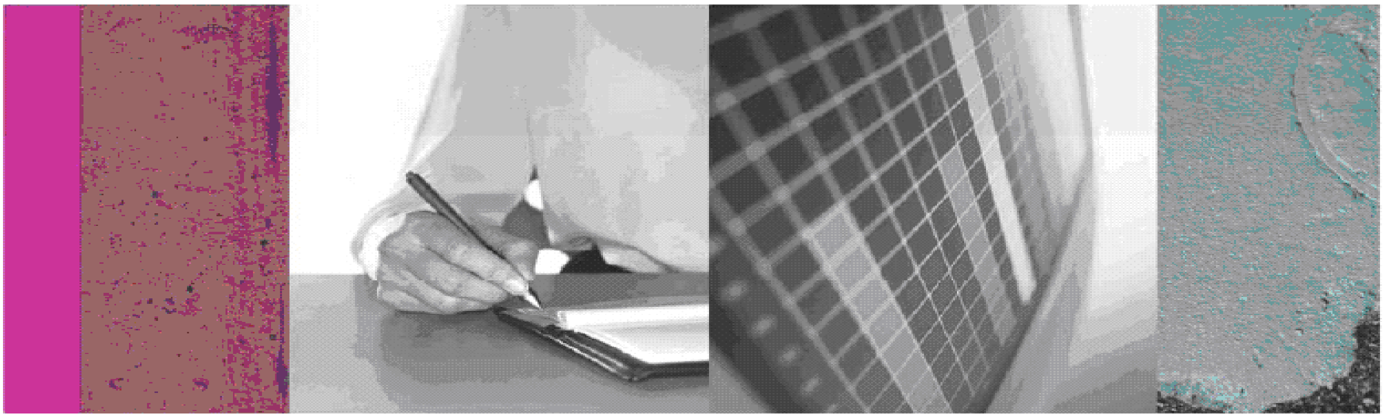

IFRS Illustrative Consolidated Financial Statements
2012

Table of contents

Introduction..4
Statement of comprehensive income – one statement....................8
Statement of comprehensive income – two statements................12
Statement of financial position 17
Statement of changes in equity..23
Statement of cash flows..26
Notes to financial statements..30
Appendix 1 - Statement of comprehensive income by nature 116
Appendix 2 – Change in accounting policy 117

Introduction

These model financial statements present the consolidated financial statements of the Exemplum Reporting PLC, an imaginary group with publicly traded equity shares, applying IFRS for the year ended 31 December 2012.

Not all countries' legislative and regulatory frameworks require the presentation of separate financial statements for a group's parent company, or do not require such financial statements to be prepared in accordance with IFRS. For these reasons the illustrative financial statements for Exemplum Reporting plc only set out the group consolidated financial statements.

They are prepared on the assumption that the group is not a first time adopter. Therefore, the specific disclosure requirements set out in IFRS 1 are not included.

The disclosures illustrated are compliant with IFRS standards and interpretations, effective for years commencing on or after 1 January 2012, and also illustrate the different presentation alternatives of statements and note disclosures which are permitted by IFRS, and which are being commonly used in practice. However other presentations may also be suitable provided the disclosure fulfils the disclosure requirements of IFRS. No audit report, has been included as this will vary between companies based on the circumstances and local legislative requirements in each case. Furthermore, individual jurisdictions may impose additional restrictions or requirements which have not been reflected.

Commentary notes have been provided on the page opposite the model financial statement disclosure to further explain the illustrated disclosures and to set out additional disclosure requirements not specifically illustrated in the model financial statements.

Source references for the illustrative disclosure have also been included in the right hand margin of the financial statements and commentary notes.

Examples of source references used are:

IAS1 p86	*Paragraph 86 of International Accounting Standard 1*
IFRS5 p33	*Paragraph 33 of International Financial Reporting Standard 5*

The illustrated disclosures are not intended to include all possible IFRS disclosures. Therefore, these model financial statements should not be used as an IFRS disclosure checklist.

The disclosures required by the following standards have not been included:

IFRS 4 Insurance contracts

IFRS 6 Exploration for and evaluation of mineral resources

IAS 11 Construction contracts

IAS 20 Accounting for government grants and disclosure of government assistance

IAS 26 Accounting and reporting by retirement benefit plans

IAS 29 Financial reporting in hyperinflationary economies

IAS 34 Interim financial reporting

IAS 41 Agriculture

While every care has been taken in its preparation, this only provides a general guide and is not a substitute for professional advice.

Exemplum Reporting PLC
Financial statements
For the year ended 31 December 2012

Commentary on the statement of comprehensive income

Presentation of the statement of comprehensive income

IAS1 p81

IAS 1 (revised) requires an entity to present a statement of comprehensive income incorporating all items of income and expense, including those items which will not be included in profit for the year, such as revaluation gains on property, plant and equipment or actuarial gains or losses on defined benefit pension plans. An entity may choose to present a separate income statement, in which case the statement of comprehensive income will start with profit for the year as presented in the separate income statement. Therefore, an entity may take a one statement approach (present only a statement of comprehensive income) or a two statement approach (present an income statement and a statement of comprehensive income). Both alternatives are shown in the illustrative accounts.

Analysis of expenses

The group can either present an analysis of expenses using a classification based on either the nature of expenses or their function within the group, whichever provides information that is reliable and more relevant. Entities that classify expenses by function shall disclose additional information on the nature of expenses, including depreciation, amortisation and employee benefits expense.

IAS1 p99,p104

Operating profit

An operating profit line item may be disclosed on the face of the statement of comprehensive income, however this is not specifically required by IAS 1.

IAS1 p85

Investment income and finance costs

Investment income and finance costs shall be disclosed on the face of the statement of comprehensive income, and may not be netted off.

IAS1 p82

Other comprehensive income:

For periods beginning on or after 1 July 2012, where an entity presents items of other comprehensive income these must be grouped, along with their tax effects, into those that might be reclassified subsequently to profit or loss and those that will not be reclassified subsequently to profit or loss.

IAS1 p91

Consolidated statement of comprehensive income for the year ended 31 December 2012

Illustrating the presentation of the Statement of Comprehensive Income in one statement (by function)

	Note	**2012**	2011	
Continuing operations				
Revenue	5	**X**	X	IAS1 p82
Cost of sales		**X**	X	IAS1 p103
Gross profit		**X**	X	IAS1 p103
Other income		**X**	X	IAS1 p103
Distribution costs		**X**	X	IAS1 p82, p103
Administrative expenses		**X**	X	IAS1 p103
Other expenses		**X**	X	IAS1 p85
Operating profit	6	**X**	X	
Investment income	9	**X**	X	IAS1 p85
Finance costs	10	**X**	X	IAS1 p82
Share of profit of associates and joint ventures	20	**X**	X	IAS1 p82
Profit before tax		**X**	X	
Income tax expense	11	**X**	X	IAS1 p82, IAS12 p77
Profit for the period from continuing operations		**X**	X	
Profit for the year from discontinued operations	12	**X**	X	IAS 1 p82, IFRS 5 p33
PROFIT FOR THE YEAR		**X**	X	IAS1 p82
Other comprehensive income:				IAS1 p82
Exchange differences on translating foreign operations		**X**	X	IAS 21 p52(b)
Available for sale financial assets		**X**	X	IFRS 7 p20
Actuarial gains (losses) on defined benefit pension plans		**X**	X	IAS 19 p93A
Share of other comprehensive income of associates		**X**	X	IAS1 p82
Income tax relating to components of other comprehensive income*		**X**	X	IAS 1 p91
Other comprehensive income for the year, net of tax		**X**	X	
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**X**	X	IAS1 p82

* Alternatively, components of other comprehensive income could be presented net of tax. — IAS 1 p91

Commentary on the statement of comprehensive income

Alternative presentation of an interest in a jointly controlled entity

A venturer shall recognise its interest in a jointly controlled entity using proportionate consolidation or the equity method. The equity method is identical to the equity method used to account for investments in associates. When proportionate consolidation is used the statement of comprehensive income of the venturer includes its share of the income and expenses of the jointly controlled entity. Different reporting formats may be used to give effect to this: IAS 31 p30, p34, p38

- Combine share of each of the income and expenses of the jointly controlled entity with the similar items, line by line, in its financial statements.
- Include separate line items for its share of income and expenses of the jointly controlled entity in its financial statements.

Both these reporting formats result in the reporting of identical amounts of profit or loss and of each major classification of income and expenses.

It should be noted that the use of the proportionate consolidation method will not be permitted under the new standard, IFRS 11 Joint arrangements, effective years commencing on or after 1 January 2013. IFRS 11 has not yet been adopted by the EU at the time of publication of these illustrative accounts.

Discontinued operations and assets/disposal groups held for sale

"Profit for the year from discontinued operations" includes both the profit earned by the discontinued operations and re-measurement gains or losses calculated in accordance with IFRS 5. IAS1 p82, IFRS5 p33

If a discontinued operation ceases to be classified as held for sale then the results of the operation are classified as continued in the statement of comprehensive income for both the current and the prior year. As a result prior year amounts in the statement of comprehensive income shall be described as having been represented. Effectively the statement of comprehensive income classification of discontinued and continued operations for both the current and the prior year should relate to operations that have been, and continue to be, classified as discontinued at the current statement of financial position date. IFRS5 p34 and p36

Profit or losses on disposal of assets or disposal groups, or on their remeasurement in accordance with IFRS 5, should be included within continuing operations unless they directly relate to a discontinued operations.

Significant items

When items of income and expense are significant, their nature and amount shall be disclosed separately, either on the face of the statement of comprehensive income or in the notes. The following are given as examples: write-down of inventory toNet Realisable Value (NRV) orProperty, Plant & Equipment (PPE) to recoverable amount, disposals of PPE, disposals of investments, discontinued operations, and reversals of provisions. A line item, heading or subtotal shall be presented on the face of the statement of comprehensive income when such presentation is relevant to an understanding of the group's financial performance. IAS1 p85, p97

Consolidated statement of comprehensive income for the year ended 31 December 2012 continued

Illustrating the presentation of the Statement of Comprehensive Income in one statement (by function)

	Note	**2012**	2011	
Profit attributable to:				IAS1 p83
Equity holders of the parents		**X**	X	
Non-controlling interest		**X**	X	
Total comprehensive income attributable to:				IAS1 p83
Equity holders of the parent		**X**	X	
Non-controlling interest		**X**	X	
Earnings per share				
From continuing operations				
Basic	13	**X**	X	IAS33 p66
Diluted	13	**X**	X	
From continuing operations				IAS33 p66
Basic	13	**X**	X	
Diluted	13	**X**	X	
From discontinuing operations				IAS33 p68
Basic	13	**X**	X	
Diluted	13	**X**	X	

Commentary on the statement of comprehensive income

Earnings per share

The group should present on the face of the statement of comprehensive income basic and diluted earnings per share for profit or loss from continuing operations, and for total profit or loss, attributable to the ordinary equity holders of the parent entity for each class of ordinary shares that has a different right to share in profit for the period. The group should present basic and diluted earnings per share with equal prominence for all periods presented. The group should disclose the basic and diluted amounts per share for the discontinued operation either on the face of the statement of comprehensive income or in the notes. IAS 33 p66, 68

If in addition to the required measures of basic and diluted earnings per share, an entity discloses additional amounts per share these should be disclosed (on both basic and diluted bases) in the notes to the accounts, and not on the face of the income statement or statement of comprehensive income. Such measures should be calculated using the same number of shares as used in the calculation of basic and diluted earnings per share. If a component of the statement of comprehensive income is used that is not reported as a line item in the statement of comprehensive income, a reconciliation shall be provided between the component used and a line item that is reported in the statement of comprehensive income. IAS 33 p73

Consolidated Income statement for the year ended 31 December 2012

Illustrating the presentation of the Statement of Comprehensive Income in two statements (by function)

		2012	2011
Continuing operations			
Revenue	5	**X**	X
Cost of sales		**X**	X
Gross profit		**X**	X
Other income		**X**	X
Distribution costs		**X**	X
Administrative expenses		**X**	X
Other expenses		**X**	X
Operating profit	6	**X**	X
Investment income		**X**	X
Finance costs		**X**	X
Share of profit of associates and joint ventures		**X**	X
Profit before tax		**X**	X
Income tax expense	11	**X**	X
Profit for the year from continuing operations		**X**	X
Profit for the year from discontinued operations	12	**X**	X
PROFIT FOR THE YEAR		**X**	X
Attributable to:			
Equity holders of the parent		**X**	X
Non-controlling interest		**X**	X
		X	X
Earnings per share			
From continuing operations			
Basic	13	**X**	X
Diluted	13	**X**	X
From continuing and discontinuing operations			
Basic	13	**X**	X
Diluted	13	**X**	X
From continuing and discontinuing operations			
Basic	13	**X**	X
Diluted	13	**X**	X

Consolidated statement of comprehensive income for the year ended 31 December 2012

Illustrating the presentation of the Statement of Comprehensive Income in two statements (by function)

	2012	2011	
PROFIT FOR THE YEAR	**X**	X	
Other comprehensive income:			
Exchange differences on translating foreign operations	**X**	X	IAS21par41
Available for sale financial assets	**X**	X	
Actuarial gains/loss on defined benefit plans	**X**	X	
Share of comprehensive income of associates	**X**	X	
Income tax relating to components of other comprehensive income*	**X**	X	
Other comprehensive income for the year, net of tax	**X**	X	
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**X**	X	
Total comprehensive attributable to:			
Equity holders of the parent	**X**	X	
Non-controlling interest	**X**	X	
	X	X	

* Alternatively, components of other comprehensive income could be presented net of tax.

Commentary on the statement of financial position

Alternative presentations

One common method of presenting the statement of financial position is to present assets less liabilities, showing net current assets and total net assets. An alternative is to present total assets and total equity and liabilities. Both of these methods have been illustrated. IAS1 p57

Current and non-current classifications

The group should present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its statement of financial position except when a presentation based on liquidity provides information that is reliable and is more relevant. When that exception applies, all assets and liabilities shall be presented broadly in order of liquidity. IAS1 p60

Revaluation

If the group had elected to revalue a class of assets, then the class of assets that is revalued should be disclosed on a separate line on the face of the statement of financial position. IAS1 p59

Goodwill

Goodwill may be presented separately on the face of the statement of financial position or presented as part of intangible assets with separate disclosure in the notes. IAS1 p54, IAS 38 p118

Alternative presentation of an interest in a jointly controlled entity

A venturer shall recognise its interest in a jointly controlled entity using proportionate consolidation or the equity method. The equity method is identical to the equity method used to account for investments in associates. The application of proportionate consolidation means that the statement of financial position of the venturer includes its share of the assets that it controls jointly and its share of the liabilities for which it is jointly responsible. Different reporting formats may be used to give effect to this: IAS 31 p30, p34, p38

- The venturer may combine its share of each of the assets and liabilities of the jointly controlled entity with the similar items, line by line, in its financial statements.
- The venturer may include separate line items for its share of the assets and liabilities of the jointly controlled entity in its financial statements.

Both these reporting formats result in the reporting of identical amounts of each major classification of assets and liabilities.
(Note that proportionate consolidation will not be possible under the new standard IFRS 11 Joint arrangements (effective 1 January 2013, though not yet adopted by the EU)

Assets held for sale and liabilities of a disposal group

Total assets classified as held for sale and assets included in disposal groups classified as held for sale should be presented as a separate line item on the face of the statement of financial position. Liabilities of a disposal group classified as held for sale shall be presented separately from other liabilities in the statement of financial position. Those assets and liabilities should not be offset and presented as a single amount unless legal obligation. IFRS5 p38

An entity shall only reclassify non-current assets or assets, or liabilities of disposal groups in the current period statement of financial position for those non-current assets and liabilities that are classified as held for sale as at the reporting date. An entity shall not reclassify or re-present amounts presented for non-current assets or for the assets and liabilities of diposal groups classified as held for sale in the statement of financial position for prior periods to reflect the classification in the statement of financial position for the latest position. Similarly prior period line items in the statement of financial position for non-current assets held for sale or assets, or liabilities of disposal groups classified as held for sale, should not be reclassified if the asset or discontinued operation ceases to be classified as discontinued in the current year. The current year line items will however be restated for the change in classification IFRS5 p40

Non-controlling interest

Non-controlling interest should be presented in the consolidated statement of financial position within equity, but separately from the equity of the owners of the parent. IAS27 p33

Statement of financial position at 31 December 2012

	Note	**2012**	2011	
Assets				
Non-current assets				IAS1 p60
Property, plant and equipment	15	**X**	X	IAS1 p54
Investment property	16	**X**	X	IAS1 p54
Goodwill	17	**X**	X	
Other intangible assets	18	**X**	X	IAS1 p54
Investments accounted for using the equity method	20	**X**	X	IAS1 p54
Available-for-sale investments		**X**	X	IAS1 p54, IFRS 7 p8
		X	X	
Current assets				IAS1 p60, p66
Inventories	22	**X**	X	IAS1 p54
Trade receivables	23	**X**	X	IAS1 p54
Other current assets		**X**	X	IAS1 p54
Other financial assets		**X**	X	IAS1 p54, IFRS 7 p8
Cash and cash equivalents	24	**X**	X	IAS1 p54, IFRS 7 p8
		X	X	
Non-current assets held for sale		**X**	X	IFRS 5 p38
		X	X	
Liabilities				
Current liabilities				IAS1 p60, p69
Trade and other payables	31	**X**	X	IAS1 p54
Current borrowings	29	**X**	-	IAS1 p54, IFRS 7 p8
Current portion of long-term borrowings	29	**X**	X	IAS1 p54, IFRS 7 p8
Current tax payable		**X**	X	IAS1 p54
Finance lease liabilities	27	**X**	X	
Current provisions	28	**X**	X	IAS1 p54
		X	X	
Liabilities of a disposal group classified as held for sale		**X**	X	IFRS 5 p38
		X	X	
Net current assets		**X**	X	

Commentary on the statement of financial position

Net retirement benefit obligation/asset

The net retirement benefit obligation/asset need not be disclosed as a separate line item on the face of the statement of financial position. However if the balance is considered to be material and by separately disclosing the liability/asset it will improve the users understanding of the financial statements, then it should be separately disclosed on the face of the statement of financial position. IAS1 p55

Change in accounting policy IAS 1 p10(f)

A statement of financial position as at the beginning of the earliest comparative period is required when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

