KPMG

# IFRS 7 for corporates

International Financial Reporting Standards
December 2006

AUDIT ▪ TAX ▪ ADVISORY

# About this publication

This publication has been produced by the KPMG International Financial Reporting Group (part of KPMG IFRG Limited), and the views expressed herein are those of the KPMG International Financial Reporting Group.

## Content

The purpose of this publication is to assist you in assessing the impact of IFRS 7 *Financial Instruments: Disclosures* on financial statements for annual periods beginning on or after 1 January 2007, the effective date of the standard. This publication is aimed at entities other than banks, insurance companies and other financial institutions, i.e., it is intended for "corporates". See the September 2006 edition of our publication *Illustrative Financial Statements: Banks* for an illustration of the application of IFRS 7 to the financial statements of a financial institution.

In addition, this publication illustrates the amendments to IAS 1 *Presentation of Financial Statements* in respect of capital disclosures that were introduced at the same time as IFRS 7 with the same effective date.

This publication is intended as a supplement to the August 2006 edition of our publication *Illustrative Financial Statements*. Those illustrative financial statements are based on an annual reporting date of 31 December 2006 and do not illustrate the requirements of IFRS 7.

This publication uses the same fictitious multinational corporation that is the basis of the illustrative financial statements and illustrates how those financial statements would have differed if IFRS 7 had been applied. Therefore this publication does not represent a complete set of financial statements.

The extent of disclosures required by a corporate depends on the level of financial instruments entered into, and the extent and nature of the entity's risk exposures. The illustrative disclosures in this publication are not intended to provide minimum disclosure examples, nor are they intended to provide guidance on all possible situations requiring disclosure. In addition, IFRS 7 focuses on information provided internally to management, which will vary from corporate to corporate.

This publication focuses on compliance on IFRS 7, but does not repeat all of that standard's requirements. In addition, IFRSs other than IFRS 7 and the amendments to IAS 1 are not discussed in this publication.

While this publication is up to date at the time of printing, IFRSs and their interpretation change over time. Accordingly, this publication should not be used as a substitute for referring to the standards and interpretations themselves.

## References

The illustrative disclosures are contained on the odd-numbered pages of this publication. The even-numbered pages contain explanatory comments and notes. As noted above, these explanatory comments are not intended to be an exhaustive commentary. To the left of each item disclosed, a reference to the relevant paragraph in IFRS 7 or the IAS 1 amendments is provided.

Because of the limited number of note disclosures in this publication, they are not numbered or cross-referenced. However, in practice an entity would cross-reference relevant notes.

## Other ways KPMG member firms' professionals can help

We have a range of publications that can assist you further, including *Insights into IFRS*, *The Application of IFRS: Disclosures in Practice*, *Financial instruments accounting*, *IFRS: An overview*, *Disclosure checklist*, banking and non-banking illustrative financial statements, illustrative financial statements for first-time adopters of IFRSs and illustrative condensed interim financial statements. Technical information is available at www.kpmgifrg.com.

For access to an extensive range of accounting, auditing and financial reporting guidance and literature, visit KPMG's Accounting Research Online. This Web-based subscription service can be a valuable tool for anyone who wants to stay informed in today's dynamic environment. For a free 15-day trial, go to www.aro.kpmg.com and register today.

# Technical guide

## Background

On 18 August 2005 the International Accounting Standards Board (IASB) issued IFRS 7 *Financial Instruments: Disclosures*. The standard supersedes IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions* and the disclosure requirements of IAS 32 *Financial Instruments: Disclosure and Presentation*; the presentation requirements of IAS 32 remain unchanged, and many of the disclosure requirements of IAS 32 have been transferred unchanged to IFRS 7. IFRS 7 is effective for annual periods beginning on or after 1 January 2007 with earlier application encouraged.

In recent years the techniques used by entities for measuring and managing their exposure to risks arising from financial instruments have evolved, and new risk management concepts and approaches have gained acceptance. IFRS 7 reflects this changing environment, and makes a number of improvements to the disclosure framework for risks arising from financial instruments.

The objective of IFRS 7 is to introduce disclosure requirements that enable users of the financial statements to evaluate the significance of financial instruments to the entity's financial position and performance, the nature and extent of risks arising from financial instruments to which the entity is exposed, and how the entity manages those risks.

The disclosure requirements are the same for entities that make only limited use of financial instruments (e.g., a manufacturer whose only financial instruments are accounts receivable and accounts payable) as for those that have wide range of financial instruments (e.g., a financial institution most of whose assets and liabilities are financial instruments). However, the extent of disclosure required by the standard depends on the extent of the entity's use of financial instruments and its exposure to risks.

## Scope of this publication

This publication is intended to be used in conjunction with the August 2006 edition of our publication *Illustrative Financial Statements*. Throughout this publication explanatory comments explain whether the disclosures replace disclosures in the illustrative financial statements, or whether they supplement those disclosures.

The accounting policies included in the illustrative financial statements are not repeated in this publication since IFRS 7 does not affect an entity's chosen accounting policies. However, IFRS 7 does emphasise the requirement in IAS 1 to disclose accounting policies.

This publication illustrates the application of IFRS 7 for a corporate. For illustrative disclosures under IFRS 7 for a bank, see the September 2006 edition of our publication *Illustrative Financial Statements: Banks*.

## Transitional requirements

IFRS 7 included transitional relief for entities that adopted the standard for an annual period beginning before 1 January 2006. If a corporate is adopting IFRS 7 for an annual period beginning after that date, then full comparative information is required. This is the case even if IFRS 7 is being adopted before its effective date, e.g., for an annual period beginning on 1 July 2006. These requirements also apply to first-time adopters of IFRSs.

# Contents

| Note | *Reference* | **Explanatory note** |
|---|---|---|
| **1.** | | This disclosure mainly supplements the disclosures included in the August 2006 edition of our publication *Illustrative Financial Statements*. |
| **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 reporting date. 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 must disclose:<br><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<br>(3) any changes in (1) or (2) from the previous period. |
| | *IAS 1.124A* | An entity must disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital. |
| **3.** | *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*. |
| **4.** | | In this publication the qualitative disclosures in respect of financial instruments have been separated from the related quantitative disclosures. Alternatively, all financial instrument disclosures could be grouped together in the financial statements. |
| **5.** | | This disclosure replaces the commentary in respect of credit risk in note 33 of the August 2006 edition of our publication *Illustrative Financial Statements*. |

Reference

# Financial risk management[1]

## Overview[2, 3]

*IFRS 7.31* The Group has exposure to the following risks from its use of 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. Further quantitative disclosures are included throughout these consolidated financial statements.[4]

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board 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.

