all standing timber and livestock fair value measurements are under Level 3, most of the information has been already included in Note 18. Paragraph 50 of IAS 41 requires an entity to disclose a reconciliation of changes in the carrying amount of biological assets during the reporting period. Additionally, Paragraph 51 of IAS 41 encourages the disclosure of changes in the fair value due to physical changes and due to price changes, which is not required by IFRS 13. However, Paragraph 93(f) of IFRS 13 requires the disclosure of the unrealised gains or losses relating to recurring fair value measurements categorised in Level 3 of assets and liabilities held at the end of the reporting period. |

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# Appendix IX

## Example disclosures for entities that early adopt IFRS 13 *Fair Value Measurement*[1]

### 5. Determination of fair values

IFRS 13.93(a)

#### Fair value hierarchy[2]

The table below analyses recurring assets and liabilities carried at fair value. The different levels are defined as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.

| *In thousands of euro* | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Standing timber | - | - | 4,193 | 4,193 |
| Livestock | - | - | 912 | 912 |
| **Total biological assets** | - | - | 5,105 | 5,105 |
| Real estate for rental | - | - | 2,170 | 2,170 |
| **Total investment property** | - | - | 2,170 | 2,170 |

IFRS 13.95

The entity's policy is to recognise transfers out of Level 3 as of the date of the event or change in circumstances that caused the transfer.

The following table shows a reconciliation from the beginning balances to the ending balances for Level 3 fair value measurements.

| | *In thousands of euro* | Standing timber[3] | Livestock[3] | Investment property |
|---|---|---|---|---|
| IFRS 13.93(e) | Balance at 1 January 2012 | 5,942 | 834 | 1,050 |
| IFRS 13.93(e)(iii) | Acquisitions | 294 | 11 | 300 |
| IFRS 13.93(e)(iii) | Harvested timber transferred to inventories / sales | (2,480) | (127) | - |
| IFRS 13.93(e)(iii) | Reclassification from property, plant and equipment | - | - | 800 |
| IFRS 13.93(e)(i) | **Gains and losses for the period** | | | |
| IFRS 13.93(f) | Changes in fair value – Other income – Realised | 160 | 100 | - |
| IFRS 13.93(f) | Changes in fair value – Other income – Unrealised | 247 | 69 | 20 |
| IFRS 13.93(e)(i) | Net increase due to births and deaths – Other Income – Unrealised | - | 11 | - |
| IFRS 13.93(e)(ii) | **Change in fair value recognised in other comprehensive income** | | | |
| IFRS 13.93(e)(ii) | Effect of movements in exchange rate | 30 | 14 | - |
| IFRS 13.93(e) | **Balance at 31 December 2012** | 4,193 | 912 | 2,170 |

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IFRS 13.93(d)* | Required for fair value measurements in Levels 2 and 3. |
| **2.** | *IFRS 13.93(h)* | Required for fair value measurements in Level 3. |
| **3.** | *IFRS 13.93(d)* | If there has been a change in the valuation techniques applied to fair value measurements categorised in Levels 2 or 3, then the entity discloses the reasons for the change. |
| **4.** | *IFRS 13.93(d)* | The entity is not required to create quantitative information for inputs of fair value measurements categorised in Level 3 if the unobservable inputs are not developed by the entity when measuring fair value. However, when providing this disclosure, the entity does not ignore quantitative unobservable inputs that are significant to the fair value measurement that are reasonably available. |

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## 5. Determination of fair values (continued)

*IFRS 13.93(d), 93(h), 99*

The following table shows the valuation techniques used in the determination of fair values within Level 3 of the hierarchy, as well as the key unobservable inputs used in the valuation models.