Sign off

The date the financial statements are authorised for issue and who authorised that approval shall be disclosed. This need not be on the face of the balance sheet but in the annual financial statements, identifying who gave such authorisation and the date of such authorisation. IAS10 p17

Statement of financial position at 31 December 2012 continued

	Note	2012	2011	
Non-current liabilities				IAS1 p60
Non-current borrowings	29	**X**	X	IAS1 p54, IFRS 7 p8
Deferred tax	21	**X**	X	IAS1 p54, p56
Finance lease liabilities	27	**X**	X	
Non-current provisions	28	**X**	X	IAS1 p54, p78
Retirement benefit obligations	30	**X**	X	IAS1 p54, p78
		X	X	
Net assets		**X**	X	
Equity attributable to equity holders of the parent				IAS1 p54
Ordinary shares	26	**X**	X	IAS1 p78
Share premium	26	**X**	X	IAS1 p78
Translation reserve		**X**	X	IAS1 p78
Fair value reserve		**X**	X	
Retained earnings		**X**	X	IAS1 p78
		X	X	
Non-controlling interest		**X**	X	IAS1 p54
Total equity		**X**	X	

The financial statements were approved and authorised for issue by the board and were signed on its behalf on [date]: — IAS10 p17

Director Signature

Director Name

Statement of financial position at 31 December 2012

(Alternative presentation)

	Note	**2012**	2011
Assets			
Non-current assets			
Property, plant and equipment	15	**X**	X
Investment property	16	**X**	X
Goodwill	17	**X**	X
Other intangible assets	18	**X**	X
Investments accounted for using the equity method	20	**X**	X
Available-for-sale investments		**X**	X
		X	X
Current assets			
Inventories	22	**X**	X
Trade receivables	23	**X**	X
Other current assets		**X**	X
Other financial assets at fair value through profit and loss		**X**	X
Cash and cash equivalents	24	**X**	X
		X	X
Non-current assets held for sale	12	**X**	X
		X	X
Total assets		**X**	X
Equity and liabilities			
Equity attributable to equity holders of the parent			
Ordinary shares	26	**X**	X
Share premium	26	**X**	X
Translation reserve		**X**	X
Fair value reserve		**X**	X
Retained earnings		**X**	X
		X	X
Non-controlling interest		**X**	X
Total equity		**X**	X

Statement of financial position at 31 December 2012 continued

(Alternative presentation)

	Note	**2012**	2011
Non-current liabilities			
Non-current borrowings	29	**X**	X
Deferred tax	21	**X**	X
Non-current provisions	28	**X**	X
Retirement benefit obligations	30	**X**	X
		X	X
Current liabilities			
Trade and other payables	31	**X**	X
Current borrowings	29	**X**	-
Current portion of non-current borrowings	29	**X**	X
Current tax payable		**X**	X
Current provisions	28	**X**	X
		X	X
Liabilities of a disposal group classified as held for sale	12	**X**	X
		X	X
Total liabilities		**X**	X
Total equity and liabilities		**X**	X

The financial statements were approved and authorised for issue by the board and were signed on its behalf on [date]:

Director Signature

Director Name

Commentary on the statement of changes in equity

Statement of changes in equity

A statement of changes in equity must be presented as a primary financial statement.	IAS 1 p106

Reserves

A description of the set nature and purpose of each reserve within equity should be disclosed.	IAS 1 p79
Other reserves are disclosed separately, if the balance of each reserve is considered material.	IAS 1 p29

Statement of changes in equity
for the year ended 31 December 2012

	Attributable to equity holders of the parent						Non-controlling interest	Total equity
	Ordinary shares	**Share premium**	**Translation reserve**	**Fair value reserve**	**Retained earnings**	**Total**		
Balance at 1 January 2011	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**
Changes in equity for 2011								
Profit for the year	-	-	-	-	X	X	X	X
Exchange differences on translating foreign operations	-	-	X	-	-	X	X	X
Available for sale financial assets	-	-	-	X	-	X	X	X
Actuarial gains/loss on defined benefit plans	-	-	-	-	X	X	-	X
Share of comprehensive income of associates	-	-	-	X	-	X	-	X
Total comprehensive income for the year	-	-	X	X	X	X	X	X
Dividends	-	-	-	-	X	X	X	X
Issue of share capital	X	X	-	-	-	X	-	X
Balance at 31 December 2011	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**

Statement of changes in equity for the year ended 31 December 2012 continued

	Attributable to equity holders of the parent						Non-controlling interest	Total equity
	Ordinary shares	**Share premium**	**Translation reserve**	**Fair value reserve**	**Retained earnings**	**Total**		
Balance at 31 December 2011	X	X	X	X	X	X	X	X
Changes in equity for 2012								
Profit for the year	-	-	-	-	X	X	X	X
Exchange differences on translating foreign operations	-	-	X	-	-	X	X	X
Available for sale financial assets	-	-	-	X	-	X	X	X
Actuarial gains/loss on defined benefit plans	-	-	-	-	X	X	-	X
Share of comprehensive income of associates	-	-	-	X	-	X	-	X
Total comprehensive income for the year	-	-	X	X	X	X	X	X
Dividends	-	-	-	-	X	X	X	X
Issue of share capital	X	X	-	-	-	X	-	X
Balance at 31 December 2012	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**

Commentary on statement of cash flows

Reporting formats

There are two available reporting formats for the statement of cash flows; the direct method and the indirect method. The direct method, requiring the disclosure of major classes of gross cash receipts and gross cash payments; and the indirect method, whereby the profit or loss is adjusted for the effects of non-cash transactions, working capital changes, and items of income and expense associated with investing or financing cash flows. IAS7 p18

Cash and cash equivalents

Cash and cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. IAS7 p6

Categories of cash flows

Cash flow movements for the year shall be analysed into three categories, namely: operating, investing, and financing. IAS 7 is not prescriptive as to where items of cash flows are classified but does require consistent application from year to year. IAS7 p10

Interest and dividends

Cash flows from interest and dividends received and paid shall each be disclosed separately. Each shall be classified in a consistent manner from period to period as either operating, investing or financing activities. IAS7 p31

Taxes on income

Cash flows arising from taxes on income shall be separately disclosed and shall be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities. IAS 7 p35

Statement of cash flows for the year ended 31 December 2012

(direct method)

	Note	**2012**	2011	
Cash flows from operating activities				IAS7 p10, p21
Cash receipts from customers		X	X	
Cash paid to suppliers and employees		X	X	
Cash generated from operations		X	X	
Interest paid		X	X	IAS7 p31
Income taxes paid		X	X	IAS7 p35
Net cash from / (used in) operating activities	24	X	X	
Cash flow from investing activities				IAS7 p10, p21
Acquisition of subsidiaries, net of cash acquired	25.1	X	X	IAS7 p39
Purchase of property, plant and equipment		X	X	IAS7 p16
Proceeds from the sale of equipment		X	X	IAS7 p16
Interest received		X	X	IAS7 p31
Dividends received		X	X	IAS7 p31
Net cash from / (used in) investing activities		X	X	
Cash flows from financing activities				IAS7 p10, p21
Proceeds from the issue of share capital		X	X	IAS7 p17
Proceeds from long-term borrowings		X	X	IAS7 p17
Dividends paid		X	X	IAS7 p31
Net cash from / (used in) financing activities		X	X	
Net increase in cash and cash equivalents		X	X	
Cash and cash equivalents at beginning of period		X	X	
Cash and cash equivalents at end of period	24.2	X	X	

Commentary on statement of cash flows

Other disclosures

The group should disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the group that are not available for use by the group. There are various circumstances in which cash and cash equivalent balances held by the group are not available for use by the group. Examples include cash and cash equivalent balances held by a subsidiary that operates in a country where exchange controls or other legal restrictions apply when the balances are not available for general use by the parent or other subsidiaries. IAS7 p48, 49

Additional information may be relevant to users in understanding the financial position and liquidity of the group. Disclosure of this information, together with a commentary by management, is encouraged and may include: IAS7 p50

- 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;
- 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;
- 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
- the amount of the cash flows arising from the operating, investing and financing activities of each reportable segment

The separate disclosure of cash flows that represent increases in operating capacity and cash flows that are required to maintain operating capacity is useful in enabling the user to determine whether the group is investing adequately in the maintenance of its operating capacity. IAS7 p51

Statement of cash flows for the year ended 31 December 2012

(indirect method)

		2012	2011
Cash flows from operating activities			
Profit before taxation		X	X
Adjustments for:			
Depreciation and amortisation		X	X
Investment income		X	X
Interest expense		X	X
Foreign exchange loss		X	X
Impairment loss		X	X
Fair value gain on investment property		X	X
Share based payments		X	X
Increase in trade and other receivables		X	X
Decrease in inventories		X	X
Decrease in trade payables		X	X
Cash generated from operations		X	X
Interest paid		X	X
Income taxes paid		X	X
Net cash from / (used in) operating activities	24	X	X
Cash flow from investing activities			
Acquisition of subsidiaries, net of cash acquired	25.1	X	X
Purchase of property, plant and equipment		X	X
Proceeds from the sale of equipment		X	X
Interest received		X	X
Dividends received		X	X
Net cash from / (used in) investing activities		X	X
Cash flows from financing activities			
Proceeds from the issue of share capital		X	X
Proceeds from long-term borrowings		X	X
Dividends paid		X	X
Net cash from / (used in) financing activities		X	X
Net increase in cash and cash equivalents		X	X
Cash and cash equivalents at beginning of period		X	X
Cash and cash equivalents at end of period	24.2	X	X

Commentary on accounting policies

Additional information

The following information is required if not disclosed elsewhere in the financial statements: IAS1 p138

1. The legal form of the parent company
2. The country of incorporation
3. The address of its registered office and if different its principal place of business
4. A description of the nature of the group's operations and its principal activities
5. The name of the parent and ultimate parent of the group.

Basis of preparation and accounting policies

The notes to the financial statements are required to present information about the basis of preparation of the financial statements and the specific accounting policies used. IAS1 p112

Accounting policies

The group should disclose in the summary of significant accounting policies the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements. IAS1 p117

Statement of compliance and fair presentation

The financial statements are required to make an explicit and unreserved statement that the financial statements comply with IFRS. The financial statements should not be described as complying with IFRS unless they comply with all of the requirements of each applicable standard and each applicable interpretation of IFRIC. IAS1 p16

IAS 1 states that financial statements should be fairly presented. By applying IFRS it is presumed that the financial statements will be fairly presented. IAS1 p15

Changes in accounting policies

Accounting policy changes can only effected if the change is required by another standard or an interpretation, or results in reliable and more relevant information being provided. IAS8 p14

Notes to financial statements

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated. IAS1 p112, p117

1. Basis of preparation

These financial statements have been prepared in accordance with IFRS. IAS1 p16, p112, p117

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts in the financial statements. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the financial statements are disclosed in note 3. IAS1 p122,p125

1.1 Standards issued and applied for the first time in 2012 IAS8 p28

- [When initial application of a Standard or an Interpretation, including those adopted early, has an effect on the current period or any prior period, or would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, the group should disclose:
- the title of the Standard or Interpretation;
- when applicable, that the change in accounting policy is made in accordance with its transitional provisions;
- the nature of the change in accounting policy;
- when applicable, a description of the transitional provisions;
- when applicable, the transitional provisions that might have an effect on future periods;
- for the current period and each prior period presented, to the extent practicable, the amount of the adjustment: for each financial statement line item affected; and if IAS 33 Earnings per Share applies to the group, for basic and diluted earnings per share;
- the amount of the adjustment relating to periods before those presented, to the extent practicable; and
- if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.]

Commentary on notes

Summary of Standards and Interpretations effective for the first time – December 2012

IFRS 7 Financial Instruments: Disclosures

The amended standard requires detailed disclosures about transfer transactions of financial assets, and specifically when a disproportianite number of transfer transactions are undertaken near the end of an accounting period. The amendments are effective for years commencing on or after 1 January 2012.

IAS 12 Income Taxes (Note at time of publishing EU Endorsement has not been given but is expected Q4 2012)

The amendment assumes that the recovery of investment properties held under IAS 40 Investment Properties will primarily be through sale. The amendment is effective for periods commencing on or after 1 January 2012.

Notes to financial statements

1.2 Standards and interpretations issued and not yet effective

IAS 1 p30

[When the group has not applied a new Standard or Interpretation that has been issued but is not yet effective, the group should disclose:

- this fact; and
- known or reasonably estimable information relevant to assessing the possible impact that application of the new Standard or Interpretation will have on the group's financial statements in the period of initial application.]

If none of the new Standards or Interpretations are expected to have a material impact the following example wording may be appropriate:

The company has not adopted any standards or interpretations in advance of the required implementation dates. It is not expected that the adoption of any other standards or interpretations which have been issued by the International Accounting Standards Board but have not been adopted will have a material impact on the financial statements.

Summary of Standards and Interpretations issued but not yet effective

IFRS 9 Financial Instruments (Not yet EU endorsed)
The new standard requires all financial assets within the scope of IAS39 to be stated at amortised cost or fair value where the intention is to hold such instruments to collect the contractual cash flows which are repayments of capital and interest. All other investments are stated at fair value at the end of each reporting period. Furthermore, where changes in the fair value of financial liabilities at fair value through profit or loss can be attributed to changes in credit risk, those changes are recognised in other comprehensive income. The only exception would be when such treatment would give rise to, or enlarge an accounting mismatch in profit and loss. The standard is effective for years commencing on or after 1 January 2015, with earlier adoption permitted.

IFRS 10 Consolidated Financial Statements (Not yet EU endorsed)
Builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard revises the definition of control and provides additional guidance to assist in the determination of control where this is difficult to assess. The basic principle that a consolidated entity includes a parent and its subsidiaries as if they were a single entity and consolidation procedures remains unchanged.

IFRS 11 Joint venture (Not yet EU endorsed)
An entity is required to determine the type of joint arrangement in which it is a party by assessing its rights and obligations. These should then be accounted for in accordance with that type of joint arrangement. The standard defines joint operations and joint ventures and requires the following treatment thereof :

- A **joint operation** is a joint arrangement where the parties have joint control of the arrangement (joint operators) and have rights to the assets, obligations for the liabilities of the arrangement. Joint operators recognise their assets, liabilities, revenue and expenses in relation to its interest in a joint operation.A **joint venture** is a joint arrangement where the parties have joint control of the arrangement (joint venturers) and have rights to the net assets of the arrangement. Joint venturers should account for such investments on the equity method

IFRS 12 Disclosure of Interests in Other Entities (Not yet EU endorsed)
IFRS12 sets out requirements for disclosure of information of the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial statements.

IAS 27 Separate Financial Statements; IAS 28 Investments in Associates and Joint Ventures (Not yet EU endorsed)
These two existing standards have been amended in order to align them with the newly released standards. The revised IAS 27 now deals with the requirements for the preparation of separate financial statements only. The previous standard also dealt with consolidated financial statements, which requirements are now included in IFRS10 Consolidated Financial Statements. The standard now requires that Investments in subsidiaries, associates and jointly controlled entities be carried, either at cost or in accordance with IFRS 9.

The effective date of IFRS 10, 11 & 12 and amended IAS 27 & 28 is 1 January 2013, while early adoption is permitted. It must be noted that these should be adopted as a package of standards and none of them may be individually adopted.

IFRS 13 Fair value (Not yet EU endorsed)
The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. It applies to both financial instrument items and non-financial instrument items where other standards require or permit fair value measurements and disclosures about fair value measurements.
IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

Notes to financial statements

2. Accounting policies

2.1 Consolidation and investments in associates and joint ventures

These financial statements are the consolidated financial statements of Exemplum plc and all of its subsidiaries ("the Group").

Subsidiaries are all entities over which the group has the power to govern the financial and operating policies so as to obtain benefit from their activities. Subsidiaries are included from the date on which control is transferred until the date that the control ceases.	IAS 27 p4
The purchase, or acquisition, method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of the acquisition is measured as the fair value of assets transferred, equity instruments issued and liabilities incurred at the date of exchange.	IFRS3 p4, p37
Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated.	IAS27 p20
Non-controlling interests in subsidiaries are presented separately from the equity attributable to equity owners of the parent company. Group's equity therein. Non-controlling shareholders' interest may initially be measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on each acquisition individually. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.	IAS 27 p30
Acquisitions or disposals of non-controlling interests which do not affect the parent company's control of the subsidiary are accounted for as transactions with equity holders. Any difference between the amount paid or received and the change in non-controlling interests is recognised directly in equity.	
An associate is an entity over which the group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The investment in an associate is initially recognised at cost and adjusted for the group's share of the changes in the net assets of the investee after the date of acquisition, and for any impairment in value. If the group's share of losses of an associate exceeds its interest in the associate, the group discontinues recognising its share of further losses.	IAS28 p2, p11, p29
A joint venture is an entity over which the group has joint control. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control. The investment in a joint venture is initially recognised at cost and adjusted for the group's share of the changes in the net assets of the joint venture after the date of acquisition, and for any impairment in value. If the group's share of losses of a joint venture exceeds its interest in the joint venture, the group discontinues recognising its share of further losses.	IAS 31 p3, p38 – p41

Summary of Standards and Interpretations issued but not yet effective continued

IFRS 7 Financial Instruments: Disclosures (Not yet EU endorsed)
The amended standard requires disclosures to include informantion that will enable users of the financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and financial lisbilities. The amendment is effective for periods commencing on or after 1 January 2013.

IAS 19 Employee benefits IAS 19 has been significantly revised and the following changes have been made:

- 'Actuarial gains and losses' are renamed 'remeasurements' and are now required to be recognised in other comprehensive income. The options to recognise actuarial gains ans losses in profit and loss or to use the corridor approach to defer actuarial gain or losses have been removed. Remeasurements will not be recycled through profit and loss.
- Past-service costs will be recognised in the period of a plan amendment while unvested benefits will no longer be spread over a future-service period.
- A curtailment now occurs only when an entity significantly reduces the number of employees. Curtailment gains or losses are accounted for as past-service costs.
- Costs for a funded benefit plan will include net interest income or expense, calculated by applying the discount rate to the net benefit asset or liability. This will replace finance charge and expected return on plan assets. There will be less flexibility in income statement presentation, where benefit cost should be split between:
    1. the cost of benefits accrued in the current period and benefit changes; and
    2. finance expense or income.
- Enhanced disclosure requirements, most notably the characteristics of amounts recognised in the financial statement and the risks and characteristics of benefit schemes.
- Taxes related to benefit plans should be included either in the return on assets or the calculation of the benefit obligation, depending on their nature.
- Investment management costs should be recognised as part of the return on assets; other costs of running a benefit plan should be recognised as period costs when incurred.
- Under the new standards any benefit that has a future-service obligation is not a termination benefit. A liability for a termination benefit is recognised when the entity can no longer withdraw the offer of the termination benefit or recognises any related restructuring costs.

