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International Financial Reporting Standards
Illustrative Corporate Consolidated Financial Statements 2005

This publication provides an illustrative set of consolidated financial statements, prepared in accordance with International Financial Reporting Standards (IFRS), for a fictional manufacturing, wholesale and retail group (Footsy & Co Group).

Footsy & Co Group is an existing preparer of IFRS consolidated financial statements; IFRS 1, First-time Adoption of International Financial Reporting Standards, is not applicable. Footsy & Co Group early adopted in 2004 all the IFRS issued up to and including March 2004; these were not therefore adopted in this set of illustrative financial statements.

This publication includes the disclosures required by IFRS as published in the IFRS stable platform and those standards and interpretations published since then that are applicable for financial years beginning on or after 1 January 2005.

We have attempted to create a realistic set of financial statements for a corporate entity. Certain types of transaction have not been included, as they are not relevant to the Group's operations. The example disclosures for some of these additional items have been included in Appendices III and IV. Other disclosure items and transactions have been included in other publications in the 'Illustrative' series. See inside front cover for details.

Since March 2004, the IASB has published the following interpretations, new standards and amendments to existing standards:

	Effective date
• IAS 1 Amendment – Capital Disclosures	1 January 2007*
• IAS 19 Amendment – Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2006*
• IAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions	1 January 2006*
• IAS 39 Amendment – The Fair Value Option	1 January 2006*
• IAS 39 Amendment – Transition and Initial Recognition of Financial Assets and Financial Liabilities	1 January 2005
• IAS 39 and IFRS 4 Amendment – Financial Guarantee Contracts	1 January 2006*
• IFRS 1 – First-Time Adoption of IFRS, and IFRS 6 Amendment	before 1 January 2006
• IFRS 6 – Exploration for and Evaluation of Mineral Resources	1 January 2006*
• IFRS 7 – Financial Instruments: Disclosures	1 January 2007*
• IFRIC amendment to SIC 12 – Scope of SIC 12 Consolidation – Special Purpose Entities	1 January 2005
• IFRIC 1 – Changes in Existing Decommissioning, Restoration and Similar Liabilities	1 September 2004
• IFRIC 2 – Members' Shares in Co-operative Entities and Similar Instruments	1 January 2005
• IFRIC 3 – Emission Rights (withdrawn in June 2005)	
• IFRIC 4 – Determining whether an Arrangement contains a Lease	1 January 2006*
• IFRIC 5 – Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 January 2006*
• IFRIC 6 – Liabilities arising from Participating in a Specific Market: Waste Electrical and Electronic Equipment	1 December 2005

No interpretations, new standards or amendments were adopted early for the purpose of these illustrative financial statements.

Illustrative disclosures of the early adoption of the following standards and amendments are included in Appendix V:

- IAS 19 (Amendment) – Employee Benefits;
- IAS 39 (Amendment) – The Fair Value Option;
- IFRS 6 – Exploration for and Evaluation of Mineral Resources; and
- IFRS 7 – Financial Instruments: Disclosures, and Amendment to IAS 1 – Presentation of Financial Statements: Capital Disclosures.

* Earlier application is encouraged.

The example disclosures should not be considered the only acceptable form of presentation. The form and content of each reporting entity's financial statements are the responsibility of the entity's management, and forms of presentation alternative to those proposed in this publication that are equally acceptable, may be preferred and adopted if they comply with the specific disclosure requirements prescribed in IFRS.

These illustrative financial statements are not a substitute for reading the standards and interpretations themselves or for professional judgement as to fairness of presentation. They do not cover all possible disclosures that IFRS requires, nor do they take account of any specific legal framework. Further specific information may be required in order to ensure fair presentation under IFRS. We recommend that readers refer to our publication *IFRS Disclosure Checklist 2005*. Additional accounting disclosures may be required in order to comply with local laws, national financial reporting standards and/or stock exchange regulations.

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Format of Illustrative Corporate Consolidated Financial Statements

The references in the left-hand margin of the financial statements represent the paragraph of the standard in which the disclosure appears – for example, '8p40' indicates IAS 8 paragraph 40. The reference to IFRS appears in full – for example 'IFRS2p6' indicates IFRS 2, paragraph 6. The designation 'DV' (disclosure voluntary) indicates that the relevant IAS or IFRS encourages, but does not require, the disclosure. Additional notes and explanations are shown in footnotes.

Footsy & Co Group
Consolidated Financial Statements

31 December 2005

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Certain items may not apply to a particular reporting entity. For example, if the reporting entity does not have material operating leases, disclosure of the accounting policy for operating leases does not need to be included (IAS1p108, 110).

Certain items that apply to an entity may have not been included in these illustrative financial statements. Additional accounting policies have been included in Appendix III. Additional critical accounting estimates and judgements have been included in Appendix IV. Additional disclosures relating to certain standards and amendments to existing standards published but not yet effective have been included in Appendix V. Readers should refer to other PricewaterhouseCoopers publications where necessary.

Consolidated balance sheet

1p68, 1p104, 1p36		Note	As at 31 December 2005	2004
	ASSETS			
1p51	**Non-current assets**			
1p68(a)	Property, plant and equipment	6	155,341	98,670
1p68(c)	Intangible assets	7	25,422	19,600
1p68(e)	Investments in associates	8	13,373	13,244
1p68(n), 1p70	Deferred income tax assets	19	3,319	3,110
1p68(d)	Available-for-sale financial assets	9	17,420	14,910
1p68(d)	Derivative financial instruments	10	395	245
1p68(h)	Trade and other receivables	11	2,322	1,352
			217,592	151,131
1p51, 1p57	**Current assets**			
1p68(g)	Inventories	12	24,700	17,740
1p68(h)	Trade and other receivables	11	19,765	18,102
1p68(d)	Available-for-sale financial assets	9	1,950	–
1p68(d)	Derivative financial instruments	10	1,069	951
1p68(d)	Other financial assets at fair value through profit or loss	13	11,820	7,972
1p68(i)	Cash and cash equivalents	14	22,228	36,212
			81,532	80,977
	Total assets		299,124	232,108
	EQUITY			
1p68(p)	**Capital and reserves attributable to equity holders of the Company**			
1p75(e)	Share capital	15	41,392	32,316
1p75(e)	Other reserves	16	14,749	7,025
1p75(e)	Retained earnings		77,297	57,271
			133,438	96,612
1p68(o)	**Minority interest**		7,188	1,766
	Total equity		140,626	98,378
	LIABILITIES			
1p51	**Non-current liabilities**			
1p68(l)	Borrowings	18	108,315	88,336
1p68(l)	Derivative financial instruments	10	135	129
1p68(n), 1p70	Deferred income tax liabilities	19	12,370	9,053
1p68(k), 1p75(d)	Retirement benefit obligations	20	4,540	2,130
1p68(k), 1p75(d)	Provisions for other liabilities and charges	21	320	274
			125,680	99,922
1p51, 1p60	**Current liabilities**			
1p68(j)	Trade and other payables	17	17,670	12,374
1p68(m)	Current income tax liabilities		2,942	2,846
1p68(l)	Borrowings	18	9,524	15,670
1p68(l)	Derivative financial instruments	10	460	618
1p68(k)	Provisions for other liabilities and charges	21	2,222	2,300
			32,818	33,808
	Total liabilities		158,498	133,730
	Total equity and liabilities		299,124	232,108

The notes on pages 9 to 49 are an integral part of these consolidated financial statements.

Consolidated income statement

1p81-83, 1p92, 1p36			Year ended 31 December	
1p104		Note	2005	2004
1p81(a)	Sales		211,034	112,360
1p92	Cost of goods sold		(77,366)	(46,682)
1p92	**Gross profit**		133,668	65,678
1p83	Other (losses)/gains – net	22	(90)	63
1p92	Selling and marketing costs		(52,140)	(21,213)
1p92	Administrative expenses		(28,786)	(10,434)
1p83	Other income	23	3,080	2,379
1p83	Other expenses	24	(1,117)	–
1p83	**Operating profit**		54,615	36,473
1p81(b)	Finance costs	27	(7,073)	(11,060)
1p81(c)	Share of (loss)/profit of associates	8	(174)	145
1p83	**Profit before income tax**		47,368	25,558
1p81(e), 12p77	Income tax expense	28	(14,792)	(8,865)
1p81(f)	**Profit for the year**		32,576	16,693
1p82	**Attributable to:**			
1p82(b)	Equity holders of the Company		30,028	15,837
1p82(a)	Minority interest		2,548	856
			32,576	16,693
33p66	**Earnings per share for profit attributable to the equity holders of the Company during the year** (expressed in € per share)			
	– basic	30	1.28	0.77
	– diluted	30	1.16	0.73

Footsy & Co Group
Consolidated income statement

The notes on pages 9 to 49 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

		Note	Attributable to equity holders of the Company			Minority Interest	Total equity
1p96, 1p97, 1p36 1p104			Share capital	Other reserves	Retained earnings		
1p97(c)	**Balance at 1 January 2004**		30,424	6,364	57,083	1,500	95,371
1p96(b)	Fair value gains and (losses), net of tax:						
16p77(f)	– land and buildings[1]	16	–	759	–	–	759
32p94(h)(ii)	– available-for-sale financial assets	16	–	68	–	–	68
1p96(b), 16p41	Depreciation transfer, land and buildings	16	–	(87)	87	–	–
1p96(b), 32p58, 59	Cash flow hedges, net of tax	16	–	(3)	–	–	(3)
1p96(b), 39p102	Net investment hedge	16	–	40	–	–	40
1p96(b), 21p52(b)	Currency translation differences	16	–	(116)	–	(40)	(156)
1p96(b)	Net income/(expense) recognised directly in equity		–	661	87	(40)	708
1p96(a)	Profit for the year		–	–	15,837	856	16,693
1p96(c)	**Total recognised income for 2004**		–	661	15,924	816	17,401
1p97(a)	Employees share option scheme:						
IFRS2p50	– value of employee services	15	822[2]	–	–	–	822
IFRS2p50	– proceeds from shares issued	15	1,070	–	–	–	1,070
1p97(a)	Dividend relating to 2003	31	–	–	(15,736)	(550)	(16,286)
			1,892	–	(15,736)	(550)	(14,394)
1p97(c)	**Balance at 31 December 2004**		32,316	7,025	57,271	1,766	98,378
1p97(c)	**Balance at 1 January 2005**		32,316	7,025	57,271	1,766	98,378
1p96(b)	Fair value gains and (losses), net of tax:						
32p94(h)(ii)	– available-for-sale financial assets	16	–	380	–	–	380
1p96(b), 16p41	Depreciation transfer, land and buildings	16	–	(100)	100	–	–
1p96(b), 32p58, 59	Cash flow hedges, net of tax	16	–	64	–	–	64
1p96(b), 39p102	Net investment hedge	16	–	(45)	–	–	(45)
1p96(b), 21p52(b)	Currency translation differences	16	–	1,992	–	252	2,244
1p96(b)	Net income recognised directly in equity		–	2,291	100	252	2,643
1p96(a)	Profit for the year		–	–	30,028	2,548	32,576
1p96(c)	**Total recognised income for 2005**		–	2,291	30,128	2,800	35,219
1p97(a)	Employee share option scheme:						
IFRS2p50	– value of employee services	15	690[2]	–	–	–	690
IFRS2p50	– proceeds from shares issued	15	950	–	–	–	950
1p97(a)	Issue of share capital – business combination	15	10,000	–	–	–	10,000
1p97(a)	Purchase of treasury shares	15	(2,564)	–	–	–	(2,564)
1p97(a), 32p28	Convertible bond – equity component	16	–	5,433	–	–	5,433
1p97(a)	Dividend relating to 2004	31	–	–	(10,102)	(1,920)	(12,022)
1p97(a)	Minority interest arising on business combinations	37	–	–	–	4,542	4,542
			9,076	5,433	(10,102)	2,622	7,029
1p97(c)	**Balance at 31 December 2005**		41,392	14,749	77,297	7,188	140,626

The notes on pages 9 to 49 are an integral part of these consolidated financial statements.

[1] IAS16p77(f) requires disclosure of any restrictions on the distribution of the land and buildings fair value reserve to shareholders.

[2] The credit entry to equity in respect of the IFRS 2 charge should be recorded in accordance with local company law and practice. This may be a specific reserve, retained earnings or share capital.

Consolidated cash flow statement

7p10, 18(b), 1p36			Year ended 31 December	
1p104		Note	2005	2004
	Cash flows from operating activities			
	Cash generated from operations	32	53,423	40,485
7p31	Interest paid		(9,170)	(9,184)
7p35	Income tax paid		(14,518)	(10,974)
	Net cash generated from operating activities		29,735	20,327
7p21	**Cash flows from investing activities**			
7p39	Acquisition of subsidiary, net of cash acquired	37	(3,950)	–
7p16(a)	Purchases of property, plant and equipment (PPE)	6	(9,755)	(6,042)
7p16(b)	Proceeds from sale of PPE	32	6,354	2,979
7p16(a)	Purchases of intangible assets	7	(3,050)	(700)
7p16(c)	Purchases of available-for-sale financial assets	9	(2,781)	(1,126)
7p16(e)	Loans granted to related parties	38	(1,343)	(112)
7p16(f)	Loan repayments received from related parties	38	63	98
7p31	Interest received		1,230	359
7p31	Dividends received		2,230	1,396
	Net cash used in investing activities		(11,002)	(3,148)
7p21	**Cash flows from financing activities**			
7p17(a)	Proceeds from issuance of ordinary shares	15	950	1,070
7p17(b)	Purchase of treasury shares	15	(2,564)	–
7p17(c)	Proceeds from issuance of convertible bond	33	50,000	–
7p17(c)	Proceeds from issuance of redeemable preference shares	34	–	30,000
7p17(c)	Proceeds from borrowings		8,500	18,000
7p17(d)	Repayments of borrowings		(74,302)	(37,738)
7p31	Dividends paid to Company's shareholders		(10,102)	(15,736)
7p31	Dividends paid to minority interests		(1,920)	(550)
	Net cash used in financing activities		(29,438)	(4,954)
	Net (decrease)/increase in cash, cash equivalents and bank overdrafts		(10,705)	12,225
	Cash, cash equivalents and bank overdrafts at beginning of the year		29,748	17,587
	Exchange gains/(losses) on cash and bank overdrafts		535	(64)
	Cash, cash equivalents and bank overdrafts at end of the year	14	19,578	29,748

The notes on pages 9 to 49 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. General information

1p126(b)
1p46(a)(b)

Footsy & Co ('the Company') and its subsidiaries (together 'the Group') manufactures, distributes and sells shoes through a network of independent retailers. The Group has manufacturing plants around the world and sells mainly in countries within the eurozone, the US and the UK. During the year, the Group acquired control of 'Your Shoes Group', a shoe and leather goods retailer operating in the US and most western European countries.

1p126(a)

The Company is a limited liability company incorporated and domiciled in Euravia. The address of its registered office is Nice Walk Way, Runningbourg.

The Company has its primary listing on the EuroMoney stock exchange.

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These consolidated financial statements have been approved for issue by the Board of Directors on 28 March 2006.

2. Summary of significant accounting policies

1p103(a)
1p108(b)

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

1p110

2.1 Basis of preparation

1p14
1p108(a)

The consolidated financial statements of Footsy & Co Group have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

Interpretations and amendments to published standards effective in 2005
The following amendments and interpretations to standards are mandatory for the Group's accounting periods beginning on or after 1 September 2004:
- IFRIC 2, Members' Shares in Co-operative Entities and Similar Instruments (effective from 1 January 2005);
- SIC 12 (Amendment), Consolidation – Special Purpose Entities (effective from 1 January 2005); and
- IAS 39 (Amendment), Transition and Initial Recognition of Financial Assets and Financial Liabilities (effective from 1 January 2005).

Management assessed the relevance of these amendments and interpretations with respect to the Group's operations and concluded that they are not relevant to the Group.

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Standards, interpretations and amendments to published standards that are not yet effective
Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods but which the Group has not early adopted, as follows:

- *IAS 19 (Amendment), Employee Benefits* (effective from 1 January 2006)[1]. This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment will only impact the format and extent of disclosures presented in the accounts. The Group will apply this amendment from annual periods beginning 1 January 2006.

[1] Illustrative disclosures of the early adoption of IAS 19 (Amendment), Employee Benefits, are included in Appendix V.

Notes to the consolidated financial statements (continued)

- *IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions* (effective from 1 January 2006). The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss. This amendment is not relevant to the Group's operations, as the Group does not have any intragroup transactions that would qualify as a hedged item in the consolidated financial statements as of 31 December 2005 and 2004.
- *IAS 39 (Amendment), The Fair Value Option* (effective from 1 January 2006)[1]. This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The Group will apply this amendment from annual periods beginning 1 January 2006.
- *IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts* (effective from 1 January 2006). This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value and subsequently measured at the higher of: (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. Management considered this amendment to IAS 39 and concluded that it is not relevant to the Group.
- *IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources* (effective from 1 January 2006)[1]. These amendments are not relevant to the Group's operations as the Group is not a first-time adopter of IFRS and does not carry out exploration for and evaluation of mineral resources.
- *IFRS 6, Exploration for and Evaluation of Mineral Resources* (effective from 1 January 2006)[1]. IFRS 6 is not relevant to the Group's operations.
- *IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures* (effective from 1 January 2007).[1] IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The Group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.
- *IFRIC 4, Determining whether an Arrangement contains a Lease* (effective from 1 January 2006). IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of IFRIC 4 on the Group's operations.
- *IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* (effective from 1 January 2006). IFRIC 5 is not relevant to the Group's operations.
- *IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment* (effective from 1 December 2005). IFRIC 6 is not relevant to the Group's operations.

[1] Illustrative disclosures of the early adoption of the following standards and amendments are included in Appendix V:
- IAS 39 (Amendment), The Fair Value Option;
- IFRS 6, Exploration for and Evaluation of Mineral Resources; and
- IFRS 7, Financial Instruments: Disclosures, and Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures.

Notes to the consolidated financial statements (continued)

1p110 **2.2 Consolidation**

27p12 (a) *Subsidiaries*

27p14, 27p30

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

IFRS3p14, IFRS3p24, IFRS3p28, IFRS3p36, 37, IFRS3p51, IFRS3p56

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement (see Note 2.6).

27p24, 27p28

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) *Transactions and minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) *Associates*

1p110, 28p13, 28p11

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (see Note 2.6).

28p29, 28p30

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

28p22, 28p26

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

1p110 **2.3 Segment reporting**

14p9

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

1p110 **2.4 Foreign currency translation**

1p110 (a) *Functional and presentation currency*

21p17, 21p9, 18, 1p46(d)

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in euros, which is the Company's functional and presentation currency.

Notes to the consolidated financial statements (continued)

1p110
21p21, 28
21p32
39p95(a)
39p102(a)

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

39AG83

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences are recognised in profit or loss, and other changes in carrying amount are recognised in equity.

21p30

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are, included in the fair value reserve in equity.

1p110
21p39

(c) *Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

21p39(a)
(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

21p39(b)
(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

21p39
1p76(b)
(iii) all resulting exchange differences are recognised as a separate component of equity.

39p102

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

21p47

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

1p110

2.5 Property, plant and equipment

16p73(a)
16p17
16p35(b)
39p98(b)

Land and buildings comprise mainly factories, retail outlets and offices. Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment[1].

16p12

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

16p39
1p76(b)
16p40
16p41

Increases in the carrying amount arising on revaluation of land and buildings are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against other reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from 'other reserves' to 'retained earnings'.

[1] Management may choose to keep these gains/losses in equity until the acquired asset or assumed liability affects profit or loss. At this time, management should reclassify the gains/losses in profit or loss.

Notes to the consolidated financial statements (continued)

16p73(b), 50
16p73(c)

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

– Buildings	25-40 years
– Machinery	10-15 years
– Vehicles	3-5 years
– Furniture, fittings and equipment	3-8 years

16p51

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

36p59

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

16p68, 71
16p41

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

1p110

2.6 Intangible assets

1p110
IFRS3p51
38p118 (a)

(a) *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisition of subsidiaries is included in 'intangible assets'. Goodwill on acquisitions of associates is included in 'investments in associates'. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

IFRS3p54
36p124
38p118(a)

36p80

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. Footsy & Co Group allocates goodwill to each business segment in each country in which it operates (Note 2.7).