*IFRS 7.33*

## Credit risk[5]

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.

### Trade and other receivables

*IFRS 7.34(c)* The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk. Approximately 20 percent of the Group's revenue is attributable to sales transactions with a single customer. However, geographically there is no concentration of credit risk.

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, where 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.

| Note | *Reference* | **Explanatory note** |
|---|---|---|
| **1.** | | This disclosure supplements the disclosures included in the August 2006 edition of our publication *Illustrative Financial Statements*. |
| **2.** | *IFRS 7.IG 30, 31* | The IFRS 7 implementation guidance provides guidance on the entity's description of how it manages the liquidity risk inherent in the maturity analysis of financial liabilities (see page 27 of this publication). In particular, it lists factors that an entity might consider when providing this disclosure. |

Reference

# Financial risk management (continued)

## Credit risk (continued)

More than 85 percent of the Group's customers have been transacting with the Group for over four years, and losses have occurred infrequently. 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 future sales are made on a prepayment basis with approval of the Risk Management Committee.

*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 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 and investments. 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.

### Investments

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a credit rating of at least A1 from Standard & Poor's and A from Moody's. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

### Guarantees

The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries. At 31 December 2006 no guarantees were outstanding (31 December 2005: none).

*IFRS 7.33*

## Liquidity risk[1, 2]

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. 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 7.39(b)* 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. Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Group maintains the following lines of credit:

- €5 million overdraft facility that is unsecured. Interest would be payable at the rate of EURIBOR plus 150 basis points.
- €10 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.

| Note | *Reference* | **Explanatory note** |
|---|---|---|
| **1.** | | This disclosure replaces the commentary in respect of foreign currency risk in note 33 of the August 2006 edition of our publication *Illustrative Financial Statements*. |
| **2.** | *IFRS 7.22(b)* | In this publication the fair values of hedging instruments are included in the fair value table on page 37 of this publication. |
| **3.** | | This disclosure replaces the commentary in respect of interest rate risk in note 33 of the August 2006 edition of our publication *Illustrative Financial Statements*. |

*Reference*

# Financial risk management (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 on risk.

The Group buys and sells derivatives in the ordinary course of business, 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 U.S. Dollars (USD) and Sterling (GBP). The currencies in which these transactions primarily are denominated are euro, USD, GBP and Swiss Francs (CHF).

*IFRS 7.22* The Group hedges at least 80 percent of all trade receivables and trade payables denominated in a foreign currency. At any point in time the Group also 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 uses forward exchange contracts to hedge its currency risk, most with a maturity of less than one year from the reporting date. When necessary, forward exchange contracts are rolled over at maturity.[2]

*IFRS 7.22* 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.[2]

Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily euro, but also GBP and USD. This provides an economic hedge and no derivatives are entered into.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures 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 is hedged by a CHF-denominated secured bank loan, which mitigates the currency risk arising from the subsidiary's net assets. The Group's investments in other subsidiaries are not hedged as those currency positions are considered to be long-term in nature.[2]

### Interest rate risk[3]

*IFRS 7.22* The Group adopts a policy of ensuring that between 40 and 60 percent of its exposure to changes in interest rates on borrowings is on a fixed rate basis. This is achieved by entering into interest rate swaps.

| Note | *Reference* | **Explanatory note** |
|---|---|---|
| **1.** | | This disclosure supplements the disclosures included in the August 2006 edition of our publication *Illustrative Financial Statements*. |
| **2.** | *IAS 1.124A-C* | IAS 1 *Presentation of Financial Statements* requires the disclosure of information on an entity's objectives, policies and processes for managing capital, and has specific requirements when the entity's capital is regulated. Example disclosures are illustrated in our September 2006 publication *Illustrative Financial Statements: Banks*. |
| | *IAS 1.124B* | The disclosures in respect of capital management should be based on the information provided internally to key management personnel of the entity, e.g., the entity's board of directors or chief executive. |
| | *IAS 1.124B (c)-(e)* | When applicable, an entity should describe changes in quantitative and qualitative data about its objectives, policies and processes for managing capital as compared to the prior period, a statement of whether it has complied with externally imposed capital requirements and any instances of non-compliance therewith. |
| | *IAS 1.124C* | 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 should disclose separate information for each capital requirement to which the entity is subject. |

Reference

# Financial risk management (continued)

## Market risks (continued)

Other market price risk[1]

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. Management of the Group monitors the mix of debt and equity securities in its investment portfolio based on market expectations. 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 advisors in this regard. In accordance with this strategy certain investments are designated 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.

*IAS 1.124A*

## Capital management[2]

*IAS 1.124B(a), (b)* 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. The Board of Directors monitors both the demographic spread of shareholders, as well as the return on capital, which the Group defines as total shareholders' equity, excluding non-redeemable preference shares and minority interests, and the level of dividends to ordinary shareholders.

*IAS 1.124B(a)* The Board's target is for employees of the Group to hold five percent of the Company's ordinary shares by 2010. At present employees hold one percent of ordinary shares, or just under three percent assuming that all outstanding share options vest and / or are exercised. 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. The Group is in discussions with employee representatives, but no decisions have been made.

*IAS 1.124B(a)* The Board seeks 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 shareholders' equity of between 10 and 15 percent; in 2006 the return was 15.2 percent (2005: 12.3 percent). In comparison the weighted average interest expense on interest-bearing borrowings (excluding liabilities with imputed interest) was 5.7 percent (2005: 5.4 percent).

*IAS 1.124B(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 1.124B(c)* There were no changes in the Group's approach to capital management during the year.