The amendments are effective for periods beginning on or after 1 January 2013. Earlier application is permitted.

IAS 1 Presentation of financial statements
The revised standard requires entities to group items in other comprehensive income as items which may be subsequently recycled to profit or loss, or those that will not. The disclosure of the tax effect of these items should follow accordingly. The revised IAS 1 is effective for years beginning on/after 1 July 2012. the revaluation model. The group is required to choose a policy for each category of property, plant and equipment, and then to apply that same policy to each asset within that category.

IAS 32 Financial Instruments: Presentation (Not yet EU endorsed)
The application guidance to IAS 32 has been amended to clarify some of the requirements for offsetting Financial Assets and Financial Liabilities. The revised standard is effective for annual periods beginning on or after 1 January 2014.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine
Clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. The Interpretation is effective for annual periods beginning on or after 1 January 2013.

Commentary on accounting policies

IFRS 3 (revised) - Measure of non-controlling interest

IFRS 3 (revised) states that the acquirer can elect to measure any non-controlling interest at fair value at the acquisition date, or at its proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis. IFRS 3 p19

Notes to financial statements

2.2 Goodwill

Goodwill on acquisitions comprises the excess of the aggregate of the fair value of the consideration transferred, the fair value of any previously held interests, and the recognised value of the non-controlling interest in the acquiree over the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed.

IFRS3 p32

Goodwill is carried at cost less accumulated impairment losses. Goodwill is tested for impairment annually. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

2.3 Business combinations

Business combinations are accounted for using the acquisition method. The consideration for acquisition is measured at the fair values of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in order to obtain control of the acquiree (at the date of exchange). Costs incurred in connection with the acquisition are recognised in profit or loss as incurred
Where a business combination is achieved in stages, previously held interests in the acquiree are remeasured to fair value at the acquisition date (date the Group obtains control) and the resulting gain or loss, is recognised in profit or loss.
Adjustments are made to fair values to bring the accounting policies of acquired businesses into alignment with those of the group. The costs of integrating and reorganising acquired businesses are charged to the post acquisition profit or loss.

IFRS3 p4,
p37, p32, p45
IAS 38 p118

If the initial accounting is incomplete at the reporting date, provisional amounts are recorded. These amounts are subsequently adjusted during the measurement period, or additional assets or liabilities are recognised when new information about its existence is obtained during this period

Notes to financial statements

2.4 Intangible assets

2.4.1 Intangible assets acquired separately

Intangible assets acquired separately are shown at historical cost less accumulated amortisation and impairment losses. IAS38 p74, p97

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of the intangible asset unless such lives are indefinite. These charges are included in other expenses in profit or loss. Intangible assets with an indefinite useful life are tested for impairment annually. Other intangible assets are amortised from the date they are available for use. The useful lives are as follows:

• Patents and trademarks- 20 years

• Software development costs - 3 years

Amortisation periods and methods are reviewed annually and adjusted if appropriate

2.4.2 Intangible assets generated internally

Expenditures on research or on the research phase of an internal project are recognised as an expense when incurred. The intangible assets arising from the development phase of an internal project are recognised if, and only if, the following conditions apply:

- it is technically feasible to complete the asset for use by the Company
- the company has the intention of completing the asset for either use or resale
- the company has the ability to either use or sell the asset
- it is possible to estimate how the asset will generate income
- the company has adequate financial, technical and other resources to develop and use the asse; and
- the expenditure incurred to develop the asset is measurable.

If no intangible asset can recognised based on the above, then development costs are recognised in profit and loss in the period in which they are incurred.

2.4.3 Intangible assets recognised in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date

2.5 Property, plant and equipment

All property, plant and equipment assets are stated at cost less accumulated depreciation. IAS16 p30

Depreciation of property, plant and equipment is provided to write off the cost, less residual value, on a straight line basis over the estimated useful life. IAS16 p73

• Buildings - 50 years

• Computer equipment - 3 years

• Motor vehicles - 5 years

Residual values, remaining useful lives and depreciation methods are reviewed annually and adjusted if appropriate. IAS 16 p51

Gains or losses on disposal are included in profit or loss. IAS 16 p68

Commentary on accounting policies

Impairment

The group should also assess annually whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amount of that asset is estimated and compared to its carrying value. A reversal of an impairment loss is recognised for the amount by which the asset's recoverable amount exceeds its carrying value, limited to what the carrying value would have been had no impairment loss previously been recognised.

IAS36 p110 and p117

Notes to financial statements

2.6 Investment properties

Investment property comprises non-owner occupied buildings held to earn rentals and for capital appreciation.	IAS40 p75
Investment properties are initially recognised at cost, inclusive of transaction costs. Subsequently, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are recognised in profit or loss in the period in which they arise.	
Investment property is derecognised when disposed of, or when no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property is recognised in profit or loss in the period in which the property is derecognised.	
2.7 Impairment of non-financial assets	
The group assesses annually whether there is any indication that any of its assets have been impaired. If such indication exists, the asset's recoverable amount is estimated and compared to its carrying value. Where it is impossible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the smallest cash-generating unit to which the asset is allocated.	IAS36 p9 IAS36 p 60
If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount an impairment loss is recognised immediately in profit or loss, unless the asset is carried at a revalued amount, in which case the impairment loss is recognised as revaluation decrease.	IAS36 p10
For goodwill, intangible assets that have an indefinite life, and intangible assets not yet available for use, the recoverable amount is estimated annually and at the end of each reporting period if there is an indication of impairment.	IAS36 p60
2.8 Financial instruments	IFRS7 p21
The group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement. Financial instruments are recognised when the Group becomes a party to the contractual provisions of the instrument.	IFRS7 p21
Financial instruments are recognised initially at fair value plus transactions costs that are directly attributable to the acquisition or issue of the financial instrument, except for financial assets at fair value through profit or loss, which are initially measured at fair value, excluding transaction costs.	IFRS7 p27, IAS39 p14, p43
Financial instruments are derecognised on trade date when the group is no longer a party to the contractual provisions of the instrument.	

Notes to financial statements

2.8 Financial instruments (continued)

2.8.1 Available-for-sale financial assets

Available-for-sale financial assets comprise equity investments. Subsequent to initial recognition available-for-sale financial assets are stated at fair value. Movements in fair values are taken directly to equity, with the exception of impairment losses which are recognised in profit or loss. Fair values are based on prices quoted in an active market if such a market is available. If an active market is not available, the group establishes the fair value of financial instruments by using a valuation technique, usually discounted cash flow analysis. When an investment is disposed, any cumulative gains and losses previously recognised in equity are recognised in profit or loss. Dividends are recognised in profit or loss when the right to receive payments is established.

IAS39 p48A, IFRS7 p27

2.8 Financial Instruments (continued)

2.8.2 Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss comprise derivative financial instruments, namely interest rate swaps and forward exchange contracts. Subsequent to initial recognition financial assets at fair value through profit and loss are stated at fair value. Movements in fair values are recognised in profit or loss, unless they relate to derivatives designated and effective as hedging instruments, in which event the timing of the recognition in profit or loss depends on the nature of the hedging relationship. The group designates certain derivatives as hedging instruments in fair value hedges of recognised assets and liabilities and firm commitments, and in cash flow hedges of highly probable forecast transactions and foreign currency risks relating to firm commitments.

IFRS7 p21, 22

The effective portion of fluctuations in the fair value of interest rate swaps used to hedge interest rate risk and that qualify as fair value hedges are recognised together with finance costs. The ineffective portion of the gain or loss is recognised in other expenses or other income.

IAS39 p89, IFRS7 p22

Fluctuations in the fair value of forward exchange contracts used to hedge currency risk of future cash flows, and the fair value of foreign currency monetary items on the statement of financial position, are recognised directly in other expenses or other income. This policy has been adopted as the relationship between the forward exchange contracts and the item being hedged does not meet certain conditions in order to qualify as a hedging relationship.

IAS39 p88, IFRS7 p22

2.8.3 Trade receivables

Trade receivables are stated at their original invoiced value, as the interest that would be recognised from discounting future cash receipts over the short credit period is not considered to be material. Trade receivables are reduced by appropriate allowances for estimated irrecoverable amounts. Interest on overdue trade receivables is recognised as it accrues.

IAS39 p46

2.8.4 Cash and cash equivalents

Cash equivalents comprise short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. An investment with a maturity of three months or less is normally classified as being short-term.

IAS 7 p46

2.8.5 Trade payables

Trade payables are stated at their original invoiced value, as the interest that would be recognised from discounting future cash payments over the short payment period is not considered to be material.

IAS39 p47

Notes to financial statements

2.8 Financial Instruments (continued)

2.8.6 Interest-bearing borrowings

Interest-bearing borrowings are stated at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability. IAS39 p47

2.8.7 Equity instruments

Equity instruments issued by the group are recorded at the value of proceeds received, net of costs directly attributable to the issue of the instruments.

2.8.8 Compound instruments

At the issue date the fair value of the liability component of a compound instrument is estimated using the market interest rate for a similar non-convertible instrument. This amount is recorded as a liability at amortised cost using the effective interest method until extinguished upon conversion or at the instrument's redemption date.
The equity component is determined as the difference of the amount of the liability component from the fair value of the instrument. This is recognised in equity, net of income tax effects, and is not subsequently remeasured.

2.8.9 Net investment in foreign operation

The effective portion of fluctuations in the fair value of the hedging instrument used to hedge currency risk of net investments in foreign companies is recognised directly in equity. The ineffective portion of the gain or loss is recognised in profit or loss. The gain or loss deferred in equity, or part thereof, for hedges of net investments in foreign companies is recycled through profit or loss when the interest in or part of the interest in, the foreign company is disposed of. IAS39 p102

2.8.10 Impairment of financial assets

All financial assets, except for those at fair value through profit or loss, are assessed for indicators of impairment at each reporting date.

Notes to financial statements

2.9 Share based payments

Employee share options are measured at fair value at grant date using the Black-Scholes model. The fair value is expensed on a straight line basis over the vesting period, based on an estimate of the number of options that will eventually vest.
At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share option reserve. IFRS2 p10
Cash settled share based payment transactions to settle obligations arising from transactions with suppliers results in the recognition of a liability at its current fair value. The fair value of the liability is measured by reference to the fair value of the goods or services received, and remeasured at each reporting date, with any movements recognised in profit and loss for the period. IFRS2 p30

2.10 Retirement benefits

The group operates both defined contribution plans and defined benefit plans. IAS19 p44
A defined contribution plan is one where the group pays fixed contributions into a separate entity. These contributions are expensed in the period in which the employees rendered the services entitling them to the benefits..

The terms of the defined benefit pension plan define the amount that employees will receive on retirement. These amounts are dependent on factors such as age, years of service and compensation, and are determined independently of the contributions payable or the investments of the scheme. The defined benefit liability recognised on the statement of financial position is the difference between the present value of the defined benefit obligations and the fair value of plan assets. IAS19 p54

The defined benefit obligation is calculated by independent actuaries using the project unit cost method. Actuarial gains and losses are recognised in full in the year in which they occur within other comprehensive income. IAS19 p64, p93A

2.11 Revenue

Revenue comprises sales and services to external customers (excluding VAT and other sales taxes). Consideration received from customers is only recorded as revenue to the extent that the group has performed its contractual obligations in respect of that consideration. IAS18 p35, p89

Rental income from operating leases is recognised in income on a straight-line basis over the lease term. IAS17 p50

Interest revenue is recognised in the period in which interest is earned. The amount of revenue is measured using the effective interest rate method.

2.12 Inventories

Inventories are valued at the lower of cost and net realisable value on a weighted average basis. Cost comprises purchase cost of goods, direct labour and those overheads related to manufacture and distribution based on normal activity levels. IAS2 p36

Notes to financial statements

2.13 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. IAS17 p33

2.13.1 As Lessor

Operating leases IAS 17 p20

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Any balloon payments and rent free periods are taken into account when determining the straight-line charge.

2.13.2 As Lessee IAS 17 p27

Finance leases

Assets held under finance leases are recognised as assets of the Group at the fair value at the inception of the lease or if lower, at the present value of the minimum lease payments. The related liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between interest expenses and capital redemption of the liability, Interest is recognised immediately in profit or loss, unless attributable to qualifying assets, in which case they are capitalised to the cost of those assets.

Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except if another systematic basis is more representative of the time pattern in which economic benefits will flow to the Group.

Contingent rentals arising under operating leases are recognised in the period in which they are incurred.

Lease incentives and similar arrangements of incentives are taken into account when calculating the straight-lined expense.

2.14 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. IAS 23 p8

Other borrowing costs are expensed in the period in which they are incurred.

Notes to financial statements

2.15 Taxation

Income tax for the period is based on the taxable income for the year. Taxable income differs from profit as reported in the statement of comprehensive income for the period as there are some items which may never be taxable or deductible for tax and other items which may be deductible or taxable in other periods. Income tax for the period is calculated using the current ruling tax rate

Deferred tax is the future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities shown on the statement of financial position. Deferred tax assets and liabilities are not recognised if they arise in the following situations: the initial recognition of goodwill; or the initial recognition of assets and liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of recovery or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the statement of financial position date.

IAS12 p15, p24, 47

The group does not recognise deferred tax liabilities, or deferred tax assets, on temporary differences associated with investments in subsidiaries, joint ventures and associates where the parent company is able to control of the timing of the reversal of the temporary differences and it is not considered probable that the temporary differences will reverse in the foreseeable future. It is the group's policy to reinvest undistributed profits arising in group companies.

IAS 12 p39, p44

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amount of the deferred tax assets are reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

IAS 12 p24, p34

Notes to financial statements

2.16 Discontinued operations and non-current assets held for sale

Discontinued operations and non-current assets held for sale are measured at the lower of carrying amount and fair value less costs to sell. IFRS5 p15

Discontinued operations and non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. IFRS5 p6

This is the case, when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and the sale is considered to be highly probable. IFRS5 p7

A sale is considered to be highly probable if the appropriate level of management is committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan has been initiated. Further, the asset (or disposal group) has been actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale is expected to qualify for recognition as a completed sale within one-year from the date that it is classified as held for sale. IFRS5 p8

2.17 Provisions

Provisions are recognised when the Group has a presented obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. IAS37 p14

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Notes to financial statements

2.18 Foreign currencies

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the entities within the group. Monetary items denominated in foreign currencies are retranslated at the exchange rates applying at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings which are regarded as adjustments to interest costs , where those interest costs qualify for capitalisation to assets under construction ;
- exchange differences on transactions entered into to hedge foreign currency risks; and
- exchange differences on loans to or form a foreign operation for which settlement is neither planned nor likely to occur and therefore forms part of the net investment in the foreign operation, which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

Foreign Operations

The functional currency of the parent company and the presentation currency of the consolidated financial statements is Pounds Sterling. The assets and liabilities of the Group's foreign operations are translated to Pounds Sterling using exchange rates at period end. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rate on transaction date is used. Goodwill acquired in business combinations of a foreign operations are treated as assets and liabilities of that operation and translated at the closing rate.

Exchange differences are recognised in other comprehensive income and accumulated in a separate category of equity.

On the disposal of a foreign operation, the accumulated exchange differences of that operation, which is attributable to the Group are recognised in profit or loss.

Commentary on notes

Key sources of estimation uncertainty

The group should disclose in the notes information about the key assumptions concerning the future, and other major sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of: IAS1 p125

- their nature; and
- their carrying amount as at the statement of financial position date.

Examples of estimation uncertainty include determining the: fair values of property, plant and equipment, if carried on the statement of financial position at a revalued book value; obsolescence provision on inventories; provisions subject to the future outcome of litigations in progress; and the long-term employee benefit liabilities. These estimates involve the use of assumptions such as: discount rates; risk adjustment to cash flows; and salary and wage increases. IAS1 p126

The key assumptions and other key sources of estimation uncertainty disclosed should relate to the estimates that require management's most difficult, subjective or complex judgements. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgements become more subjective and complex, and the potential for a consequential material adjustment to the carrying amounts of assets and liabilities normally increases accordingly. IAS1 p127

The disclosures are presented in a manner that helps users of financial statements to understand the judgements management makes about the future and about other key sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures made are: IAS1 p129

- the nature of the assumption or other estimation uncertainty;
- the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity;
- the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and
- an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

Notes to financial statements

3. Accounting estimates and judgements

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows: IAS1 p122, p125

3.1 Key sources of estimation uncertainty

Stock provisions - The stock provision is based on average loss rates of stock in recent months. The provision makes use of stock counts performed which is considered to representative of all stock items held.

Retirement benefit obligation – Refer to note 30 for disclosure of the key sources of estimation uncertainty relating to the retirement benefit obligation.

Goodwill - Goodwill is estimated for impairment at each statement of financial position date. The recoverable amounts of cash generating units have been estimated based on value in use calculations. Value in use calculations have been based on a subjective pre-tax discount rate of 1%. Had the discount rate used been 1% greater or lower than estimated, then the impairment loss would have been increased by £ X, or decreased by £ X respectively. IAS1 p129

Financial instruments - Valuation methods, usually discounted cash flow analysis, are used to determine the fair value of financial instruments that are not traded in an active market. Calculations have been based on a subjective pre-tax discount rate of X%. Had the discount rate used been 1% greater or lower than estimated, then the change in fair value would have been decreased by £ X, or increased by £ X respectively. The total amount of the change in fair value estimated using discounted cash flow analysis, recognised in the profit for the period was £ X (2011: £ X). IFRS7 p27

Useful lives of items of property, plant and equipment - The group reviews the estimated useful lives of property, plant and equipment at the end of each reporting period. During the current year, the directors determined that the useful lives of certain items of equipment should be shortened, due to developments in technology. The financial effect of this reassessment is to increase the consolidated depreciation expense in the current year and for the next 3 years, by the following amounts: IAS1 p 129

2012	£ X
2013	£ X
2014	£ X
2015	£ X

3.2 Critical judgements in applying the group's accounting policies

Retail stores refurbishment - The group has recognised a provision for store refurbishment in the statement of financial position as at 31 December 2012. As management were considered to be fully committed to the expenditure and the group has obligations in terms of its lease agreements to affect the refurbishments, they believe that the appropriate accounting treatment is to make a provision in the statement of financial position as at 31 December 2012. IAS1 p122

Operating lease commitments – The group has entered into property leases over a number of retail stores. As management have determined that the group has not obtained substantially all the risks and rewards of ownership of these properties, the leases have been classified as operating leases and accounted for accordingly. IAS1 p122

Commentary on notes

Segment information

An operating segment is a component of an entity: IFRS 8 p5

(a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
(b) whose operating results are regularly reviewed by the entity's chief operating decision maker ('CODM') to make decisions about resources to be allocated to the segment and assess its performance, and
(c) for which discrete financial information is available.