| Type | Valuation approach[1, 3] | Key unobservable inputs[1, 4] | Inter-relationship between key unobservable inputs and fair value measurement[2] |
|---|---|---|---|
| **Biological assets** | | | |
| **Standing timber**<br>Standing timber older than 25 years (the age at which it becomes marketable) | The fair value is determined by applying the market comparison approach. The valuation model is based on the market price of the estimated recoverable wood volumes, net of harvesting and transportation costs. | Estimated harvest and transportation costs (6.4% to 8.3%, weighted average 7.5%). | The estimated fair value increases the lower are the estimated harvest and transportation costs. |
| Younger standing timber | The fair value is calculated by applying the discounted cash flow approach. The valuation model considers the present value of the net cash flows expected to be generated by the plantation at maturity, the expected additional biological transformation and the risks associated with the asset. | • Estimated future timber market price per ton (€12.8 to €17.9, weighted average of €16.25).<br>• Yield per hectare (6 to 10, weighted average of 8).<br>• Discount rate (7.9% to 9.0%, weighted average 8.6%). | The estimated fair value increases the higher is the estimated timber price and the yield per hectare and the lower is the discount rate. |
| **Livestock**<br>Livestock comprises cattle and sheep, both characterised as commercial and breeders | The fair value is determined by applying the market comparison approach. The valuation model is based on the market price of livestock of similar age, weight, breed and genetic make-up. | • Bonus on the classification on breeders (180% to 250%).<br>• Premiums on weight over the average of the category (7% to 25% depending on the category).<br>• Premiums on quality (up to 35% depending on the category). | The estimated fair value increases when the livestock is classified as breeders. The estimated fair value of commercial livestock increases as a result of weight and quality premiums. |

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## Explanatory note

| | | |
|---|---|---|
| **1.** | *IFRS 13.93(i)* | If the highest and best use of a non-financial asset differs from its current use in a recurring or non-recurring measurement, then the entity discloses that fact and why the non-financial asset is being used in a manner that differs from its highest and best use. |

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## 5. Determination of fair values (continued)

| Type | Valuation approach | Key unobservable inputs | Inter-relationship between key unobservable inputs and fair value measurement |
|---|---|---|---|
| **Investment property**[1] | | | |
| Commercial properties for leasing when prices per square metre for comparable buildings and leases are available | The fair values are determined by applying the market-comparison approach. The valuation model is based on a price per square metre for buildings derived from observable market data, derived from an active and transparent market. | • Prices per square metre (X to Y).<br>• Premium (discount) on the quality of the building and lease terms (-30% to 35%). | The estimated fair value increases the higher are premiums for higher quality buildings and lease terms. |
| Commercial properties for leasing when comparable prices per square metre for comparable buildings and leases are not available | In the absence of a price per square metre for similar buildings with comparable lease terms, the fair value is determined by applying the income approach. The valuation models are based on the estimated rental value of the property. A market yield is applied to the estimated rental value to arrive at the gross property valuation. When actual rents differ materially from the estimated rental value, adjustments are made to reflect actual rents. Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, the allocation of maintenance and insurance responsibilities between the Group and the lessee, and the remaining economic life of the property. | • Market rents (A to B).<br>• Investment property yields (from 4.8% to 7.9% depending on the location) and discount rates (7.9% to 9.0%; weighted average 8.6%). | The estimated fair value increases the lower are yields and discount rates. |
| Commercial properties under construction | The fair value of investment property under construction is determined by estimating the fair value of the completed investment property and then deducting from that amount the estimated costs to complete construction, financing costs and a reasonable profit margin on construction and development. The estimated cost to complete is determined based on the construction cost per square meter in the pertinent area. | • Construction cost per square meter (€900 to €1,700 depending on the location, weighted average €1,450).<br>• Estimated profit margin (14% to 18%, weight average 16.2%). | The estimated fair value increases the lower are the estimated costs of completion and the lower the required profit on construction and development. |

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## Explanatory note

| | | |
|---|---|---|
| **1.** | *IFRS 13.93* | Most of the IFRS 13 disclosure requirements regarding financial assets and financial liabilities measured at fair value are already required under IFRS 7.<br><br>However, IFRS 13 includes additional disclosure requirements on recurring fair value measurements categorised within Level 3, including a narrative description of the sensitivity of the fair value measurements to changes in unobservable inputs, inter-relationships with another unobservable input and, for financial assets and liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly.<br><br>In this Appendix, contingent consideration is measured at fair value using unobservable inputs (Level 3) on a recurring basis. Consequently, these additional disclosure requirements are included as a modification of Note 34. |

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Notes to the consolidated financial statements

## 5. Determination of fair values (continued)

IFRS 13.93(g)

### Valuation processes applied by the Group

IFRS 13.IE65(a)

The fair value of standing timber is performed by the Group's finance department and operations team, on a quarterly basis. Finance department reports to the Group's Chief Financial Officer (CFO). The valuation reports are discussed with the Audit Committee in accordance with the Group's reporting policies.