*IAS 1.124B(a)* Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

| Note | *Reference* | **Explanatory note** |
|---|---|---|
| **1.** | | This disclosure replaces note 13 in the August 2006 edition of our publication *Illustrative Financial Statements*; certain numbers have been changed for the purpose of this illustration. The disclosure in this publication deals with all aspects of financial income and expense rather than being limited to items recognised in profit or loss; however, it is not a requirement of IFRS 7 to include all of this information in a single note. |
| **2.** | | If applicable, an entity also must disclose: |
| | *IFRS 7.20 (a)(iii)-(v)* | • net gains or 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 or losses on the hedging instrument and on the hedged item attributable to the hedged risk |
| | *IFRS 7.24(c)* | • the ineffective portion of the change in fair value of a net investment hedge |
| | *IFRS 7.23(e)* | • for cash flow hedges, the amount removed from equity and recognised on the balance sheet. |
| **3.** | *IFRS 7.28* | An entity should disclose the following in respect of any "Day one" gain or loss: |
| | | • an accounting policy |
| | | • the aggregate difference still to be recognised in profit or loss, and a reconciliation between the opening and closing balance thereof. |
| **4.** | | In this publication impairment losses in respect of trade receivables are presented as part of cost of sales. Alternatively, such impairment losses might be presented as financial expenses. |

Reference

# Financial income and expense[1]

## Recognised in profit or loss

| Reference | *In thousands of euro* | 2006 | 2005 |
|---|---|---|---|
| | Interest income on unimpaired held-to-maturity investments | 131 | 89 |
| *IFRS 7.20(d)* | Interest income on impaired held-to-maturity investments | 7 | 6 |
| | Interest income on available-for-sale financial assets | 34 | 27 |
| | Interest income on bank deposits | 25 | 29 |
| | Dividend income on available-for-sale financial assets | 357 | 318 |
| *IFRS 7.20(a)(ii)* | Net gain on disposal of available-for-sale financial assets transferred from equity | 64 | - |
| *IFRS 7.20(a)(i)* | Change in fair value of financial assets held for trading | 204 | - |
| *IFRS 7.20(a)(i)* | Change in fair value of financial assets designated at fair value through profit or loss | 80 | - |
| *IFRS 7.23(d)* | Net change in fair value of cash flow hedges transferred from equity | 9 | 11 |
| | Financial income[2] | 911 | 480 |
| | | | |
| | Interest expense on financial liabilities measured at amortised cost | (1,473) | (1,299) |
| | Net foreign exchange loss | (251) | (323) |
| *IFRS 7.20(a)(i)* | Change in fair value of financial assets held for trading | - | (21) |
| *IFRS 7.20(a)(i)* | Change in fair value of financial assets designated at fair value through profit or loss | - | (20) |
| *IFRS 7.20(e)* | Impairment loss on held-to-maturity securities | (20) | - |
| *IFRS 7.24(b)* | Ineffective portion of change in fair value of cash flow hedge | (16) | (13) |
| | Financial expenses[2] | (1,760) | (1,676) |
| | Net finance costs[3] | (849) | (1,196) |
| | | | |
| | The above financial income and expenses include the following in respect of assets (liabilities) not at fair value through profit or loss: | | |
| *IFRS 7.20(b)* | Total interest income on financial assets | 197 | 151 |
| *IFRS 7.20(b)* | Total interest expense on financial liabilities | (1,473) | (1,299) |
| | | | |
| | **Recognised directly in equity** | | |
| *IFRS 7.20(a)(ii)* | 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 transferred to profit or loss | (64) | - |
| *IFRS 7.23(c)* | Effective portion of changes in fair value of cash flow hedge | (93) | 77 |
| *IFRS 7.23(d)* | Fair value of cash flow hedges transferred to profit or loss | (9) | (11) |
| | Effective portion of change in fair value of net investment hedge | (3) | (8) |
| | Foreign currency translation differences for foreign operations | 510 | 330 |
| | | 540 | 482 |
| | | | |
| | Recognised in | | |
| | Fair value reserve | 135 | 94 |
| | Hedging reserve | (102) | 66 |
| | Translation reserve | 507 | 322 |
| | | 540 | 482 |

*IFRS 7.20(e)* An impairment loss of €130 thousand (2005: €50 thousand) in respect of trade receivables was recognised in cost of sales.[4]

| Note | *Reference* | **Explanatory note** |
|---|---|---|
| **1.** | | This disclosure replaces note 20 in the August 2006 edition of our publication *Illustrative Financial Statements*; certain numbers have been changed for the purpose of this illustration. |
| **2.** | | An entity also should disclose information about: |
| | *IFRS 7.12* | • reclassifications to or from the (amortised) cost categories of financial assets, and the fair value categories |
| | *IFRS 7.13* | • the transfer of financial assets in which all or part of the assets did not qualify for derecognition |
| | *IFRS 7.14* | • financial assets pledged as collateral for liabilities or contingent liabilities |
| | *IFRS 7.15* | • collateral that is permitted to be sold or repledged in the absence of default by the owner of the collateral. |
| **3.** | *IFRS 7.9, 11* | An entity must disclose the following if a loan or receivable (or group of loans or receivables) is designated at fair value through profit or loss: |
| | | • the maximum exposure to credit risk at the reporting date, and the amount by which any instruments mitigate that risk |
| | | • the change in fair value of the loan or receivable (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 represent faithfully the change in fair value attributable to changes in credit risk, then it should disclose the reasons therefor and the relevant factors |
| | | • the change in fair value of any instruments that mitigate the related credit risk (during the period and cumulatively) that is attributable to changes in credit risk. |
| **4.** | *IFRS 7.40(a)* | The sensitivity analysis should be based on changes in the risk variable that were reasonably possible at the reporting date. |
| | *IFRS 7.40(b), (c)* | An entity should disclose the methods and assumptions used in preparing the sensitivity analysis, and changes therein and the reasons therefor compared to the comparative period. |
| | *IFRS 7.41* | If an entity prepares a sensitivity analysis that reflects inter-dependencies between different risk variables, e.g., a value-at-risk model, then the disclosure may be based on that model instead of the type of disclosure illustrated in this publication. Example disclosures are illustrated in our September 2006 publication *Illustrative Financial Statements: Banks*. |
| | *IFRS 7.42* | When the sensitivity analysis required by IFRS 7 is not representative of the underlying risks, e.g., the reporting date analysis is not representative of the position during the year, then an entity should disclose that fact and the reasons therefor. For example, if for whatever reason an entity's investment portfolio at the reporting date is materially different from its usual mix of investments, then a sensitivity analysis based on the position at the reporting date would not be representative. |
| | *IFRS 7.App B, IG* | Guidance in respect of the sensitivity analysis is provided in appendix B to IFRS 7 and in the related implementation guidance. |