The term CODM identifies a function, not necessarily a manager with a specific title. That function is to allocate resources to and assess the performance of the operating segments of an entity. Often the CODM of an entity is its chief executive officer or chief operating officer but, for example, it may be a group of executive directors or others. IFSR 8 p7

Quantitative thresholds have been set for determining operating segments for which separate information should be disclosed. Separate information should be disclosed for any operating segment: IFRS 8 p13

i. with revenue (including both external sales and intersegment transfers) that is 10% or more of the total revenue of all the operating segments;
ii. with assets that are 10% or more of the combined assets of all the operating segments; or
iii. where its profit or loss which, in absolute terms, is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all profit making operating segments and (ii) the combined reported loss of all loss-making operating segments.

Adjusted EBITDA has been used as the measure of profit or loss that is regularly reviewed by the CODM. As IFRS 8 requires the figure representing profit/loss to be the one "regularly provided to the CODM", this figure should be determined on an entity by entity basis.

An entity may combine information about operating segments that do not meet the quantitative thresholds with information about other operating segments that do not meet the quantitative thresholds to produce a reportable segment only if the operating segments have similar economic characteristics and share a majority of the aggregation criteria. IFRS 8 p14

If the total external revenue reported by operating segments constitutes less than 75% of the entity's revenue, additional operating segments shall be identified as reportable segments until at least 75% of the entity's revenue is included in reportable segments. IFRS 8 p15

If an operating segment is identified as a reportable segment in the current period in accordance with the quantitative thresholds, segment data for a prior period presented for comparative purposes shall be restated to reflect the newly reportable segment as a separate segment, even if that segment did not satisfy the criteria for reportability in the prior period, unless the information is not available and the cost to develop it is excessive. IFRS 8 p18

The disclosure of segmental cash flows enables users to obtain a better understanding of the relationship between the cash flows of the business as a whole and those of its component parts and the availability and variability of segmental cash flows. IAS7 p52

Notes to financial statements

4. Segmental reporting

[The group should disclose the factors used to identify its reportable segments. This should include the basis of organisation, for example by difference in products or services, geographical areas, regulatory environments or a combination of factors.] IFRS 8 p22(a)

[The group should disclose the types of products and services from which each reportable segment derives its revenues.] IFRS 8 p22(b)

[Information about other business activities and operating segments that are not reportable shall be combined and disclosed in an 'all other segments' category separately from other reconciling items in the reconciliations required by IFRS 8 p28. The sources of the revenue included in the 'all other segments' category shall be described.] IFRS 8 p16

[An entity shall provide an explanation of the measurements of segment profit or loss, segment assets and segment liabilities for each reportable segment.] IFRS 8 p27

[Adjusted EBITDA has been used in the illustrative accounts as the measure of profit or loss that is regularly reviewed by the CODM. As IFRS 8 requires the figure representing profit or loss to be the one "regularly provided to the CODM", this figure should be determined on an entity by entity basis.]

	Manufacture		**Retail**		**Distribution**		**All other segments**		**Total**		
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	
Revenue											
External revenue	X	X	X	X	X	X	X	X	X	X	IFRS 8 p23(a)
Inter-segment revenue	X	X	X	X	X	X	X	X	X	X	IFRS 8 p23(b)
Total segment revenue	X	X	X	X	X	X	X	X	X	X	
Adjusted EBIDTA	X	X	X	X	X	X	X	X	X	X	IFRS 8 p23
Depreciation and amortisation	X	X	X	X	X	X	X	X	X	X	IFRS 8 p23(e)
Goodwill impairment	X	X	X	X	X	X	X	X	X	X	IAS 36 p129(a)
Interest expense	X	X	X	X	X	X	X	X	X	X	IFRS 8 p23(d)
Interest income	X	X	X	X	X	X	X	X	X	X	IFRS 8 p23(c)
Share of profit from associates and joint ventures	X	X	X	X	X	X	X	X	X	X	IFRS 8 p23(g)
Income tax expense	X	X	X	X	X	X	X	X	X	X	IFRS 8 p23(h)

Commentary on notes

Segment information

Certain entity wide disclosures are also required for all entities, including those entities that have a single reporting segment, including information about: products and services; geographical areas; and major customers.	IFRS 8 p31-34
An entity shall report the revenues from external customers for each product and service, or each group of similar products and services, unless the necessary information is not available and the cost to develop it would be excessive, in which case that fact shall be disclosed. The amounts of revenues reported shall be based on the financial information used to produce the entity's financial statements.	IFRS 8 p32
An entity shall report geographical information for revenues from external customers (i) attributed to the entity's country of domicile and (ii) attributed to all foreign countries in total from which the entity derives revenues. If revenues from external customers attributed to an individual foreign country are material, those revenues shall be disclosed separately. An entity shall disclose the basis for attributing revenues from external customers to individual countries.	IFRS 8 p33(a)
An entity shall report geographical information for non-current assets (other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts) (i) located in the entity's country of domicile and (ii) located in all foreign countries in total in which the entity holds assets. If assets in an individual foreign country are material, those assets shall be disclosed separately.	IFRS 8 p33(b)
An entity shall provide information about the extent of its reliance on its major customers. If revenues from transactions with a single external customer amount to 10 per cent or more of an entity's revenues, the entity shall disclose that fact, the total amount of revenues from each such customer, and the identity of the segment or segments reporting the revenues. The entity need not disclose the identity of a major customer or the amount of revenues that each segment reports from that customer. For the purposes of this IFRS, a group of entities known to a reporting entity to be under common control shall be considered a single customer, and a government (national, state, provincial, territorial, local or foreign) and entities known to the reporting entity to be under the control of that government shall be considered a single customer.	IFRS 8 p34

Notes to financial statements

4. Segmental reporting continued

	Manufacture		Retail		Distribution		All other segments		Total		
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	
Investments accounted for using the equity method	X	X	X	X	X	X	X	X	X	X	IFRS 8 p24(a)
Additions to non-current assets (other than financial instruments & deferred tax assets)	X	X	X	X	X	X	X	X	X	X	IFRS 8 p24(b)
Total assets	X	X	X	X	X	X	X	X	X	X	IFRS 8 p23
Total liabilities	X	X	X	X	X	X	X	X	X	X	IFRS 8 p23

Revenue from major products and services

Analysis of revenue by product or service line

IFRS 8 p32

	2012	**2011**
Widget sales	X	X
Support	X	X
Transport services	X	X
	X	X

IFRS 8 p33

Geographical information

Revenue by geographical area :

	2012	**2011**
United Kingdom	X	X
France	X	X
Italy	X	X
USA	X	X
	X	X

Non current assets by geographical area :

	2012	**2011**
United Kingdom	X	X
France	X	X
Italy	X	X
USA	X	X
	X	X

Notes to financial statements

4. Segmental reporting continued

Major customers

Revenues arising from sale of widgets of X million (2011: Y million) include revenues of approximately Z million (2011: R million) from sales to the largest customer of the group. Sales to no other customers individually contributed 10% or more to the Group's revenue for both 2012 and 2011.

IFRS 8 p34

Reconciliations

IFRS 8 p28(b)

A reconciliation of the adjusted EBITDA to the profit before tax and discontinued operations is as follows:

	2012	2011
Adjusted EBITDA for reportable and other segments	**X**	X
Depreciation	**X**	X
Amortisation	**X**	X
Restructuring costs	**X**	X
Share options granted to directors and employees	**X**	X
Legal expenses	**X**	X
Profit before tax and discontinued operations	**X**	X

A reconciliation of the reportable segments' assets to the groups total assets is as follows:

IFRS 8 p28(c)

	2012	2011
Segment assets for reportable segments	**X**	X
Unallocated:		
Deferred tax	**X**	X
Available-for-sale financial assets	**X**	X
Financial assets at fair value through profit and loss	**X**	X
Assets of a disposal group classified as held for sale	**X**	X
Total assets per the Statement of financial position	**X**	X

A reconciliation of the reportable segments' liabilities to the groups total liabilities is as follows:

IFRS 8 p28(d)

	2012	2011
Segment liabilities for reportable segments	**X**	X
Unallocated:		
Deferred tax	**X**	X
Current tax	**X**	X
Current and non-current borrowings	**X**	X
Liabilities of a disposal group classified as held for sale	**X**	X
Total liabilities per the Statement of financial position	**X**	X

Commentary on notes

Revenue

The group should disclose the amount of revenue arising from exchanges of goods or services included in each significant category of revenue. IAS18 p35

Impairment losses

Where material impairment losses were incurred, additional disclosure is required including : IAS36.130

- the events and circumstances that lead to the impairment loss
- amount of impairment loss/reversal
- for an individual asset : the nature of the asset and which segment the asset belongs to
- for a CGU : description of the CGU, and the segment to which it belongs
- whether recoverable amount is value in use of net realisable value

estimates and assumptions used in determining the recoverable amount

Notes to financial statements

5. Revenue

	2012	2011	
The group's revenue comprises:			IAS18 p35
Sale of goods	**X**	X	
Property rental income	**X**	X	
Services rendered	**X**	X	
	X	X	

6. Disclsoure of expenses

	2012	2011	
The following amounts were expensed or credited during the year:			
Exchange gains or losses	**X**	X	IAS21 p52
Staff costs	**X**	X	IAS1 p104
Depreciation	**X**	X	IAS1 p104
Amortisation of other intangible assets	**X**	X	IAS38 p118
Impairment losses on property, plant and equipment	**X**	X	IAS36 p126
Impairment losses on goodwill	**X**	X	IAS36 p126
Impairment losses on other intangible assets	**X**	X	IAS36 p126
Change in fair value of investment property	**X**	X	IAS40 p76
Research and development	**X**	X	IAS38 p126
Operating lease expense	**X**	X	IAS17 p35(c)
Cost of inventories recognised as an expense	**X**	X	IAS2 p36(d)

7. Gains and losses in respect of financial instruments

	2012	2011	
Net gains on other financial assets at fair value through profit and loss	**X**	X	IFRS7 p20
Gain/(loss) on disposal of available-for-sale investments transferred from equity	**X**	X	IFRS7 p20
Impairment of trade receivables	**X**	X	IFRS7 p20
Impairment of available-for-sale investments	**X**	X	IFRS7 p20
Ineffectiveness arising from cash flow hedges	**X**	X	IFRS7 p24
Ineffectiveness arising from hedges of net investments	**X**	X	IFRS7 p24

Commentary on notes

Borrowing costs

IAS 23 Borrowing costs was amended in March 2008, and is applicable for years commencing on or after 1 January 2010, with earlier adoption permitted. As a result of the amendment entities are required to capitalise all borrowing costs that are attributable to the acquisition, construction or production of a qualifying asset, and removes the option to immediately expense such borrowing costs. IAS23

The amount of borrowing costs eligible for capitalisation is the actual borrowing costs incurred on the borrowings during the period less any investment income on the temporary reinvestment of those borrowings. IAS23 p12

The transitional provisions state the when the adoption of this Standard constitutes a change in accounting policy, an entity should apply the Standard to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2010. Earlier application is permitted, in which case an entity may designate any date prior to 1January 2010 and apply the Standard to borrowing costs relating to all qualifying assets for which the commencement date for capitalisation is on or after that date. IAS 23 p28,29

Notes to financial statements

8. Staff costs

	2012	2011	
Staff costs comprised:			
Wages and salaries	**X**	X	IAS19 p142
Social security costs	**X**	X	IAS19 p142
Other pension costs	**X**	X	IAS19 p142
Share based payments	**X**	X	IFRS2 p51
	X	X	

9. Investment income

IFRS7 p20

	2012	2011	
Interest on short-term deposits	**X**	X	IAS18 p35
Interest on impaired financial assets	**X**	X	IFRS7 p20
Dividends received	**X**	X	IAS18 p35
	X	X	

10. Finance costs

	2012	2011	IFRS7 p20
Interest on bank overdraft	**X**	X	
Interest on borrowings – using effective interest rate method	**X**	X	
Fair value (gains)/losses on interest rate swaps	**X**	X	IFRS7 p23
	X	X	

Borrowing costs capitalised to qualifying assets amounted to £ X (2011: £ X). A general borrowing rate of X % was used to capitalise interest expenditure on these assets. IAS23 p26

Commentary on notes

Taxation

Current tax and deferred tax shall be charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity. IAS12 p61A

IAS 12 requires disclosure reconciling the total tax expense to the accounting profit. IAS 12 provides two options for presenting the reconciliation, either on a numerical basis or on a percentage basis. IAS12 p81

Notes to financial statements

11. Income tax expense

	2012	2011	
Current tax:			IAS12 p79
UK corporation tax	**X**	X	
Utilisation of assessed losses not previously recognised	**X**	X	
Foreign tax	**X**	X	
	X	X	
Deferred tax:			IAS12 p79
Current year	**X**	X	
Change in tax rate	**X**	X	
Total tax expense	**X**	X	

Corporation tax is calculated at X% (2011: X%) of the estimated assessable profit for the year. IAS12 p81

The tax expense for the year can be reconciled to the profit for the year as follows: IAS12 p81

	2012	2011
	£	£
Profit before tax	**X**	X
Tax thereon at X%(2011:X%)	**X**	**X**
Share of profit from associates and joint ventures	**X**	X
Non-deductible expenses	**X**	X
Utilisation of assessed loss not previously recognised	**X**	X
Change in tax rate	**X**	X
Foreign tax expensed at lower rates than(country of domicile) standard rate	**X**	X
Total tax expense	**X**	X

(Alternative)

The tax rate can be reconciled to the effective tax rate as follows: IAS12 p81

	2012	2011
	%	%
Tax rate	**X**	X
Share of profit from associates and joint ventures	**X**	X
Non-deductible expenses	**X**	X
Utilisation of assessed loss not previously recognised	**X**	X
Change in tax rate	**X**	X
Foreign tax expensed at lower rates than(country of domicile) standard rate	**X**	X
Total effective tax rate	**X**	X

Deferred tax relating to the revaluation of available-for-sale financial assets of £ X (2011: £ X) has been recognised directly in equity. IAS12 p81

Commentary on notes

Non-current assets or disposal groups held for sale

The group should make the following additional note disclosures in the year that a non-current asset or disposal group is classified as held for sale or sold: IFRS5 p41

- a description of the asset or disposal group;
- a description of the facts and circumstances of the sale or expected sale, and the expected timing and manner of the disposal;
- the gain or loss recognised and if not separately shown in the statement of comprehensive income then the line item on the statement of comprehensive income that includes the gain or loss; and
- the reportable segment in which the non-current asset or disposal group is presented.

If the entity should decide to change the plan to sell the non-current asset (or disposal group) then the group should disclose a description of the facts and circumstances leading to that decision and the effect of the decision on the results for the current and prior period. IFRS5 p42

If adjustments are made to amounts previously disclosed in discontinued operations then the nature and amount of such adjustments should be separately disclosed in discontinued operations in the current year. Examples of such adjustments that may arise include: purchase price adjustments by the buyer or the seller; product warranty obligations retained by the seller; and settlement of employee benefit obligations by the seller. IFRS5 p35

Notes to financial statements

12. Discontinued operations

12.1 Analysis of the statement of comprehensive income result:

In May 2012 the management committed to dispose of the packaging division. The sale is expected to be concluded in February 2013, and no further loss is expected on the disposal of the assets involved. The packaging division fell within the distribution reporting segment.

	2012	2011	
Analysis of cash flow movements:			IFRS 5 p33(c)
Operating cash flows	**X**	X	
Investing cash flows	**X**	X	
Financing cash flows	**X**	X	
Total cash flows	**X**	X	

	2012	2011	
Analysis of statement of comprehensive income result:			IFRS 5 p33(b)
Revenue	**X**	X	
Expenses	**X**	X	
Loss before tax of discontinued operations	**X**	X	
Income tax expense	**X**	X	
Loss after tax of discontinued operations	**X**	X	
Pre-tax loss recognised on the measurement to fair value	**X**	-	
Income tax expenses	**X**	-	
After-tax loss recognised on the measurement to fair value	**X**	-	
Loss for the year from discontinued operations	**X**	X	

12.2 Analysis of assets and liabilities:

Cumulative income or expense recognised directly in other comprehensive income:			IFRS 5 p38
Foreign exchange translation adjustments	**X**	-	
	X	-	

Analysis of assets and liabilities:	**2012**	2011	IFRS5 p38
Property, plant and equipment	**X**	-	
Goodwill	**X**	-	
Inventory	**X**	-	
Other current assets	**X**	-	
	X	-	
Other current liabilities	**X**	-	
Current - provisions	**X**	-	
	X	-	

Commentary on notes

Earnings per share

Where there has been any transaction in ordinary or potential ordinary shares after the statement of financial position date that has significantly changed the number of ordinary or potential ordinary shares in issue, a description of such transactions shall be given. IAS33 p70(d)

Capitalisation, bonus or share split issues are required to be adjusted retrospectively and therefore the descriptive disclosure mentioned above would not apply to these types of issues. The fact that the per share calculations have been adjusted should be disclosed. IAS33 p64

Dividends

The group should disclose, either on the face of the statement of comprehensive income or the statement of changes in equity, or in the notes, the amount of dividends recognised as distributions to equity holders during the period, and the related amount per share. IAS1 p107

The group should also disclose the amount of dividends proposed or declared before the financial statements were authorised for issue but not recognised as a distribution to equity holders during the period, and the related amount per share IAS1 p137

Notes to financial statements

13. Earnings per share

	2012	2011	
Reconciliation of net profit to basic earnings:			
Net profit attributable to equity holders of the parent	**X**	X	IAS33 p68, p70
Basic earnings	**X**	X	
Loss for the period on discontinued operations	**X**	X	
Basic earnings from continued operations	**X**	X	
Reconciliation of basic earnings to diluted earnings:			IAS33 p70
Basic earnings	**X**	X	
Interest on convertible debentures	**X**	X	
Diluted earnings	**X**	X	
Loss for the period on discontinued operations	**X**	X	
Diluted earnings from continued operations	**X**	X	
Reconciliation of basic weighted average number of ordinary shares to diluted weighted average number of ordinary shares:	**Number**	**Number**	IAS33 p70
Basic weighted average number of ordinary shares	**X**	X	
Dilutive effect of convertible debentures	**X**	X	
Diluted weighted average number of ordinary shares	**X**	X	

Share options granted to employees could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share as they are anti-dilutive for the period presented. IAS33 p70

The weighted number of shares used in the calculation of basic and diluted earnings per share is the same for continuing and total earnings per share calculations.