IFRS 13.IE65(a)

The fair value of investment properties is determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued. The valuation company provides the fair value of the Group's investment property portfolio every six months.

IFRS 13.IE65(e)

Key unobservable inputs correspond to:

- Future timber market prices, estimated based on an extrapolation of current and the past 10 years' market prices and trends.
- Yield classes per hectare, derived from tables published by the Forestry Commission and other specialised publications that provide the yield class considering the species and the age class.
- Investment property yields derived from specialised publications from the related markets and comparable transactions.
- Estimated profit margin is determined based on weighted average of comparable listed companies in the pertinent locations.
- Discount rate, based on the risk-free rate for 10-year bonds issued by the government in the relevant market, adjusted for a risk premium to reflect both the increased risk of investing in the asset class.
- Scenarios on revenue growth were developed by the Management considering the conditions in the global capital and credit markets, and the economy generally, particularly in the EU and North America; the level of competition for domestic and foreign producers; the impact of any exchange rate fluctuations.

## Extract of Note 34 – 'Financial Instruments – Accounting classifications and fair values'[1]

### Determination of fair values

### Financial liabilities

IFRS 13.93(d)

#### Contingent consideration

IFRS 13.93(h)(i)

Level 3: The contingent consideration liability arose from the acquisition of Papyrus Pty Limited, which includes a clause that entitles the seller to an amount of €600 thousand if the acquiree's cumulative EBITDA over the next three years exceeds a threshold. The fair value is determined considering the estimated payment, discounted to present value. The estimated payment is calculated applying the income approach, considering different scenarios of projected EBITDA, considering the amount to be paid under each scenario, weighted by the probability of each scenario. Key unobservable inputs include anticipated revenue rate of annual growth (3% to 8% depending on each scenario), the EBITDA margin (X to Y%) and the discount rate (10.5%). The estimated fair value increases the higher is the annual revenue growth rate, the higher is the EBITDA margin and the lower is the discount rate.

IFRS 13.93(h)(ii)

Management considers that changing the above mentioned unobservable inputs to reflect other reasonably possible alternative assumptions would not result in a significant change in the estimated fair value.

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | | This Appendix helps in preparing disclosures in annual financial statements for entities that have going concern issues. It illustrates one possible format for the disclosures; other formats are possible. |
| **2.** | *IAS 1.25* | Financial statements are prepared on a going concern basis, unless management intends or has no alternative other than to liquidate the entity or stop trading. In our view, there is no general dispensation from the measurement, recognition and disclosure requirements of IFRS even if an entity is not expected to continue as a going concern. We believe that even if the going concern assumption is not appropriate, IFRS is applied accordingly, with particular attention paid to the requirements of:<br>• IFRS 5 (to the extent that assets are being held for sale and not abandoned);<br>• IAS 32 (with respect to the classification of the entity's debt and equity instruments);<br>• IAS 36; and<br>• IAS 37.<br>If an entity ceases to be a going concern after the end of the reporting period but before its financial statements are authorised for issue, then it should not prepare its financial statements on a going concern basis. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (2.4.15.10). |

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# Appendix X

## Example disclosures for entities that require going concern disclosures[1]

## 2. Basis of preparation

### (X). Going concern basis of accounting[2]

IAS 1.25

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to meet the mandatory repayment terms of the banking facilities as disclosed in Note 34.

The Group has recognised a net profit after tax of €7,937 thousand for the year ended 31 December 2012 and as at that date, current assets exceed current liabilities by €22,046 thousand. However, as described in Note X, significant one-off environmental costs are expected in 2012 reflecting various regulatory developments in a number of European countries.

In addition to the above, fully drawn banking facilities of €7,012 are subject to review by 30 June 2012. The lenders are expected to undertake a review, which will include (but is not limited to) an assessment of:

- the financial performance of the Group against budget;
- the progress of compliance with new regulatory requirements; and
- the progress of planned divestments and/or capital raisings to meet repayment requirements.

Management believe that the repayment of the facilities will occur as required and is confident that asset sales as disclosed in Note 8 will be finalised before 30 June 2012 and that the proceeds will be sufficient to meet the repayment requirements at that date. Management anticipate that any additional repayments required will be met out of operating cash flows or from alternative forms of capital raising such as further asset sales, a rights or note issue or private placement. Management has access to underwriters and a plan for equity raising if required.