Reference

## Other investments[1, 2]

| Reference | *In thousands of euro* | 2006 | 2005 |
|---|---|---|---|
| | **Non-current investments** | | |
| *IFRS 7.8(b)* | Held-to-maturity investments | 2,236 | 2,256 |
| *IFRS 7.8(a)(i)* | Financial assets designated at fair value through profit or loss | 301 | 254 |
| *IFRS 7.8(d)* | Available-for-sale financial assets | 978 | 884 |
| | Derivatives used for hedging | 250 | 225 |
| | | 3,765 | 3,619 |
| | **Current investments** | | |
| | Investments held for trading | 243 | 568 |
| | Derivatives not used for hedging | 122 | 89 |
| *IFRS 7.8(a)(ii)* | Financial assets held for trading | 365 | 657 |
| | Derivatives used for hedging | 163 | 281 |
| | | 528 | 938 |

*IFRS 7.7*

Interest-bearing available-for-sale financial assets, with a carrying amount of €451 thousand (2005: €373 thousand), mature in one to two years. Held-to-maturity investments mature in two to five years.

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

The financial assets designated at fair value through profit or loss are equity securities that otherwise would have been classified as available-for-sale.[3]

*IFRS 7.40*

### Sensitivity analysis – equity price risk[4]

All of the Group's equity investments are listed on either the London Stock Exchange or the New York Stock Exchange. A two percent increase in the FTSE 100 plus a three percent increase in the Dow Jones Industrial Average at the reporting date would have increased equity by €98 thousand after tax (2005: an increase of €88 thousand); an equal change in the opposite direction would have decreased equity by €98 thousand after tax (2005: a decrease of €88 thousand). The impact on profit or loss would have been an increase or decrease of €16 thousand after tax (2005: €18 thousand). The analysis is performed on the same basis for 2005.

| Note | *Reference* | **Explanatory note** |
|---|---|---|
| **1.** | | This disclosure replaces the table in note 23 of the August 2006 edition of our publication *Illustrative Financial Statements*. |
| **2.** | | See footnote 3 on page 12 for the disclosures that apply when a loan or receivable (or group of loans or receivables) is designated at fair value through profit or loss. |

*Reference*

## Trade and other receivables[1]

| *In thousands of euro* | | 2006 | 2005 |
|---|---|---|---|
| | Trade receivables due from related parties | 1,236 | 642 |
| | Other trade receivables | 11,985 | 17,045 |
| | Loans to directors | 78 | 32 |
| *IFRS 7.8(c)* | Loans and receivables[2] | 13,299 | 17,719 |
| | Construction work in progress | 348 | 280 |
| | Trade and other receivables | 13,647 | 17,999 |

| Note | *Reference* | **Explanatory note** |
|---|---|---|
| **1.** | | This disclosure copies part of note 25 of the August 2006 edition of our publication *Illustrative Financial Statements* in order to provide an understanding of the terms and conditions of financial instruments issued in the form of shares. |

Reference

# Share capital[1]

## Share capital and share premium

| | Ordinary shares | | Non-redeemable preference shares | | Redeemable preference shares | |
|---|---|---|---|---|---|---|
| *In thousands of shares* | **2006** | **2005** | **2006** | **2005** | **2006** | **2005** |
| On issue at 1 January | 3,100 | 3,100 | 1,728 | 1,728 | - | - |
| Issued for cash | 185 | - | - | - | 1,000 | - |
| Exercise of share options | 5 | - | - | - | - | - |
| On issue at 31 December | 3,290 | 3,100 | 1,728 | 1,728 | 1,000 | - |

*IFRS 7.7* At 31 December 2006 the authorised share capital comprised 10,000 thousand ordinary shares (2005: 10,000 thousand), 2,000 thousand non-redeemable non-cumulative preference shares (2005: 2,000 thousand) and 1,000 thousand redeemable preference shares (2005: nil). The redeemable preference shares have a par value of €2; all other shares have a par value of €3. All issued shares are fully paid. The redeemable preference shares are classified as liabilities.

*IFRS 7.7* 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. Holders of non-redeemable preference shares receive a non-cumulative dividend of €0.25 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. Preference shares (redeemable and non-redeemable) do not carry the right to vote. 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.

*IFRS 7.7* In respect of the Company's shares that are held by the Group, all rights are suspended until those shares are reissued. At 31 December 2006 the Group held 48 thousand of the Company's shares (2005: 52 thousand).

| Note | *Reference* | **Explanatory note** |
|---|---|---|
| **1.** | | This disclosure copies part of note 27 of the August 2006 edition of our publication *Illustrative Financial Statements* in order to provide an understanding of the terms and conditions of financial liabilities. |
| **2.** | *IFRS 7.8(e)* | An entity must disclose the carrying amount of financial liabilities designated at fair value through profit or loss, and the carrying amount of financial liabilities held for trading. (While this footnote is attached to the loans and borrowings disclosure, this is not meant to indicate that liabilities at fair value through profit or loss would be classified as such.) |
| | *IFRS 7.10, 11* | An entity must disclose the following if a financial liability is designated 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 represent faithfully the change in fair value attributable to changes in credit risk, then it should disclose the reasons therefor and the relevant factors<br>• the difference between the carrying amount of the financial liability and the amount that the entity is contractually required to pay at maturity. |
| **3.** | *IFRS 7.18, 19* | An entity should disclose information about any defaults that occurred during the period, or any other breach of the terms of a loan. |
| **4.** | | The disclosures included in this publication in relation to finance lease liabilities are those that are required by IFRS 7. The disclosures required by IAS 17 *Leases* are not illustrated in this publication; see note 27 of the August 2006 edition of our publication *Illustrative Financial Statements*. |

*Reference*

# Loans and borrowings[1, 2, 3]

*IFRS 7.8(f)*

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost.