Commentary on notes

Dividends

The group should disclose, either on the face of the statement of comprehensive income or the statement of changes in equity, or in the notes, the amount of dividends recognised as distributions to equity holders during the period, and the related amount per share. IAS1 p107

The group should also disclose the amount of dividends proposed or declared before the financial statements were authorised for issue but not recognised as a distribution to equity holders during the period, and the related amount per share IAS1 p137

Notes to financial statements

14. Dividends

	2012	2011	
Dividends paid during the year	**X**	X	IAS1 p107
Dividends per share	**X**	X	
Final dividend declared after year end	**X**	X	IAS1 p137
Final dividend per share	**X**	X	

The final dividend has not been included as a liability in these financial statements. It was declared after year end but before the financial statements were authorised for issue.

Commentary on notes

Property, plant and equipment

The residual value of an asset is the estimated amount that the group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. IAS16 p6

The following additional narrative disclosure is required for property, plant and equipment: IAS16 p74

- The existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities;
- The amount of expenditures recognised in the carrying amount of an item of PPE in the course of its construction.
- The amount of contractual commitments for the acquisition of property, plant and equipment; and
- If it is not disclosed separately on the face of the statement of comprehensive income, 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.

Had any categories of PPE been revalued the following additional disclosure is also required: IAS16 p77

- 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 by 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 carried under the cost model; and
- The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.

The net carrying amount for each class of asset at statement of financial position date held under finance lease arrangements should also be disclosed. IAS17 p31(a)

IAS 36 requires that the financial statements disclose the amount of impairment losses for each category of assets and in which line item the losses are included. IAS36 p126(a)

Notes to financial statements

15. Property, plant and equipment

IAS16 p73

Group	Land and buildings	Plant and machinery	Furniture and fittings	Total
Cost				
Opening cost at 1 January 2011	X	X	X	X
Additions	X	X	X	X
Exchange differences	X	X	X	X
Classified as held for sale				
Disposals	X	X	X	X
Acquired through business combination	X	X	X	X
Opening cost at 1 January 2012	X	X	X	X
Additions	X	X	X	X
Exchange differences	X	X	X	X
Classified as held for sale				
Disposals	X	X	X	X
Acquired through business combination	X	X	X	X
Closing cost at 31 December 2012	**X**	**X**	**X**	**X**
Accumulated depreciation/impairment				
Opening balance at 1 January 2011	X	X	X	X
Depreciation	X	X	X	X
Disposals	X	X	X	X
Exchange differences	X	X	X	X
Impairment loss	X	X	X	X
Opening balance at 1 January 2012	X	X	X	X
Depreciation	X	X	X	X
Disposals	X	X	X	X
Exchange differences	X	X	X	X
Impairment loss	X	X	X	X
Impairment reversal	X	X	X	X
Closing balance at 31 December 2012	**X**	**X**	**X**	**X**
Opening carrying value at 1 January 2011	X	X	X	X
Opening carrying value at 1 January 2012	X	X	X	X
Closing carrying value at 31 December 2012	**X**	**X**	**X**	**X**

Plant and machinery includes the following amounts where the group is a lessee under a finance lease:

IAS 17 p31(a)

	2012	2011
Cost – capitalised finance leases	**X**	X
Accumulated depreciation	**X**	X
Net book value	**X**	X

Commentary on notes

Investment property

Investment property can also be carried at cost in terms of the cost model alternative available in IAS 40. However if the group elects the fair model or the cost model then the chosen model must be applied to all investment properties. IAS40 p30

If the cost model is chosen IAS 40 still requires disclosure of the fair value of the investment properties held. IAS40 p79

Goodwill

The group should disclose information about the recoverable amount and impairment of goodwill. IFRS3 pB67
If any portion of goodwill acquired in business combination during the period has not been allocated to a cash generating unit, disclose the following :

- amount of unallocated goodwill
- reason why that amount could not be allocated to a CGU

If CGUs are measured at their value in use,

- disclose key assumptions and why they may differ from past experience or external information sources
- when value is determined with cash flow projections exceeding 5 years, disclose justification of that longer period.

disclose justification for any growth rate higher than growth rate for relevant markets

Impairment

The group should disclose the following for each material impairment loss recognised or reversed during the period for an individual asset, including goodwill, or a cash-generating unit: IAS36 p130

- the events and circumstances that led to the recognition or reversal of the impairment loss.
- the amount of the impairment loss recognised or reversed.
- for an individual asset:
  - the nature of the asset; and
  - the reportable segment to which the asset belongs.
- for a cash-generating unit:
  - a description of the cash-generating unit;
  - the amount of the impairment loss recognised or reversed by class of assets and by reportable segment; and
  - if the aggregation of assets for identifying the cash-generating unit has changed since the previous estimate of the cash-generating unit's recoverable amount (if any), a description of the current and former way of aggregating assets and the reasons for changing the way the cash-generating unit is identified.
- whether the recoverable amount of the asset (cash-generating unit) is its fair value less costs to sell or its value in use.
- if recoverable amount is fair value less costs to sell, the basis used to determine fair value less costs to sell (such as whether fair value was determined by reference to an active market).
- if recoverable amount is value in use, the discount rate(s) used in the current estimate and previous estimate (if any) of value in use.

Notes to financial statements

16. Investment property

Fair value model IAS40 p75

The fair value of the group's investment properties are determined annually by an independent professionally qualified valuer. In determining the valuations the valuator refers to current market conditions and recent sales transactions of similar properties. IAS40 p75

Amounts recognised in profit or loss:	**2012**	2011	IAS40 p75
Rental income	**X**	X	
Direct operating expenses			
On property that generated rental income	**X**	X	
On property that did not generate rental income	**X**	X	

Investment properties with a carrying amount of £ X (2011: £ X) has been pledged as security for liabilities. The holder of the security does not have the right to sell or re-pledge the investment properties in the absence of default. IFRS7 p14

Reconciliation of carrying amounts:	**2012**	2011	IAS40 p76
Carrying value at the beginning of the year	**X**	X	
Fair value changes	**X**	X	
Exchange differences	**X**	X	
Additions	**X**	X	
Carrying value at the end of the year	**X**	X	

17. Goodwill

IFRS3 B67

Cost	**£**
Opening cost at 1 January 2010	X
Recognised on acquisition of a subsidiary	X
Derecognised on disposal of a subsidiary	X
Opening cost at 1 January 2011	X
Recognised on acquisition of a subsidiary	X
Derecognised on disposal of a subsidiary	X
Closing cost at 31 December 2011	**X**

Impairment continued

The group should disclose the following information for each cash-generating unit (group of units) for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit (group of units) is significant in comparison with the group's total carrying amount of goodwill or intangible assets with indefinite useful lives: IAS36 p134

- the carrying amount of goodwill allocated to the unit (group of units).
- the carrying amount of intangible assets with indefinite useful lives allocated to the unit (group of units).
- the basis on which the unit's (group of units') recoverable amount has been determined (i.e. value in use or fair value less costs to sell).
- if the unit's (group of units') recoverable amount is based on value in use:
  - a description of each key assumption on which management has based its cash flow projections for the period covered by the most recent budgets/forecasts. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive;
  - a description of management's approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information;
  - the period over which management has projected cash flows based on financial budgets/forecasts approved by management and, when a period greater than five years is used for a cash-generating unit (group of units), an explanation of why that longer period is justified;
  - the growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/forecasts, and the justification for using any growth rate that exceeds the long-term average growth rate for the products, industries, or country or countries in which the group operates, or for the market to which the unit (group of units) is dedicated; and
  - the discount rate(s) applied to the cash flow projections
- if the unit's (group of units') recoverable amount is based on fair value less costs to sell, the methodology used to determine fair value less costs to sell. If fair value less costs to sell is not determined using an observable market price for the unit (group of units), the following information shall also be disclosed:
  - a description of each key assumption on which management has based its determination of fair value less costs to sell. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive; and
  - a description of management's approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.
- if a reasonably possible change in a key assumption on which management has based its determination of the unit's (group of units') recoverable amount would cause the unit's (group of units') carrying amount to exceed its recoverable amount:
  - the amount by which the unit's (group of units') recoverable amount exceeds its carrying amount;
  - the value assigned to the key assumption;
  - the amount by which the value assigned to the key assumption must change, after incorporating any consequential effects of that change on the other variables used to measure recoverable amount, in order for the unit's (group of units') recoverable amount to be equal to its carrying amount.

Notes to financial statements

17. Goodwill continued

Accumulated impairment	**£**
Opening balance at 1 January 2011	-
Impairment loss	X
Opening balance at 1 January 2012	X
Impairment loss	X
Closing balance at 31 December 2012	**X**
Opening carrying value at 1 January 2011	X
Opening carrying value at 1 January 2012	X
Closing carrying value at 31 December 2012	**X**

The events and circumstances that led to the recognition of the impairment loss was the disposal of a chain of retail stores in the United Kingdom. No other class of assets was impaired other than goodwill. IAS36 p130(a), (d)

[Describe the cash generating units/individual intangible assets of the group and which operating segment they belong to (if any), and whether any impairment losses were recognised or reversed during the period.] IAS36 p130(d)

The aggregation of assets for identifying the cash-generating unit has not changed since the prior year. IAS36 p130(d)

The recoverable amount of a cash-generating unit is its value in use. In calculating the value in use of the impaired reportable segment the group used a discount rate of X% (2011: X%). IAS36 p130(e)(g)

The carrying amount of goodwill allocated to each reportable segment is as follows: IAS36 p134(a)

2012

	Manufacture	**Retail**	**Distribution**	**Total**
Home country	X	X	X	X
Other Countries	X	X	X	X

2011

	Manufacture	**Retail**	**Distribution**	**Total**
Home country	X	X	X	X
Other Countries	X	X	X	X

Management has based its cash flow projections on cash flow forecasts covering a 5 year period. Cash flows after the 5 year period have been extrapolated based on the estimated growth rates disclosed below. These growth rates do not exceed the long-term average growth rate for the industry or market in which the group operates. Other key assumptions used in the cash flow projections are as follows: IAS36 p134(d)

	Manufacture	**Retail**	**Distribution**
Growth rates	X	X	X
Discount rates	X	X	X
Gross profit margins	X	X	X

Management has based their assumptions on past experience and external sources of information, such as industry sector reports and market expectations. IAS36 p134(d)

Commentary on notes

Intangible assets

IAS38 p122

The following additional narrative disclosure is required for intangible assets:

- 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 should be disclosed. In giving these reasons, the group shall describe the factor(s) that played a significant role in determining that the asset has an indefinite useful life;
- A description, the carrying amount and remaining amortisation period of any individual intangible asset that is material to the group's financial statements is also required to be disclosed;
- 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
- The amount of contractual commitments for the acquisition of intangible assets.

Notes to financial statements

18. Other intangible assets

	Development costs	Patents and trademarks	Total	
Group				IAS38 p118
Cost				
Opening cost at 1 January 2011	X	X	X	
Additions	X	X	X	
Exchange differences	X	X	X	
Disposals	X	X	X	
Acquired through business combination	X	X	X	
Opening cost at 1 January 2012	X	X	X	
Additions	X	X	X	
Exchange differences	X	X	X	
Disposals	X	X	X	
Acquired through business combination	X	X	X	
Closing cost at 31 December 2012	**X**	**X**	**X**	
Accumulated depreciation/impairment				
Opening balance at 1 January 2010	-	-	-	
Amortisation	X	X	X	
Disposals	X	X	X	
Exchange differences	X	X	X	
Impairment loss	X	X	X	
Opening balance at 1 January 2011	X	X	X	
Amortisation	X	X	X	
Disposals	X	X	X	
Exchange differences	X	X	X	
Impairment loss	X	X	X	
Impairment reversal	X	X	X	
Closing balance at 31 December 2012	**X**	**X**	**X**	
Opening carrying value at 1 January 2011	X	X	X	
Opening carrying value at 1 January 2012	X	X	X	
Closing carrying value at 31 December 2012	**X**	**X**	**X**	

The group has a material patent with a carrying amount of £X and a remaining amortisation period of X years. IAS38.122 b

Intangible assets pledged as security for liabilities (as disclosed in note X)	**X**	**X**		IAS38.122 d

Notes to financial statements

19. Investment in subsidiaries IAS27 p43

Name	Country of incorporation	Proportion of ownership interest	Proportion owned by subsidiary companies	Principal Activities
Subsidiary A	UK	80%	-	Distribution of widgets
Subsidiary B	UK	100%	-	Manufacturing of widgets
Subsidiary C	France	-	90%	Retail of widgets
Company A	UK	100%	-	Manufacturing of widgets
Company B	France	100%	-	Distribution of widgets

20. Investments accounted for using the equity method

Name	Country of incorporation	Proportion of ownership interest	Proportion owned by associates and joint venture	Principal Activities	
Associate A	UK	20%	-	Marketing of widgets	
Associate B	UK	-	32%	Property holding	
Joint Venture C	UK	33.3%	-	Distribution	IAS31 p56

Aggregate amounts relating to associates:	**2012**	2011	IAS28 p37
Assets	**X**	X	
Liabilities	**X**	X	
Revenues	**X**	X	
Profit/(Loss)	**X**	X	

Aggregate amounts relating to joint ventures:	**2012**	2011	IAS31 p56
Non-current assets	**X**	X	
Current assets	**X**	X	
Non-current liabilities	**X**	X	
Current liabilities	**X**	X	
Income	**X**	X	
Expenses	**X**	X	

There are no contingent liabilities or capital commitments related to the group's investment in the associates or the joint venture. IAS31 p54 -

55

Commentary on notes

Deferred tax

A deferred tax liability shall be recognised for all taxable temporary differences, provided certain exceptions do not apply. Temporary differences are differences between the carrying amount of an asset or liability in the statement of financial position and its tax base. IAS12 p5, p15

The difference between the carrying amount of a revalued asset and its tax base is a temporary difference and gives rise to a deferred tax liability or asset. This is true even if the group does not intend to dispose of the asset. IAS12 p20

IAS12 p74

The group shall offset deferred tax assets and deferred tax liabilities if, and only if:

- the group has a legally enforceable right to set off current tax assets against current tax liabilities; and
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
- the same taxable entity; or
- different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

The group should disclose the amount of a deferred tax asset and the nature of the evidence supporting its recognition, when: IAS12 p82

- the 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
- the group has suffered a loss in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates.

Notes to financial statements

21. Deferred tax

	2012	2011	
			IAS12 p81
Deferred tax assets	**X**	X	
Deferred tax liabilities	**X**	X	
Net deferred tax liability	**X**	X	

Deferred tax assets comprise:			IAS12 p81
Unused tax losses	**X**	X	
Retirement benefit obligations	**X**	X	
	X	X	

Deferred tax liabilities comprise:			IAS12 p81
Accelerated capital allowances	**X**	X	
Fair value gains	**X**	X	
	X	X	

At the statement of financial position date the aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised was £ X (2011: £ X). Deferred tax has not been raised in the statement of financial position as the group is in a position to control the timing of the reversal of these temporary differences and it is probable that such differences will not reverse in the foreseeable future.

IAS12 p81

Deferred tax assets:	**Unused tax losses**	**Retirement benefit obligations**	**Total**
Balance at 1 January 2011	X	X	X
Recognised in the statement of comprehensive income	X	X	X
Recognised directly in equity	-	-	-
Balance at 1 January 2012	X	X	X
Recognised in the statement of comprehensive income	X	X	X
Recognised directly in equity	-	-	-
Balance at 31 December 2012	**X**	**X**	**X**

Notes to financial statements

21. Deferred tax continued

IAS12 p81

Deferred tax liabilities:	**Accelerated capital allowances**	**Fair value gains**	**Total**
Balance at 1 January 2011	X	X	X
Recognised in the statement of comprehensive income	X	-	X
Recognised directly in equity	-	X	-
Balance at 1 January 2012	X	X	X
Recognised in the statement of comprehensive income	X	-	X
Recognised directly in equity	-	X	-
Balance at 31 December 2012	**X**	**X**	**X**

22. Inventories

IAS2 p36, p37

	2012	2011
Raw materials	**X**	X
Work in progress	**X**	X
Finished goods	**X**	X
	X	X

Inventories to the value of £ X are carried at net realisable value.
Inventory written-down during the year amounted to £ X (2011: £ X).

Inventory with a carrying amount of £ X (2011: £ X) has been pledged as security for liabilities. The holder of the security does not have the right to sell or re-pledge the inventory in the absence of default. IFRS7 p14

A prior year write down of inventories, amounting to £X was reversed in the year under review. This was as a result of a change in market conditions which resulted in an increased demand for the product. IAS2.36 (g)

23. Trade receivables

IAS1 p75

	2012	2011
Trade receivables	**X**	X
Provision for doubtful debts	**X**	X
	X	X
Analysed as follows:		
Prepayments	**X**	X
Related party receivables	**X**	X
Trade debtors	**X**	X
	X	X

Notes to financial statements

23. Trade receivables continued

	2012	2011	
Provision for doubtful debts:			IFRS 7 p16
Opening balance	**X**	X	
Reversal and reduction doubtful debts previously provided for	**X**	X	
Bad debts previously provided for now written off	**X**	X	
New and increased doubtful debts provided for	**X**	X	
Closing balance	**X**	X	

24. Notes to the statement of cash flows

24.1 Significant non-cash transactions

During the period the group acquired property, plant and equipment with a total cost of £ X of which £ Y was acquired by means of finance leases. IAS7 p43

As disclosed in note 24.1, part of the purchase price for the acquisition of Subsidiary B Ltd comprised shares. The fair value of shares issued was £ X.