IAS 1.26

Management acknowledge that uncertainty remains over the ability of the Group to meet its funding requirements and to refinance or repay its banking facilities as they fall due. However, as described above, management has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. If for any reason the Group is unable to continue as a going concern, it could have an impact on the Group's ability to realise assets at their recognised values, in particular goodwill and other intangible assets and to extinguish liabilities in the normal course of business at the amounts stated in the consolidated financial statements.

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | | This Appendix illustrates the disclosures that may be necessary to provide information about distributions of non-cash assets to owners and/or non-current assets (or disposal groups) that are held for distribution (or distributed) to owners. |
| **2.** | *IFRIC 17.14* | The difference between the dividend paid/payable and the carrying amount of the assets distributed is presented as a separate line item in profit or loss. |

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# Appendix XI

## Example disclosures for distributions of non-cash assets to owners[1]

IFRIC 17.16(a)

### (X). Distribution of wholly owned subsidiary to owners of the Company

On 15 May 2012, the Board of Directors of the Company announced that the Group would distribute all its shares in Papier GmbH, a wholly owned subsidiary within the Recycled Papers segment to the Company's shareholders. On authorisation of the distribution, the Group recognised a dividend payable of €12,500 thousand, being the fair value of the assets to be distributed.

On 3 June 2012, the shares were distributed. The net assets comprised assets of €17,408 thousand less liabilities of €7,464 thousand as follows.

| *In thousands of euro* | **2012** |
|---|---|
| Property, plant and equipment | **9,650** |
| Investment property | **100** |
| Intangible assets | **400** |
| Deferred tax asset | **225** |
| Inventories | **2,900** |
| Trade and other receivables | **4,133** |
| Loans and borrowings | **(3,064)** |
| Provisions | **(200)** |
| Deferred tax liabilities | **(450)** |
| Trade and other payables | **(3,750)** |
| **Carrying amount of net assets distributed** | **9,944** |
| Dividend to shareholders | **12,500** |
| Carrying amount of net assets distributed | **(9,944)** |
| **Gain on distribution to owners of the Company** | **2,556**[2] |

IFRIC 17.16(b)

There was no change in the fair value of the assets to be distributed between the date the distribution was approved and the date that the dividend was settled.

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## Explanatory notes

| | |
|---|---|
| **1.** | This Appendix illustrates a variety of disclosures that an entity may make under Paragraph 26 of IAS 24. In providing these disclosures, entities need to assess the appropriate level of detail so that voluminous disclosures do not mask important information that may affect an assessment of the entity's results of operations and financial condition.<br><br>Other formats are possible; the appropriate level of disclosure may vary depending on the significance of related party transactions. |
| **2.** | For the example disclosures in this Appendix, we assume that the Group is indirectly controlled by the government of Country X. We also assume that, in addition to selling to various private sector entities, products are sold to government agencies and departments of Country X. |

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# Appendix XII

## Example disclosures for government-related entities under IAS 24 *Related Party Disclosures*[1, 2]

### (X). Related parties

#### Example 1: Individually significant transaction because of size of transaction

In 2010, a subsidiary entity, Griffin Ltd, entered into a procurement agreement with the Department of Commerce of the Government of Country X, such that Griffin Ltd would act as the sole supplier of recycled paper products to the Department's various agencies for a term of three years from 2011 to 2013, with an agreed bulk discount of 10 percent compared to list prices that Griffin Ltd would generally charge on individual orders.

The aggregate sales value under the agreement for the year ended 31 December 2012 amounted to €3,500 thousand (2011: €2,800 thousand). As at 31 December 2012, the aggregate amounts due from the Department amounted to €10 thousand (2011: €30 thousand) and are payable under normal 30 days' credit terms.

#### Example 2: Individually significant transaction carried out on 'non-market' terms

On 30 December 2011, the Department of Finance of the Government of Country X contracted Griffin Ltd to be the sole designer and supplier of materials for office fit-outs for all of Government. The contract lasts for a term of five years from 2012 to 2016. Under the agreement, the Department of Finance will reimburse Griffin Ltd for the cost of each fit-out. However, Griffin Ltd will not be entitled to earn a margin above cost for this activity. The aggregate sales value under the agreement for the year ended 31 December 2012 amounted to €3,500 thousand. As at 31 December 2012, the aggregate amounts due from the Department amounted to €1,000 thousand and are payable under normal 30 days' credit terms.