| *In thousands of euro* | **2006** | **2005** |
|---|---|---|
| **Non-current liabilities** | | |
| Secured bank loans | 3,512 | 7,093 |
| Unsecured bond issues | 9,200 | 9,200 |
| Convertible notes | 4,678 | - |
| Redeemable preference shares | 1,939 | - |
| Finance lease liabilities | 1,613 | 1,913 |
| Loan from associate | - | 1,000 |
| | 20,942 | 19,206 |
| **Current liabilities** | | |
| Current portion of secured bank loans | 3,500 | 4,000 |
| Dividends on redeemable preference shares | 75 | - |
| Current portion of finance lease liabilities[4] | 300 | 269 |
| Unsecured bank facility | 515 | 117 |
| | 4,390 | 4,386 |

*IFRS 7.7*

## Terms and debt repayment schedule

The terms and conditions of outstanding loans were as follows:

| | | | | 31 December 2006 | | 31 December 2005 | |
|---|---|---|---|---|---|---|---|
| *In thousands of euro* | **Currency** | **Nominal interest rate** | **Year of maturity** | **Face value** | **Carrying amount** | **Face value** | **Carrying amount** |
| Secured bank loan | CHF | 3.90% | 2010 | 1,250 | 1,260 | 1,250 | 1,257 |
| Secured bank loan | USD | 4.70% | 2008 | 500 | 447 | 500 | 521 |
| Secured bank loan | euro | 4.50% | 2007-2008 | 4,460 | 4,460 | 4,460 | 4,460 |
| Secured bank loan | GBP | LIBOR + 1% | 2006-2007 | 850 | 845 | 4,850 | 4,855 |
| Unsecured bank facility | USD | 3.80% | 2009 | 530 | 515 | - | - |
| Unsecured bank facility | euro | 5.50% | 2006 | - | - | 117 | 117 |
| Unsecured bond issues | euro | LIBOR + 1/2% | 2010 | 1,023 | 1,023 | 1,023 | 1,023 |
| Unsecured bond issues | euro | LIBOR + 1% | 2011 | 5,113 | 5,113 | 5,113 | 5,113 |
| Unsecured bond issues | euro | LIBOR | 2008 | 3,064 | 3,064 | 3,064 | 3,064 |
| Loan from associate | euro | 4.80% | 2007 | - | - | 1,000 | 1,000 |
| Convertible notes | euro | 6.00% | 2009 | 5,000 | 4,678 | - | - |
| Redeemable preference shares | euro | 4.40% | 2012 | 2,000 | 1,939 | - | - |
| Dividends on redeemable preference shares | euro | - | 2007 | 75 | 75 | - | - |
| Finance lease liabilities | euro | 6.5-7.0% | 2006-2021 | 2,663 | 1,913 | 3,186 | 2,182 |
| Total interest-bearing liabilities | | | | 26,528 | 25,332 | 24,563 | 23,592 |

| Note | *Reference* | **Explanatory note** |
|---|---|---|
| **1.** | *IFRS 7.17* | An entity should disclose the existence of multiple derivatives embedded in a compound financial instrument whose values are interdependent. |

*Reference*

# Loans and borrowings (continued)

The bank loans are secured over land and buildings with a carrying amount of €5,000 thousand (2005: €4,700 thousand).

*IFRS 7.7*

## Convertible notes

The carrying amount of convertible notes excludes an amount of €163 thousand that was classified as equity.[1]

The notes are convertible into 250 thousand ordinary shares in June 2009 at the option of the holder, which is a rate of one share for every five convertible notes; unconverted notes become repayable on demand.

Convertible notes become repayable on demand if the Group fails to maintain a debt to equity ratio of 75 percent or less, where debt comprises loans and borrowings.

| Note | *Reference* | **Explanatory note** |
|---|---|---|
| **1.** | | This disclosure mainly supplements the disclosures included in the August 2006 edition of our publication *Illustrative Financial Statements*. |
| **2.** | *IFRS 7.34* | IFRS 7 requires the disclosure of risk information in a format based on the information provided internally to key management personnel of the entity (as defined in IAS 24 *Related Party Disclosures*), e.g., the entity's board of directors or chief executive. |
| | *IFRS 7.35, IG 20* | If the quantitative data at the reporting date are not representative, then an entity should provide further information that is representative, for example 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 reporting date would not be representative. |
| **3.** | *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. |
| | *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. In determining classes of financial instrument an entity shall at a minimum distinguish instruments measured at amortised cost from those measured at fair value and treat as a separate class or classes those financial instruments outside the scope of IFRS 7. |
| | *IFRS 7.B9, 10* | The maximum credit risk exposure typically is 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.IG 21-29* | The IFRS 7 implementation guidance provides additional guidance on the disclosures without specifying a minimum standard disclosure. |
| **4.** | *IFRS 7.B8, IG 18, 19* | 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. |

Reference

# Credit risk[1, 2]

## 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 reporting date was:[3]

| *In thousands of euro* | Carrying amount 2006 | 2005 |
|---|---|---|
| Available-for-sale financial assets | 978 | 884 |
| Held-to-maturity investments | 2,236 | 2,256 |
| Financial assets at fair value through profit or loss | 544 | 822 |
| Loans and receivables | 13,299 | 17,719 |
| Cash and cash equivalents | 1,835 | 1,850 |
| Interest rate swaps used for hedging: | | |
| Assets | 116 | 131 |
| Forward exchange contracts used for hedging: | | |
| Assets | 297 | 375 |
| Other forward exchange contracts | 122 | 89 |
| | 19,427 | 24,126 |

*IFRS 7.34(a)* The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:[4]

| *In thousands of euro* | Carrying amount 2006 | 2005 |
|---|---|---|
| Domestic | 4,242 | 5,110 |
| euro-zone countries | 3,195 | 4,450 |
| United Kingdom | 1,367 | 1,780 |
| Other European countries | 431 | 367 |
| United States | 3,939 | 5,938 |
| Other regions | 47 | 42 |
| | 13,221 | 17,687 |

*IFRS 7.34(a)* The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:[4]

| *In thousands of euro* | Carrying amount 2006 | 2005 |
|---|---|---|
| Wholesale customers | 9,504 | 11,231 |
| Retail customers | 3,478 | 5,600 |
| End-user customers | 239 | 856 |
| | 13,221 | 17,687 |