24.2 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and investments in money market instruments. Cash and cash equivalents included in the statement of cash flows comprise the following statement of financial position amounts. IAS7 p45

	2012	2011
Cash on hand and balances with banks	X	X
Short-term investments	X	X
Cash and cash equivalents	X	X

24.3 Cash from operations (Only if statementof cash flows prepared on direct method)

	2012	2011
Net profit	**X**	X
Depreciation and amortisation	**X**	X
Investment income	**X**	X
Interest expense	**X**	X
Share based payment expense	**X**	X
Foreign exchange loss	**X**	X
Movement in working capital :	**X**	X
Increase/Decrease in trade receivables	**X**	X
Increase/Decrease intrade and other payables	**X**	X
Increase/decrease in inventories	**X**	X
Cash from operating activities	**X**	X

Commentary on notes

IFRS 3 (revised) - Business combinations

The group should disclose the following information for each business combination that was effected during the period, or after year end before the financial statements are authorised for issue: IFRS3 (revised) pB64-67

- the name and description of the acquiree;
- the acquisition date;
- the percentage of voting equity interests acquired;
- the primary reasons for the business combination and a description of the acquirer obtained control of the acquiree;
- a qualitative description of the factors that make up goodwill recognised, for example synergies or intangible assets not separately recognised;
- the acquisition date fair value of the total consideration transferred and of each major class of consideration (e.g. cash, assets, equity, etc.);
- for contingent consideration arrangements and indemnification assets - the amount recognised at acquisition date, a description of the arrangement and an estimate of the range of outcomes (undiscounted);
- for acquired receivables – their fair value, the gross contractual amounts receivable and the best estimate at the acquisition date of the contractual cash flows not expected to be collected;
- the amounts recognised as of the acquisition date for each major class of assets acquired and liabilities assumed;
- for each contingent liability the information required in para. 84 and 85 of IAS 37 but if a contingent liability is not recognised because its fair value cannot be measured reliably then disclose the information required in para. 87 of IAS 37 and the reasons why the liability could not be reliably measured;
- the total amount of goodwill that is expected to be deductible for tax purposes;
- any transaction resulting in assets acquired or liabilities assumed from pre-existing relationships or arrangements should be disclosed, with a description of how the acquirer accounted for each transaction and the method used to determine the settlement amount;
- costs associated with any pre-existing transactions;
- the amount of any gain recognised in a bargain purchase and a description of the reasons why the transaction resulted in a gain;
- the amount of non-controlling interest (currently 'Non-controlling interest') in the acquiree recognised at the acquisition date, the measurement basis for that amount and for each non-controlling interest measured at fair value, the valuation techniques and key model inputs used for determining that value.
- in a business combination achieved in stages, the acquisition date fair value of the equity interest held by the acquirer immediately before the acquisition date and the gain or loss recognised as a result of remeasuring to fair value the equity interest held then;
- the amount of the acquiree's profit or loss since the acquisition date included in the acquirer's profit or loss for the period. If such disclosure would be impracticable, that fact shall be disclosed, together with an explanation of why this is the case;
- if the initial accounting is incomplete and thus provisional year end figures have been used, disclose the reasons for this, the provisional items and the nature and amount of any measurement period adjustments in that period;
- each reporting period after the acquisition until a contingent liability is settled an entity should disclose any changes to the amount recognised with reasons, the range of outcomes and the valuation technique used and key model inputs to measure contingent consideration.
- a reconciliation of the carrying amount of goodwill;
- the amount and an explanation of any gain or loss recognised in the period.

Non-controlling interest in business combinations:

For each business combination, the acquirer shall measure any non-controlling interest in the acquiree either at the fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. IFRS 3 (revised) p19

Notes to financial statements

25.1 Subsidiaries acquired

2012	Principal activity	Date of acquisition	Proportion of shares acquired	Consideration transferred	IFRS 3 B64(a) to (d)
Company A	Manufacturing	01 February 2012	100%	X	
Company B (France)	Distribution	01 April 2012	100%	X	
				X	

Company A was acquired to expand the production capabilities of the group to enable it to supply to rapidly expanding markets.
The acquisition of company B has significantly improved the distribution network of the group in France and its neighbouring countries.

Goodwill represents the value of the synergies arising from the economies of scale achievable in the enlarged group.. These synergistic benefits were the primary reason for entering into the business combination. The total amount of goodwill that is expected to be deductible for tax purposes is £X. The amount of the new subsidiaries' profits or losses since the acquisition date included in the group profit or loss for the period is £X.

25.2 Consideration transferred

	Company A	Company B	
	£	£	
Cash	X	X	IAS7.40
Deferred consideration (payable in cash)	X	X	
Contingent consideration arrangement (a)	X	X	
Equity issued	X	X	
	X	**X**	

(a) The agreement requires the Group to pay the vendors an additional amount of £xx, if the profit of Company A exceeds £X in the year following acquisition. The average profit for the last three years amounted to £X. The directors are of the opinion that the profit will exceed the target set.

Other costs relating to the acquisition of the subsidiaries have not been included in the consideration and have been recognised as an expense. This expense is included in administration expenses.

25.3 Assets acquired and liabilities assumed at the date of acquisition

	Company A	Company B	IFRS 3.B64(i) IAS 7.40(d)
	£	£	
Current assets	X	X	
Cash and & cash equivalents	X	X	
Trade and other receivables	X	X	
Inventories	X	X	
Plant and equipment	X	X	
Trade and other payables	X	X	
Contingent liabilities	X	X	
	X	**X**	

The initial accounting for the acquisition of Company B has only been provisionally determined at the end of the reporting period. At the date of finalisation of these financial statements, the necessary market valuations and other calculations had not been finalised and they have therefore only been provisionally determined based on the directors' best estimates. IFRS 3.B67(a)

25.4 Non-controlling interest

The non-controlling interests of Company A and Company B at the date of acquisition was measured at the fair value of these interests. This fair value was estimated by applying a discounted income approach, and amounted to £X. Key assumptions and made and inputs used were:
- discount rate 14%; IFRS
- sustainable growth rates 4% 3.B64(o)

25.5 Impact of acquisitions on the results of the Group

The contribution to net profit of the group was £X by Company A, and £X by Company B respectively. IFRS 3(B64)

Group revenue includes £X from the operations of Company A and £X from company B.

If these businesses were acquired at the beginning of the reporting period,, Group revenue would have been £X, and profit for the year from continuing operations would have been £X. IFRS 3.61

The directors of the Group consider these results to be representative of the performance of the combined group, annualised and provide a reference point for comparison against periods in the future.

The abovementioned 'annualised' contributions were calculated from actual results of the companies and adjusted for the following:
- depreciation of plant and equipment acquired based on the fair values determined rather than the carrying amounts recognised in the pre-acquisition financial statements;
- borrowing costs were adjusted to align with group credit ratings and debt/equity position of the group after the business combination.

Notes to financial statements

26. Share capital and reserves IAS1 p79

26.1 Ordinary shares

	2012	2011
Authorised	**X**	X
X million ordinary shares of £ X each	**X**	X
Issued and fully paid for	**X**	X
X million ordinary shares of £ X each	**X**	X
Reconciliation of the number of shares outstanding:		
Opening balance	**X**	X
Shares issued	**X**	X
Shares repurchased	**X**	X
Closing balance	**X**	X

All fully paid up shares have a par value of £x and entitle the holder to one vote and equal rights to dividends declared.

26.2 Disclosure of components of other comprehensive income

The available for sale movement in other comprehensive income comprises arising gains recognised during the year of £X (2011: £X) less amounts recycled through profit or loss of £X (2011: £X). IAS 1 p97

26.3 Disclosure of tax effects relating to each component of other comprehensive income

IAS 1 p90

	2012			2011		
	Before tax amount	Tax (expense) / benefit	Net-of-tax amount	Before tax amount	Tax (expense) / benefit	Net-of-tax amount
Exchange differences in translating foreign operations	**X**	**X**	**X**	X	X	X
Available-for-sale financial assets	**X**	**X**	**X**	X	X	X
Actuarial gains or losses on defined benefit pension plan	**X**	**X**	**X**	X	X	X
Share of other comprehensive income of associates	**X**	**X**	**X**	X	X	X
Other comprehensive income	**X**	**X**	**X**	X	X	X

Commentary on notes

Provision

Comparative information on provisions is not required. IAS37 p84

The group should disclose the following for each class of provision: IAS37 p85

- a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits;
- an indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, the group should disclose the major assumptions made concerning future events; and
- the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

Notes to financial statements

27. Finance lease liabilities

	2012	2011	
Gross finance lease liabilities – minimum lease payments:			IAS17 p31(b)
Within 1 year	**X**	X	
Later than 1 year and no later than 5 years	**X**	X	
Later than 5 years	**X**	X	
	X	X	
Future finance charges on finance leases	**X**	X	
Present value of finance lease liabilities	**X**	X	
The present value of finance lease liabilities is analysed as follows:			IAS 17 p31(b)
Within1 year	**X**	X	
Later than 1 year and no later than 5 years	**X**	X	
Later than 5 years	**X**	X	

Lease liabilities are secured over property, plant and equipment as disclosed in note 15. These assets will revert back to the lessor in the event of a default.

The company leases certain items of property, plant and equipment under lease agreements with a 5 year term. These bear interest at between 2% and 4,5% and are repayable in equal monthly instalments

IAS 17 p31(e)

28. Provisions

	Refurbishment	Legal claims	Warranty	Total	IAS37 p84
Balance at 1 January 2012	X	X	X	X	
Additional provision	X	X	X	X	
Amounts used	X	X	X	X	
Unused amounts reversed	X	X	X	X	
Unwinding of the discount	X	X	X	X	
Balance at 31 December 20012	**X**	**X**	**X**	**X**	
Non-current provisions	X	X	X	X	IAS1 p60
Current provisions	X	X	X	X	

[The entity would need to disclose in respect of each provision :

- brief description of nature and expected timing of outflows
- indicate the uncertainties related to the amount/timing and major assumptions made and the amount of any expected reimbursement.

Notes to financial statements

29. Borrowings IFRS7 p31

	2012	2011	
Bonjour Bank Ltd			
Non-current borrowings - Bonjour Bank Ltd	**X**	X	IAS1 p60

The loan is secured by a first mortgage over the land and buildings of the group. IAS16 p74

The loan is repayable in full on the 31 December 2017. There have been no defaults or breaches of interest payment terms during the current or prior period. IFRS7 p31 IFRS7 p18

The loan bears interest at X% p.a. (2011: X% p.a.). This is a floating interest rate loan and therefore exposes the group to cash flow risk. The loan is also denominated in Euros and is used as a hedge of the net investment in Subsidiary C (note 0). IFRS7 p31

First Bank Ltd

Non-current borrowings - First Bank Ltd	**X**	X	IAS1 p60
Current portion of non-current borrowings - First Bank Ltd	**X**	X	
	X	X	

The loan is secured by a first mortgage over the land and buildings of the group. IAS16 p74

The loan is repayable in equal annual instalments of £ X (2011: £ X) until completion of the loan repayments at 31 December 2012. There have been no defaults or breaches of repayment terms during the current or prior period. IFRS7 p31 IFRS7 p18

The loan bears interest at X% p.a. (2011: X% p.a.). This is a floating interest rate loan and therefore exposes the group to cash flow risk (note 0). IFRS7 p31

Second Bank Ltd

Non-current borrowings – Second Bank Ltd	**-**	X	IAS1 p60
Current borrowings - Second Bank Ltd	**X**	-	IAS1 p60

The loan is secured by a pledge over inventories. IAS2 p36

The loan is repayable in full on the 30 August 2012. There have been no defaults or breaches of interest payment terms during the current or prior period. IFRS7 p31 IFRS7 p18

The loan bears interest at X% p.a. (2011: X% p.a.). This is a floating interest rate loan and therefore exposes the group to cash flow risk (note 0). IFRS7 p31

Commentary on notes

Recognition of actuarial gains and losses

In effect, IAS 19 permits three methods for recognising actuarial gains and losses: IAS19 p92, p93

1. the corridor approach which provides a limit to the amount of actuarial gains and losses recognised, providing these amounts are recognised in profit or loss for the period;
2. any systematic approach that results in faster recognition of actuarial gains and losses in profit or loss for the period than that set by the corridor approach; and
3. the recognition of all actuarial gains and losses in the period, but as part of other comprehensive income outside of profit or loss for the period.

In the illustrative financial statements only the third approach has been illustrated..

Corridor approach

The corridor approach results in a portion of actuarial gains and losses being recognised in profit or loss during the period. More specifically the group, in measuring its defined benefit liability, shall recognise a portion of its actuarial gains and losses if the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceeded the greater of: IAS19 p92

1. 10% of the present value of the defined benefit obligation at that date (before deducting plan assets); and
2. 10% of the fair value of any plan assets at that date.

These limits shall be calculated and applied separately for each defined benefit plan.

Recognition in other comprehensive income

If the group adopts a policy of recognising actuarial gains and losses in the period in which they occur, it may recognise them outside profit or loss providing it does so for: IAS19 p93A

1. all of its defined benefit plans; and
2. all of its actuarial gains and losses.

Actuarial gains and losses recognised outside profit or loss shall be presented in the statement of comprehensive income. IAS19 p93B

Notes to financial statements

30. Retirement benefit obligations

The group pension arrangements are operated through a defined contribution scheme and a group defined benefit scheme.

Defined contribution schemes

	2012	2011	
Amount recognised as an expense	**X**	X	IAS19 p46

Defined benefit schemes

The Exemplum Reporting Pension and Life Assurance Scheme is a final salary pension plan operating for qualifying employees of the group — IAS19 p120

The amounts recognised in the statement of financial position are as follows: — IAS19 p120

	Defined benefit pension plans	
	2012	2011
Present value of funded obligations	X	X
Fair value of plan assets	X	X
	X	X
Present value of unfunded obligations	X	X
Unrecognised past service cost	X	X
Net liability	**X**	**X**
Amounts in the statement of financial position:		
Liabilities	X	X
Assets	–	X
Net liability	**X**	**X**

The pension plan assets include ordinary shares issued by Exemplum Reporting plc with a fair value of £ X (2011: £ X). Plan assets also include property occupied by Exemplum Reporting plc with a fair value of £ X (2011: £ X).

Commentary on notes

ASB Reporting statement: retirement benefits - disclosures

The reporting statement applies to any group that operates or sponsors a defined benefit scheme and recommends that the directors provide disclosures in the notes to the financial statements that complement other disclosure requirements. The extent of disclosure depends on the significance to the group of its participation in defined benefit schemes and of its exposure to risk arising from those schemes.

ASB Reporting Statement

The reporting statement sets out disclosure principles which aim to assist the users of financial statements in understanding the risks and rewards, and funding obligations, arising from defined benefit schemes. The principles are briefly described as follows:

- The relationship between the group and trustees (managers) of the defined benefit scheme;
- The principal assumptions used to measure scheme liabilities;
- The sensitivity of the principal assumptions used to measure the scheme liabilities;
- How the liabilities arising from defined benefit schemes are measured;
- The future funding obligations in relation to the defined benefit scheme; and
- The nature and extent of the risks arising from financial instruments held by the defined benefit scheme.

Notes to financial statements

30. Retirement benefit obligations continued

The amounts recognised in profit or loss are as follows: IAS19 p120

	Defined benefit pension plans **2012**	2011
Current service cost	X	X
Interest on obligation	X	X
Expected return on plan assets	X	X
Past service cost	X	X
Losses (gains) on curtailments and settlements	X	X
Total, included in 'employee benefits expense'	X	X
Actual return on plan assets	**X**	**X**

The line items in the statement of comprehensive income in which the total charges were included is cost of sales, £ X (2011: £ X), and administrative expenses, £ X (2011: £ X) for defined benefit pension plans.

Changes in the present value of the defined benefit obligation are as follows: IAS19 p120

	Defined benefit pension plans **2012**	2011
Opening defined benefit obligation	X	X
Service cost	X	X
Interest cost	X	X
Actuarial losses (gains)	X	X
Losses (gains) on curtailments	X	X
Liabilities extinguished on settlements	X	X
Liabilities assumed in a business combination	X	X
Exchange differences on foreign plans	X	X
Benefits paid	X	X
Closing defined benefit obligation	**X**	**X**

Notes to financial statements

30. Retirement benefit obligations continued

Changes in the fair value of plan assets are as follows: IAS19 p120

	Defined benefit pension plans **2012**	2011
Opening fair value of plan assets	X	X
Expected return	X	X
Actuarial gains and (losses)	X	X
Assets distributed on settlements	X	–
Contributions by employer	X	X
Assets acquired in a business combination	–	X
Exchange differences on foreign plans	X	X
Benefits paid	X	X
	X	**X**

The group expects to contribute £ X to its defined benefit pension plans in 2012. IAS19 p120

Principal actuarial assumptions at the statement of financial position date (expressed as weighted averages): IAS19 p120

	2012	2011
Discount rate at 31 December	X %	X %
Expected return on plan assets at 31 December	X %	X %
Future salary increases	X %	X %
Future pension increases	X %	X %
Proportion of employees opting for early retirement	X %	X %

Investigations have been carried out within the past three years into the mortality experience of the group's schemes. These investigations concluded that the current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement at age 65 are: IAS19 p120

	2012	2011
Retiring today:		
Males	X	X
Females	X	X
Retiring in 20 years:		
Males	X	X
Females	X	X

Commentary on notes

Multi-employer plans

Disclosure of a multi-employer benefit plan has been illustrated in the model financial statements. The following guidance is given and should be applied if the group contributes to such a plan.

Multi-employer plans are defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that: IAS 19 p7

- pool the assets contributed by various entities that are not under common control; and
- use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

The group should classify a multi-employer plan as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms). Where a multi-employer plan is a defined benefit plan, the group should: IAS 19 p29

- account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan; and
- disclose the information required.

When sufficient information is not available to use defined benefit accounting for a multi-employer plan that is a defined benefit plan, the group should: IAS 19 p30

- account for the plan as if it were a defined contribution plan;
- disclose: the fact that the plan is a defined benefit plan; and the reason why sufficient information is not available to enable the group to account for the plan as a defined benefit plan; and
- to the extent that a surplus or deficit in the plan may affect the amount of future contributions, disclose in addition: any available information about that surplus or deficit; the basis used to determine that surplus or deficit; and the implications, if any, for the group.