1p110
38p74
38p97
38p118(a)(b)

(b) *Trademarks and licences*

Trademarks and licences are shown at historical cost. Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives (15-20 years).

1p110
38p4

(c) *Computer software*

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

38p4, 28, 66, 67

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

38p97
38p118(a)(b)

Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding three years).

1p110

2.7 Impairment of non-financial assets

36p9
36p10

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial ssets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

36p110

Notes to the consolidated financial statements (continued)

1p110 **2.8 Financial assets**

32p60, 39p45, 39p9

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

1p110, 39p9, 1p57, 59, 39p45

(a) *Financial assets at fair value through profit or loss*

This category has two sub-categories: 'financial assets held for trading', and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as 'held for trading' unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

1p110, 39p9

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables' in the balance sheet (Note 2.11).

1p110, 39p9

(c) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

39p38, 32p61, 39p43, 39p16, 39p46

Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

39p55(a)

Gains or losses arising, from changes in the fair value of the 'financial assets at fair value through profit or loss' category, including interest and dividend income, are presented in the income statement within 'other (losses)/gains – net', in the period in which they arise.

39p55(b), 39AG83

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available for sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Changes in the fair value of other monetary securities classified as available for sale and non-monetary securities classified as available for sale are recognised in equity.

39p55(b)

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'. Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established.

39AG72, 39AG73, 39AG74

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

39p58, 39p67, 39p68, 39p70

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the

Notes to the consolidated financial statements (continued)

39p69 income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 2.11.

1p110 **2.9 Derivative financial instruments and hedging activities**

32p92, 39p88 Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); (2) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or (3) hedges of a net investment in a foreign operation (net investment hedge).

32p56, 58, 32p59, 32p88 The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 10. Movements on the hedging reserve in shareholders' equity are shown in Note 16. The full fair value of hedging derivatives is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability if the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

39p89 (a) *Fair value hedge*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the income statement within 'finance costs'. The gain or loss relating to the ineffective portion is recognised in the income statement within 'other (losses)/gains – net'. Changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk are recognised in the income statement within 'finance costs'.

39p92 If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is use is amortised to profit or loss over the period to maturity.

39p95, 39p97, 98 (b) *Cash flow hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'other (losses)/gains – net'.

39p100 Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'finance costs'. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in the income statement within 'sales'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

39p101 When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

39p102(a)(b) (c) *Net investment hedge*

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

Notes to the consolidated financial statements (continued)

(d) *Derivatives that do not qualify for hedge accounting*
Certain derivatives do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement within 'other (losses)/gains – net'.

1p110 **2.10 Inventories**

2p36(a), 9
2p10, 25
23p6, 7
2p28, 30
39p98(b)

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw materials[1].

1p110 **2.11 Trade receivables**

39p46(a)
32p60
32p60(a)
39p59

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within 'selling and marketing costs'.

1p110 **2.12 Cash and cash equivalents**

7p45

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

1p110 **2.13 Share capital**

32p18(a)
32p60(b)

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities (Note 2.14).

32p37

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

32p33

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

1p110 **2.14 Borrowings**

32p60(b)
39p47
39p43

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

32p60(b)
32p18(a)

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the income statement as interest expense.

32p60(b)
32p18, 28
32AG31(a)

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

1p60

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

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[1] Management may choose to keep these gains in equity until the acquired asset or assumed liability affects profit or loss. At this time, management should reclassify the gains to profit or loss.

Notes to the consolidated financial statements (continued)

1p110 **2.15 Deferred income tax**

12p47, 24
12p15
12p46

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

12p24, 34

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

12p39, 44

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

1p110 **2.16 Employee benefits**

1p110
19p27
19p25
19p120(b)

(a) *Pension obligations*

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

19p79
19p80

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

19p93
19p120(a)

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

19p44

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

1p110
19p120(a)
19p120(b)
19p127

(b) *Other post-employment obligations*

Some Group companies provide post-retirement healthcare benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions in excess of the greater of 10% of the value of the plan assets or 10% of the defined benefit obligation, are charged or credited to income over the expected average remaining working lives of the related employees. These obligations are valued annually by independent qualified actuaries.

Notes to the consolidated financial statements (continued)

1p110
IFRS2p15(b)
IFRS2p19

(c) *Share-based compensation*
The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

1p110
19p133
19p134
19p139

(d) *Termination benefits*
Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

1p110
19p17

(e) *Profit-sharing and bonus plans*
The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

1p110

2.17 Provisions

37p14, 24
37p72
37p63

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

37p45

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

1p110

2.18 Revenue recognition

18p35(a)

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, estimated returns, rebates and discounts and after eliminated sales within the Group. Revenue is recognised as follows:

(a) *Sales of goods – wholesale*
Sales of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

Footware products are often sold with a right of return. Accumulated experience is used to estimate and provide for such returns at the time of sale.

(b) *Sales of goods – retail*
Sales of goods are recognised when a group entity sells a product to the customer. Retail sales are usually in cash or by credit card. The recorded revenue includes credit card fees payable for the transaction. Such fees are included in distribution costs.

It is the Group's policy to sell its products to the end customer with a right of return. Accumulated experience is used to estimate and provide for such returns at the time of sale.

Notes to the consolidated financial statements (continued)

(c) *Sales of services*
Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(d) *Interest income*
Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(e) *Royalty income*
Royalty income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

(f) *Dividend income*
Dividend income is recognised when the right to receive payment is established.

1p110

2.19 Leases

17p33
SIC-15p5

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

1p110

2.20 Dividend distribution

10p12

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3. Financial risk management

3.1 Financial risk factors[1]

32p52

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and the investment of excess liquidity.

(a) *Market risk*
(i) Foreign exchange risk

32p60

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the UK pound. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, entities in the Group use forward contracts, transacted with Group Treasury. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. Group Treasury is responsible for managing the net position in each foreign currency by using external forward currency contracts.

[1] If the Group had decided to early adopt IFRS 7, Financial instruments: Disclosures, and the Amendment to IAS 1, Presentation of Financial Statements, the disclosure on financial instruments and arising risks would be different (see Appendix V).

Notes to the consolidated financial statements (continued)

39p73 For segment reporting purposes, each subsidiary designates contracts with Group Treasury as fair value hedges or cash flow hedges, as appropriate. External foreign exchange contracts are designated at Group level as hedges of foreign exchange risk on specific assets, liabilities or future transactions on a gross basis.

32p60, 58 The Group's risk management policy is to hedge between 75% and 100% of anticipated transactions (mainly export sales) in each major currency for the subsequent 12 months. Approximately 90% (2004: 95%) of projected sales in each major currency qualify as 'highly probable' forecast transactions for hedge accounting purposes.

32p52 The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

(ii) Price risk

32p52 The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss. The Group is not exposed to commodity price risk.

(b) *Credit risk*

32p76(a)(b) The Group has no significant concentrations of credit risk. It has policies in place to ensure that wholesale sales of products are made to customers with an appropriate credit history. Sales to retail customers are made in cash or via major credit cards. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions. The Group has policies that limit the amount of credit exposure to any financial institution.

(c) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

(d) *Cash flow and fair value interest rate risk*

32p58, 67 As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Group policy is to maintain approximately 60% of its borrowings in fixed rate instruments.

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

Occasionally, the Group also enters into fixed-to-floating interest rate swaps to hedge the fair value interest rate risk arising where it has borrowed at fixed rates in excess of the 60% target.

3.2 Fair value estimation

32p92 The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

Notes to the consolidated financial statements (continued)

32p86
32p88

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

1p116

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of goodwill
The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.6. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 7).

36p124

If the revised estimated gross margin at 31 December 2006 was 10% lower than management's estimates at 31 December 2005, the Group would have recognised a further impairment against goodwill by €346 and property, plant and equipment by €4.

If the revised estimated pre-tax discount rate applied to the discounted cash flows was 10% higher than management's estimates, the Group would have recognised a further impairment against goodwill by €300.

(b) Income taxes
The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Were the actual final outcome (on the judgement areas) to differ by 10% from management's estimates, the Group would need to:
- increase the income tax liability by €120 and the deferred tax liability by €230, if unfavourable; or
- decrease the income tax liability by €110 and the deferred tax liability by €215, if favourable.

(c) Fair value of derivatives and other financial instruments
The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. The Group has used discounted cash flow analysis for various available-for-sale financial assets that were not traded in active markets.

The carrying amount of available-for-sale financial assets would be an estimated €425 lower or €450 higher were the discount rate used in the discounted cash flow analysis to differ by 10% from management's estimates.

(d) Revenue recognition
The Group uses the percentage-of-completion method in accounting for its sales of services. Use of the percentage-of-completion method requires the Group to estimate the services performed to date as a proportion of the total services to be performed. Were the proportion of services performed to total services to be performed to differ by 10% from management's estimates, the amount of revenue recognised in the year would be increased by €5 if the proportion performed were increased, or would be decreased by €4 if the proportion performed were decreased.

Notes to the consolidated financial statements (continued)

1p113 **4.2 Critical judgements in applying the entity's accounting policies**

Revenue recognition

The Group has recognised revenue amounting to €950 for sales of goods to Leatherex & Co in Euravia during 2005. The buyer has the right to rescind the sale if there is 5% dissatisfaction with the quality of the first 1,000 pairs of shoes sold. The profit recognised for this sale was €665. The Group believes that, based on past experience with similar sales, the dissatisfaction rate will not exceed 3%. It is therefore appropriate to recognise revenue on this transaction during 2005. The Group will suffer an estimated loss of €700 in its 2006 financial statements if the sale is cancelled, €665 being the reversal of 2005 profits and €35 of costs connected with returning the stock to the warehouse.

5. Segment information

14p50 **Primary reporting format – business segments**

14p81 At 31 December 2005, the Group is organised on a worldwide basis into two main business segments:

(1) Manufacture and sale of a range of shoes on a wholesale basis; and
(2) Operation of a chain of retail outlets for shoes and other leather goods.

Other Group operations mainly comprise the sale of manufacturing services to independent designers and goods transportation services to utilise its fleet spare capacity. Neither of these constitutes a separately reportable segment.

The segment results for the year ended 31 December 2004 are as follows:

		Wholesale	Retail	Other	Unallocated	Group
	Total gross segment sales	134,330	4,072	876	–	139,278
	Inter-segment sales	(26,918)	–	–	–	(26,918)
14p51	**Sales**	107,412	4,072	876	–	112,360
14p52, 67	Operating profit/Segment result	36,633	1,796	(3)	(1,953)	36,473
	Finance costs (Note 27)					(11,060)
14p64	Share of profit of associates (Note 8)	155	–	(10)	–	145
	Profit before income tax					25,558
	Income tax expense					(8,865)
14p67	**Profit for the year**					16,693

The segment results for the year ended 31 December 2005 are as follows:

		Wholesale	Retail	Other	Unallocated	Group
14p51	Total gross segment sales	152,825	85,929	8,150	–	246,904
14p51	Inter-segment sales	(35,870)	–	–	–	(35,870)
14p51	**Sales**	116,955	85,929	8,150	–	211,034
14p52, 67	Operating profit/Segment result	44,520	11,743	3,713	(5,361)	54,615
	Finance costs (Note 27)					(7,073)
14p64	Share of profit/(loss) of associates (Note 8)	200	(389)	15	–	(174)
	Profit before income tax					47,368
	Income tax expense					(14,792)
14p67	**Profit for the year**					32,576

Notes to the consolidated financial statements (continued)

Other segment items included in the income statement are as follows:

		Year ended 31 December 2005				Year ended 31 December 2004			
		Wholesale	Retail	Other	Group	Wholesale	Retail	Other	Group
14p58	Depreciation (Note 6)	9,727	7,539	488	17,754	9,280	250	132	9,662
14p58	Amortisation (Note 7)	600	80	120	800	365	150	50	565
36p129(a)	Impairment of goodwill (Note 7)	4,650	–	–	4,650	–	–	–	–
36p129(b)	Reversal of inventory impairment (Note 12)	–	–	–	–	603	–	–	603
36p129(a)	Impairment of trade receivables (Note 11)	39	–	–	39	32	–	–	32
DV, 14p59	Restructuring costs (Note 21)	1,799	–	–	1,799	–	–	–	–

14p43 During 2004, retail did not qualify as a separate segment. However, with the acquisition in 2005 of 'Your Shoes Group' (Note 37), retail qualifies as a separate segment, and figures for 2004 have been restated.

14p51 Segment result includes gains and losses from foreign currency derivatives that have been recycled in the income statement in 'cash flow hedges of commercial sales and purchases'.

Finance costs include results from cash flow hedges of interest-bearing borrowings that have been reported in the income statement during the financial year. They also include gains and losses from remeasuring interest rate derivatives designated as fair value hedges. Unallocated costs represent corporate expenses, including gains and losses of derivative financial instruments held for trading.

14p75 Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

The segment assets and liabilities at 31 December 2004 and capital expenditure for the year then ended are as follows:

		Wholesale	Retail	Other	Unallocated	Group
14p55	Assets	168,379	5,672	12,321	32,492	218,864
14p66	Associates	7,050	–	6,194	–	13,244
14p67	**Total assets**	175,429	5,672	18,515	32,492	232,108
14p56, 67	**Liabilities**	19,313	55	502	113,860	133,730
14p57	**Capital expenditure (Notes 6 and 7)**	5,765	93	884	–	6,742

The segment assets and liabilities at 31 December 2005 and capital expenditure for the year then ended are as follows:

		Wholesale	Retail	Other	Unallocated	Group
14p55	Assets	134,005	86,396	18,647	46,703	285,751
14p66	Associates	7,207	–	6,166	–	13,373
14p67	**Total assets**	141,212	86,396	24,813	46,703	299,124
14p56, 67	**Liabilities**	17,377	11,100	676	129,345	158,498
14p57	**Capital expenditure (Notes 6 and 7)**	9,031	75,360	3,849	–	88,240

14p16 Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, derivatives designated as hedges of future commercial transactions, receivables and operating cash. They exclude deferred taxation, investments and derivatives held for trading or designated as hedges of borrowings.

14p16 Segment liabilities comprise operating liabilities (including derivatives designated as hedges of future commercial transactions). They exclude items such as taxation, corporate borrowings and related hedging derivatives.

Notes to the consolidated financial statements (continued)

14p57

Capital expenditure comprises additions to property, plant and equipment (Note 6) and intangible assets (Note 7), including additions resulting from acquisitions through business combinations (Notes 6, 7 and 37).

Secondary reporting format – geographical segments

14p81

The Group's three business segments operate in four main geographical areas, even though they are managed on a worldwide basis.

The home country of the Company – which is also the main operating company – is Euravia. The areas of operation are principally the manufacturing and sale of shoes and other footwear.

The Group's retail sales are mainly in countries within the eurozone, the UK and the US.

14p69

Sales

	2005	2004
Eurozone	78,492	49,312
UK	53,236	28,000
US	64,128	27,779
Other countries	15,178	7,269
	211,034	112,360

Sales are allocated based on the country in which the customer is located.

14p69

Total assets

	2005	2004
Eurozone	69,606	49,567
UK	48,638	41,517
US	54,513	33,737
Other countries	66,291	61,551
	239,048	186,372
Associates (Note 8)	13,373	13,244
Unallocated assets	46,703	32,492
	299,124	232,108

Total assets are allocated based on where the assets are located.

14p69

Capital expenditure

	2005	2004
Eurozone	36,354	2,008
UK	34,092	2,696
US	11,848	650
Other countries	5,946	1,388
	88,240	6,742

Capital expenditure is allocated based on where the assets are located.

18p35(b)

Analysis of sales by category

	2005	2004
Sales of goods	202,884	104,495
Revenue from services	8,000	7,800
Royalty income	150	65
	211,034	112,360

Notes to the consolidated financial statements (continued)

6. Property, plant and equipment

1p75(a)		Land & buildings	Vehicles & machinery	Furniture, fittings & equipment	Total
16p73(d)	**At 1 January 2004**				
	Cost or valuation	39,323	69,850	20,025	129,198
	Accumulated depreciation	(2,333)	(17,524)	(3,690)	(23,547)
	Net book amount	36,990	52,326	16,335	105,651
16p73(e)	**Year ended 31 December 2004**				
	Opening net book amount	36,990	52,326	16,335	105,651
	Exchange differences	(381)	(703)	(423)	(1,507)
	Revaluation surplus (Note 16)	1,133	–	–	1,133
	Additions	1,588	2,970	1,484	6,042
	Disposals (Note 32)	–	(2,607)	(380)	(2,987)
	Depreciation charge (Note 25)	(636)	(4,186)	(4,840)	(9,662)
	Closing net book amount	38,694	47,800	12,176	98,670
16p73(d)	**At 31 December 2004**				
	Cost or valuation	39,330	66,903	20,026	126,259
	Accumulated depreciation	(636)	(19,103)	(7,850)	(27,589)
	Net book amount	38,694	47,800	12,176	98,670
16p73(e)	**Year ended 31 December 2005**				
	Opening net book amount	38,694	47,800	12,176	98,670
	Exchange differences	1,601	1,280	342	3,223
	Acquisition of subsidiary (Note 37)	49,072	5,513	13,199	67,784
	Additions	7,126	427	2,202	9,755
	Disposals (Note 32)	(2,000)	(3,729)	(608)	(6,337)
	Depreciation charge (Note 25)	(3,545)	(4,768)	(9,441)	(17,754)
	Closing net book amount	90,948	46,523	17,870	155,341
16p73(d)	**At 31 December 2005**				
	Cost or valuation	95,129	58,268	26,927	180,324
	Accumulated depreciation	(4,181)	(11,745)	(9,057)	(24,983)
	Net book amount	90,948	46,523	17,870	155,341

16p77(a-d) The Group's land and buildings were last revalued on 1 January 2004 by independent valuers. Valuations were made on the basis of market value. The revaluation surplus net of applicable deferred income taxes was credited to other reserves in shareholders' equity (Note 16).

DV1p93 Depreciation expense of €8,054 (2004: €5,252) has been charged in cost of goods sold, €5,568 (2004: €2,410) in selling and marketing costs and €4,132 (2004: €2,000) in administrative expenses.

17p35(c) Lease rentals amounting to €1,172 (2004: €895) and €9,432 (2004: €961) relating to the lease of machinery and property, respectively, are included in the income statement.

16p77(e) If land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2005	2004
Cost	81,541	25,255
Accumulated depreciation	(15,512)	(11,480)
Net book amount	66,029	13,775

16p74(a) Bank borrowings are secured on land and buildings for the value of €37,680 (2004: €51,306) (Note 18).

Notes to the consolidated financial statements (continued)

7. Intangible assets

Ref		Goodwill	Trademarks & licences	Other[1]	Total
38p118(c)	**At 1 January 2004**				
IFRS3p75(a)	Cost	12,546	7,301	1,355	21,202
	Accumulated amortisation and impairment	–	(330)	(510)	(840)
	Net book amount	12,546	6,971	845	20,362
38p118(e)	**Year ended 31 December 2004**				
IFRS3p74	Opening net book amount	12,546	6,971	845	20,362
IFRS3p75(f)	Exchange differences	(546)	(306)	(45)	(897)
	Additions	–	700	–	700
	Amortisation charge[2] (Note 25)	–	(365)	(200)	(565)
	Closing net book amount	12,000	7,000	600	19,600
38p118(c)	**At 31 December 2004**				
IFRS3p75(a)	Cost	12,000	7,710	1,300	21,010
	Accumulated amortisation and impairment	–	(710)	(700)	(1,410)
	Net book amount	12,000	7,000	600	19,600
38p118(e)	**Year ended 31 December 2005**				
IFRS3p74	Opening net book amount	12,000	7,000	600	19,600
IFRS3p75(f)	Exchange differences	341	96	134	571
	Additions	–	2,684	366	3,050
	Acquisition of subsidiary (Note 37)	3,651	4,000	–	7,651
IFRS3p75(e)	Impairment charge[3] (Note 25)	(4,650)	–	–	(4,650)
	Amortisation charge[2] (Note 25)	–	(680)	(120)	(800)
	Closing net book amount	11,342	13,100	980	25,422
38p118(c)	**At 31 December 2005**				
IFRS3p75(a)	Cost	15,992	14,480	1,800	32,272
	Accumulated amortisation and impairment	(4,650)	(1,380)	(820)	(6,850)
	Net book amount	11,342	13,100	980	25,422

38p118 — [1] Other intangibles include internally generated capitalised software development costs and other costs.