#### Example 3: Individually significant transaction outside normal day-to-day business operations

Pursuant to an agreement dated 1 January 2012, Griffin Ltd and the Department of Trade and Enterprise of the Government of Country X agreed to participate and co-operate with a third party consortium in the development, funding and operation of a research and development centre. Griffin Ltd will also sub-lease a floor in its headquarters building as an administrative office for the joint operation. As at 31 December 2012, the capital invested in the venture amounted to €700 thousand and total lease payments of €100 thousand were received as rental income.

#### Example 4: Individually significant transaction subject to shareholder approval

Griffin Ltd currently owns 40 percent of Galaxy Corp, with the remaining 60 percent owned by the Department of Commerce of the Government of Country X (25 percent) and Lex Corp (35 percent), a party indirectly controlled by the Department of Commerce.

On 1 December 2012, Griffin Ltd entered into a sale and purchase agreement (the Agreement) with the Department of Commerce and Lex Corp, such that Griffin Ltd will buy their shares in Galaxy Corp at €1 per share, at a total consideration of €6,000 thousand. The terms of the Agreement are subject to independent shareholders approval at the extraordinary general meeting to be held on 1 February 2013. On the completion of the proposed acquisition, Galaxy Corp will become a wholly owned subsidiary of Griffin Ltd.

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## (X). Related parties (continued)

### Example 5: Collectively, but not individually, significant transactions

Griffin Ltd operates in an economic regime dominated by entities directly or indirectly controlled by the Government of Country X through its government authorities, agencies, affiliations and other organisations, collectively referred to as *government-related entities*. Griffin Ltd has transactions with other government-related entities including but not limited to sales and purchase of goods and ancillary materials, rendering and receiving services; lease of assets, and use of public utilities.

These transactions are conducted in the ordinary course of Griffin Ltd's business on terms comparable to those with other entities that are not government-related. Griffin Ltd has established procurement policies, pricing strategy and approval process for purchases and sales of products and services, which are independent of whether the counterparties are government-related entities or not.

For the year ended 31 December 2012, management estimates that the aggregate amount of Griffin Ltd's significant transactions with other government-related entities are at least 50 percent of its sales of recycled paper products and between 30 to 40 percent of its purchase of materials.

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | | This Appendix illustrates one possible format for the disclosure of a service concession arrangement to help in the preparation of consolidated financial statements. Other presentation formats are possible. |
| **2.** | *IFRIC 12.24* | A financial asset recognised in a service concession arrangement is accounted for in accordance with IAS 39 as a loan or receivable, an available-for-sale financial asset or, if so designated on initial recognition (and conditions for that classification are met), a financial asset at fair value through profit or loss. |

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# Appendix XIII

## Example disclosures for entities with a service concession arrangement[1]

### (X). Significant accounting policies

#### (X) Revenue

#### (i) Service concession arrangements

*IFRIC 12.13*

Revenue related to construction or upgrade services under a service concession arrangement is recognised based on the stage of completion of the work performed, consistent with the Group's accounting policy on recognising revenue on construction contracts. Operation or service revenue is recognised in the period in which the services are provided by the Group. When the Group provides more than one service in a service concession arrangement, the consideration received is allocated by reference to the relative fair values of the services delivered when the amounts are separately identifiable.

#### (X) Non-derivative financial assets

#### (i) Service concession arrangements

The Group recognises a financial asset arising from a service concession arrangement when it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction or upgrade services provided. Such financial assets are measured at fair value on initial recognition and classified as loans and receivables.[2] Subsequent to initial recognition, the financial assets are measured at amortised cost.

If the Group is paid for the construction services partly by a financial asset and partly by an intangible asset, then each component of the consideration is accounted for separately and is recognised initially at the fair value of the consideration (see also accounting policy note on intangible assets below).

#### (X) Intangible assets

#### (i) Service concession arrangements

*IFRIC 12.17*

The Group recognises an intangible asset arising from a service concession arrangement when it has a right to charge for usage of the concession infrastructure. An intangible asset received as consideration for providing construction or upgrade services in a service concession arrangement is measured at fair value on initial recognition by reference to the fair value of the services provided. Subsequent to initial recognition, the intangible asset is measured at cost, which includes capitalised borrowing costs, less accumulated amortisation and accumulated impairment losses.