Notes to financial statements

30. Retirement benefit obligations continued

	2012	2011	
Actuarial gains and losses recognised in the SORIE	X	X	IAS19 p120
The cumulative actuarial gains and losses recognised in the SORIE	X	X	

Pension plan assets comprise: IAS19 p120

	2012	2011
Equity	X%	X%
Debt	X%	X%
Other	X%	X%

[A narrative description of the basis used to determine the overall expected rate of return on assets, including the effect of the major categories of plan assets.] IAS19 p120

Defined benefit pension plans IAS19 p120

	2012	2011	2010	2009	2008
Defined benefit obligation	X	X	X	X	X
Plan assets	X	X	X	X	X
Surplus/(deficit)	X	X	X	X	X
Experience adjustments on plan liabilities	X	X	X	X	X
Experience adjustments on plan assets	X	X	X	X	X

Multi-employer defined benefit scheme

A number of the group's employees are also members of the XYZ Pension Plan, a multi-employer defined benefit pension scheme that is funded by contributions from both the employees and the group at rates determined by an independent actuary. These contributions are invested separately from the group's assets and no pension scheme funds are invested in the group
The group's current employees form only part of a multi-employer scheme operated by a previous subsidiary. Due to a number of changes to the group over the years through various restructuring exercises, acquisitions and disposals the allocation of the share of the underlying assets and liabilities in the scheme would be extremely complex and not possible to complete on a consistent and reasonable basis. As a result the group has accounted for the scheme as a defined pension contribution scheme in accordance with the provisions of IAS 19- Employee Benefits.

The group's current employees form only part of a multi-employer scheme operated by a previous subsidiary. Due to a number of changes to the group over the years through various restructuring exercises, acquisitions and disposals the allocation of the share of the underlying assets and liabilities in the scheme would be extremely complex and not possible to complete on a consistent and reasonable basis. As a result the group has accounted for the scheme as a defined pension contribution scheme in accordance with the provisions of IAS 19- Employee Benefits.

An actuarial valuation of the XYZ Pension Plan as at 31 December 2012 was made by an independent firm of actuaries, using the projected unit method. The financial assumptions adopted were that the expected rate of return on investments would be X% pa; the increase in pensionable pay X% pa; the increase in pensions in payment of X% pa; price inflation X% and the discount rate X%. On the basis of these assumptions the plans financial statements to December 2012 show an unfunded liability of £X (2011 - asset of £X).

Commentary on notes

Leasing

Additional lessee disclosure requires a general description of the lessee's significant leasing arrangements including, but not limited to, the following: IAS17 p31

- the basis on which contingent rent payable is determined;
- the existence and terms of renewal or purchase options and escalation clauses; and
- restrictions imposed by lease arrangements, such as those concerning dividends, additional debt and further leasing.

A general description of the significant leasing arrangements is also required for lessors. IAS17 p56

IFRS 3 (revised) – Additional disclosures required for Contingent liabilities

When IFRS 3 (revised) is applicable the following disclosure is required for any contingent liability recognised in a business combination: a description of its nature, financial effect, uncertainties and any expected reimbursement of such contingent liability. If a contingent liability is not recognised because its fair value cannot be measured reliably, the acquirer should also disclose: the reasons why the liability cannot be measured reliably. (IAS 37 p85-86). IFRS 3 (revised) pB64-B67

Notes to financial statements

31. Trade and other payables

IAS1 p78

	2012	2011
Accrued expenses	**X**	X
Related party payables	**X**	X
Trade creditors	**X**	X
	X	X

32. Contingent liabilities

During the current financial year a customer initiated legal proceedings against the group as a result of alleged in-transit damage to widgets delivered to the customer. The estimated damage is £ X. The group's lawyers have advised that the customer's claim could possibly succeed in court and provided the estimate of the amount that could be awarded to the customer for the damages. No counterclaim has been initiated against the transport company involved.

IAS37 p86

33. Operating lease commitments

As a lessee:
It is group policy to rent certain items of office equipment and premises under operating lease agreements. The lease terms of these agreements vary between 3 and 10 years. No contingent rent is payable.

IAS17 p35

	2012	2011
As a lessee:		
Future minimum lease payments under non-cancellable operating leases:		
Within one year	**X**	X
From one to five years	**X**	X
After five years	**X**	X
	X	X

The group does not sub-lease any of its leased premises.

Lease payments recognised in profit for the period amounted to £ X (2011: £ X).

IAS17 p56

As a lessor:
The company leases its Investment Property to various third parties under operating lease agreements. The average lease term was ten years, with annual escalation set at 2%.

Future minimum lease receipts under non-cancellable operating leases:		
Within one year	**X**	X
From one to five years	**X**	X
After five years	**X**	X
	X	X

No contingent rentals were recognised in income.

Notes to financial statements

34 Commitments and contingencies

34.1. Intangible assets

At the balance sheet date the Group was committed to acquire intangible assets amounting to £X.	IAS38 p122(e)

34.2 Investment Properties

At the balance sheet date, additions and alterations to the Investment Properties of the Group has already commenced. The group has already committed to incur £X towards these additions.	IAS 40p75(h)

34.3 Property, Plant and Equipment

The Company has committed to the construction of an item of Machinery to be used in the manufacturing plant. The commitment amounts to £X.	IAS 16.74(d)

34.4 Contingent liabilities

	2012	2011	
Legal costs	x	x	IAS 37.86(a)
Contingent liabilities arising from interests in joint ventures	x	x	IAS 31.54(a)

One of the subsidiaries in the group is party to a legal dispute relating to alleged breach of contract . The directors are of the opinion that the matter can be successfully defended.

Contingent liabilities have arisen from the group's involvement in certain joint ventures. The amounts disclosed represent the estimated obligation of the group. The extent and timing of future outflows is dependant on future events, which are not controlled by the group.

Notes to financial statements

35. Events after the statement of financial position date

35.1 Flood damage

IAS10 p21

A widget manufacturing factory was severely damaged in a flash flood on the 17 January 2012. The value of the factory and its contents were insured in full and claims put forward to the insurers are being processed. The group was however not insured for the loss of business due to factory down time. The loss of business is estimated to result in financial losses of £ X.

35.2 Acquisition of a subsidiary

After the reporting period but before the financial statements were authorised for issue the group acquired 100% of the share capital of Subsidiary D Ltd. The fair value of assets acquired and liabilities assumed on the acquisition date of 1 February 2012 were as follows:

IFRS3 pB64

	£
Cash	X
Inventories	X
Trade receivables	X
Property, plant and equipment	X
Trade payables	X
Long-term debt	X
Total net assets	X
Goodwill	X
Total fair value of consideration paid	X
Less: Fair value of shares issued	X
Cash	X
Less: Cash of Subsidiary D Ltd	X
Cash flow on acquisition net of cash acquired	X

Goodwill represents the value of the synergies arising from the vertical integration of the group's operations. These synergistic benefits were the primary reason for entering into the business combination. The total amount of goodwill that is expected to be deductible for tax purposes is £X.

Commentary on notes

Related parties

Disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated.	IAS24 p21
The definition of key management personnel includes directors (executive and non-executive), but it is not limited to the directors of the parent company. The definition is in fact broader and may include senior managers and directors of subsidiaries.	IAS24 p9
Dividends received by the directors should be disclosed as a related party transaction.	IAS24 p17

Notes to financial statements

36. Related parties

The group's investments in subsidiaries, associates and joint ventures have been disclosed in notes 19 and 20. The group is controlled by XYZ plc. XYZ plc is also the group's ultimate controlling company.

IAS24 p12

Transactions:

IAS24 p17, p18

Relationship	Sales of goods		Purchase of goods		Amounts owed to related party		Amount owed by related party	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Parent	X	X	X	X	X	X	X	X
Associates	X	X	X	X	X	X	X	X
Joint venture	X	X	X	X	X	X	X	X
Key management personnel	-	-	-	-	X	X	X	X

Amounts owed to and by related parties are unsecured, interest-free, and have no fixed terms of repayment. The balances will be settled in cash. No guarantees have been given or received. No provisions for doubtful debts have been raised against amounts outstanding, and no expense has been recognised during the period in respect of bad or doubtful debts due from related parties.

IAS24 p17, p18

IAS24 p16

Key management personnel compensation:	**2012**	2011
Short-term employee benefits	**X**	X
Post-employment benefits	**X**	X
Other long-term benefits	**X**	X
Termination benefits	**X**	X
Share based payments	**X**	X
Dividends	**X**	X
	X	X

Commentary on notes

Share based payments

If the group has measured the fair value of goods or services received as consideration for equity instruments of the group indirectly, by reference to the fair value of the equity instruments granted, the group should disclose at least the following: IFRS2 p47

- for share options granted during the period, the weighted average fair value of those options at the measurement date and information on how that fair value was measured, including:
  - the option pricing model used and the inputs to that model, including the weighted average share price, exercise price, expected volatility, option life, expected dividends, the risk-free interest rate and any other inputs to the model, including the method used and the assumptions made to incorporate the effects of expected early exercise;
  - how expected volatility was determined, including an explanation of the extent to which expected volatility was based on historical volatility; and
  - whether and how any other features of the option grant were incorporated into the measurement of fair value, such as a market condition.
- for other equity instruments granted during the period (i.e. other than share options), the number and weighted average fair value of those equity instruments at the measurement date, and information on how that fair value was measured, including:
  - if fair value was not measured on the basis of an observable market price, how it was determined;
  - whether and how expected dividends were incorporated into the measurement of fair value; and
  - whether and how any other features of the equity instruments granted were incorporated into the measurement of fair value.

If the group has measured directly the fair value of goods or services received during the period, the group should disclose how that fair value was determined, e.g. whether fair value was measured at a market price for those goods or services. IFRS2 p48

If the group has rebutted the presumption that the fair value of the goods or services received can be estimated reliably, it shall disclose that fact, and give an explanation of why the presumption was rebutted. IFRS2 p49

Disclosure is required for share-based payment arrangements that were modified during the period, including: IFRS2 p47(c)

- an explanation of those modifications;
- the incremental fair value granted (as a result of those modifications); and
- information on how the incremental fair value granted was measured.

Notes to financial statements

37. Share based payments

[A description of each type of share-based payment arrangement that existed at any time during the period, including the general terms and conditions of each arrangement, such as vesting requirements, the maximum term of options granted, and the method of settlement (e.g. whether in cash or equity)]. IFRS2 p44, p45

IFRS2 p44, p45

	2012		**2011**	
	Options	**Weighted average exercise price**	**Options**	**Weighted average exercise price**
Outstanding at the beginning of the period	X	X	X	X
Granted during the period	X	X	X	X
Forfeited during the period	X	X	X	X
Exercised during the period	X	X	X	X
Expired during the period	X	X	X	X
Outstanding at the end of the period	X	X	X	X
Exercisable at the end of the period	X	X	X	X

The weighted average share price of share options exercised during the period at the date of exercise was £ X. IFRS2 p44, p45

Share options outstanding at 31 December 2012 had a weighted average exercise price of £ X, and a weighted average remaining contractual life of X years. IFRS2 p44, p45

[Disclose information that enables users of the financial statements to understand how the fair value of the goods or services received, or the fair value of the equity instruments granted, during the period was determined]. IFRS2 p46

IFRS2 p51

The fair value of share based payment instruments were determined by the Black-Scholes Merton model. The effect of non transferability has been taken into accountin adjusting the expected life of the instruments. Volatility was calculated based on the share price volatility over a similar period preceding the grant date.

Inputs into the model

Grant date share price	X
Exercise price	X
Expected volatility	X%
Option life	X years
Dividend yield	X%
Risk-free interest rate	X%

IFRS2 p51

	2012	2011
Total expense recognised from share based payment transactions	**X**	X
Equity settled share based payment expense	**X**	X
Share based payment liability	**X**	X
Intrinsic value of liabilities arising from vested rights	**X**	X

Notes to financial statements

38. Financial instruments and financial risk management

38.1. Classes and fair value of financial instruments

IFRS7 p6, 25

Financial assets	2012 Carrying value	2012 Fair value	2011 Carrying value	2011 Fair value
Available-for-sale investments	X	X	X	X
Other current assets	X	X	X	X
Other financial assets at fair value through profit and loss	X	X	X	X
Cash and cash equivalents	X	X	X	X
Financial liabilities				
Non-current borrowings	X	X	X	X
Current borrowings	X	X	X	X
Current portion of non-current borrowings	X	X	X	X
Finance lease liability	X	X	X	X

It is the directors' opinion that the carrying value of trade receivables and trade payables approximates their fair value.

IFRS7 p29

38.2. Categories of financial instruments

IFRS7 p8

2012	Loans and receivables	Financial liabilities measured at amortised cost	Assets at fair value through profit or loss	Derivatives used for hedging	Available-for-sale
Available-for-sale investments					X
Trade receivables	X				
Other current assets at fair value through profit and loss			X	X	
Cash and cash equivalents	X				
Non-current borrowings		X			
Current borrowings		X			
Current portion of non-current borrowings		X			
Finance lease liability		X			
	X	**X**	**X**	**X**	**X**

Notes to financial statements

38 Financial instruments and financial risk management (continued)

38.2. Categories of financial instruments

IFRS7 p8

2011	Loans and receivables	Financial liabilities measured at amortised cost	Assets at fair value through profit or loss	Derivatives used for hedging	Available-for-sale
Available-for-sale investments					X
Trade receivables	X				
Other current assets at fair value through profit and loss			X	X	
Cash and cash equivalents	X				
Non-current borrowings		X			
Current borrowings		X			
Current portion of non-current borrowings		X			
Finance lease liability		X			
	X	**X**	**X**	**X**	**X**

38.3. Assets/liabilities measured at fair value

IFRS7 p27A & p27B

	Fair value measurement at end of the reporting period			
	31 Dec 2012	**Level 1**	**Level 2**	**Level 3**
Financial assets at fair value through profit or loss				
Derivative used for hedging	X	X	X	X
Trading securities	X	X	X	X
Available-for-sale financial assets	X	X	X	X
Available-for-sale investments	X	X	X	X
Total	**X**	**X**	**X**	**X**

	Fair value measurement at end of the reporting period			
	31 Dec 2011	**Level 1**	**Level 2**	**Level 3**
Financial assets at fair value through profit or loss				
Derivative used for hedging	X	X	X	X
Trading securities	X	X	X	X
Available-for-sale financial assets				
Available-for-sale investments	X	X	X	X
Total	**X**	**X**	**X**	**X**

Notes to financial statements

38 Financial instruments and financial risk management (continued)
38.3. Assets/liabilities measured at fair value (continued)

IFRS7 p27A & p27B

	Assets/liabilities measured at fair value based on level 3			
	Financial assets at fair value through profit or loss		Available-for-sale financial assets	Total
	Derivatives used for hedging	Trading securities		
Opening balance 1 Jan 2012	X	X	X	X
Total gains or losses:				
In profit or loss	X	X	X	X
In other comprehensive income	X	X	X	X
Purchases	X	X	X	X
Issues	X	X	X	X
Settlements	X	X	X	X
Transfers out of level 3	X	X	X	X
Closing balance 31 Dec 2012	**X**	**X**	**X**	**X**
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	X	X	X	X

Included in financial assets are holdings in unlisted shares which are measured at fair value, using a price-earnings multiple model. The key assumption used by management is a price-earnings multiple of X (2011: X) which is not observable from market or related data. Management consider a reasonable possible alternative assumption would result in a decrease/increase of X (2011: decrease/increase of Y) in the value of unlisted investments. This sensitivity represents a change in the price earnings multiple of 10%.

Commentary on notes

Maximum credit risk exposure
The disclosure of maximum credit risk exposure is not required for financial instruments whose carrying amount best represents the maximum exposure to credit risk.

Renegotiated financial assets
There is no longer a requirement to specifically disclose financial assets, where the terms have been renegotiated.

Collateral obtained
Disclosure of collateral and other credit enhancements obtained is only required where those assets are still held at the reporting da

Notes to financial statements
38.3. Assets/liabilities measured at fair value (continued)

Gains or losses included in profit or loss for the period (above) are presented in trading income and in other income as follows:

	Trading income	Other Income	
Gains and losses included in profit or loss for the period	X	X	IFRS 7 27B(e)
Total gains or losses for the period in profit or loss for the assets held at the end of the reporting period	X	X	
Total	**X**	**X**	

Comparative disclosures have not been reflected for the above as the transitional provisions allow for this not to be disclosed in the first year of adopting the amendments to IFRS 7

38.4. Financial risk management

The group's operations expose it to a number of financial risks. A risk management programme has been established to protect the group against the potential adverse effects of these financial risks. There has been no significant change in these financial risks since the prior year. IFRS7 p31, 33

38.4.1. Credit risk

The group invests some of its surplus funds in high quality liquid market instruments. Such investments have a maturity no greater than three months. To reduce the risk of counterparty default the group deposits the rest of its surplus funds in approved high quality banks. Concentrations of credit risk with respect to customers are limited due to the group's customer base being large and unrelated. Customers are assessed for credit worthiness and where appropriate the group obtains security for its exposure to the risk of default. Credit limits are also imposed on customers and reviewed regularly. IFRS7 p33, 36

The groups maximum exposure to credit risk, without taking into account any collateral held or other credit enhancements: IFRS7 p36(a)

	2012	2011
Financial assets		
Available-for-sale investments	**X**	X
Trade receivables	**X**	X
Other current assets	**X**	X
Other financial assets at fair value through profit and loss	**X**	X
Cash and cash equivalents	**X**	X
Other credit risk exposures		
Joint venture bank loan guarantee	**X**	X

The group holds the following collateral and other credit enhancements, disclosed below at its estimated fair value, as security for trade receivables: IFRS7 p36(b)

	2012	2011
Credit guarantee insurance	**X**	X
Inventory	**X**	X
Debt guarantees	**X**	X

Notes to financial statements

38.4. Financial risk management (continued)
38.4.1. Credit risk (continued)

During the year the group obtained control of the following collateral and other credit enhancements which the group has recognised on the statement of financial position: IFRS7 p38

	2012	2011
Inventory – carrying value	**X**	X

The inventory obtained is similar in nature to the group's own inventory, and the group therefore expects to sell the inventory, along with normal group inventory, within the next 12 months.