38p118(d) — [2] Amortisation of €40 (2004: €100) is included in the 'cost of goods sold' the income statement; €680 (2004: €365) in 'selling, and marketing costs'; and €80 (2004: €100) in administrative expenses.

36p126(a) — [3] The carrying amount of the segment has been reduced to its recoverable amount through recognition of an impairment loss against goodwill. This loss has been included in 'cost of goods sold' in the income statement.

Impairment tests for goodwill

36p134(d) — Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to country of operation and business segment.

A segment-level summary of the goodwill allocation is presented below.

36p134(a)

	2005			2004		
	Wholesale	Retail	Total	Wholesale	Retail	Total
Eurozone	6,250	1,051	7,301	5,970	120	6,090
US	325	1,651	1,976	125	30	155
UK	740	869	1,609	625	80	705
Other countries	346	110	456	4,950	100	5,050
	7,661	3,681	11,342	11,670	330	12,000

14p43 — During 2004, retail did not qualify as a separate segment. However, with the acquisition in 2005 of 'Your Shoes Group' (Note 37), retail qualifies as a separate segment, and the figures for 2004 have been restated.

Notes to the consolidated financial statements (continued)

36p134(c)
36p134(d)(iii)

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the shoe business in which the CGU operates.

36p134(c)

Key assumptions used for value-in-use calculations:

		Wholesale				Retail			
		Eurozone	US	UK	Other	Eurozone	US	UK	Other
36p134(d)	Gross margin[1]	60.0%	59.0%	60.0%	56.0%	58.0%	56.0%	58.0%	55.0%
36p134(d)(i)	Growth rate[2]	1.8%	1.8%	1.8%	1.9%	1.1%	1.3%	1.1%	1.4%
36p134(d)(v)	Discount rate[3]	10.5%	10.0%	10.7%	12.8%	11.5%	11.0%	11.8%	13.5%

[1] Budgeted gross margin
[2] Weighted average growth rate used to extrapolate cash flows beyond the budget period
[3] Pre-tax discount rate applied to the cash flow projections

36p134(ii)
36p55

These assumptions have been used for the analysis of each CGU within the business segment. Management determined budgeted gross margin based on past performance and its expectations for the market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

36p130(a)

The impairment charge arose in a wholesale CGU in Step-land (included in 'Other countries' segment summary) following a decision to reduce the manufacturing output allocated to these operations (see also Note 21). This was a result of a redefinition of the Group's allocation of manufacturing volumes across all CGUs in order to benefit from advantageous market conditions. Following this decision, the Group reassessed the depreciation policies of its property, plant and equipment in this country and estimated that their useful lives will not be affected. No other class of asset than goodwill was impaired. The discount rate used in the previous years for the wholesale CGU in Step-land was 12.0%.

8. Investments in associates

		2005	2004
	Beginning of the year	13,244	13,008
	Acquisition of subsidiary (Note 37)	389	–
	Share of (loss)/profit[1]	(174)	145
	Exchange differences	(74)	105
	Other equity movements (Note 16)	(12)	(14)
28p38	End of the year	13,373	13,244

1IG4 [1]Share of profit/(loss) is after tax and minority interest of associates

Investments in associates at 31 December 2005 include goodwill of €1,020 (2004: €1,020).

28p37(b)

The Group's share of the results of its principal associates, all of which are unlisted, and its share of the assets (including goodwill and liabilities) are as follows[1]:

Name	Country of incorporation	Assets	Liabilities	Revenues	Profit/ (Loss)	%interest held
2004						
Alfa Limited	Cyprus	27,345	20,295	35,012	155	25
Beta SA	Greece	9,573	3,379	10,001	(10)	30
		36,918	23,674	45,013	145	
2005						
Alfa Limited	Cyprus	32,381	25,174	31,123	200	25
Beta SA	Greece	12,115	5,949	9,001	15	30
Delta Limited	UK	15,278	15,278	25,741	(389)	42
		59,774	46,401	65,865	(174)	

[1] An alternative method of presentation is to give the gross amounts of assets and liabilities (excluding goodwill) of associates and not the Group's share.

Notes to the consolidated financial statements (continued)

28p37(g) The Group has not recognised losses amounting to €20 (2004: nil) for Delta Limited. The accumulated losses not recognised were €20 (2004: nil).

9. Available-for-sale financial assets

		2005	2004
	Beginning of the year	14,910	14,096
	Exchange differences	646	(435)
	Acquisition of subsidiary (Note 37)	473	–
	Additions	2,781	1,126
	Revaluation surplus transfer to equity (Note 16)	560	123
	End of the year	19,370	14,910
	Less: non-current portion	(17,420)	(14,910)
1p57	Current portion	1,950	–

There were no disposals or impairment provisions on available-for-sale financial assets in 2005 or 2004.

32p92(b) Available-for-sale financial assets include the following:

		2005	2004
39AG71-73	Listed securities:		
	– Equity securities – eurozone countries	8,335	8,300
	– Equity securities – US	5,850	2,086
	– Equity securities – UK	4,550	4,260
32p67	– Debentures with fixed interest of 6.5% and maturity date of 27 August 2010[1]	210	–
32p67	– Non-cumulative 9.0% non-redeemable preference shares[2]	78	–
39pAG74-79	Unlisted securities:		
	– Debt securities traded on inactive markets with fixed interest ranging from 6.3% to 6.5% and maturity dates between July 2008 and May 2010[3]	347	264
		19,370	14,910

[1] Effective interest rate was 7.3%

[2] Effective interest rate was 6.9%

[3] Effective interest rate was 6.5%

32p86 The fair values of unlisted securities are based on cash flows discounted using a rate based on the market interest rate and the risk premium specific to the unlisted securities (2005: 6%; 2004: 5.8%).

10. Derivative financial instruments

	2005		2004	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps – cash flow hedges	351	110	220	121
Interest rate swaps – fair value hedges	57	37	49	11
Forward foreign exchange contracts – cash flow hedges	695	180	606	317
Forward foreign exchange contracts – held-for-trading	361	268	321	298
Total	1,464	595	1,196	747
Less non-current portion:				
Interest rate swaps – cash flow hedges	345	100	200	120
Interest rate swaps – fair value hedges	50	35	45	9
	395	135	245	129
Current portion	1,069	460	951	618

Trading derivatives are classified as a current asset or liability. The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedged them is less than 12 months.

Notes to the consolidated financial statements (continued)

Forward foreign exchange contracts

32p67(a) The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2005 are €92,370 (2004: €89,689).

32p58(d)
39p100 Gains and losses recognised in the hedging reserve in equity (Note 16) on forward foreign exchange contracts as of 31 December 2005 will be released to the income statement at various dates between six months to one year from the balance sheet date.

39p162
32p67(a) *Interest rate swaps*
The notional principal amounts of the outstanding interest rate swap contracts at 31 December 2005 were €4,314 (2004: €3,839).

32p56(b) At 31 December 2005, the fixed interest rates vary from 6.9% to 7.4% (2004: 6.7% to 7.2%) and the main floating rates are EURIBOR and LIBOR.

32p58(b) Gains and losses recognised in the hedging reserve in equity (Note 16) on interest-rate swap contracts as of 31 December 2005 will be continuously released to the income statement until the repayment of the bank borrowings (Note 18).

Hedge of net investment in foreign entity

39p58(b) The Group's US dollar-denominated borrowing is designated as a hedge of the net investment in the Group's US subsidiary. The fair value of the borrowing at 31 December 2005 was €840 (2004: €760). The foreign exchange loss of €45 (2004: gain of €40) on translation of the borrowing to euros at the balance sheet date was recognised in 'other reserves' in shareholders' equity (Note 16).

11. Trade and other receivables

		2005	2004
1p75(b)	Trade receivables	18,174	16,944
	Less: provision for impairment of receivables	(109)	(70)
	Trade receivables – net	18,065	16,874
	Prepayments	1,300	1,146
1p74	Receivables from related parties (Note 38)	54	46
1p74	Loans to related parties (Note 38)	2,668	1,388
		22,087	19,454
1p75(b)	Less non-current portion: loans to related parties	(2,322)	(1,352)
	Current portion	19,765	18,102

All non-current receivables are due within five years from the balance sheet date.

32p86 The fair values of trade and other receivables are as follows:

	2005	2004
Trade receivables	18,065	16,874
Prepayments	1,300	1,146
Receivables from related parties	54	46
Loans to related parties	2,722	1,398
	22,141	19,464

32p86 The fair values of loans to related parties are based on cash flows discounted using a rate based on the borrowing rate of 7.5% (2004: 7.2%).

32p67(b) The effective interest rates on non-current receivables were as follows:

	2005	2004
Loans to related parties (Note 38)	6.5-7.0%	6.5-7.0%

32p76(a)(b) There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers, internationally dispersed.

32p94(a) Certain European subsidiaries of the Group transferred receivable balances amounting to €1,014 to a bank in exchange for cash during the year ended 31 December 2005. The transaction has been accounted for as a collateralised borrowing (Note 18).

Notes to the consolidated financial statements (continued)

32p94(i) The Group has recognised a provision of €74 (2004: €61) for the impairment of its trade receivables during the year ended 31 December 2005. The Group has used provision for impaired receivables of €35 during the year ended 31 December 2005 (2004: €29). The creation and usage of provision for impaired receivables have been included in 'selling and marketing costs' in the income statement (Note 25).

12. Inventories

2p36(b), 1p75(c)

	2005	2004
Raw materials	7,622	7,612
Work in progress	1,810	1,796
Finished goods[1]	15,268	8,332
	24,700	17,740

2p36(d), 38 The cost of inventories recognised as expense and included in 'cost of goods sold' amounted to €116,471 (2004: €51,985).

2p36(f)(g) 36p126(b) 36p130(a) The Group reversed €603 of a previous inventory write-down in July 2004. The Group has sold all the goods that were written down to an independent retailer in Australia at original cost. The amount reversed has been included in 'cost of goods sold' in the income statement.

13. Other financial assets at fair value through profit or loss

32p92(b), 39AG71-73

	2005	2004
Listed securities:		
– Equity securities – eurozone	5,850	3,560
– Equity securities – US	4,250	3,540
– Equity securities – UK	1,720	872
	11,820	7,972

32p94(e) The carrying amounts of the above financial assets are classified as follows:

	2005	2004
Held for trading	9,847	7,972
Designated as at fair value through profit or loss on initial recognition	1,973	–
	11,820	7,972

7p15 Other financial assets at fair value through profit or loss are presented within the section on operating activities as part of changes in working capital in the cash flow statement (Note 32).

14. Cash and cash equivalents

	2005	2004
Cash at bank and in hand	12,698	30,798
Short-term bank deposits	9,530	5,414
	22,228	36,212

32p67 The effective interest rate on short-term bank deposits was 5.9% (2004: 5.6%); these deposits have an average maturity of 20 days.

[1] Separate disclosure of finished goods at fair value less cost to sell is required, where applicable.

Notes to the consolidated financial statements (continued)

7p45 Cash, cash equivalents and bank overdrafts include the following for the purposes of the cash flow statement:

		2005	2004
	Cash and cash equivalents	22,228	36,212
7p8	Bank overdrafts (Note 18)	(2,650)	(6,464)
		19,578	29,748

15. Share capital

1p76		Number of shares (thousands)	Ordinary shares	Share premium	Treasury shares	Total
	At 1 January 2004	20,000	20,000	10,424	–	30,424
	Employee share option scheme:					
IFRS2p51(a)	– Value of services provided	–	–	822	–	822
1p97	– Proceeds from shares issued	1,000	1,000	70	–	1,070
	At 31 December 2004	21,000	21,000	11,316	–	32,316
	Employee share option scheme:					
IFRS2p51(a)	– Value of services provided	–	–	690	–	690
1p97	– Proceeds from shares issued	750	750	200	–	950
	Acquisition of subsidiary (Note 37)	3,550	3,550	6,450	–	10,000
	Treasury shares purchased	(875)	–	–	(2,564)	(2,564)
1p76(a)	**At 31 December 2005**	24,425	25,300	18,656	(2,564)	41,392

1p76(a) The total authorised number of ordinary shares is 50 million shares (2004: 50 million shares) with a par value of €1 per share (2004: €1 per share). All issued shares are fully paid.

1p76(a) The Company acquired 875,000 of its own shares through purchases on the EuroMoney stock exchange on 18 April 2005. The total amount paid to acquire the shares, net of income tax, was €2,564 and has been deducted from shareholders' equity. The shares are held as 'treasury shares'. The Company has the right to reissue[1] these shares at a later date. All shares issued by the Company were fully paid.

10p21 The Company reissued 500,000 treasury shares for a total consideration of €1,500 on 15 January 2006.

Share options

IFRS2p45(a) Share options are granted to directors and to selected employees. The exercise price of the granted options is equal to the market price of the shares less 15% on the date of the grant. Options are conditional on the employee completing one year's service (the vesting period). The options are exercisable starting one year from the grant date only if the Group achieves its targets of profitability and sales growth; the options have a contractual option term of five years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

		2005		2004	
		Average exercise price in € per share	Options (thousands)	Average exercise price in € per share	Options (thousands)
IFRS2p45(b)(i)	**At 1 January**	1.73	4,744	1.29	4,150
IFRS2p45(b)(ii)	Granted	2.95	964	2.38	1,827
IFRS2p45(b)(iii)	Forfeited	–	–	2.00	(200)
IFRS2p45(b)(iv)	Exercised	1.28	(750)	1.08	(1,000)
IFRS2p2(b)(v)	Lapsed	–	–	0.80	(33)
IFRS2p2(b)(vi)	**At 31 December**	2.03	4,958	1.73	4,744

[1] Depending on the local legislation, the Company could have the right to resell.

Notes to the consolidated financial statements (continued)

IFRS2p45(b)(vii)
IFRS2p45(c)

Out of the 4,958 thousand outstanding options (2004: 4,744 thousand options), 3,994 thousand options (2004: 2,917 thousand) were exercisable. Options exercised in 2005 resulted in 750 thousand shares (2004: 1,000 thousand shares) being issued at €1.28 each (2004: €1.08 each). The related weighted average price at the time of exercise was €2.85 (2004: €2.65) per share. The related transaction costs amounting to €10 (2004: €10) have been netted off with the proceeds received.

IFRS2p45(d)

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Expiry date – 1 July	Exercise price in € per share	Options (thousands)	
		2005	2004
2005	1.10	–	500
2006	1.20	800	900
2007	1.35	1,200	1,250
2008	2.00	217	267
2009	2.38	1,777	1,827
2010	2.95	964	–
		4,958	4,744

IFRS2p47(a)

The fair value of options granted during the period determined using the Black-Scholes valuation model was €600 (2004: €800). The significant inputs into the model were share price of €3.47 (2004: €2.80) at the grant date, exercise price shown above, standard deviation of expected share price returns of 30% (2004: 27%), dividend yield of 4.3% (2004: 3.5%), option life disclosed above, and annual risk-free interest rate of 5% (2004: 4%). The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years.

33p71(c)
10p21, 22(f)

On 1 January 2006, 1,200 thousand share options were granted to directors and employees with an exercise price set at the market share price less 15% on that date of €3.20 per share (share price: €3.68) (expiry date: 1 July 2010).

The Group issued 3,550 shares on 1 March 2005 (14.5% of the total ordinary share capital issued) to the shareholders of Your Shoes Group as part of the purchase consideration for 70% of its ordinary share capital. The ordinary shares issued have the same rights as the other shares in issue. The fair value of the shares issued amounted to €10,050 (€2.83 per share). The related transaction costs amounting to €50 each have been netted off with the deemed proceeds.

Notes to the consolidated financial statements (continued)

16. Other reserves

		Convertible bond	Land and buildings revaluation[1]	Hedging reserve	Available for sale investments	Currency translation adjustments	Total
	Balance at 1 January 2004	–	1,152	65	1,320	3,827	6,364
16p39	Revaluation – gross (Notes 6 and 9)	–	1,133	–	123	–	1,256
12p61	Revaluation – tax (Note 19)	–	(374)	–	(41)	–	(415)
28p39	Revaluation – associates (Note 8)	–	–	–	(14)	–	(14)
16p41	Depreciation transfer – gross	–	(130)	–	–	–	(130)
16p41	Depreciation transfer – tax (Note 19)	–	43	–	–	–	43
1p96(b)	Cash flow hedges:						
32p59(a)	– Fair value gains in year	–	–	300	–	–	300
12p61	– Tax on fair value gains (Note 19)	–	–	(101)	–	–	(101)
32p59(b)	– Transfers to net profit	–	–	(236)	–	–	(236)
12p61	– Tax on transfers to net profit (Note 19)	–	–	79	–	–	79
32p59(c)	– Transfers to inventory	–	–	(67)	–	–	(67)
12p61	– Tax on transfers to inventory (Note 19)	–	–	22	–	–	22
39p102(a)	Net investment hedge (Note 10)	–	–	–	–	40	40
1p96(b)	Currency translation differences:						
21p52(b)	– Group	–	(50)	–	–	(171)	(221)
28p39	– Associates	–	–	–	–	105	105
	Balance at 31 December 2004	–	1,774	62	1,388	3,801	7,025
16p39	Revaluation – gross (Note 9)	–	–	–	560	–	560
12p61	Revaluation – tax (Note 19)	–	–	–	(168)	–	(168)
28p39	Revaluation – associates (Note 8)	–	–	–	(12)	–	(12)
16p41	Depreciation transfer – gross	–	(149)	–	–	–	(149)
16p41	Depreciation transfer – tax (Note 19)	–	49	–	–	–	49
1p96(b)	Cash flow hedges:						
32p59(a)	– Fair value gains in year	–	–	368	–	–	368
12p61	– Tax on fair value gains (Note 19)	–	–	(123)	–	–	(123)
32p59(b)	– Transfers to net profit	–	–	(120)	–	–	(120)
12p61	– Tax on transfers to net profit (Note 19)	–	–	40	–	–	40
32p59(c)	– Transfers to inventory	–	–	(151)	–	–	(151)
12p61	– Tax on transfers to inventory (Note 19)	–	–	50	–	–	50
39p102(a)	Net investment hedge (Note 10)	–	–	–	–	(45)	(45)
1p96(b)	Currency translation differences:						
21p52(b)	– Group	–	15	–	–	2,051	2,066
28p39	– Associates (Note 8)	–	–	–	–	(74)	(74)
	Convertible bond – equity component (Note 33)	7,761	–	–	–	–	7,761
12p81(a)	Tax on equity component (Note 19)	(2,328)	–	–	–	–	(2,328)
	Balance at 31 December 2005	5,433	1,689	126	1,768	5,733	14,749

[1] An entity should disclose in its financial statements whether there are any restrictions on the distribution of the 'land and buildings' fair value reserve to the equity holders of the Company (IAS16p77(f)).

Notes to the consolidated financial statements (continued)

17. Trade and other payables

		2005	2004
1p74	Trade payables	11,983	9,391
	Amounts due to related parties (Note 38)	2,202	1,195
	Social security and other taxes	2,002	960
	Accrued expenses	1,483	828
		17,670	12,374

18. Borrowings

	2005	2004
Non-current		
Bank borrowings	32,193	40,244
Convertible bond (Note 33)	42,822	–
Debentures and other loans	3,300	18,092
Redeemable preference shares (Note 34)	30,000	30,000
	108,315	88,336
Current		
Bank overdrafts (Note 14)	2,650	6,464
Collateralised borrowings (Note 11)	1,014	–
Bank borrowings	3,368	4,598
Debentures and other loans	2,492	4,608
	9,524	15,670
Total borrowings	117,839	104,006

Total borrowings include secured liabilities (bank and collateralised borrowings) of €38,694 (2004: €51,306). Bank borrowings are secured by the land and buildings of the Group (Note 6). Collateralised borrowings are secured by trade receivables (Note 11).