*IFRS 7.34(a)* The Group's most significant customer, a domestic wholesaler, accounts for €6,034 thousand of the trade receivables carrying amount at 31 December 2006 (2005: €4,986 thousand).

| Note | *Reference* | **Explanatory note** |
|---|---|---|
| **1.** | *IFRS 7.38* | An entity should disclose:<br><br>• the nature and carrying amount of any collateral or other credit enhancements obtained<br>• its policy for disposing of collateral that is not readily convertible into cash. |

Reference

# Credit risk (continued)

## Impairment losses

IFRS 7.37(a)

The aging of trade receivables at the reporting date was:

| | Gross | Impairment | Gross | Impairment |
|---|---|---|---|---|
| *In thousands of euro* | **2006** | **2006** | **2005** | **2005** |
| Not past due | 9,281 | - | 15,025 | - |
| Past due 0-30 days | 3,760 | - | 2,612 | - |
| Past due 31-120 days | 280 | 100 | 100 | 50 |
| More than one year | 80 | 80 | - | - |
| Total | 13,401 | 180 | 17,737 | 50 |

IFRS 7.16

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

| *In thousands of euro* | **2006** | **2005** |
|---|---|---|
| Balance at 1 January | 50 | - |
| Impairment loss recognised | 130 | 50 |
| Balance at 31 December | 180 | 50 |

IFRS 7.37(b), (c)

The impairment loss recognised of €80 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.[2]

IFRS 7.36(c)

Based on past experience, the Group believes that no impairment allowance is necessary in respect of trade receivables not past due; 80 percent of the balance, which includes the amount owed by the Group's most significant customer (see above), relates to customers that have a good track record with the Group.

IFRS 7.36(d)

During 2006 the Group renegotiated the terms of a trade receivable of €500 thousand from a long-standing customer. If it had not been for this renegotiation, the receivable would have been overdue by 60 days. No impairment loss was recognised. (2005: no instances.)

IFRS 7.16

The movement in the allowance for impairment in respect of held-to-maturity investments during the year was as follows:

| *In thousands of euro* | **2006** | **2005** |
|---|---|---|
| Balance at 1 January | 20 | 20 |
| Impairment loss recognised | 20 | - |
| Balance at 31 December | 40 | 20 |

IFRS 7.37(b), (c)

An impairment loss of €20 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.[1]

IFRS 7.B5(d)

The allowance accounts in respect of trade 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 amount considered irrecoverable is written off against the financial asset directly.

| Note | *Reference* | **Explanatory note** |
|---|---|---|
| **1.** | | This disclosure supplements the disclosures included in the August 2006 edition of our publication *Illustrative Financial Statements*. |
| **2.** | | See footnote 1 on page 22 of this publication for a general discussion on the quantitative risk disclosures required. |
| **3.** | *IFRS 7.B11, B13* | In preparing the contractual maturity analysis for financial liabilities an entity uses its judgement to determine an appropriate number of time bands. Payments in instalments must be allocated to the respective time bands. |
| | *IFRS 7.B12* | If the counterparty can ask for payment at different dates, then the maturity is the earliest date on which the entity can be required to pay. |
| | *IFRS 7.B14* | Contractual cash flows are undiscounted and therefore may not agree with the carrying amounts in the balance sheet. |
| | *IFRS 7.B16* | The disclosure of residual contractual maturities is based on conditions at the reporting date. |
| | *IFRS 7.1G30* | If an entity manages liquidity risk on the basis of expected maturity dates, then it might disclose a maturity analysis of the expected maturity dates of both financial liabilities and financial assets. If an entity presents an expected maturity analysis, it would clarify that expected dates are based on estimates made by management, and explain how the estimates are determined and the principal reasons for differences from the contractual maturity analysis that is required by paragraph 39(a) of IFRS 7. |
| **4.** | | In this publication derivative assets are included when the Group settles on a gross basis in order to show the contractual outflows. |

*Reference*

# Liquidity risk[1, 2]

*IFRS 7.39(a)*

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements:[3]

**31 December 2006**

| *In thousands of euro* | **Carrying amount** | Contractual cash flows[4] | 6 mths or less | 6-12 mths | 1-2 years | 2-5 years | More than 5 years |
|---|---|---|---|---|---|---|---|
| *IFRS 7.B15* **Non-derivative financial liabilities** | | | | | | | |
| Secured bank loans | 7,012 | (7,463) | (4,503) | (60) | (1,527) | (1,373) | - |
| Unsecured bond issues | 9,200 | (10,631) | (230) | (230) | (3,524) | (5,522) | (1,125) |
| Convertible notes | 4,678 | (5,750) | (150) | (150) | (300) | (5,150) | - |
| Redeemable preference shares | 1,939 | (2,792) | (44) | (44) | (88) | (264) | (2,352) |
| Finance lease liabilities | 1,913 | (2,663) | (267) | (268) | (450) | (678) | (1,000) |
| Unsecured bank facility | 515 | (523) | (523) | - | - | - | - |
| Trade and other payables* | 13,751 | (13,751) | (13,751) | - | - | - | - |
| Bank overdraft | 334 | (334) | (339) | - | - | - | - |
| *IFRS 7.B15* **Derivative financial liabilities**[4] | | | | | | | |
| Interest rate swaps used for hedging | 20 | (20) | - | (20) | - | - | - |
| Forward exchange contracts used for hedging: | | | | | | | |
| Outflow | 8 | (1,896) | (1,005) | (891) | - | - | - |
| Inflow | (297) | 2,185 | 1,105 | 1,080 | - | - | - |
| Other forward exchange contracts: | | | | | | | |
| Outflow | - | (989) | - | - | (989) | - | - |
| Inflow | (122) | 1,110 | - | - | 1,110 | - | - |
| | 38,951 | (43,517) | (19,707) | (583) | (5,768) | (12,987) | (4,477) |

* Excludes construction work in progress, and derivatives (shown separately).