The debtors' age analysis is also evaluated on a regular basis for potential doubtful debts, and the group purchases credit guarantee insurance, where this is considered necessary. It is management's opinion that no further provision for doubtful debts is required. IFRS7 p33, 36

An analysis of trade receivables:

2012	**Carrying amount**	**Neither impaired nor past due**	**Past due but not impaired**		
			61-90 days	**91-120 days**	**more than 121 days**
Trade receivables	X	X	X	X	X

2011	**Carrying amount**	**Neither impaired nor past due**	**Past due but not impaired**		
			61-90 days	**91-120 days**	**more than 121 days**
Trade receivables	X	X	X	X	X

The group allows an average debtor's payment period of 60 days after invoice date. Interest is charged at X% p.a. (2011: X% p.a.) on overdue debts. It is the group's policy to assess debtors for recoverability on an individual basis and to make provision where it is considered necessary. In assessing recoverability the group takes into account any indicators of impairment up until the reporting date. The application of this policy generally results in debts between 61 and 90 days not being provided for unless individual circumstances indicate that a debt is impaired. Whilst X% of debtors balances between 91 and 120 days, and X% of debtors over 120 days are provided for. IFRS7 p36, and p37

Trade receivables that are neither impaired nor past due are made up of 143 debtors' balances (2011: 137). None of the individual balances is considered to represent a significant portion of the total balance, the largest individual debtor corresponds to 3% of the total balance (2011: 4%). Historically these debtors have always paid balances when due, unless the balance or the quality of goods or services delivered is disputed. The average age of these debtors is 49 days (2011: 53 days). No debtors' balances have been renegotiated during the year or in the prior year. IFRS7 p36(c)

Notes to financial statements

38.4. Financial risk management (continued)
38.4.1. Credit risk (continued)

The group individually impaired balances, which were over 120 days, of £ X (2011: £ X). This is made up of amounts owing by debtors that are in the process of being liquidated. No amounts are expected to be received from any liquidation dividends. The group does not hold any collateral over the impaired balances. IFRS7 p37(b) and (c)

38.4.2. Market risk

Market risk is the risk that the fair value or future cash flows of our financial instruments will fluctuate because of changes in market prices. The group is exposed to the following market risks: interest rate risk; foreign currency risk; and equity price risk. IFRS7 p33

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from interest bearing financial assets and liabilities that we use. Interest bearing assets comprise trade receivables, other financial assets at fair value through profit or loss, and cash and cash equivalents which are considered to be short-term liquid assets. Our interest rate liability risk arises primarily from borrowings issued at floating interest rates which exposes the group to cash flow interest rate risk. It is the group's policy to settle trade payables within in the credit terms allowed and the group does therefore not incur interest on overdue balances. Borrowings are sourced from both local and foreign financial markets, covering short and long-term funding. IFRS7 p22, 24, 33

The group manages interest rate risk on borrowings by ensuring access to diverse sources of funding, reducing risks of refinancing by establishing and managing in accordance with target maturity profiles, and undertaking hedging activities through the use of interest rate swaps. Under the interest rate swap the group agrees with other parties to exchange, at quarterly intervals, the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts. The interest rate swap is designated and effective as a fair value hedge. The fair value of the interest rate swap was £ X (2011: £ X). Gains on the interest rate swap were £ X (2011: £ X).

Interest rate exposure and sensitivity analysis: IFRS7 p34,40

2012	**Carrying amount**	**Average interest rate %**	**If interest rates were X% higher**		**If interest rates were X% lower**	
			Net profit	**Equity**	**Net profit**	**Equity**
Financial assets						
Trade receivables	X	X	X	X	X	X
Other financial assets at fair value through profit and loss	X	X	X	X	X	X
Cash and cash equivalents	X	X	X	X	X	X
Financial liability						
Non-current borrowings	X	X	X	X	X	X
Current borrowings	X	X	X	X	X	X
Current portion of non-current borrowings	X	X	X	X	X	X
Finance lease liability	X	X	X	X	X	X

Commentary on notes

***Additional disclosures required in respect of transferred financial assets not derecognised in full**

If the entity has transferred financial assets such that part or all of the transferred assets do not qualify for derecognition, and the entity either continues to recognise all of the assets or continues to recognise the assets to the extent of the entity's continuing involvement, it should disclose information that enables users of the financial statements:

a) to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and
b) to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets (IFRS7p42B)

To meet the requirement of a), the entity should disclose for each class of transferred of financial assets that is not derecognised in full:

- the nature of the transferred assets.
- the nature of the risks and rewards of ownership to which the entity is exposed.
- a description of the nature of the relationship between the transferred assets and the associated liabilities, including restrictions arising from the transfer on the reporting entity's use of the transferred assets.
- when the counterparty (counterparties) to the associated liabilities has (have) recourse only to the transferred assets, a schedule that sets out the fair value of the transferred assets, the fair value of the associated liabilities and the net position (the difference between the fair value of the transferred assets and the associated liabilities).
- when the entity continues to recognise all of the transferred assets, the carrying amounts of the transferred assets and the associated liabilities.
- when the entity continues to recognise the assets to the extent of its continuing involvement (see paragraphs 20(c)(ii) and 30 of IAS 39), the total carrying amount of the original assets before the transfer, the carrying amount of the assets that the entity continues to recognise, and the carrying amount of the associated liabilities. (IFRS7p42D)

To meet the requirement of b), the entity should disclose for each class of transferred financial assets derecognised but where the entity has continuing involvement:

- the carrying amount of the assets and liabilities that are recognised in the entity's statement of financial position and represent the entity's continuing involvement in the derecognised financial assets, and the line items in which the carrying amount of those assets and liabilities are recognised.
- the fair value of the assets and liabilities that represent the entity's continuing involvement in the derecognised financial assets.
- 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.
- the undiscounted cash outflows that would or may be required to repurchase derecognised financial assets (eg the strike price in an option agreement) or other amounts payable to the transferee in respect of the transferred assets. If the cash outflow is variable then the amount disclosed should be based on the conditions that exist at each reporting date.
- a maturity analysis of the undiscounted cash outflows that would or may be required to repurchase the derecognised financial assets or other amounts payable to the transferee in respect of the transferred assets, showing the remaining contractual maturities of the entity's continuing involvement.
- qualitative information that explains and supports the quantitative disclosure (IFRS7p42E)

In addition, an entity shall disclose for each type of continuing involvement:

- the gain or loss recognised at the date of transfer of the assets.
- income and expenses recognised, both in the reporting period and cumulatively, from the entity's continuing involvement in the derecognised financial assets (eg fair value changes in derivative instruments).
- if the total amount of proceeds from transfer activity (that qualifies for derecognition) in a reporting period is not evenly distributed throughout the reporting period (eg if a substantial proportion of the total amount of transfer activity takes place in the closing days of a reporting period):
    - when the greatest transfer activity took place within that reporting period (eg the last five days before the end of the reporting period),
    - the amount (eg related gains or losses) recognised from transfer activity in that part of the reporting period, and

the total amount of proceeds from transfer activity in that part of the reporting period (IFRS7p42G)

Notes to financial statements

2011	Carrying amount	Average interest rate %	If interest rates were X% higher Net profit	Equity	If interest rates were X% lower Net profit	Equity
Financial assets						
Trade receivables	X	X	X	X	X	X
Other financial assets at fair value through profit and loss	X	X	X	X	X	X
Cash and cash equivalents	X	X	X	X	X	X
Financial liability						
Non-current borrowings	X	X	X	X	X	X
Current borrowings	X	X	X	X	X	X
Current portion of non-current borrowings	X	X	X	X	X	X
Finance lease liability	X	X	X	X	X	X

The average rate is calculated as the weighted average effective interest rate. Rate on cash at bank balances represents average rate earned on cash balances after taking into account bank set-off arrangements. The tables above show the effect on profit and equity after tax if interest rates at that date had been X% higher or lower with all other variables held constant, taking into account all underlying exposures and related hedges. Concurrent movements in interest rates and parallel shifts in the yield curves are assumed. A sensitivity of X% has been selected as this is considered reasonable given the current level of both short-term and long-term interest rates. When applied to short-term interest rates this would represent two to three rate increases which is reasonably possible in the current environment with the bias coming from the reserve bank and confirmed by market expectations that interest rates in the UK are more than likely to move up than down in the coming period. The group's sensitivity to interest rates has not changed significantly from the prior year.

Foreign currency risk

Foreign currency risk refers to the risk that the value of a financial commitment or recognised asset or liability will fluctuate due to changes in foreign currency rates. The group is exposed to foreign currency risk as a result of future transactions, foreign borrowings, and investments in foreign companies, denominated in Euros.

IFRS7 p22, 24, 33

The group makes use of forward exchange contracts to manage the risk relating to future transactions, in accordance with its risk management policy. The fair value of the forward exchange contracts was £ X (2011: £ X). Gains on the forward exchange contracts were £ X (2011: £ X). The future transactions related to the forward exchange contracts are expected to occur within the next three months. No amounts were recognised directly in equity during the period or the prior period as the relationship between the forward exchange contracts and the item being hedged does not meet certain conditions in order to qualify as a hedging relationship. Changes in the fair values of forward exchange contracts are recognised directly in profit or loss.

The group foreign currency risk exposure from recognised assets and liabilities arises primarily from non-current foreign borrowings (note 29) and investments in foreign companies (note 19) denominated in Euros. The group manages the exchange risk on translation of investments in foreign companies with borrowings denominated in the same currency. There is no significant impact on profit or loss from foreign currency movements associated with these assets and liabilities as the effective portion of foreign currency gains or losses arising are recorded through the translation reserve. The net gain of £ X (2011: £ X) in the translation reserve takes into account the related hedges. The ineffective portion of the gain or loss is recognised in profit or loss and amounted to £ X (2011: £ X).

Notes to financial statements

Foreign currency risk sensitivity analysis:	Profit / loss		Equity	
	2012	2011	**2012**	2011
If there was an X% weakening in the Sterling/Euro exchange rate with all other variables held constant – increase/(decrease)	**X**	X	**X**	X
If there was an X% strengthening in the Sterling/Euro exchange rate with all other variables held constant – increase/(decrease)	**X**	X	**X**	X

The impact of a change of X% has been selected as this is considered reasonable given the current level of exchange rates and the volatility observed both on a historical basis and market expectations for future movement. When applied to the Sterling/Euro exchange rate this would result in a weakened exchange rate of X and a strengthened exchange rate of X. This range is considered reasonable given the historic changes that have been observed. For example over the last five years, the Sterling exchange rate against the Euro has traded in the range X to X. The group's sensitivity to exchange rates has not changed significantly from the prior year.

IFRS7 p40

Equity price risk

Investments by the group in available-for-sale financial assets expose the group to equity price risk. This risk is managed by diversifying the group's investment portfolio. There is no impact on profit or loss until the investments are disposed of as fluctuations in fair value for the year of £ X (2011: £ X) are recorded directly in the fair value reserve. Fluctuations in the fair value of investments are not hedged.

IFRS7 p33

Equity price risk sensitivity analysis:	Profit / loss		Equity	
	2012	2011	**2012**	2011
If there was an X% decrease in equity prices with all other variables held constant – increase/(decrease)	**X**	X	**X**	X
If there was an X% increase in equity prices with all other variables held constant – increase/(decrease)	**X**	X	**X**	X

The impact of a change of X% has been selected as this is considered reasonable given the current level of volatility observed both on a historical basis and market expectations for future movement. The range in equity prices is considered reasonable given the historic changes that have been observed. The group's sensitivity to equity prices has not changed significantly from the prior year.

IFRS7 p40

Commentary on notes

Maturity analysis

The contractual amounts disclosed in the maturity analyses are the contractual undiscounted cash flows, for example: IFRS 7 pB11D

(a) gross finance lease obligations (before deducting finance charges);

(b) prices specified in forward agreements to purchase financial assets for cash;

(c) net amounts for pay-floating/receive-fixed interest rate swaps for which net cash flows are exchanged;

(d) contractual amounts to be exchanged in a derivative financial instrument (e.g. a currency swap) for which gross cash flows are exchanged; and

(e) gross loan commitments.

Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in that statement is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the end of the period.

Notes to financial statements

38.4.3. Liquidity risk

The group maintains sufficient cash and marketable securities. Management review cashflow forecasts on a regular basis to determine whether the group has sufficient cash reserves to meet future working capital requirements and to take advantage of business opportunities. The group has further undrawn banking facilities of £ X (2011: £ X) which can be used as an additional means of easing liquidity risk if considered necessary. The average creditor payment period is X days (2011: X days).

IFRS7 p33, 39

Contractual maturity analysis for financial liabilities:

2012	Due or due in less than 1 month	Due between 1 to 3 months	Due between 3 months to 1 year	Due between 1 to 5 years	Due after 5 years	Total
Financial liabilities						
Non-current borrowings	-	-	-	X	X	X
Trade and other payables	X	X	-	-	-	X
Current borrowings	-	-	X	-	-	X
Current portion of non-current borrowings	X	X	X	-	-	X
Finance lease liability	X	X	X	X	X	X
	X	**X**	**X**	**X**	**X**	**X**

2011	Due or due in less than 1 month	Due between 1 to 3 months	Due between 3 months to 1 year	Due between 1 to 5 years	Due after 5 years	Total
Financial liabilities						
Non-current borrowings	-	-	-	X	X	X
Trade and other payables	X	X	-	-	-	X
Current portion of non-current borrowings	X	X	X	-	-	X
Finance lease liability	X	X	X	X	X	X
	X	**X**	**X**	**X**	**X**	**X**

Notes to financial statements

39. Capital management

IAS1 p134-p136

The group's objectives when managing capital are:

- to safeguard the group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The group sets the amount of capital in proportion to risk. The group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

Consistently with others in the industry, the group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt ÷ adjusted capital. Net debt is calculated as total debt (as shown in the statement of financial position) less cash and cash equivalents. Adjusted capital comprises all components of equity (ie ordinary shares, share premium, Non-controlling interest, retained earnings, and other reserves) other than amounts recognised in equity relating to cash flow hedges, and includes some forms of subordinated debt.

During 2012, the group's strategy, which was unchanged from 2011, was to maintain the debt-to-adjusted capital ratio at the lower end of the range 6:1 to 7:1, in order to secure access to finance at a reasonable cost by maintaining a BB credit rating. The debt-to-adjusted capital ratios at 31 December 2012 and at 31 December 2011 were as follows:

	2012	2011
Total debt	**X**	X
Less: cash and cash equivalents	**X**	X
Net debt	**X**	X
Total equity	**X**	X
Add: subordinated debt instruments	**X**	X
Less: amounts recognised in equity - cash flow hedges	**X**	X
Adjusted capital	**X**	X
Debt-to-adjusted capital ratio	**X**	X

The increase in the debt-to-adjusted capital ratio during 2012 resulted primarily from the increase in net debt that occurred on the acquisition of Subsidiary B. As a result of this increase in net debt, reduced profitability and higher levels of managed receivables, the dividend payment was decreased to £ X for 2012 (from £ X for 2011).

Appendix 1 - Statement of comprehensive income by nature

Consolidated Statement of comprehensive income for the year ended 31 December 2012 (Extract)

	Group	
	2012	2011
Continuing operations		
Revenue	**X**	X
Other income	**X**	X
Changes in inventories of finished goods and work in progress	**X**	X
Work performed by the group and capitalised	**X**	X
Raw material and consumables used	**X**	X
Employee benefits expense	**X**	X
Depreciation and amortisation expense	**X**	X
Impairment of property, plant and equipment	**X**	X
Other expenses	**X**	X
Operating profit	**X**	X

Appendix 2 – Change in accounting policy

New requirement - Change in accounting policy
A statement of financial position as at the beginning of the earliest comparative period is required when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements. IAS 1 p10(f)

Example extract of policy - Inventories

Inventories are valued at the lower of cost and net realisable value on a weighted average basis. Cost comprises purchase cost of goods, direct labour and those overheads related to manufacture and distribution based on normal activity levels. During the year the accounting policy was changed from the first-in-first-out to the weighted average basis. IAS2 p36

Example extract of note – 22. Inventories IAS2 p36, p37

		Restated	Restated
	2012	2011	2010
Raw materials	**X**	X	X
Work in progress	**X**	X	X
Finished goods	**X**	X	X
	X	X	X

Inventories to the value of £ X are carried at net realisable value.
Inventory written-down during the year amounted to £ X (2011: £ X).

Inventory with a carrying amount of £ X (2011: £ X) has been pledged as security for liabilities. The holder of the security does not have the right to sell or re-pledge the inventory in the absence of default. IFRS7 p14

During the year the accounting policy for inventory was changed form the first-in first-out basis to the weighted average basis. Due to significant fluctuations in the cost price of inventories purchased the change to the weighted average basis will result in the financial statements providing more reliable and relevant information. The change in accounting policy has been accounted for retrospectively and the comparative statements for 2011 have been restated. The effect on EPS is considered to be immaterial. Inventory and cost of sales have been restated for all periods presented, as follows: IAS 8 p28

Effect on 2011	**£**
(Increase) in cost of sales	(X)
Decrease in taxation expense	X
(Decrease) in profit	(X)
(Decrease) in inventories	(X)
Effect on periods prior to 2011	
(Decrease) in retained earnings and inventories	(X)
(£X cost of sales less tax of £X)	
Total (decrease) in retained earnings and inventors at 31 December 2011	**(X)**

Example - Statement of financial position at 31 December 2012 (extract)

	Note	**2012**	Restated 2011	Restated 01/01/2011
Assets				
Non-current assets				
Property, plant and equipment	15	**X**	X	X
Investment property	16	**X**	X	X
Goodwill	17	**X**	X	X
Other intangible assets	18	**X**	X	X
Investments accounted for using the equity method	20	**X**	X	X
Available-for-sale investments		**X**	X	X
		X	X	X
Current assets				
Inventories	22	**X**	X	X
Trade receivables	23	**X**	X	X
Other current assets		**X**	X	X
Other financial assets at fair value through profit and loss		**X**	X	X
Cash and cash equivalents	24	**X**	X	X
		X	X	X
Non-current assets held for sale	12	**X**	X	X
		X	X	X
Total assets		**X**	X	X
Equity and liabilities				
Equity attributable to equity holders of the parent				
Ordinary shares		**X**	X	X
Share premium		**X**	X	X
Translation reserve		**X**	X	X
Fair value reserve		**X**	X	X
Retained earnings		**X**	X	X
		X	X	X
Non-controlling interest		**X**	X	X
Total equity		**X**	X	X