32p71 The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the balance sheet date are as follows:

32p67(a)		2005	2004
	6 months or less	9,400	15,454
	6–12 months	124	216
	1–5 years	75,182	60,858
	Over 5 years	33,133	27,478
		117,839	104,006

32p67(a) The maturity of non-current borrowings is as follows:

	2005	2004
Between 1 and 2 years	5,870	10,065
Between 2 and 5 years	74,967	45,138
Over 5 years	27,478	33,133
	108,315	88,336

In 2005, the Group refinanced its borrowings that fell due between one and five years, by issuing a convertible bond (Note 33).

Notes to the consolidated financial statements (continued)

32p67(b) The effective interest rates at the balance sheet date were as follows:

	2005				2004			
	€	**US$**	**£**	**Other**	**€**	**US$**	**£**	**Other**
Bank overdrafts	7.6%	6.2%	6.4%	8.5%	7.3%	6.0%	6.3%	8.5%
Bank borrowings	7.0%	6.3%	6.9%	–	6.8%	6.2%	6.6%	–
Convertible bond (Note 33)	7.3%	–	–	–	–	–	–	–
Debentures and other loans	7.2%	6.5%	–	–	7.1%	6.3%	–	–
Redeemable preference shares (Note 34)	6.5%	–	–	–	–	–	–	–

10p20 On 1 February 2006, the Group issued €10,000 6.5% US dollar bonds to finance its expansion programme and working capital requirements in the US. The bonds are repayable on 31 December 2010.

32p86 The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amounts		Fair values	
	2005	**2004**	**2005**	**2004**
Bank borrowings	32,193	40,244	32,590	39,960
Redeemable preference shares (Note 34)	30,000	30,000	28,450	28,850
Debentures and other loans	3,300	18,092	3,240	17,730
Convertible bond (Note 33)	42,822	–	42,752	–
	108,315	88,336	107,032	86,540

32p92 The fair values are based on cash flows discounted using a rate based on the borrowing rate of 7.5% (2004: 7.2%).

32p86 The carrying amounts of short-term borrowings approximate their fair value.

32p60(a)
32p63(h) The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2005	**2004**
Euro	77,100	76,600
US dollar	25,353	12,542
Pound sterling	15,000	14,500
Other currencies	386	364
	117,839	104,006

DV7p50(a) The Group has the following undrawn borrowing facilities:

	2005	**2004**
Floating rate:		
– Expiring within one year	6,150	4,100
– Expiring beyond one year	14,000	8,400
Fixed rate:		
– Expiring within one year	18,750	12,500
	38,900	25,000

The facilities expiring within one year are annual facilities subject to review at various dates during 2006. The other facilities have been arranged to help finance the proposed expansion of the Group's activities in Europe.

Notes to the consolidated financial statements (continued)

19. Deferred income tax

12p74 Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	2005	**2004**
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	(2,672)	(3,046)
– Deferred tax asset to be recovered within 12 months	(647)	(64)
	(3,319)	(3,110)
Deferred tax liabilities:		
– Deferred tax liability to be recovered after more than 12 months	10,743	8,016
– Deferred tax liability to be recovered within 12 months	1,627	1,037
	12,370	9,053
	9,051	5,943

The gross movement on the deferred income tax account is as follows:

		2005	**2004**
	Beginning of the year	5,943	3,047
	Exchange differences	(1,753)	(154)
	Acquisition of subsidiary (Note 37)	1,953	–
	Income statement charge (Note 28)	379	2,635
12p81(a)	Tax charged to equity (Note 16)	2,529	415
	End of the year	9,051	5,943

12p81(g)(i)
12p81(g)(ii) The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

		Accelerated tax depreciation	**Fair value gains**	**Convertible bond**	**Other**	**Total**
	At 1 January 2004	6,058	272	–	284	6,614
12p81(g)(ii)	Charged/(credited) to the income statement	1,786	–	–	799	2,585
12p81(a)	Charged to equity	–	415	–	–	415
	Exchange differences	241	100	–	–	341
12p81(g)(i)	**At 31 December 2004**	8,085	787	–	1,083	9,955
12p81(g)(ii)	Charged /(credited) to the income statement	425	–	(193)	138	370
12p81(a)	Charged to equity	–	201	2,328	–	2,529
	Acquisition of subsidiary	553	1,375	–	275	2,203
	Exchange differences	8,492	(263)	–	(123)	(957)
12p81(g)(i)	**At 31 December 2005**	9,592	2,100	2,135	1,373	14,100

Deferred tax assets:

		Provisions	**Impairment losses**	**Tax losses**	**Other**	**Total**
	At 1 January 2004	(962)	(732)	(1,500)	(373)	(3,567)
12p81(g)(ii)	Credited to the income statement	181	–	–	(131)	50
	Exchange differences	(35)	–	(460)	–	(495)
12p81(g)(i)	**At 31 December 2004**	(816)	(732)	(1,960)	(504)	(4,012)
	(Credited)/charged to the income statement	(538)	(322)	1,000	(131)	9
	Acquisition of subsidiary	(250)	–	–	–	(250)
	Exchange differences	(125)	(85)	(350)	(236)	(796)
12p81(g)(i)	**At 31 December 2005**	(1,729)	(1,139)	(1,310)	(871)	(5,049)

Notes to the consolidated financial statements (continued)

12p81(a) The deferred income tax charged to equity during the year is as follows:

	2005	2004
Fair value reserves in shareholders' equity:		
– Land and buildings (Note 16)	–	374
– Hedging reserve (Note 16)	33	0
– Available-for-sale financial assets (Note 16)	168	41
Convertible bond – equity conversion component (Note 33)	2,328	–
	2,529	415

Deferred income tax of €49 (2004: €43) was transferred from other reserves (Note 16) to retained earnings. This represents deferred tax on the difference between the actual depreciation on buildings and the equivalent depreciation based on the historical cost of buildings.

12p81(e) Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of €333 (2004: €1,588) in respect of losses amounting to €1,000 (2004: €5,294) that can be carried forward against future taxable income. Losses amounting to €900 (2004: €5,294) and €100 (2004: nil) expire in 2008 and 2009 respectively.

12p81(f) Deferred income tax liabilities of €3,141 (2004: €2,016) have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested. Unremitted earnings totalled €30,671 at 31 December 2005 (2004: €23,294).

20. Retirement benefit obligations

	2005	2004
Balance sheet obligations for:		
Pension benefits	3,138	1,438
Post-employment medical benefits	1,402	692
	4,540	2,130
Income statement charge for (Note 26):		
Pension benefits	762	496
Post-employment medical benefits	150	107
	912	603

Pension benefits

19p120(c) The amounts recognised in the balance sheet are determined as follows:

	2005	2004
Present value of funded obligations	6,155	2,943
Fair value of plan assets	(5,991)	(2,797)
	164	146
Present value of unfunded obligations	3,206	1,549
Unrecognised actuarial losses	(87)	(94)
Unrecognised past service cost	(145)	(163)
Liability in the balance sheet	3,138	1,438

19p120(d) Pension plan assets include the Company's ordinary shares with a fair value of €136 (2004: €126) and a building occupied by the Group with a fair value of €612 (2004: €609).

Notes to the consolidated financial statements (continued)

19p120(f) The amounts recognised in the income statement are as follows:

	2005	2004
Current service cost	751	498
Interest cost	431	214
Expected return on plan assets	(510)	(240)
Net actuarial losses recognised during the year	7	8
Past service cost	18	16
Losses on curtailment	65	–
Total, included in staff costs (Note 26)	762	496

19p120(f) Of the total charge, €521 (2004: €324) and €241 (2004: €172) were included in 'cost of goods sold' and 'administrative expenses' respectively.

19p120(g) The actual return on plan assets was €495 (2004: €235).

19p120(e) The movement in the liability recognised in the balance sheet is as follows:

	2005	2004
Beginning of the year	1,438	1,434
Exchange differences	(68)	(81)
Liabilities acquired in a business combination (Note 37)	1,914	–
Total expense charged in the income statement	762	496
Contributions paid	(908)	(411)
End of the year	3,138	1,438

19p120(h) The principal actuarial assumptions used were as follows:

	2005	2004
Discount rate	7.0%	6.8%
Expected return on plan assets	8.5%	8.3%
Future salary increases	5.0%	4.5%
Future pension increases	3.0%	2.5%

Assumptions regarding future mortality experience are set based on advice from published statistics and experience in each territory. The average life expectancy in years of a pensioner retiring at age 65 is as follows:

Male	18.5	18.5
Female	22.0	22.0

19p122(b) *Post-employment medical benefits*

The Group operates a number of post-employment medical benefit schemes, principally in the US. The method of accounting, assumptions and the frequency of valuations are similar to those used for defined benefit pension schemes.

19p120(h) The main actuarial assumption is a long-term increase in health costs of 8.0% a year (2004: 7.6%).

19p120(c) The amounts recognised in the balance sheet were determined as follows:

	2005	2004
Present value of funded obligations	705	340
Fair value of plan assets	(620)	(302)
	85	38
Present value of unfunded obligations	1,325	663
Unrecognised actuarial losses	(8)	(9)
Liability in the balance sheet	1,402	692

Notes to the consolidated financial statements (continued)

19p120(f) The amounts recognised in the income statement were as follows:

	2005	2004
Current service cost	153	107
Interest cost	49	25
Expected return on plan assets	(53)	(25)
Net actuarial losses recognised in year	1	–
Total, included in staff costs (Note 26)	150	107

19p120(f) Of the total charge, €102 (2004: €71) and €48 (2004: €36) respectively were included in cost of goods sold and administrative expenses.

19p120(g) The actual return on plan assets was €51 (2004: €24).

19p120(e) Movement in the liability recognised in the balance sheet:

	2005	2004
Beginning of the year	692	697
Exchange differences	20	(39)
Liabilities acquired in business combination (Note 37)	725	–
Total expense – as shown above	150	107
Contributions paid	(185)	(73)
End of the year	1,402	692

21. Provisions for other liabilities and charges

1p75(d)		Environmental restoration	Restructuring	Legal claims	Profit-sharing & bonuses	Total
37p84(a)	**At 1 January 2005**	746	–	828	1,000	2,574
	Charged to consolidated income statement:					
37p84(b)	– Additional provisions	316	2,087	2,405	500	5,308
37p84(d)	– Unused amounts reversed	(12)	(101)	(15)	(10)	(138)
	Exchange differences	(7)	–	(68)	–	(75)
37p84(e)	Increase in provision – discount unwinding (Note 27)	41	–	–	–	41
37p84(c)	Used during year	(233)	(886)	(3,059)	(990)	(5,168)
37p84(a)	**At 31 December 2005**	851	1,100	91	500	2,542

Analysis of total provisions:

		2005	2004
1p60	Non-current (environmental restoration)	320	274
1p60	Current	2,222	2,300
		2,542	2,574

Environmental restoration

37p85(a) The Group uses various chemicals in working with leather. A provision is recognised for the present value of costs to be incurred for the restoration of the manufacturing sites. It is expected that €531 will be used during 2006 and €320 during 2007. Total expected costs to be incurred are €881.

Restructuring

37p85(a) The reduction of the volumes assigned to manufacturing operations in Step-land will result in the reduction of a total of 155 jobs at two factories. An agreement has been reached with the local union representatives that specifies the number of staff involved and the voluntary redundancy compensation package offered by the Group, as well as amounts payable to those made redundant. The estimated staff restructuring costs to be incurred are €1,799 at 31 December 2005 and were fully provided for in 2005 (Note 26). The provision of €1,100 at 31 December 2005 is expected to be fully utilised during the first half of 2006.

36p130 A goodwill impairment charge of €4,650 was recognised in the cash-generating unit relating to wholesale in Step-land as a result of this restructuring (Note 7).

Notes to the consolidated financial statements (continued)

Legal claims

37p85(a) The amounts represent a provision for certain legal claims brought against the Group by customers of the wholesale segment. The provision charge is recognised in profit or loss within 'administrative expenses'. The balance at 31 December 2005 is expected to be utilised in the first half of 2006. In the directors' opinion, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided at 31 December 2005.

Profit-sharing and bonuses

The provision for profit-sharing and bonuses is payable within one month of finalisation of the audited financial statements.

22. Other (losses)/gains – net

		2005	2004
32p94(h)	Other financial assets at fair value through profit or loss (Note 13):		
	– Fair value losses	(839)	(432)
18p35(b)(v)	– Dividend income	330	207
	– Other fair value gains	610	–
	Derivative instruments (Note 10):		
32p94(h)	– Forward contracts: transactions not qualifying as hedges	86	88
	Net foreign exchange gains/(losses) (Note 29)	(277)	200
		(90)	63

23. Other income

		2005	2004
32p94(h)(i)	Interest income on available-for-sale securities	1,180	1,120
18p35(b)(v)	Dividend income on available-for-sale securities	1,900	1,193
	Investment income	3,080	2,313
	Insurance reimbursement	–	66
		3,080	2,379

The insurance reimbursement relates to the excess of insurance proceeds over the carrying values of goods damaged.

24. Other expenses

During 2005 undeveloped land owned by the Group in Euravia was expropriated following works for the enlargement of a motorway adjacent to the Group's manufacturing facilities. Costs relating to the expropriation are €1,117 as of 31 December 2005 (2004: nil).

25. Expenses by nature

		2005	2004
1p93	Depreciation, amortisation and impairment charges (Notes 6 and 7)	23,204	10,227
1p93	Employee benefit expense (Note 26)	40,090	15,500
1p93	Changes in inventories of finished goods and work in progress	5,828	(2,300)
1p93	Raw materials and consumables used	56,528	40,345
1p93	Transportation	8,584	6,236
1p93	Advertising costs	12,759	6,662
1p93	Occupancy costs of retail outlets	8,500	–
32p94(i)	Net creation of provision for impaired receivables	39	32
1p93	Other expenses	2,760	1,627
	Total cost of goods sold, marketing and distribution costs and administrative expenses	158,292	78,329
DV	Number of employees	535	210

Notes to the consolidated financial statements (continued)

26. Employee benefit expense

		2005	2004
19p142	Wages and salaries, including restructuring costs €1,799 (2004: nil) (Note 21) and termination benefits €1,600 (2004: nil)	28,363	10,041
	Social security costs	9,369	3,802
IFRS2p51(a)	Share options granted to directors and employees	690	822
19p46	Pension costs – defined contribution plans	756	232
19p120(f)	Pension costs – defined benefit plans (Note 20)	762	496
19p131	Other post-employment benefits (Note 20)	150	107
		40,090	15,500

27. Finance costs

		2005	2004
32p94(h)(i)	Interest expense:		
	– Bank borrowings	(4,679)	(7,198)
	– Dividend on redeemable preference shares (Note 34)	(1,950)	(1,950)
	– Convertible bond (Note 33)	(3,083)	–
37p84(e)	– Provisions: discount unwinding (Note 21)	(41)	(35)
		(9,753)	(9,183)
21p52(a)	Net foreign exchange transaction gains/(losses) (Note 29)	2,594	(1,996)
	Fair value gains on financial instruments:		
32p59(b)	– Interest rate swaps: cash flow hedges, transfer from equity	102	88
32p94(h)	– Interest rate swaps: fair value hedges	(16)	31
		(7,073)	(11,060)

28. Income tax expense

		2005	2004
12p79	Current tax	14,413	6,230
12p79	Deferred tax (Note 19)	379	2,635
		14,792	8,865

12p81(c) The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

	2005	2004
Profit before tax	47,368	25,558
Tax calculated at domestic tax rates applicable to profits in the respective countries	15,631	7,667
Income not subject to tax	(1,072)	(212)
Expenses not deductible for tax purposes	1,650	1,060
Utilisation of previously unrecognised tax losses	(1,450)	–
Tax losses for which no deferred income tax asset was recognised	33	350
Tax charge	14,792	8,865

12p81(d) The weighted average applicable tax rate was 33% (2004: 30%). The increase is caused by a change in the profitability of the Group's subsidiaries in the respective countries.

Notes to the consolidated financial statements (continued)

29. Net foreign exchange (losses)/gains

21p52(a) The exchange differences (charged)/credited to the income statement are included as follows:

	2005	2004
Other (losses)/gains – net (Note 22)	(277)	200
Finance costs (Note 27)	2,594	(1,996)
	2,317	(1,796)

30. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares (Note 15).

		2005	2004
33p70(a)	Profit attributable to equity holders of the Company	30,028	15,837
33p70(b)	Weighted average number of ordinary shares in issue (thousands)	23,454	20,500
	Basic earnings per share (€ per share)	1.28	0.77

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible debt and share options. The convertible debt is assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense less the tax effect. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

		2005	2004
	Profit attributable to equity holders of the Company	30,028	15,837
	Interest expense on convertible debt (net of tax)	2,158	–
33p70(a)	Profit used to determine diluted earnings per share	32,186	15,837
	Weighted average number of ordinary shares in issue (thousands)	23,454	20,500
	Adjustments for – assumed conversion of convertible debt (thousands)	3,030	–
	– share options (thousands)	1,213	1,329
33p70(b)	Weighted average number of ordinary shares for diluted earnings per share (thousands)	27,697	21,829
	Diluted earnings per share (€ per share)	1.16	0.73

31. Dividends per share

1p95
1p125(a)
10p12

The dividends paid in 2005 and 2004 were €10,102 (€0.48 per share) and €15,736 (€0.78 per share) respectively. A dividend in respect of the year ended 31 December 2005 of €0.51 per share, amounting to a total dividend of €12,945, is to be proposed at the Annual General Meeting on 30 April 2006. These financial statements do not reflect this dividend payable.

Notes to the consolidated financial statements (continued)

32. Cash generated from operations

		2005	2004
7p18(b), 20	Profit for the period	32,576	16,693
	Adjustments for:		
	– Tax (Note 28)	14,792	8,865
	– Depreciation (Note 6)	17,754	9,662
	– Amortisation (Note 7)	800	565
	– Goodwill impairment charge (Note 7)	4,650	–
	– (Profit)/loss on sale of property, plant and equipment (see below)	(17)	8
	– Net movements in provisions for liabilities and charges (Note 21)	32	–
	– Net fair value gains on derivative financial instruments	142	132
	– Fair value losses (including loss on disposal) on other financial assets at fair value through profit or loss (Note 22)	839	432
	– Fair value gains (including profit on disposal) on other financial assets at fair value through profit or loss (Note 22)	(940)	(207)
	– Interest income on available-for-sale securities (Note 23)	(1,180)	(1,120)
	– Dividend income on available-for-sale securities (Note 34)	(1,900)	(1,193)
	– Interest expense (Note 27)	9,753	9,183
	– Share of loss/(profit) from associates (Note 8)	174	(145)
	– Exchange (gains)/losses on borrowings (Note 29)	(2,594)	1,996
	Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):		
	– Inventories	(6,489)	(962)
	– Trade and other receivables	(1,518)	(2,001)
	– Other financial assets at fair value through profit or loss	(4,036)	(858)
	– Trade and other payables	(9,415)	(565)
	Cash generated from operations	53,423	40,485

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2005	2004
Net book amount (Note 6)	6,337	2,987
Profit/(loss) on sale of property, plant and equipment	17	(8)
Proceeds from sale of property, plant and equipment	6,354	2,979

Non-cash transactions

7p43 The principal non cash transaction was the issue of shares as consideration for the acquisition discussed in Note 15.

33. Convertible bond

32p67(b) The Company issued 500,000 5.0% convertible bonds at a nominal value of €50 million on 2 January 2005.

32p67(a) The bonds mature five years from the issue date at their nominal value of €50 million or can be converted into shares at the holder's option at the rate of 33 shares per €500.

The fair values of the liability component and the equity conversion component were determined at issuance of the bond.

DV32p64
32p28
32p31
The fair value of the liability component, included in long-term borrowings, was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity in other reserves (Note 16), net of deferred income taxes.