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*Reference*

# Liquidity risk (continued)

*IFRS 7.39(a)*

**31 December 2005**

*IFRS 7.B15* (Non-derivative financial liabilities); *IFRS 7.B15* (Derivative financial liabilities)

| *In thousands of euro* | **Carrying amount** | Contractual cash flows | 6 mths or less | 6-12 mths | 1-2 years | 2-5 years | More than 5 years |
|---|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | | |
| Secured bank loans | 11,093 | (12,133) | (5,105) | (140) | (3,780) | (3,108) | - |
| Unsecured bond issues | 9,200 | (12,420) | (230) | (230) | (460) | (4,444) | (7,056) |
| Finance lease liabilities | 2,182 | (3,186) | (265) | (266) | (458) | (666) | (1,531) |
| Loan from associate | 1,000 | (1,960) | (240) | (240) | (1,480) | - | - |
| Unsecured bank facility | 117 | (120) | (120) | - | - | - | - |
| Trade and other payables* | 24,363 | (24,363) | (24,363) | - | - | - | - |
| Bank overdraft | 282 | (290) | (290) | - | - | - | - |
| **Derivative financial liabilities** | | | | | | | |
| Interest rate swaps used for hedging | 5 | (5) | - | (5) | - | - | - |
| Forward exchange contracts used for hedging: | | | | | | | |
| Outflow | 7 | (1,912) | (1,000) | (912) | - | - | - |
| Inflow | (375) | 2,280 | 1,210 | 1,070 | - | - | - |
| Other forward exchange contracts: | | | | | | | |
| Outflow | - | (861) | - | - | - | - | - |
| Inflow | 89 | 950 | - | - | - | - | - |
| Total | 47,963 | (54,020) | (30,403) | (723) | (6,178) | (8,218) | (8,587) |

* Excludes construction work in progress, and derivatives (shown separately).

| Note | *Reference* | **Explanatory note** |
|---|---|---|
| **1.** | | This disclosure supplements the disclosures in the August 2006 edition of our publication *Illustrative Financial Statements*. |
| **2.** | *IFRS 7.23(b)* | An entity also should describe any forecast transaction for which hedge accounting has been used previously, but which is no longer expected to occur. |

*Reference*

# Cash flow hedges[1, 2]

The following table indicates the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to occur.

| *In thousands of euro* | 2006 | | | | | | | 2005 | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Carrying amount** | **Expected cash flows** | **6 mths or less** | **6-12 mths** | **1-2 years** | **2-5 years** | **More than 5 years** | **Carrying amount** | **Expected cash flows** | **6 mths or less** | **6-12 mths** | **1-2 years** | **2-5 years** | **More than 5 years** |
| Interest rate swaps: | | | | | | | | | | | | | | |
| Assets | 116 | 116 | 9 | 31 | 20 | 45 | 11 | 131 | 131 | 12 | 19 | 26 | 50 | 24 |
| Liabilities | (20) | (20) | - | (20) | - | - | - | (5) | (5) | - | (5) | - | - | - |
| Forward exchange contracts: | | | | | | | | | | | | | | |
| Assets | 297 | 2,185 | 1,105 | 1,080 | - | - | - | 375 | 2,280 | 1,210 | 1,070 | - | - | - |
| Liabilities | (8) | (1,896) | (1,005) | (891) | - | - | - | (7) | (1,912) | (1,000) | (912) | - | - | - |
| | 385 | 385 | 109 | 200 | 20 | 45 | 11 | 494 | 494 | 222 | 172 | 26 | 50 | 24 |

The following table indicates the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to impact profit or loss.

| *In thousands of euro* | 2006 | | | | | | | 2005 | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Carrying amount** | **Expected cash flows** | **6 mths or less** | **6-12 mths** | **1-2 years** | **2-5 years** | **More than 5 years** | **Carrying amount** | **Expected cash flows** | **6 mths or less** | **6-12 mths** | **1-2 years** | **2-5 years** | **More than 5 years** |
| Interest rate swaps: | | | | | | | | | | | | | | |
| Assets | 116 | 116 | 9 | 31 | 20 | 45 | 11 | 131 | 131 | 12 | 19 | 26 | 50 | 24 |
| Liabilities | (20) | (20) | - | (20) | - | - | - | (5) | (5) | - | (5) | - | - | - |
| Forward exchange contracts: | | | | | | | | | | | | | | |
| Assets | 297 | 2,185 | 705 | 825 | 522 | 133 | - | 375 | 2,280 | 988 | 1,002 | 290 | - | - |
| Liabilities | (8) | (1,896) | (780) | (720) | (300) | (96) | - | (7) | (1,912) | (1,000) | (811) | (101) | - | - |
| | 385 | 385 | (66) | 116 | 242 | 82 | 11 | 494 | 494 | - | 205 | 215 | 50 | 24 |

| Note | *Reference* | **Explanatory note** |
|---|---|---|
| **1.** | | This disclosure supplements the disclosures included in the August 2006 edition of our publication *Illustrative Financial Statements.* |
| **2.** | *IFRS 7.34* | IFRS 7 requires the disclosure of risk information in a format based on the information provided internally to key management personnel of the entity (as defined in IAS 24 *Related Party Disclosures*), e.g., the entity's board of directors or chief executive. |
| | *IFRS 7.35, IG 20* | If the quantitative data at the reporting date are not representative, then an entity should provide further information that is representative, for example 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 reporting date, 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. |
| **3.** | | See footnote 4 on page 12 of this publication. |

*Reference*

# Currency risk[1, 2]

*IFRS 7.34*

## Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

| | euro | USD | GBP | CHF | euro | USD | GBP | CHF |
|---|---|---|---|---|---|---|---|---|
| | 31 December 2006 | | | | 31 December 2005 | | | |
| Trade receivables | 2,477 | 4,365 | 1,367 | - | 3,099 | 6,250 | 1,780 | - |
| Secured bank loans | - | (500) | (850) | (1,250) | - | (500) | (850) | (1,250) |
| Trade payables | (1,376) | (3,980) | (3,347) | - | (5,411) | (10,245) | (2,680) | - |
| Gross balance sheet exposure | 1,101 | (115) | (2,830) | (1,250) | (2,312) | (4,495) | (1,750) | (1,250) |
| Estimated forecast sales | 9,000 | 11,000 | 8,000 | - | 18,700 | 8,000 | 10,000 | - |
| Estimated forecast purchases | (10,000) | (10,000) | (4,000) | - | (9,800) | (3,000) | (7,000) | - |
| Gross exposure | (1,000) | 1,000 | 4,000 | - | 8,900 | 5,000 | 3,000 | - |
| Forward exchange contracts | - | (950) | (946) | - | - | (1,042) | (870) | - |
| Net exposure | 101 | (65) | 224 | (1,250) | 6,588 | (537) | 380 | (1,250) |