The estimated useful life of an intangible asset in a service concession arrangement is the period from when the Group is able to charge the public for the use of the infrastructure to the end of the concession period.

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## Explanatory notes

| | | |
|---|---|---|
| **1.** | *IFRIC 12.5(a)–(b)* | Accounting for service concession arrangements is complex and appropriate disclosures will depend on the circumstances of the individual entity. Issues related to the accounting for service concession arrangements are discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (5.12). |
| **2.** | *SIC-29.7* | Disclosures about the nature and extent of service concession arrangements are provided individually for each service concession arrangement or in aggregate for each class of service concession arrangement. A class is a grouping of service concession arrangements involving services of a similar nature. |

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Notes to the consolidated financial statements

## (Y). Determination of fair values

### Intangible assets

The fair value of an intangible asset received as consideration for providing construction services in a service concession arrangement is estimated by reference to the fair value of the construction services provided. The fair value is calculated as the estimated total construction cost plus a profit margin of 5 percent, which the Group considers a reasonable margin. When the Group receives an intangible asset and a financial asset as consideration for providing construction services in a service concession arrangement, the Group estimates the fair value of intangible assets as the difference between the fair value of the construction services provided and the fair value of the financial asset received.

## (Z). Service concession arrangement[1, 2]

*SIC-29.6*

On 1 July 2012, the Group entered into a service concession agreement with a local township (the grantor) to construct a toll road near one of the Group's forestry operations. The construction of the toll road commenced in July 2012 and was completed and available for use on 30 September 2012. Under the terms of the agreement, the Group will operate and make the toll road available to the public for a period of five years, starting from 1 October 2012. The Group will be responsible for any maintenance services required during the concession period. The Group does not expect major repairs to be necessary during the concession period.

*SIC-29.6(c)(iv)*

The grantor will provide the Group a guaranteed minimum annual payment for each year that the toll road is in operation. Additionally, the Group has received the right to charge users a fee for using the toll road, which the Group will collect and retain; however, this fee is capped to a maximum amount as stated in the service concession agreement. The usage fees collected and earned by the Group are over and above the guaranteed minimum annual payment to be received from the grantor. At the end of the concession period, the toll road becomes the property of the grantor and the Group will have no further involvement in its operation or maintenance requirements.

*SIC-29.6(c)(v)*

The service concession agreement does not contain a renewal option. The rights of the grantor to terminate the agreement include poor performance by the Group and in the event of a material breach in the terms of the agreement. The rights of the Group to terminate the agreement include failure of the grantor to make payment under the agreement, a material breach in the terms of the agreement, and any changes in law that would render it impossible for the Group to fulfil its requirements under the agreement.

*SIC-29.6(e), 6A*

*IAS 23.26(a)–(b), IFRIC 12.22*

For the year ended 31 December 2012, the Group has recognised revenue of €350 thousand, consisting of €320 thousand on construction and €30 thousand on operation of the toll road, which is the amount of tolls collected. The Group has recognised profit of €20 thousand, consisting of a profit of €25 thousand on construction and a loss of €5 thousand on operation of the toll road. The revenue recognised in relation to construction in 2012 represents the fair value of the construction services provided in constructing the toll road. The Group has recognised a service concession receivable, measured initially at the fair value of the construction services, of €260 thousand representing the present value of the guaranteed annual minimum payments to be received from the grantor, discounted at a rate of 5 percent, of which €11 thousand represents accrued interest. The Group has recognised an intangible asset of €95 thousand, of which €5 thousand has been amortised in 2012. The intangible asset represents the right to charge users a fee for usage of the toll road. Capitalised borrowing costs included in this intangible asset amount to €6 thousand, which was determined based on an estimation of the average interest costs on borrowings of 5.7 percent.

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# Technical guide

## Form and content of financial statements

IAS 1 sets out the overall requirements for the presentation of financial statements, including their content and structure. Other standards and interpretations deal with the recognition, measurement and disclosure requirements related to specific transactions and events. IFRS is not limited to a particular legal framework. Therefore, financial statements prepared under IFRS often contain supplementary information required by local statute or listing requirements, such as directors' reports (see below).