Notes to the consolidated financial statements (continued)

The convertible bond recognised in the balance sheet is calculated as follows:

		2005	2004
	Face value of convertible bond issued on 2 January 2005	50,000	–
12Apx-Ap9	Equity component (Note 16)	(7,761)	–
	Liability component on initial recognition at 2 January 2005	42,239	–
	Interest expense (Note 27)	3,083	–
	Interest paid	(2,500)	–
	Liability component at 31 December 2005 (Note 18)	42,822	–

32p86 The fair value of the liability component of the convertible bond at 31 December 2005 amounted to €42,617. The fair value is calculated using cash flows discounted at a rate based on the borrowings rate of 7.5%.

32p67(b), 32p94(d) Interest expense on the bond is calculated using the effective interest method by applying the effective interest rate of 7.3% to the liability component.

34. Redeemable preference shares

32p15, 32p18(a) 32p67(a)(b) The Company issued 30 million cumulative redeemable preference shares with a par value of €1 per share on 4 January 2004. The shares are mandatorily redeemable at their par value on 4 January 2012, and pay dividends at 6.5% annually (Note 27).

35. Contingencies

37p86 The Group has contingent liabilities in respect of legal claims arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from the contingent liabilities other than those provided for (Note 21). In respect of the acquisition of Your Shoes Group on 1 March 2005 (Note 37), additional consideration of up to €1,500 may be payable in cash if the acquired operations achieve certain sales targets. No additional payments are anticipated at the date of these financial statements.

36. Commitments

Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

		2005	2004
16p74(c)	Property, plant and equipment	3,593	3,667
38p122(e)	Intangible assets	460	474
		4,053	4,141

Operating lease commitments – where a group company is the lessee

17p35(d) The Group leases various retail outlets, offices and warehouses under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

17p35(d) The Group also leases various plant and machinery under cancellable operating lease agreements. The Group is required to give a six-month notice for the termination of these agreements. The lease expenditure charged to the income statement during the year is disclosed in Note 6.

17p35(a) The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2005	2004
No later than 1 year	11,664	10,604
Later than 1 year and no later than 5 years	45,651	45,651
Later than 5 years	15,710	27,374
	73,025	83,629

Notes to the consolidated financial statements (continued)

37. Business combinations

IFRS3p66(a)
IFRS3p67(a-c)
IFRS3p67(i)

On 1 March 2005, the Group acquired 70% of the share capital of Your Shoes Group, a shoe and leather goods retailer operating in the US and most western European countries. The acquired business contributed revenues of €44,709 and net profit of €2,762 to the Group for the period from 1 March 2005 to 31 December 2005.

IFRS3p70(a)(b)

If the acquisition had occurred on 1 January 2005, Group revenue would have been €220,345, and profit before allocations would have been €33,126. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2005, together with the consequential tax effects.

Details of net assets acquired and goodwill are as follows:

IFRS3p67(d)	Purchase consideration:	
7p40(b)	– Cash paid	4,050
	– Direct costs relating to the acquisition	200
IFRS3p67(d)(i)	– Fair value of shares issued (Note 15)	10,000
7p40(a)	Total purchase consideration	14,250
	Fair value of net assets acquired	(10,599)
	Goodwill (Note 7)	3,651

IFRS3p67(h)

The goodwill is attributable to the high profitability of the acquired business and the significant synergies expected to arise after the Group's acquisition of Your Shoes.

IFRS3p67(d)(ii)

The fair value of the shares issued was based on the published share price.

IFRS3p67(f)

The assets and liabilities arising from the acquisition are as follows:

	Fair value	Acquiree's carrying amount
Cash and cash equivalents	300	300
Property, plant and equipment (Note 6)	67,784	63,562
Trademarks (included in intangibles) (Note 7)	3,000	–
Licences (included in intangibles) (Note 7)	1,000	–
Investment in associates (Note 8)	389	329
Available-for-sale investments (Note 9)	473	473
Inventories	1,122	672
Receivables	585	585
Payables	(13,461)	(13,461)
Retirement benefit obligations:		
– Pensions (Note 20)	(1,914)	(1,901)
– Other post-retirement obligations (Note 20)	(725)	(725)
Borrowings	(41,459)	(41,459)
Net deferred tax liabilities (Note 19)	(1,953)	(410)
Net assets	15,141	7,965
Minority interests (30%)	(4,542)	
Net assets acquired	10,599	

	Purchase consideration settled in cash	4,250
7p40(c)	Cash and cash equivalents in subsidiary acquired	(300)
	Cash outflow on acquisition	3,950

There were no acquisitions in the year ended 31 December 2004.

See Note 39 for disclosures regarding the business combination that took place after the balance sheet date but before the approval of these financial statements.

Notes to the consolidated financial statements (continued)

38. Related-party transactions

1p126(c)
24p12

The Group is controlled by Mother Limited (incorporated in Euravia), which owns 57% of the Company's shares. The remaining 43% of the shares are widely held. The ultimate parent of the Group is Grandpa Limited (incorporated in Euravia).

24p17, 22 The following transactions were carried out with related parties:

24p17(a) **i) Sales of goods and services**[1]

	2005	2004
Sales of goods:		
– Associates	1,123	291
Sales of services:		
– Grandpa Limited (legal and administration services)	67	127
– Services of key management personnel	100	104
	1,290	522

Services are usually negotiated with related parties on a cost-plus basis, allowing a margin ranging from 15% to 30%. Goods are sold on the basis of the price lists in force with non-related parties.

24p17(a) **ii) Purchases of goods and services**

	2005	2004
Purchases of goods:		
– Associates	54	58
Purchases of services:		
– Services of key management personnel	83	70
– Mother Limited (management services)	295	268
	432	396

24p21 Services are usually negotiated with related parties on a cost-plus basis, allowing a margin ranging from 15% to 30%. Goods are bought on the basis of the price lists in force with non-related parties.

24p16 **iii) Key management compensation**

		2005	2004
24p16(a)	Salaries and other short-term employee benefits	2,200	1,890
24p16(d)	Termination benefits	1,600	–
24p16(b)	Post-employment benefits	123	85
24p16(c)	Other long-term benefits	33	23
24p16(e)	Share-based payments	150	107
		4,106	2,105

24p17(b), 1p74 **iv) Year-end balances arising from sales/purchases of goods/services**

	2005	2004
Receivables from related parties (Note 11):		
Mother Limited	50	40
Associates	4	6
	54	46
Payables to related parties (Note 17):		
Associates	2,202	1,195

[1] Management should disclose that related-party transactions were made on an arm's length basis only when such terms can be substantiated (IAS24p21).

Notes to the consolidated financial statements (continued)

24p17, 1p74

v) Loans to related parties

	2005	2004
Loans to directors and key management of the Company (and their families):		
Beginning of the year	196	168
Loans advanced during year	343	62
Loan repayments received	(49)	(34)
Interest charged	30	16
Interest received	(30)	(16)
End of the year	490	196
Loans to associates:		
Beginning of the year	1,192	1,206
Loans advanced during year	1,000	50
Loan repayments received	(14)	(64)
Interest charged	187	120
Interest received	(187)	(120)
End of the year	2,178	1,192
Total loans to related parties:		
Beginning of the year	1,388	1,374
Loans advanced during year	1,343	112
Loan repayments received	(63)	(98)
Interest charged	217	136
Interest received	(217)	(136)
End of the year (Note 11)	2,668	1,388

24p17(b)(i)

The loans advanced to directors have the following terms and conditions:

Name of director	Amount of loan	Term	Interest rate
2004			
Mr Suede	€20	Repayable monthly over 2 years	6.5%
Mr Chamois	€42	Repayable monthly over 1 year	6.5%
2005			
Mr Leather	€173	Repayable monthly over 2 years	6.3%
Mr Chamois	€170	Repayable monthly over 2 years	6.3%

32p94(c)

Certain loans advanced to directors during the year amounting to €50 (2004: €30) are collateralised by shares in listed companies. The fair value of these shares was €65 at the balance sheet date (2004: €39).

The loans to associates are due on 1 January 2007 and carry interest at 7.0%.

24p17(c)

No provision has been required in 2005 and 2004 for the loans made to directors and associates.

Notes to the consolidated financial statements (continued)

39. Events after the balance sheet date

Business combinations

10p21, IFRS3p66(b) IFRS3p67(a-c) The Group acquired 100% of the share capital of Klimb & Co, a group of companies specialising in the manufacture of shoes for extreme sports, for a cash consideration of €5,950 on 1 February 2006.

Details of net assets acquired and goodwill are as follows:

IFRS3p67(d)	Purchase consideration:	
	– Cash paid	5,950
	– Direct cost relating to the acquisition	150
7p40(a)	Total purchase consideration	6,100
	Fair value of assets acquired (see below)	(5,145)
	Goodwill	955

IFRS3p67(h) The above goodwill is attributable to Klimb & Co's strong position and profitability in trading in the niche market for extreme-sports equipment.

IFRS3p67(f) The assets and liabilities arising from the acquisition, provisionally determined, are as follows:

	Fair value	**Acquiree's carrying amount**
Cash and cash equivalents	195	195
Property, plant and equipment	29,056	28,234
Trademarks	1,000	–
Licences	700	–
Customer list	1,000	–
Customer relationships	850	–
Favourable lease agreements	800	–
Inventories	995	495
Receivables	855	855
Payables	(9,646)	(9,646)
Pensions	(1,425)	(1,300)
Borrowings	(19,259)	(19,259)
Net deferred tax assets	24	519
Net assets acquired	5,145	93

Associates

10p21 The Group acquired 40% of the share capital of Leisure & Co, a group of companies specialising in the manufacture of leisure shoes, for a cash consideration of €2,050 on 25 January 2006.

Details of net assets acquired and goodwill as follows:

Purchase consideration:	
– Cash paid	2,050
– Direct cost relating to the acquisition	70
Total purchase consideration	2,120
Share of fair value of net assets acquired (see below)	(2,000)
Goodwill	120

28p23 The goodwill is attributable to Leisure & Co's strong position and profitability in trading in the market of leisure shoes and to its workforce, which cannot be separately recognised as an intangible asset.

DV

The assets and liabilities arising from the acquisition, provisionally determined, are as follows:

	Fair value	Acquiree's carrying amount
Contractual customer relationship	380	–
Property, plan and equipment	3,200	2,400
Inventory	500	500
Cash	220	220
Trade creditors	(420)	(350)
Borrowings	(1,880)	(1,420)
Net assets acquired	2,000	1,350

Equity transactions

The Company (Note 15):

10p21 – re-issued 500,000 treasury shares for a total consideration of €1,500 on 15 January 2006; and

33p71(c) 10p21, 22(f) – granted to directors and employees, on 1 January 2006, 1,200 thousand share options at the market share price less 15% on that date of €3.20 per share (share price €3.68) (expiry date: 1 July 2010).

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
Address
Country
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Facsimile:

Report of the auditors

To the shareholders of Footsy & Co Group

We have audited the accompanying consolidated balance sheet of Footsy & Co (the Company) and its subsidiaries (together, the Group) as of 31 December 2005 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements set out on pages 3 to 49 are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements give a true and fair view[1] of the financial position of the Group as of 31 December 2005, and of the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.

[PricewaterhouseCoopers]

Date

The format of the audit report will need to be tailored to reflect the legal framework of particular countries. In certain countries, the audit report covers both the current year and the comparative year. In these cases, the financial statements need to disclose additional information as required by the International Standard on Auditing 710.

[1] The term 'give a true and fair view' can be changed to 'present fairly, in all material aspects'.

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Operating and financial review

The financial review for any particular entity would follow national and/or specific stock exchange requirements and guidance. For example, the UK Accounting Standards Board has issued the statement 'Operating and Financial Review' (May 2005) and the US SEC has issued guidance regarding Management's Discussion & Analysis of Financial Condition and Results of Operations (MD&A) to be included in companies' filing documents.

DV1p9 *International Financial Reporting Standards do not address the requirements for information to be included in a directors' report or financial review. Such requirements are generally determined by local laws and regulations. IAS 1 does not require an*

DV1p10 *entity to present, outside the financial statements, a financial review by management that describes and explains the main features of the entity's financial performance and financial position, and the principal uncertainties that it faces. Reports and statements presented outside financial statements are outside the scope of IFRS; however, best practice is to ensure that where a financial review is presented, its information is balanced and consistent with disclosures in the financial statements.*

In 1998, the International Organisation of Securities Commissions (IOSCO) issued 'International Disclosure Standards for Cross-Border Offerings and Initial Listings for Foreign Issuers', comprising recommended disclosure standards, including an operating and financial review and discussion of future prospects. IOSCO standards for prospectuses are not mandatory, but they will increasingly be incorporated in national stock exchange requirements for prospectuses and annual reports. The text of IOSCO's Standard on Operating and Financial Reviews and Prospects is reproduced below:

Discuss the Group's financial condition, changes in financial condition and results of operations for each year and interim period for which financial statements are required, including the causes of material changes from year to year in financial statement line items, to the extent necessary for an understanding of the Group's business as a whole. Information provided also shall relate to all separate segments of the Group. Provide the information specified below as well as such other information that is necessary for an investor's understanding of the Group's financial condition, changes in financial condition and results of operations.

1. **Operating Results.** Provide information regarding significant factors, including unusual or infrequent events or new developments, materially affecting the Group's income from operations, indicating the extent to which income was so affected. Describe any other significant component of revenue or expenses necessary to understand the Group's results of operations.

   (a) To the extent that the financial statements disclose material changes in net sales or revenues, provide a narrative discussion of the extent to which such changes are attributable to changes in prices or to changes in the volume or amount of products or services being sold or to the introduction of new products or services.

   (b) Describe the impact of inflation, if material. If the currency in which financial statements are presented is of a country that has experienced hyperinflation, the existence of such inflation, a five-year history of the annual rate of inflation and a discussion of the impact of hyperinflation on the Group's business shall be disclosed.

   (c) Provide information regarding the impact of foreign currency fluctuations on the Group, if material, and the extent to which foreign currency net investments are hedged by currency borrowings and other hedging instruments.

(d) Provide information regarding any governmental economic, fiscal, monetary or political policies or factors that have materially affected, or could materially affect, directly or indirectly, the Group's operations or investments by host country shareholders.

2. Liquidity and Capital Resources. The following information shall be provided:

(a) Information regarding the Group's liquidity (both short and long term), including:

(i) a description of the internal and external sources of liquidity and a brief discussion of any material unused sources of liquidity. Include a statement by the Group that, in its opinion, the working capital is sufficient for the Group's present requirements, or, if not, how it proposes to provide the additional working capital needed.

(ii) an evaluation of the sources and amounts of the Group's cash flows, including the nature and extent of any legal or economic restrictions on the ability of subsidiaries to transfer funds to the parent in the form of cash dividends, loans or advances and the impact such restrictions have had or are expected to have on the ability of the Group to meet its cash obligations.

(iii) information on the level of borrowings at the end of the period under review, the seasonality of borrowing requirements and the maturity profile of borrowings and committed borrowing facilities, with a description of any restrictions on their use.

(b) Information regarding the type of financial instruments used, the maturity profile of debt, currency and interest rate structure. The discussion also should include funding and treasury policies and objectives in terms of the manner in which treasury activities are controlled, the currencies in which cash and cash equivalents are held, the extent to which borrowings are at fixed rates, and the use of financial instruments for hedging purposes.

(c) Information regarding the Group's material commitments for capital expenditures as of the end of the latest financial year and any subsequent interim period and an indication of the general purpose of such commitments and the anticipated sources of funds needed to fulfil such commitments.

3. Research and Development, Patents and Licenses, etc. Provide a description of the Group's research and development policies for the last three years, where it is significant, including the amount spent during each of the last three financial years on Group-sponsored research and development activities.

4. Trend Information. The Group should identify the most significant recent trends in production, sales and inventory, the state of the order book and costs and selling prices since the latest financial year. The Group also should discuss, for at least the current financial year, any known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Group's net sales or revenues, income from continuing operations, profitability, liquidity or capital resources, or that would cause reported financial information not necessarily to be indicative of future operating results or financial condition.

Consolidated income statement – by nature of expense

As an alternative to the presentation of costs by function shown in the above Illustrative Corporate Financial Statements, the Group is permitted to present the analysis of costs using the nature of expenditure format (IAS 1, paragraph 91). The following disclosures would be made on the face of the income statement:

			Year ended 31 December	
1p91		**Note**	**2005**	**2004**
	Sales		211,034	112,360
	Changes in inventories of finished goods and work in progress		(5,828)	2,300
	Raw materials and consumables used		(56,528)	(40,345)
	Employee compensation and benefit expense	26	(40,090)	(15,500)
	Depreciation, amortisation and impairment charges	6, 7	(23,204)	(10,227)
	Transportation expenses		(8,584)	(6,236)
	Advertising costs		(12,759)	(6,662)
	Occupancy costs of retail outlets		(8,500)	–
1p83	Other (losses)/gains – net	22	(90)	63
1p83	Other income	23	3,080	2,379
1p83	Other expenses	24	(3,916)	(1,659)
	Operating profit		54,615	36,473
1p81(b)	Finance costs	27	(7,073)	(11,060)
1p81(c)	Share of (loss)/profit of associates	8	(174)	145
1p81(f)	**Profit before income tax**		47,368	25,558
1p81(e), 12p77	Income tax expense	28	(14,792)	(8,865)
1p81(f)	**Profit for the year**		32,576	16,693
1p82	**Attributable to:**			
1p82(b)	Equity holders of the Company		30,028	15,837
1p82(a)	Minority interest		2,548	856
			32,576	16,693
33p66	**Earnings per share for profit attributable to the equity holders of the Company during the year** (expressed in € per share)			
	– Basic	30	1.28	0.77
	– Diluted	30	1.16	0.73

The notes on pages xx to xx are an integral part of these consolidated financial statements.

Note – Provisions for liabilities and charges (extract)

Legal claims
The amounts represent a provision for certain legal claims brought against the Group by customers of the wholesale segment. The provision charge is recognised in profit or loss within 'other expenses'. The balance at 31 December 2005 is expected to be utilised in the first half of 2006. In the directors' opinion, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided at 31 December 2005.

Note – Other expenses

		2005	2004
32p94(h)(i)	Increase in provisions for legal claims (Note 21)	2,405	1,455
	Expropriation of undeveloped land	1,117	–
	Net creation of provision for impaired receivables	39	32
	Other	355	172
		3,916	1,659

The costs relate to the expropriation of undeveloped land owned by the Group in Euravia following works for the enlargement of a motorway adjacent to the Group's manufacturing facilities.

Consolidated statement of recognised income and expense

As an alternative to the presentation of changes in equity in the above Illustrative Corporate Financial Statements, the Group is permitted to present as a primary statement the statement of recognised income and expense, and to present the reconciliation of opening and closing balances of share capital, reserves and retained earnings in the notes (IAS 1 (revised 2003) guidance on implementing IAS 1).

			Year ended 31 December	
		Note	**2005**	**2004**
1p96(b)	Net fair value gains, gross of tax:			
16p77(f)	– Land and buildings	16	–	1,133
32p94(h)(ii)	– Available-for-sale financial assets	16	560	123
1p96(b)	Cash flow hedges	16	97	(3)
1p96(b)	Net investment hedge	16	(45)	40
1p96(b)	Currency translation differences	16	1,992	(116)
1p96(b)	Tax on items taken directly to or transferred from equity	16	(201)	(415)
1p96(b)	Net income recognised directly in equity		2,403	762
1p96(a)	Profit for the year		32,576	16,693
1p96(c)	Total recognised income for the year		34,979	17,455
	Attributable to:			
1p96(c)	– Equity holders of the Company		32,199	16,637
1p96(c)	– Minority interest		2,780	818
			34,979	17,455

The notes on pages X to XX are an integral part of these consolidated financial statements.

Consolidated cash flow statement – direct method

IAS 7 encourages the use of the 'direct method' for the presentation of cash flows from operating activities. The presentation of cash flows from operating activities using the direct method in accordance with IAS 7 (revised 1994), paragraph 18, is as follows.