The following significant exchange rates applied during the year:

| | Average rate | | Reporting date mid-spot rate | |
|---|---|---|---|---|
| *euro* | **2006** | **2005** | **2006** | **2005** |
| USD 1 | 0.775 | 0.803 | 0.793 | 0.845 |
| GBP 1 | 1.471 | 1.462 | 1.484 | 1.455 |
| CHF 1 | 0.635 | 0.639 | 0.629 | 0.645 |

*IFRS 7.40*

## Sensitivity analysis[3]

A 10 percent strengthening of the euro against the following currencies at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2005.

| *Effect in euro thousands* | Equity | Profit or loss |
|---|---|---|
| **31 December 2006** | | |
| USD | 740 | (25) |
| GBP | 510 | (17) |
| CHF | 4 | - |
| **31 December 2005** | | |
| USD | 880 | (85) |
| GBP | 670 | (92) |
| CHF | 3 | - |

A 10 percent weakening of the euro against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

| Note | *Reference* | **Explanatory note** |
|---|---|---|
| **1.** | | See footnote 4 on page 12 of this publication. |

*Reference*

# Interest rate risk

*IFRS 7.40*

## Profile[1]

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

| *In thousands of euro* | Carrying amount 2006 | 2005 |
|---|---|---|
| **Fixed rate instruments** | | |
| Financial assets | 4,522 | 4,479 |
| Financial liabilities | (15,621) | (9,819) |
| | (11,099) | (5,340) |
| **Variable rate instruments** | | |
| Financial liabilities | (10,045) | (14,055) |

## 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 reporting date would not affect profit or loss.

A change of 100 basis points in interest rates would have increased or decreased equity by €15 thousand (2005: €6 thousand).

## Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date 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. The analysis is performed on the same basis for 2005.

| | Profit or loss | | Equity | |
|---|---|---|---|---|
| *Effect in euro thousands* | 100 bp increase | 100 bp decrease | 100 bp increase | 100 bp decrease |
| **31 December 2006** | | | | |
| Variable rate instruments | (100) | 100 | - | - |
| Interest rate swap | 61 | (61) | 310 | (302) |
| Cash flow sensitivity (net) | (39) | 39 | 310 | (302) |
| **31 December 2005** | | | | |
| Variable rate instruments | (142) | 142 | - | - |
| Interest rate swap | 61 | (61) | 280 | (275) |
| Cash flow sensitivity (net) | (81) | 81 | 280 | (275) |

| Note | *Reference* | **Explanatory note** |
|---|---|---|
| **1.** | | This disclosure replaces the fair value table in note 33 of the August 2006 edition of our publication *Illustrative Financial Statements*, and copies part of the disclosure in note 4 of that publication in order to provide an understanding of the basis for determining fair values. |
| **2.** | *IFRS 7.26, B1-B3* | The disclosures in respect of fair values apply to each "class" of financial asset, which is not defined in IFRS 7. In determining classes of financial instrument an entity shall at a minimum distinguish instruments measured at amortised cost from those measured at fair value and treat as a separate class or classes those financial instruments outside the scope of IFRS 7. |

Reference

# Fair values[1]

IFRS 7.25

## Fair values versus carrying amounts[2]

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

| Reference | *In thousands of euro* | 31 December 2006 Carrying amount | 31 December 2006 Fair value | 31 December 2005 Carrying amount | 31 December 2005 Fair value |
|---|---|---|---|---|---|
| | Available-for-sale financial assets | 978 | 978 | 884 | 884 |
| | Held-to-maturity investments | 2,236 | 2,250 | 2,256 | 2,265 |
| | Financial assets designated at fair value through profit or loss | 301 | 301 | 254 | 254 |
| | Financial assets held for trading | 243 | 243 | 568 | 568 |
| | Loans and receivables | 13,299 | 13,299 | 17,719 | 17,719 |
| | Cash and cash equivalents | 1,835 | 1,835 | 1,850 | 1,850 |
| IFRS 7.22(b) | Interest rate swaps used for hedging: | | | | |
| | Assets | 116 | 116 | 131 | 131 |
| | Liabilities | (20) | (20) | (5) | (5) |
| IFRS 7.22(b) | Forward exchange contracts used for hedging: | | | | |
| | Assets | 297 | 297 | 375 | 375 |
| | Liabilities | (8) | (8) | (7) | (7) |
| IFRS 7.22(b) | Other forward exchange contracts | 122 | 122 | 89 | 89 |
| | Secured bank loans | (7,012) | (7,385) | (11,093) | (10,984) |
| | Unsecured bond issues | (9,200) | (8,739) | (9,200) | (9,346) |
| | Convertible notes – liability component | (4,678) | (5,216) | - | - |
| | Redeemable preference shares | (1,939) | (1,936) | - | - |
| | Finance lease liabilities | (1,913) | (1,856) | (2,182) | (2,078) |
| | Loan from associate | - | - | (1,000) | (1,040) |
| | Dividends on redeemable preference shares | (75) | (75) | - | - |
| | Unsecured bank facilities | (515) | (515) | (117) | (117) |
| | Trade and other payables* | (13,751) | (13,751) | (24,363) | (24,363) |
| | Bank overdraft | (334) | (334) | (282) | (282) |
| | | (20,018) | (20,394) | (24,123) | (24,087) |
| | Unrecognised (loss) gain | | (376) | | 36 |

* Excludes construction work in progress, and derivatives (shown separately).

## Basis for determining fair values

IFRS 7.27

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above.

### Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date.

### Derivatives

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

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*Reference*

# Fair values (continued)

The fair value of interest rate swaps is 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 reporting date.

## Non-derivative financial liabilities

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 reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

## Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

## 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 reporting date plus an adequate constant credit spread, and were as follows:

| | **2006** | **2005** |
|---|---|---|
| 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% |

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