## Choice of accounting policies

The accounting policies disclosed in these illustrative financial statements reflect the facts and circumstances of the fictitious corporation on which these financial statements are based. They should not be relied on for a complete understanding of the requirements of IFRS and should not be used as a substitute for referring to the standards and interpretations themselves. The accounting policies appropriate for an entity depend on the facts and circumstances of that entity, including the accounting policy choices that an entity makes, and may differ from the disclosures presented in these illustrative financial statements. The recognition and measurement requirements of IFRS are discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS*.

## Reporting by directors

Generally, local laws and regulations determine the extent of reporting by directors in addition to the presentation of financial statements. IAS 1 encourages, but does not require, entities to present, outside the financial statements, a financial review by management. The review describes and explains the main features of the entity's financial performance and financial position, and the principal uncertainties that it faces. Such a report may include a review of:

- the main factors and influences determining financial performance, including changes in the environment in which the entity operates, the entity's response to those changes and their effect, and the entity's policy for investment to maintain and enhance financial performance, including its dividend policy;
- the entity's sources of funding and its targeted ratio of liabilities to equity; and
- the entity's resources not recognised in the statement of financial position in accordance with IFRS.

## First-time adopters of IFRS

These illustrative financial statements assume that the entity is not a first-time adopter of IFRS. IFRS 1 *First-time Adoption of International Financial Reporting Standards* applies to an entity's first financial statements prepared in accordance with IFRS. IFRS 1 requires extensive disclosures explaining how the transition from previous GAAP to IFRS affects the reported financial position, financial performance and cash flows of an entity. These disclosures include reconciliations of equity and reported profit or loss at the date of transition to IFRS and at the end of the comparative period presented in the entity's first IFRS financial statements, explaining material adjustments to the statements of financial position, changes in equity and comprehensive income, and identifying separately the correction of any errors made under previous GAAP. An entity that presented a statement of cash flows under previous GAAP also explains any material adjustments to its statement of cash flows. For more information, see KPMG's *Illustrative financial statements: first-time adopters*, published in February 2010 and *Illustrative condensed interim financial statements: first-time adopters*, published in July 2011.

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For a sector-specific or local perspective, follow the links to the IFRS resources available from KPMG member firms around the world, which are also available on kpmg.com.

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| User need | Publication series | Purpose |
|---|---|---|
| **Briefing** | In the Headlines | Provides a high-level summary of significant accounting, auditing and governance changes together with their impact on entities. |
| | IFRS Newsletters | Highlights recent IASB and FASB discussions on the financial instruments, insurance, leases and revenue projects. Includes an overview, an analysis of the potential impact of decisions, current status and anticipated timeline for completion. |
| | The Balancing Items | Focuses on narrow-scope amendments to IFRS. |
| | New on the Horizon | Considers the requirements of due process documents such as exposure drafts and provides KPMG's insight. Also available for specific sectors. |
| | First Impressions | Considers the requirements of new pronouncements and highlights the areas that may result in a change in practice. Also available for specific sectors. |
| **Application issues** | Insights into IFRS | Emphasises the application of IFRS in practice and explains the conclusions that we have reached on many interpretive issues. |
| | Insights into IFRS: An overview | Provides a structured guide to the key issues arising from the standards. |
| | IFRS Practice Issues | Addresses practical application issues that an entity may encounter when applying IFRS. Also available for specific sectors. |
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| **Interim and annual reporting** | Illustrative financial statements | Illustrates one possible format for financial statements prepared under IFRS, based on a fictitious multinational corporation. Available for annual and interim periods, and for specific sectors. |
| | Disclosure checklist | Identifies the disclosures required for currently effective requirements for both annual and interim periods. |
| **GAAP comparison** | IFRS compared to US GAAP | Highlights significant differences between IFRS and US GAAP. The focus is on recognition, measurement and presentation; therefore, disclosure differences are generally not discussed. |

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| User need | Publication series | Purpose |
|---|---|---|
| **Sector-specific issues** | IFRS Sector Newsletters | Provides a regular update on accounting and regulatory developments that directly impact specific sectors. |
| | Application of IFRS | Illustrates how entities account for and disclose sector-specific issues in their financial statements. |
| | Accounting under IFRS | Focuses on the practical application issues faced by entities in specific sectors and explores how they are addressed in practice. |
| | Impact of IFRS | Provides a high-level introduction to the key IFRS accounting issues for specific sectors and discusses how the transition to IFRS will affect an entity operating in that sector. |

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