Consolidated cash flow statement

1p104, 7p10			Year ended 31 December	
		Note	2005	2004
7p18(a)	**Cash flows from operating activities**			
	Cash receipts from customers		209,993	113,360
	Cash paid to suppliers and employees		(156,613)	(72,875)
	Cash generated from operations		53,380	40,485
	Interest paid		(9,170)	(9,184)
	Income taxes paid		(14,518)	(10,974)
	Net cash flows from operating activities		29,692	20,327
7p21	**Cash flows from investing activities**			
7p39	Acquisition of subsidiary, net of cash acquired	37	(3,950)	–
7p16(a)	Purchases of property, plant and equipment (PPE)	6	(9,755)	(6,042)
7p16(b)	Proceeds from sale of PPE	32	6,354	2,979
7p16(a)	Purchases of intangible assets	7	(3,050)	(700)
7p16(c)	Purchases of available-for-sale financial assets	9	(2,781)	(1,126)
7p16(e)	Loans granted to related parties	38	(1,343)	(112)
7p16(f)	Loan repayments received from related parties	38	63	98
7p31	Interest received		1,180	359
7p31	Dividends received		2,230	1,396
	Net cash used in investing activities		(11,052)	(3,148)
7p21	**Cash flows from financing activities**			
7p17(a)	Proceeds from issuance of ordinary shares	15	950	1,070
7p17(b)	Purchase of treasury shares	15	(2,564)	–
7p17(c)	Proceeds from issuance of convertible bond	33	50,000	–
7p17(c)	Proceeds from issuance of redeemable preference shares	34	–	30,000
7p17(c)	Proceeds from borrowings		8,500	18,000
7p17(d)	Repayments of borrowings		(74,302)	(37,738)
7p31	Dividends paid to group shareholders		(10,102)	(15,736)
7p31	Dividends paid to minority interests		(1,920)	(550)
	Net cash used in financing activities		(29,438)	(4,954)
	Net (decrease)/increase in cash and cash equivalents		(10,798)	12,225
	Cash and cash equivalents at beginning of the year		29,748	17,587
	Exchange gains/(losses) on cash and cash equivalents		628	(64)
	Cash and cash equivalents end of the year	14	19,578	29,748

The notes on pages X to XX are an integral part of these consolidated financial statements.

Non-current assets held for sale and discontinued operations

The following terms are defined by IFRS 5:

IFRS5p6 Non-current assets held for sale (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction, not through continuing use. These assets may be a component of an entity, a disposal group or an individual non-current asset.

IFRS5p32 A discontinued operation is a component of an entity that either has been disposed of, or that is classified as held for sale, and: (a) represents a separate major line of business or geographical area of operations; (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale.

Note – Accounting policies

1p110
IFRS5p6, 15

Non-current assets (or disposal groups) held for sale
Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

IFRS5p43
8p28(b)
8p28(c)

The Group adopted IFRS 5 from 1 January 2005 prospectively in accordance with the standard's provisions. The non-current assets (or disposal groups) held for sale were previously neither classified nor presented as current assets or liabilities. Such non-current assets (or disposal groups) were not previously measured differently from other assets and liabilities.

Consolidated balance sheet (extracts)

		Note	2005	2004
1p51	**Current assets**			
1p68(g)	Inventories	12	24,700	17,740
1p68(h)	Trade and other receivables	11	19,765	18,102
1p68(d)	Derivative financial instruments	10	1,069	951
1p68(d)	Available-for-sale financial assets	9	1,950	–
1p68(d)	Other financial assets at fair value through profit or loss	13	11,820	7,972
1p68(i)	Cash and cash equivalents	14	22,228	36,212
			81,532	80,977
IFRS5p38	Assets classified as held for sale		3,333	–
			84,865	80,977
1p51	**Current liabilities**			
1p68(j)	Trade and other payables	17	17,670	12,374
1p68(m)	Current income tax liabilities		2,942	2,846
1p68(l)	Borrowings	18	9,524	15,670
1p68(l)	Derivative financial instruments	10	460	618
1p68(k)	Provisions for liabilities and charges	21	2,222	2,300
			32,818	33,808
	Liabilities directly associated with non-current assets classified as held for sale		220	–
			33,038	33,808

Consolidated income statement

		Note	2005	2004
	Continuing operations:			
1p81(a)	Sales		211,034	112,360
1p92	Cost of goods sold		(77,366)	(46,682)
1p92	**Gross profit**		133,668	65,678
1p83	Other (losses)/gains – net	22	(90)	63
1p92	Selling and marketing costs		(52,140)	(21,213)
1p92	Administrative expenses		(28,786)	(10,434)
1p83	Other income	23	3,080	2,379
1p83	Other expenses	24	(1,117)	–
1p83	**Operating profit**		54,615	36,473
1p81(b)	Finance costs	27	(7,073)	(11,060)
1p81(c)	Share of (loss)/profit of associates	8	(174)	145
1p83	**Profit before income tax**		47,368	25,558
1p81(e), 12p77	Income tax expense	28	(14,792)	(8,865)
	Profit for the year from continuing operations		32,576	16,693
IFRS5p34	**Discontinued operations:**			
12p81(h)	Profit for the year from discontinued operations		100	120
1p81(f)	**Profit for the year**		32,676	16,813
1p82	**Attributable to:**			
1p82(b)	Equity holders of the Company		30,028	15,957
1p82(a)	Minority interest		2,648	856
			32,676	16,813
33p66	**Earnings per share for profit from continuing operations attributable to the equity holders of the Company during the year** (expressed in € per share)			
	– Basic	30	1.28	0.77
	– Diluted	30	1.16	0.73
33p68	**Earnings per share for profit from discontinued operations attributable to the equity holders of the Company during the year** (expressed in € per share)			
	– Basic	30	0.01	0.01
	– Diluted	30	0.01	0.01

Note – Non-current assets held for sale and discontinued operations

IFRS5p41(a)(b)(d) The assets and liabilities related to Omikron (part of the manufacturing and wholesale segment) have been presented as held for sale following the approval of the Group's management and shareholders on 23 September 2005 to sell Omikron in Euravia. The completion date for the transaction is expected by May 2006.

IFRS5p33(b) An analysis of the result of discontinued operations, and the result recognised on the remeasurement of assets or disposal group, is as follows:

		2005	2004
	Revenue	1,200	1,150
	Expenses	(960)	(950)
	Profit before tax of discontinued operations	240	200
12p81(h)(ii)	Tax	(96)	(80)
	Profit after tax of discontinued operations	144	120
	Pre-tax gain/(loss) recognised on the remeasurement of assets of disposal group	(73)	–
12p81(h)(ii)	Tax	29	–
	After tax gain/(loss) recognised on the remeasurement of assets of disposal group	(44)	–
	Profit for the year from discontinued operations	100	120

		2005	2004
IFRS5p33(c)	Operating cash flows	300	190
IFRS5p33(c)	Investing cash flows	(103)	(20)
IFRS5p33(c)	Financing cash flows	(295)	(66)
	Total cash flows	(98)	104

IFRS5p38 **Non-current assets classified as held for sale:**

	2005	2004
Disposal group held for sale:		
– Property, plant and equipment	341	–
– Other intangible assets	100	–
– Inventory	442	–
– Other current assets	228	–
	1,111	–
Non-current assets held for sale:		
– Property, plant and equipment	1,222	–
– Other intangible assets	1,000	–
	2,222	–
	3,333	–

IFRS5p38 **Liabilities directly associated with non-current assets classified as held for sale:**

	2005	2004
Trade and other payables	104	190
Other current liabilities	20	24
Provisions	96	74
	220	288

Investment property

40p5 Investment property is defined by as property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for: (a) use in the production of supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of business.

Note – Accounting policies

Basis of preparation[1]
The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of land and buildings, available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss and investment properties, which are carried at fair value.

1p110
40p75(a)(d)

Investment property[1]
Investment property, principally comprising freehold office buildings, is held for long-term rental yields and is not occupied by the Group. Investment property is carried at fair value, representing market value determined annually by external valuers. Changes in fair values are recorded in the income statement as part of other income.

Consolidated balance sheet (extracts)

		2005	2004
	ASSETS		
1p51	**Non-current assets**		
1p68(a)	Property, plant and equipment	155,341	98,670
1p68(b)	Investment property	16,276	15,690

Note – Investment property

		2005	2004
40p76	Beginning of the year	15,690	16,043
	Exchange differences	748	(1,396)
40p76(d)	Fair value gains (included in other (losses)/gains – net)	1,670	1,043
	Expropriation of an investment property	(1,832)	–
	End of the year	16,276	15,690

40p75(d)(e) The investment properties are valued annually on 31 December at fair value, comprising market value by an independent, professionally qualified valuer.

The following amounts have been recognised in the income statement:

		2005	2004
40p75(f)(i)	Rental income	770	620
40p75(f)(ii)	Direct operating expenses arising from investment properties that generate rental income	(640)	(550)
40p75(f)(ii)	Direct operating expenses that did not generate rental income	(40)	(20)

Note – Capital commitments

Capital expenditure contracted for at the balance sheet date but not recognised in the financial statements is as follows:

		2005	2004
16p74(c)	Property, plant and equipment	3,593	3,667
40p75(h)	Investment property	290	–

Investment property – repairs and maintenance:

		2005	2004
40p75(h)	Contractual obligations for future repairs and maintenance of investment property	140	130

[1] To be appropriately amended if the cost method is applied.

Construction contracts

11p3 A construction contract is defined by IAS 11 as a contract specifically negotiated for the construction of an asset.

Note – Accounting policies

Construction contracts

11p39(b)(c) Contract costs are recognised when incurred.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

11p31 The Group uses the 'percentage of completion method' to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract[1]. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within 'trade and other receivables'.

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

Consolidated balance sheet (extracts)

		Note	2005	2004
1p51	**Current assets**			
1p68(h)	Trade and other receivables	11	23,303	20,374
1p51	**Current liabilities**			
1p68(j)	Trade and other payables	17	18,667	13,629

Consolidated income statement (extracts)

1p81-83		Note	2005	2004
11p39(a)	Contract revenue		58,115	39,212
11p16	Contract costs		(54,729)	(37,084)
1p92	Gross profit		3,386	2,128
1p92	Selling and marketing costs		(386)	(128)
1p92	Administrative expenses		(500)	(400)

[1] Disclose the appropriate method used.

Note – Trade and other receivables

		2005	2004
1p75(b)	Trade receivables	18,174	16,944
	Less: Provision for impairment of receivables	(109)	(70)
	Trade receivables – net	18,065	16,874
11p42(a)	Amounts due from customers for contract work	984	788
11p40(c)	Retentions	232	132
	Prepayments	1,300	1,146
1p74	Receivables from related parties (Note 38)	54	46
1p74	Loans to related parties (Note 38)	2,668	1,388
	Total	23,303	20,374

11p40(a) The aggregate amount of costs incurred and recognised profits (less recognised losses) for all contracts in progress at the balance sheet date were €5,157 (2004: €3,806).

Note – Trade and other payables

		2005	2004
	Trade payables	11,983	9,391
24p17	Amounts due to related parties (Note 38)	2,202	1,195
11p42(b)	Amounts due to customers for contract work	855	900
11p40(b)	Advances received for contract work	142	355
	Social security and other taxes	2,002	960
	Accrued expenses	1,483	828
		18,667	13,629

Leases: Accounting for finance leases by lessee

17p4 IAS 17 defines a lease as being an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

Note – Accounting policies

1p110
32p60(b)
17p20
17p27

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

Note – Property, plant and equipment

Vehicles and machinery includes the following amounts where the Group is a lessee under a finance lease:

		2005	2004
	Cost – capitalised finance leases	13,996	14,074
	Accumulated depreciation	(5,150)	(3,926)
17p31(a)	Net book amount	8,846	10,148

Note – Borrowings

	2005	2004
Non-current		
Bank borrowings	32,193	40,244
Convertible bond (Note 33)	42,822	–
Debentures and other loans	3,300	18,092
Redeemable preference shares (Note 34)	30,000	30,000
Finance lease liabilities	6,806	8,010
	115,121	96,346
Current		
Bank overdrafts (Note 14)	2,650	6,464
Collateralised borrowings (Note 11)	1,014	–
Bank borrowings	3,368	4,598
Debentures and other loans	2,492	4,608
Finance lease liabilities	2,192	2,588
	11,716	18,258
Total borrowings	126,837	114,604

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

32p71 The exposure of the Group's borrowings to interest rate changes and the periods in which the borrowings reprice are as follows:

	2005				2004			
	€	**US$**	**£**	**Other**	**€**	**US$**	**£**	**Other**
Bank overdrafts	7.6%	6.2%	6.4%	8.5%	7.3%	6.0%	6.3%	8.5%
Bank borrowings	7.0%	6.3%	6.9%	–	6.8%	6.2%	6.6%	–
Convertible bond (Note 33)	7.3%	–	–	–	–	–	–	–
Debentures and other loans	7.2%	6.5%	–	–	7.1%	6.3%	–	–
Redeemable preference shares (Note 34)	6.5%	–	–	–	–	–	–	–
Finance lease liabilities	7.4%	6.0%	–	–	7.2%	5.8%	–	–

		2005	2004
17p31(b)	Finance lease liabilities – minimum lease payments:		
	No later than 1 year	2,749	3,203
	Later than 1 year and no later than 5 years	6,292	7,160
	Later than 5 years	2,063	2,891
		11,104	13,254
	Future finance charges on finance leases	(2,106)	(2,656)
	Present value of finance lease liabilities	8,998	10,598

32p67(a),17p31(b)	The present value of finance lease liabilities is as follows:		
	No later than 1 year	2,192	2,588
	Later than 1 year and no later than 5 years	4,900	5,287
	Later than 5 years	1,906	2,723
		8,998	10,598

Leases: Accounting by lessor

17p4 A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

Note – Accounting policies

1p110 When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

32p60(b) Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Note – Property, plant and equipment

The category of vehicles and equipment includes vehicles leased by the Group to third parties under operating leases with the following carrying amounts:

		2005	2004
17p57	Cost	70,234	–
	Accumulated depreciation at 1 January	(14,818)	–
	Depreciation charge for the year	(5,058)	–
	Net book amount	50,358	–

Note – Trade and other receivables (extracts)

		2005	2004
1p75(b)	**Non-current receivables**		
	Finance leases – gross receivables	1,810	630
	Unearned finance income	(222)	(98)
		1,588	532

		2005	2004
1p75(b)	**Current receivables**		
	Finance leases – gross receivables	1,336	316
	Unearned finance income	(300)	(98)
		1,036	218

		2005	2004
17p47(a)	Gross receivables from finance leases:		
	Not later than 1 year	1,336	316
	Later than 1 year and not later than 5 years	1,810	630
	Later than 5 years	–	–
		3,146	946
17p47(b)	Unearned future finance income on finance leases	(522)	(196)
	Net investment in finance leases	2,624	750

		2005	2004
17p47(a)	The net investment in finance leases may be analysed as follows:		
32p67(a)	Not later than 1 year	1,036	218
	Later than 1 year and not later than 5 years	1,588	532
	Later than 5 years	–	–
		2,624	750

Note – Operating leases

Operating leases – where a group company is the lessor

17p56(a) The future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2005	2004
No later than 1 year	12,920	–
Later than 1 year and no later than 5 years	41,800	–
Later than 5 years	840	–
	55,560	–

17p56(b) Contingent-based rents recognised in the income statement were €235 (2004: €40).

Investments: held-to-maturity financial assets

Note – Accounting policies

Investments

1p110
39p9

(c) Held-to-maturity financial assets
Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available for sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date, which are classified as current assets.

Consolidated balance sheet (extract)

		2005	2004
1p51	**Non-current assets**		
1p68(d)	Investment financial assets	21,419	15,919
	Current assets		
1p68(d)	Investment financial assets	1,950	–

Note – Investment financial assets

		2005	2004
	Available-for-sale financial assets		
39AG71-73	Listed securities:		
	– Equity securities – eurozone countries	8,335	8,300
	– Equity securities – US	5,850	2,086
	– Equity securities – UK	4,550	4,260
32p67	– Debentures with fixed interest of 6.5% and maturity date of 27 August 2010[1]	210	–
32p67	– Non-cumulative 9.0% non-redeemable preference shares[2]	78	–
39pAG74-79	Unlisted securities:		
	– Debt securities traded on inactive markets with fixed interest ranging from 6.3%-6.5% and maturity dates between July 2008 and May 2010[3]	347	264
		19,370	14,910
	Held-to-maturity financial assets		
	Listed securities:		
	– Debentures with fixed interest of 5% and maturity date of 15 June 2009 – eurozone countries[4]	4,018	984
	– Debentures with fixed interest of 5.5% and maturity date of 15 June 2005 – US[5]	–	160
	Allowance for impairment	(19)	(45)
		3,999	1,099

1 Effective interest rate was 7.3%
2 Effective interest rate was 6.9%
3 Effective interest rate was 6.5%
4 Effective interest rate was 6.5%
5 Effective interest rate was 6.2%

The movement in investment financial assets may be summarised as follows:

Available-for-sale financial assets

		2005	2004
	Beginning of year	14,910	14,096
	Exchange differences	646	(435)
	Acquisition of subsidiary (Note 37)	473	–
	Additions	2,781	1,126
	Revaluation surplus transfer to equity (Note 16)	560	123
	End of year	19,370	14,910
	Less: non current portion	(17,420)	(14,910)
1p57	**Current portion**	1,950	–

Held-to-maturity financial assets

		2005	2004
	Beginning of year	1,009	390
	Exchange differences	81	56
	Additions	3,093	888
	Disposals	(165)	(280)
	Provision for impairment	(19)	(45)
	End of year	3,999	1,009
	Less: non current portion	3,999	1,009
1p57	**Current portion**	–	–

32p92(b) There were no disposals or impairment provisions on available-for-sale financial assets in 2005 or 2004.

There were no gains or losses realised on the disposal of held-to-maturity financial assets in 2005 and 2004, as all financial assets were disposed at their redemption date.

32p94(g) The Group has not reclassified any financial asset measured at amortised cost rather than fair value during the year (2004: nil).

32p86 The fair values of unlisted available-for-sale securities are based on cash flows discounted using a rate based on the market interest rate and the risk premium specific to the unlisted securities (2005: 6%; 2004: 5.8%).

39pAG74-79 The fair value of held-to-maturity financial assets is based on quoted market bid prices (2005: €3,901; 2004: €976).

Development costs

Note – Accounting policies

1p110 *Research and development*

38p46, 38p57, 38p113(a), 38p113(b)

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility and its costs can be measured reliably. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalized development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

Development assets are tested for impairment annually, in accordance with IAS 36.

Note – research and development expenditure

The following amounts were recognised as expenses and charged to cost of sales in the income statement:

		2005	2004
38p126	Research and non-capitalised development costs	239	205

Note – intangible assets (extract)

		Development costs
38p118(c)	**At 1 January 2004**	
	Cost	2,318
	Accumulated amortisation and impairment	(1,287)
	Net book amount	1,031
38p118(e)	**Year ended 31 December 2004**	
	Opening net book amount	1,031
	Additions	452
	Amortisation charge	(502)
	Closing net book amount	981
38p118(c)	**At 31 December 2004**	
	Cost	2,770
	Accumulated amortisation and impairment	(1,789)
	Net book amount	981
38p118(e)	**Year ended 31 December 2005**	
	Opening net book amount	981
	Additions	512
	Amortisation charge	(316)
	Closing net book amount	1,177
38p118(c)	**At 31 December 2005**	
	Cost	3,282
	Accumulated amortisation and impairment	(2,105)
	Net book amount	1,177

38p118(d) Amortisation of development costs is included in 'cost of goods sold' in the income statement.

38p118(e)(i) All development costs arose from internal development.

Government grants

Note – Accounting policies

Government grants[1]

20p39(a) Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

20p12 Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight line basis over the expected lives of the related assets.

Note – Other (losses)/gains

20p39(b)
20p39(c)

The Group obtained and recognised as income a government grant of €100 (2004: nil) to compensate for losses caused by flooding incurred in the previous year. The Group is obliged not to reduce its average number of employees over the next three years under the terms of this government grant. The Group benefits from government assistance for promoting in international markets products made in the UK; such assistance includes marketing research and similar services provided by various UK government agencies free of charge.

[1] To be appropriately amended if the alternative method is used.

Joint ventures

Note – Accounting policies

2.2 Consolidation

1p110 *(c) Joint ventures*

31p57 The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

Note – Interest in joint venture

31p56 The Group has a 50% interest in a joint venture, JV & Co, which provides products and services to the automotive industry. The following amounts represent the Group's 50% share of the assets and liabilities, and sales and results of the joint venture. They are included in the balance sheet and income statement:

		2005	2004
	Assets:		
	Non-current assets	2,730	2,124
	Current assets	803	717
		3,533	2,841
	Liabilities:		
	Long-term liabilities	1,114	1,104
	Current liabilities	355	375
		1,469	1,479
	Net assets	2,064	1,362
	Income	5,276	5,618
	Expenses	(3,754)	(4,009)
	Profit after income tax	1,522	1,609
31p55(b)	Proportionate interest in joint venture's commitments	90	92

31p54 There are no contingent liabilities relating to the Group's interest in the joint venture, and no contingent liabilities of the venture itself.

Agriculture

41p5 Agricultural activity is defined as the management by an enterprise of the biological transformation of biological assets for sale into agricultural produce or into additional biological assets.

Note – Accounting policies

Livestock and milk

1p110
41p47 Livestock are measured at their fair value less estimated point-of-sale costs. The fair value of livestock is determined based on market prices of livestock of similar age, breed and genetic merit. Milk is initially measured at its fair value less estimated point-of-sale costs at the time of milking. The fair value of milk is determined based on market prices in the local area.

Consolidated balance sheet (extracts)

		2005	2004
1p68	**ASSETS**		
1p51	**Non-current assets**		
1p68(a)	Property, plant and equipment	155,341	98,670
41p39	Biological assets	46,600	29,600
1p51	**Current assets**		
	Inventories	220	195

Consolidated income statement (extracts)

	2005	2004
Fair value of milk produced	51,240	30,900
Gain arising from changes in fair value less estimated point-of-sale costs of biological assets	3,930	4,028

Note – General information

41p46 Lamda Dairy Limited is engaged in milk production for supply to various customers. At 31 December 2005, the Company held 419 cows able to produce milk (mature assets) and 137 heifers that are being raised to produce milk in the future (immature assets). The Company produced 157,584 kg of milk with a fair value less estimated point-of-sale costs of €518,240 (that is determined at the time of milking) in the year ended 31 December 2005.

Note – Biological assets

		2005	2004
41p50	Beginning of the year	29,600	34,570
	Increases due to purchases	26,250	15,350
	Gain arising from changes in fair value less estimated point-of-sale costs attributable to physical changes[1]	1,530	1,448
	Gain arising from changes in fair value less estimated point-of-sale costs attributable to price changes[1]	2,400	2,580
	Decreases due to sales	(13,180)	(24,348)
	End of the year	46,600	29,600

[1] Separating the increase in fair value less estimated point-of-sale costs between the portion attributable to physical changes and the portion attributable to price changes is encouraged but not required by IAS 40.

Borrowing costs

Note – Accounting policies

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

Note – Finance costs

23p29(b)
23p29(c)

Borrowing costs of €31 (2004: €49) arising on financing specifically entered into for the construction of a new factory were capitalised during the year and are included in 'Additions' in property plant and equipment. A capitalisation rate of 7.5% (2004: 7.2%) was used, representing the borrowing cost of the loan used to finance the project.

Contingent assets

Note – Contingencies

Contingent assets

37p89

The Group has entered into an 'earn-out' agreement in connection with the disposal on 30 June 2005 of Shoe Shine Limited. Additional cash consideration will be payable to the Group if the future performance of Shoe Shine Limited reaches a certain level. No gain has been recognised in the financial statements, as the amount of the earn-out is dependent on the aggregate result of Shoe Shine Limited for the 18-month period ending 31 December 2006.

Revenue recognition: Multiple element arrangements

Note – Accounting policies

The Group offers certain arrangements whereby a customer can purchase a personal computer together with a two-year servicing agreement. When such multiple element arrangements exist, the amount recognised as revenue upon the sale of the personal computer is the fair value of the computer in relation to the fair value of the arrangement taken as a whole. The revenue relating to the service element, which represents the fair value of the servicing arrangement in relation to the fair value of the arrangement, is recognised over the service period. The fair values of each element are determined based on the current market price of each of the elements when sold separately.

Where the Group is unable to determine the fair value of each of the elements in an arrangement, it uses the residual value method. Under this method, the Group determines the fair value of the delivered element by deducting the fair value of the undelivered element from the total contract consideration. To the extent that there is a discount on the arrangement, such discount is allocated between the elements of the contract in such a manner as to reflect the fair value of the elements.

Critical accounting estimates

1p116 The following critical accounting estimates may be applicable, among many other possible areas not presented in Footsy & Co Group's consolidated financial statements.

Useful lives of technology division's plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its plant and equipment. This estimate is based on projected product lifecycles for its high-tech segment. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Were the actual useful lives of the technology division plant and equipment to differ by 10% from management's estimates, the carrying amount of the plant and equipment would be an estimated €1,000 higher or €970 lower.

Pension benefits

This applies where the Group's accounting policy is to recognise any actuarial gains or losses immediately through the income statement.

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 20.

Were the discount rate used to differ by 10% from management's estimates, the carrying amount of pension obligations would be an estimated €425 lower or €450 higher.

Warranty claims

The Group generally offers three-year warranties for its personal computer products. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims.

Factors that could impact the estimated claim information include the success of the Group's productivity and quality initiatives, as well as parts and labour costs.

Were claims costs to differ by 10% from management's estimates, the warranty provisions would be an estimated €2,000 higher or €1,875 lower.

Critical accounting judgements

1p113

The following critical accounting judgements may be applicable, among many other possible areas not presented in Footsy & Co Group's consolidated financial statements.

Held-to-maturity investments

The Group follows the IAS 39 guidance of on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity.

If the Group fails to keep these investments to maturity other than for specific circumstances explained in IAS 39, it will be required to reclassify the whole class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

If the class of held-to-maturity investments is tainted, the fair value would increase by €2,300, with a corresponding entry in the fair value reserve in shareholders' equity.

Impairment of available-for sale financial assets

The Group follows the guidance of IAS 39 on determining when an investment is other-than-temporarily impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

If the assumptions made regarding the duration that, and extent to which, the fair value is less than its cost, the Group would suffer an additional €1,300 loss in its 2006 financial statements, being the transfer of the total fair value reserve to the income statement.

IAS 19 (Amendment) – Employee Benefits

Format of appendix

This appendix summarises the illustrative disclosure for post-employment benefits on early adoption of the amendment to IAS 19, Employee Benefits – in particular the option to recognise actuarial gains and losses outside of profit or loss.

The changes to the accounting policy note resulting from the amendment to IAS 19 are highlighted in italics. The parts that are not in italics are the same as disclosures in the Illustrative Consolidated Financial Statements of Footsy & Co Group for the year ended 31 December 2005. The format of the required disclosures in 'Note – Retirement benefit obligations' has changed substantially such that even where the same information is provided it is presented in a different way. This note does not therefore contain italics.

The amendment to IAS 19 is effective for annual periods beginning on or after 1 January 2006. Earlier application is encouraged.

Disclosures

Note – Accounting policies

1p110
19p27
19p25
19p120A(b)

(a) *Pension obligations*
Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Defined benefit plans typically define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

19p79
19p80

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

19p93-93D
19p120A(a)

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in the Statement of Recognised Income and Expense in the period in which they arise.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

19p44

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

1p110
19p120A(a)
19p120A(b)
19p127

(b) *Other post-employment obligations*
Some group companies provide post-retirement healthcare benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. *Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in the Statement of Recognised Income and Expense in the period in which they arise.* These obligations are valued annually by independent qualified actuaries.

Note – Retirement benefit obligations

	2005	2004
Balance sheet obligations for:		
– Pension benefits	3,225	1,532
– Post-employment medical benefits	1,440	701
	4,635	2,233
Income statement charge for (Note 26):		
– Pension benefits	755	488
– Post-employment medical benefits	149	107
	904	595

Pension benefits

19p120A(d)(f) The amounts recognised in the balance sheet are determined as follows:

	2005	2004
Present value of funded obligations	6,155	2,943
Fair value of plan assets	(5,991)	(2,797)
	164	146
Present value of unfunded obligations	3,206	1,549
Unrecognised past service cost	(145)	(163)
Liability in the balance sheet	3,225	1,532

19p120A(g) The amounts recognised in the income statement are as follows:

	2005	2004
Current service cost	751	498
Interest cost	431	214
Expected return on plan assets	(510)	(240)
Past service cost	18	16
Losses on curtailment	65	–
Total, included in staff costs (Note 26)	755	488

19p120A(g) Of the total charge, €521 (2004: €324) and €241 (2004: €172) were included in 'cost of goods sold' and 'administrative expenses' respectively.

19p120A(m) The actual return on plan assets was €495 (2004: €235).

19p120A(c) The movement in the defined benefit obligation over the year is as follows:

	2005	2004
Beginning of year	4,492	3,479
Current service cost	751	498
Interest cost	431	214
Contributions by plan participants	55	30
Actuarial (losses)/gains	(15)	495
Exchange differences	(43)	(103)
Benefits paid	(66)	(121)
Liabilities acquired in a business combination (Note 37)	3,691	–
Curtailments	65	–
Settlements[1]	–	–
End of year	9,361	4,492

[1] In practice, were these balances zero, these lines could be omitted. They have been included to highlight the required information.

19p120A(e) The movement in the fair value of plan assets over the year is as follows:

	2005	2004
Beginning of year	2,797	2,264
Expected return on plan assets	510	240
Actuarial (losses)/gains	(15)	(5)
Exchange differences	25	(22)
Employer contributions	908	411
Employee contributions	55	30
Benefits paid	(66)	(121)
Business combinations (Note 37)	1,777	–
End of year	5,991	2,797

19p120A(n) The principal actuarial assumptions used were as follows:

	2005	2004
Discount rate	7.0%	6.8%
Expected return on plan assets	8.5%	8.3%
Future salary increases	5.0%	4.5%
Future pension increases	3.0%	2.5%

Assumptions regarding future mortality experience are set based on advice in accordance with published statistics and experience in each territory.

The average life expectancy in years of a pensioner retiring at age 65 is as follows:

	2005	2004
Male	18.5	18.5
Female	22.0	22.0

19p122(b) *Post-employment medical benefits*

The Group operates a number of post-employment medical benefit schemes, principally in the US. The method of accounting, assumptions and the frequency of valuations are similar to those used for defined benefit pension schemes.

19p120A(n) In addition to the assumptions set out above, the main actuarial assumption is a long-term increase in health costs of 8.0% a year (2004: 7.6%).

19p120A(d)(f) The amounts recognised in the balance sheet were determined as follows:

	2005	2004
Present value of funded obligations	705	340
Fair value of plan assets	(620)	(302)
	85	38
Present value of unfunded obligations	1,325	663
Liability in the balance sheet	1,410	701

19p120A(g) The amounts recognised in the income statement were as follows:

Current service cost	153	107
Interest cost	49	25
Expected return on plan assets	(53)	(25)
Total, included in staff costs (Note 26)	149	107

19p120A(g) Of the total charge, €102 (2004: €71) and €48 (2004: €36) respectively were included in ‘cost of goods sold’ and ‘administrative expenses’.

19p120(g) The actual return on plan assets was €51(2004: €24).

19p120(e) Movement in the defined benefit obligation:

	2005	2004
Beginning of year	1,003	708
Current service cost	153	107
Interest cost	49	25
Contributions by plan participants[1]	–	–
Actuarial (losses)/gains	(2)	204
Exchange differences	25	(41)
Benefits paid[1]	–	–
Liabilities acquired in a business combination (Note 37)	802	–
Curtailments[1]	–	–
Settlements[1]	–	–
End of year	2,030	1,003

19p120A(e) The movement in the fair value of plan assets of the year is as follows:

	2005	2004
Beginning of year	302	207
Expected return on plan assets	53	25
Actuarial (losses)/gains	(2)	(1)
Exchange differences	5	(2)
Employer contributions	185	73
Employee contributions[1]	–	–
Benefits paid[1]	–	–
Business combinations	77	–
End of year	620	302

19p120A(o) The effect of a 1% movement in the assumed medical cost trend rate is as follows:

	Increase	Decrease
– Effect on the aggregate of the current service cost and interest cost	24	(20)
– Effect on the defined benefit obligation	366	(313)

		2005	2004
19p120A(h)	Actuarial (gains) and losses recognised in the SoRIE	–	705
19p120A(i)	Cumulative actuarial (gains) and losses recognised in the SoRIE	705	705

19p120A(j) Plan assets are comprised as follows:

	2005		2004	
Equity	3,256	49%	1,595	51%
Debt	2,571	39%	855	28%
Other	784	12%	649	21%
	6,611	100%	3,099	100%

19p120A(k) Pension plan assets include the Company's ordinary shares with a fair value of €136 (2004: €126) and a building occupied by the Group with a fair value of €612 (2004: €609).

19p120A(l) The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

[1] In practice, were these balances zero, these lines could be omitted. They have been included to highlight the required information.

19p120(q) Expected contributions to post employment benefit plans for the year ending 31 December 2006 are €1,150.

19p120A(p)

	2005	2004	2003
As at 31 December			
Present value of defined benefit obligation	11,391	5,495	4,187
Fair value of plan assets	6,611	3,099	2,471
Deficit/(surplus)	4,780	2,396	1,716
Experience adjustments on plan liabilities	(326)	125	–
Experience adjustments on plan assets	(17)	(6)	–

IAS 39 (Amendment) – The Fair Value Option

Format of appendix

This appendix summarises the illustrative disclosure for financial assets classified as at fair value though profit or loss in the case of early adoption of the amendment to IAS 39, Fair Value Option.

The new disclosure requirements resulting from the amendment to IAS 39, Fair Value Option, are highlighted in italics. The parts that are not in italics are the same as disclosures in the Illustrative Consolidated Financial Statements of Footsy & Co Group for the year ended 31 December 2005. Footsy & Co Group has not designated any financial liabilities at fair value through profit or loss.

The amendment to IAS 39, The Fair Value Option, is effective for annual periods beginning on or after 1 January 2006. Earlier application is encouraged.

Disclosures

Note – Accounting policies (extract)

1p110
39p9
1p57, 59
39p9b(ii)

(a) Financial assets at fair value through profit or loss
This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. *Financial assets designated as at fair value through profit or loss at inception are those that are managed and their performance is evaluated on a fair value basis, in accordance with a documented Group's investment strategy. Information about these financial assets is provided internally on a fair value basis to the Group entity's key management personnel.* Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

Note – Other financial assets at fair value through profit or loss

		2005	2004
32p92(b), 39AG71-73	Listed securities:		
	– Equity securities – eurozone	5,850	3,560
	– Equity securities – US	4,250	3,540
	– Equity securities – UK	1,720	872
		11,820	7,972

The carrying amounts of the above financial assets are classified as follows:

		2004	2003
32p94(e)	Held for trading	9,847	7,972
	Designated as at fair value through profit or loss on initial recognition	1,973	–
		11,820	7,972

7p15 Other financial assets at fair value through profit or loss are presented within the 'operating activities' as part of changes in working capital in the cash flow statement (Note 32).

Changes in fair values of other financial assets at fair value through profit or loss are recorded in 'other (losses)/gains – net' in the income statement (Note 22).

32p66(d) *Financial assets designated as at fair value through profit or loss at inception are those that are managed and whose performance is evaluated on a fair value basis, in accordance with a documented Group's investment strategy. Information about these financial assets is provided internally on a fair value basis to the Group entity's key management personnel. The Group's investment strategy is to invest free cash resources in equity securities as part of the Group's long-term capital growth strategy.*

Note – Other (losses)/gains – net

		2005	2004
	Other financial assets at fair value through profit or loss (Note 13):		
DV32p94(f)	*Held for trading:*		
	– Fair value losses	*(609)*	*(302)*
	– Fair value gains	*405*	*–*
18p35(b)(v)	*– Dividend income*	*200*	*150*
32p94(f)	*Designated upon initial recognition:*		
	– Fair value losses	*(230)*	*(130)*
	– Fair value gains	*205*	*–*
18p35(b)(v)	*– Dividend income*	*130*	*57*
	Derivative instruments (Note 10):		
32p94(k)[1]	*– Forward contracts: transactions not qualifying as hedges*	*86*	*88*
	Net foreign exchange gains/(losses) (Note 29)	*(277)*	*200*
		(90)	*63*

[1] This is the reference for IAS 32 revised. The reference for IAS 32 before the amendment to IAS 39, The Fair Value Option, is IAS 32p94(h).

IFRS 6 – Exploration for and Evaluation of Mineral Resources

Format of appendix

This appendix summarises the the illustrative disclosure for the early adoption of IFRS 6, Explanation for and Evaluation of Mineral Resources. This standard is effective for annual periods beginning on or after 1 January 2006. Earlier application is encouraged.

Disclosures

Note – Accounting policies

Exploration and evaluation assets

IFRS6p24

Oil and natural gas exploration and evaluation expenditures are accounted for using the successful efforts method of accounting. Costs are accumulated on a field-by-field basis. Geological and geophysical costs are expensed as incurred. Costs directly associated with an exploration well, and exploration and property leasehold acquisition costs, are capitalised until the determination of reserves is evaluated. If the commercial discovery has not been achieved, these costs are charged to expense.

Capitalisation is made within property, plant and equipment or intangible assets according to the nature of the expenditure.

Once commercial reserves are found, exploration and evaluation assets are tested for impairment and transferred to development tangible and intangible assets. No depreciation and/or amortisation is charged during the exploration and evaluation phase.

Development tangible and intangible assets

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of commercially proven development wells is capitalised within tangible and intangible assets according to nature. When development is completed on a specific field, it is transferred to production assets. No depreciation and/or amortisation is charged during the exploration and evaluation phase.

Oil and gas production assets

Oil and gas properties are aggregated exploration and evaluation tangible assets and development expenditures associated with the production of proved reserves.

Depreciation/amortisation

Oil and gas properties/intangible assets are depreciated/amortised using the unit-of-production method. Unit-of-production rates are based on proved developed reserves, which are oil, gas and other mineral reserves estimated to be recovered from existing facilities using current operating methods. Oil and gas volumes are considered produced once they have been measured through meters at custody transfer or sales transaction points at the outlet valve on the field storage tank.

Impairment – exploration and evaluation assets

Exploration and evaluation assets are tested for impairment when reclassified to development tangible or intangible assets or whenever facts and circumstances indicate impairment. An impairment loss is recognised for the amount by which the exploration and evaluation assets' carrying amount exceed their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs to sell and their value in use. For the purposes of assessing impairment, the exploration and evaluation assets subject to testing are grouped with existing cash-generating units (CGUs) of production fields that are located in the same geographical region.

Impairment – proved oil and gas properties and intangible assets

Proved oil and gas properties and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Notes to the financial statements (extracts)

The following table provides the year-end balances and movements for exploration and evaluation costs:

Property, plant and equipment[1]

	Exploration	Development & Evaluation	Subtotal	Production Assets under construction	Other	Total businesses & corporate
At 1 January 2005						
Cost	218	12,450	12,668	58,720	3,951	75,339
Accumulated amortisation and impairment	(33)	–	(33)	(5,100)	(77)	(5,210)
Net book amount	185	12,450	12,635	53,620	3,874	70,129
Year ended 31 December 2005						
Opening net book amount	185	12,450	12,635	53,620	3,874	70,129
Exchange differences	17	346	363	1,182	325	1,870
Acquisitions	–	386	386	125	4	515
Additions	45	1,526	1,571	5,530	95	7,196
Transfers	(9)	(958)	(967)	1,712	–	745
Disposals	(12)	(1,687)	(1,699)	–	–	(1,699)
Depreciation charge	–	–	–	(725)	(42)	(767)
Impairment charge	(7)	(36)	(43)	(250)	(3)	(296)
Closing net book amount	219	12,027	12,246	61,194	4,253	77,693
At 31 December 2005						
Cost	264	12,027	12,291	67,019	4,330	83,640
Accumulated amortisation and impairment	(45)	–	(45)	(5,825)	(77)	(5,947)
Net book amount	219	12,027	12,246	61,194	4,253	77,693

Intangible assets[1]

	Exploration & Evaluation	Development	Subtotal: Intangible assets in progress	Production	Goodwill	Other	Total
At 1 January 2005							
Cost	5,192	750	5,942	3,412	9,475	545	19,374
Accumulated amortisation and impairment	(924)	–	(924)	(852)	(75)	(19)	(1,870)
Net book amount	4,268	750	5,018	2,560	9,400	526	17,504
Year ended 31 December 2005							
Opening net book amount	4,268	750	5,018	2,560	9,400	526	17,504
Exchange differences	152	8	160	195	423	28	806
Acquisitions	26	32	58	5	–	5	68
Additions	381	8	389	15	–	86	490
Transfers	(548)	548	0	–	–	–	–
Transfers to production		(850)	(850)	105	–	–	(745)
Disposals	–	(28)	(28)	(15)	–	–	(43)
Amortisation charge	–	–	–	(98)	–	(42)	(140)
Impairment charge	(45)	–	(45)	–	(175)	(5)	(225)
Closing net book amount	4,234	468	4,702	2,767	9,648	598	17,715
At 31 December 2005							
Cost	5,203	468	5,671	3,717	9,898	659	19,945
Accumulated amortisation and impairment	(969)	–	(969)	(950)	(250)	(61)	(2,230)
Net book amount	4,234	468	4,702	2,767	9,648	598	17,715

[1] For the purpose of this appendix, comparatives for the year ended 31 December 2004 are not disclosed, as required by IAS 1.

Assets and liabilities related to the exploration and evaluation of mineral resources other than those presented above are as follows:

	2005	**2004**
Receivables from joint venture partners	25	22
Payable to subcontractors and operators	32	34

Exploration and evaluation activities have led to total expenses of €59 million (2005: €57 million), of which €52 million (2005: €43 million) are impairment charges.

In 2005, the disposal of a 16.67% interest in an offshore exploration stage, Field X, resulted in post-tax profits on sale of €3 million (2004: nil).

Cash payments of €415 million (2005: €395 million) have been incurred related to exploration and evaluation activities. The cash proceeds due to the disposal of the interest in Field X were €8 million (2005: nil).

IFRS 7 – Financial Instruments: Disclosures, and an amendment to IAS 1 – Presentation of Financial Statements: Capital Disclosures

Format of appendix

This appendix summarises the IFRS 7 and IAS 1 amended disclosure requirements for financial instruments as applied by Footsy & Co Group for the year ended 31 December 2005.

IFRS7p45 IFRS 7 replaces the requirements of two previous standards: IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, which is relevant for financial services, and IAS 32, Financial Instruments: Disclosure and Presentation, which applies to all entities.

Effective date

IFRS7p43 IFRS 7 and the amendment to IAS 1 are effective for annual periods beginning on or after 1 January 2007. Earlier application is encouraged.

IFRS7p44 If an entity applies IFRS 7 for annual periods beginning before 1 January 2006, it need not present comparative information for the disclosures required by paragraphs 31-42 of IFRS 7 relating to the nature and extent of risks arising from financial instruments.

If an entity is a first-time adopter of IFRS and applies IFRS 7 before 1 January 2006, it need not provide comparative disclosure in the first year of application of IFRS 7.

If Footsy & Co Group early adopts IFRS 7 and the amendment to IAS 1, disclosures relating to financial instruments for the year ended 31 December 2005 should be replaced by disclosures in this appendix. All notes included in this appendix are disclosed in full except for the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity, the note on related-party transactions and note on leases – accounting for finance leases by lessee. Only information relating to financial instruments is disclosed for these items.

New disclosure requirements resulting from IFRS 7 and the amendment to IAS 1 are in italics. Parts that are not in italics are the same as disclosures in the Illustrative Consolidated Financial Statements of Footsy & Co Group for the year ended 31 December 2005.

Disclosures

Consolidated income statement (extract)

			Year ended 31 December	
		Note	**2005**	**2004**
1p83	Other (losses)/gains – net	22	(90)	63
1p83	Other income	23	3,080	2,379
1p81(b)	Finance costs	27	(7,073)	(11,060)

Consolidated balance sheet (extract)

		Note	2005	2004
	ASSETS			
	Non-current assets			
1p68(d), IFRS7p8(d)	Available-for-sale financial assets	9	17,420	14,910
1p68(d), IFRS7p8(a)	Derivative financial instruments	10	395	245
1p68(h), IFRS7p8(c)	Trade and other receivables	11	2,322	1,352
	Current assets			
1p68(h), IFRS7p8(c)	Trade and other receivables	11	19,765	18,102
1p68(d), IFRS7p8(d)	Available-for-sale financial assets	9	1,950	–
1p68(d), IFRS7p8(a)	Derivative financial instruments	10	1,069	951
1p68(d), IFRS7p8(a)	Other financial assets at fair value through profit or loss	13	11,820	7,972
1p68(i), IFRS7p8	Cash and cash equivalents	14	22,228	36,212
	LIABILITIES			
	Non-current liabilities			
1p68(l), IFRS7p8(f)	Borrowings	18	108,315	88,336
1p68(l), IFRS7p8(e)	Derivative financial instruments	10	135	129
	Current liabilities			
1p68(j), IFRS7p8(f)	Trade and other payables	17	17,670	12,374
1p68(l), IFRS7p8(f)	Borrowings	18	9,524	15,670
1p68(l), IFRS7p8(e)	Derivative financial instruments	10	460	618

Consolidated statement of changes in equity (extract)

		Attributable to equity holders of the Company			Minority Interest	Total equity
1p96, 1p97 **1p104**		Share capital	Other reserves	Retained earnings		
1p97(c)	Balance at 1 January 2004	30,424	6,364	57,083	1,500	95,371
1p96(b)	Fair value gains, net of tax:					
IFRS7p20(a)(ii)	– Available-for-sale financial assets	–	68	–	–	68
1p96(b), IFRS7p23(c)	Cash flow hedges, net of tax	–	(3)	–	–	(3)
1p96(b), 39p102	Net investment hedge	–	40	–	–	40
1p97(c)	Balance at 1 January 2005	32,316	7,025	57,271	1,766	98,378
1p96(b)	Fair value gains, net of tax:					
IFRS7p20(a)(ii)	– Available-for-sale financial assets	–	380	–	–	380
1p96(b), FRS7p23(c)	Cash flow hedges, net of tax	–	64	–	–	64
1p96(b), 39p102	Net investment hedge	–	(45)	–	–	(45)

1p110, IFRS7p21 **Financial assets**

39p45 32p60 39p9 The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

39p9 1p57, 59 39p45 This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) Loans and receivables

39p9 Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables' in the balance sheet (Note 2.11).

(c) Available-for-sale financial assets

39p9 Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

39p38, IFRS7 AppxBp5(a) 39p43 39p16 39p46 39p55(a) Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

39p55(b) IFRS7 AppxBp5(e) Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category, including interest and dividend income, are presented in the income statement within 'other (losses)/gains – net' in the period in which they arise. Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in carrying amount of the security. The translation differences are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Changes in the fair value of other monetary securities denominated in the functional currency classified as available for sale and non-monetary securities classified as available for sale are recognised in equity.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'. Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established.

IFRS7p27(a) 39AG72 39AG73 IFRS7p27(a) 39AG74 The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

39p58
39p67
39p68
39p70
39p69
IFRS7 AppxBp5(f)

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 2.11.

1p110,
IFRS7p21

Derivative financial instruments and hedging activities

39p88

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); (2) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or (3) hedges of a net investment in a foreign operation (net investment hedge).

IFRS7p22

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

IFRS7p23, 24

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 10. Movements on the hedging reserve in shareholders' equity are shown in Note 16. The full fair value of hedging derivatives is classified as a non-current asset if the remaining maturity of the hedged item is more than 12 months and as a current asset if the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

39p89

(a) *Fair value hedge*
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the income statement within 'finance costs'. The gain or loss relating to the ineffective portion is recognised in the income statement within 'other (losses)/gains – net'. Changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk are recognised in the income statement within 'finance costs'.

39p92

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is use is amortised to profit or loss over the period to maturity.

39p95
39p97, 98

(b) *Cash flow hedge*
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'other (losses)/gains – net'.

39p100

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'finance costs'. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in the income statement within 'sales'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

39p101

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

39p102(a)(b)

(c) *Net investment hedge*

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

(d) Derivatives that do not qualify for hedge accounting

39p55(a)

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement within 'other (losses)/gains – net.'

1p110, IFRS7p21

Trade receivables

39p43, 39p46(a), 39p59, IFRS7p21, ApBp5(f), IFRS7p21, AppxBp5(d)

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered as indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. *The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement within 'selling and marketing costs'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivable. Subsequent recoveries of amounts previously written off are credited against the trade receivable impairment provision in the income statement.*

1p110, IFRS7p21

Cash and cash equivalents

7p45

'Cash and cash equivalents' includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within 'borrowings' within current liabilities on the balance sheet.

1p110, IFRS7p21

Share capital

32p18(a)

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities.

32p37

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

32p33

Where any group company purchases the Company's equity share capital (Treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

1p110, IFRS7p21

Borrowings

39p43, 39p47

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

32p18(a)

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the income statement as interest expense.

IFRS7p27(a), 32p18, 28, 32AG31(a)

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

1p60 Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Note – Financial risk management

Financial risk factors

IFRS7p31 The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and the investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

IFRS7p33(a) The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the UK pound. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

IFRS7p33(b), 22(c) To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, entities in the Group use forward contracts, transacted with Group Treasury. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. Group Treasury is responsible for managing the net position in each foreign currency by using external forward currency contracts.

39p73 For segment reporting purposes, each subsidiary designates contracts with Group Treasury as fair value hedges or cash flow hedges, as appropriate. External foreign exchange contracts are designated at Group level as hedges of foreign exchange risk on specific assets, liabilities or future transactions on a gross basis.

IFRS7p22(c) The Group's risk management policy is to hedge between 75% and 100% of anticipated transactions (mainly export sales) in each major currency for the subsequent 12 months. Approximately 90% (2004: 95%) of projected sales in each major currency qualify as 'highly probable' forecast transactions for hedge accounting purposes.

IFRS7p33(a)(b) IFRS7p22(c) The Group has certain investments in foreign operations whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

IFRS7p40, IG36 *At 31 December 2005, if the euro had weakened/strengthened by 10% against the US dollar with all other variables held constant, post-tax profit for the year would have been €931 (2004: €901) higher/lower, mainly as a result of foreign exchange gains/losses on translation of US dollar-enominated trade receivables, financial assets at fair value through profit or loss and debt securities classified as available for sale. Other components of equity would have been €1,774 (2004: €951) lower/higher, arising mainly from foreign exchange losses/gains on translation of US dollar-denominated borrowings designated as a hedge of the net investment in subsidiaries. Equity is more sensitive to movement in euro/US dollar exchange rate in 2005 than 2004 because of the increased amount of US dollar-denominated borrowings designated as a hedge of the net investment.*

At 31 December 2005, if the euro had weakened/strengthened by 10% against the UK pound with all other variables held constant, post-tax profit for the year would have been €347 (2004: €440) lower/higher, mainly as a result of foreign exchange gains/losses on translation of UK pound-denominated trade receivables, financial assets at fair value through profit or loss, debt securities classified as available for sale and foreign exchange losses/gains on translation of UK pound-denominated borrowings. Other components of equity would have been €220 (2004: €206) higher/lower, arising from foreign exchange gains/losses on translation of UK pound-denominated available-for-sale financial assets.

(ii) Price risk

IFRS7p33(a)(b) The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet either as available for sale or at fair value through profit or loss. The Group is not exposed to commodity price risk. *To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio must be in accordance with the limits set by the Group.*

The Group's equity investments are all publicly traded and are included in one of the following three equity indexes: DAX equity index, Dow Jones equity index and FTSE-100 UK equity index.

The following table summarises the impact of increases/decreases of the three equity indexes on the Group's post-tax profit for the year and on other components of equity. The analysis is based on the assumption that the equity indexes had increased/decreased by 0.5% with all other variables held constant and all the Group's equity instruments in that particular index moved proportionally.

Index	*Impact on post-tax profit in €*		*Impact on other components of equity in €*	
	2005	*2004*	*2005*	*2004*
DAX 20	*20*	*12*	*29*	*29*
Dow Jones	*15*	*12*	*20*	*7*
FTSE-100 UK	*6*	*3*	*16*	*15*

Post-tax profit for the year would increase/decrease as a result of gains on equity securities classified as at fair value through profit or loss. Other components of equity would increase/decrease as a result of gains on equity securities classified as available for sale.

(b) Credit risk

IFRS7p33(a)(b)
IFRS7p36(a-d) The Group has no significant concentrations of credit risk. It has policies in place to ensure that wholesale sales of products are made to customers with an appropriate credit history. Sales to retail customers are made in cash or via major credit cards. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions. The Group has policies that limit the amount of credit exposure to any financial institution.

(c) Liquidity risk

IFRS7p33, 39(b) Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

(d) Cash flow and fair value interest rate risk

IFRS7p33(a) As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

IFRS7p33(a)(b)
IFRS7p22(c) The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Group policy is to maintain approximately 60% of its borrowings in fixed rate instruments.

IFRS7p22(c) The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

IFRS7p22(c) Occasionally, the Group also enters into fixed-to-floating interest rate swaps to hedge the fair value interest rate risk arising where it has borrowed at fixed rates in excess of the 60% target.

IFRS7p40 IG36 *At 31 December 2005, if interest rates at that date had been 10 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been €11 (2004: €14) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings, and other components of equity would have been €5 (2004: €3) lower/higher mainly as a result of a decrease/increase in the fair value of fixed rate financial assets classified as available for sale. The sensitivity of post-tax profit to movements in interest rates is lower in 2005 than in 2004 because some of the Group's floating rate borrowings were refinanced in 2005 by issuing a fixed interest rate convertible bond (Note 33).*

1p124(A)(B), IG5

Capital risk management

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 maintain an optimal capital structure to reduce the cost of capital.

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 gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'borrowings' and 'trade and other payables' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

During 2005, the Group's strategy, which was unchanged from 2004, was to maintain the gearing ratio within 45% to 50%, in order to secure access to finance at a reasonable cost by maintaining a BB credit rating. The gearing ratios at 31 December 2005 and at 31 December 2004 were as follows:

	2005	***2004***
Total borrowings	*135,509*	*116,380*
Less: cash and cash equivalents (Note 14)	*(19,578)*	*(29,748)*
Net debt	*115,931*	*86,632*
Total equity	*140,626*	*98,378*
Total capital	*256,557*	*185,010*
Gearing ratio	***45%***	***47%***

The decrease in the gearing ratio during 2005 resulted primarily from the issue of share capital as part compensation for the acquisition of a subsidiary (Notes 15 and 37).

Fair value estimation

IFRS7p27

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

IFRS7p29(a)
FRS7p25

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Note – Available-for-sale financial assets

		2005	2004
	Beginning of the year	14,910	14,096
	Exchange differences	646	(435)
	Acquisition of subsidiary (Note 37)	473	–
	Additions	2,781	1,126
	Revaluation surplus transfer to equity (Note 16)	560	123
	End of the year	19,370	14,910
	Less: non current portion	(17,420)	(14,910)
1p57	Current portion	1,950	–

IFRS7p16 — There were no disposals or impairment provisions on available-for-sale financial assets in 2005 or 2004.

Available-for-sale financial assets include the following:

		2005	2004
IFRS7p27(b), 34 39AG71-73	Listed securities:		
	– Equity securities – eurozone countries	8,335	8,300
	– Equity securities – US	5,850	2,086
	– Equity securities – UK	4,550	4,260
IFRS7p34(a)	– Debentures with fixed interest of 6.5% and maturity date of 27 August 2010[1]	210	–
IFRS7p34(a)	– Non-cumulative 9.0% non-redeemable preference shares[2]	78	–
39pAG74-79	Unlisted securities:		
IFRS7p34(a)	– Debt securities traded on inactive markets with fixed interest ranging from 6.3%-6.5% and maturity dates between July 2008 and May 2010[3]	347	264
		19,370	14,910

[1] Effective interest rate was 7.3%

[2] Effective interest rate was 6.9%

[3] Effective interest rate was 6.5%

IFRS7p27(a) — The fair values of unlisted securities are based on cash flows discounted using a rate based on the market interest rate and the risk premium specific to the unlisted securities (2005: 6%; 2004: 5.8%).

Note – Derivative financial instruments

		2005		2004	
		Assets	Liabilities	Assets	Liabilities
IFRS7p22(a)(b)	Interest rate swaps – cash flow hedges	351	110	220	121
IFRS7p22(a)(b)	Interest rate swaps – fair value hedges	57	37	49	11
IFRS7p22(a)(b)	Forward foreign exchange contracts – cash flow hedges	695	180	606	317
	Forward foreign exchange contracts – held-for-trading	361	268	321	298
	Total	1,464	595	1,196	747
	Less non-current portion:				
	Interest rate swaps – cash flow hedges	345	100	200	120
	Interest rate swaps – fair value hedges	50	35	45	9
		395	135	245	129
	Current portion	1,069	460	951	618

Trading derivatives are classified as a current asset or liability. The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability if the remaining maturity of the hedged item is less than 12 months.

(a) Forward foreign exchange contracts

IFRS7p34(a) The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2005 were €92,370 (2004: €89,689).

IFRS7p23(a)
39p100 *The hedged anticipated transactions denominated in foreign currency are expected to occur at various dates between six months to one year from the balance sheet date.* Gains and losses recognised in revaluation reserve in equity (Note 16) on forward foreign exchange contracts as of 31 December 2005 will be released to the income statement *at dates when the cash flow from the underlying anticipated transactions will occur.*

39p162 *(b) Interest rate swaps*

IFRS7p34(a) The notional principal amounts of the outstanding interest rate swap contracts at 31 December were €4,314 (2004: €3,839).

IFRS7p23(a) At 31 December 2005, the fixed interest rates vary from 6.9% to 7.4% (2004: 6.7% to 7.2%) and the main floating rates are EURIBOR and LIBOR.

Gains and losses recognised in revaluation reserve in equity (Note 16) on interest rate swap contracts as of 31 December 2005 will be continuously released to the income statement until the bank borrowings are repaid (Note 18).

39p58(b) *(c) Hedge of net investment in foreign entity*

IFRS7p22 The Group's US dollar-denominated borrowing is designated as a hedge of the net investment in the Group's US subsidiary. The fair value of the borrowing at 31 December 2005 was €840 (2004: €760). The foreign exchange loss of €45 (2004: gain of €40) on translation of the borrowing to euros at the balance sheet date was recognised in 'other reserves' in shareholders' equity (Note 16).

Note – Trade and other receivables

		2005	2004
1p75(b) IFRS7p36	Trade receivables	18,174	16,944
	Less: provision for impairment of receivables	(109)	(70)
	Trade receivables – net	18,065	16,874
	Prepayments	1,300	1,146
1p74	Receivables from related parties (Note 38)	54	46
1p74	Loans to related parties (Note 38)	2,668	1,388
	Total	22,087	19,454
1p75(b)	Less non-current portion: loans to related parties	(2,322)	(1,352)
	Current portion	19,765	18,102

All non-current receivables are due within five years from the balance sheet date.

IFRS7p25 The fair values of trade and other receivables are as follows:

	2005	2004
Trade receivables	18,065	16,874
Prepayments	1,300	1,146
Receivables from related parties	54	46
Loans to related parties	2,722	1,398
	22,141	19,464

IFRS7p27(a) The fair values of loans to related parties are based on cash flows discounted using a rate based on the borrowings rate of 7.5% (2004: 7.2%).

24p17(b)(i) The effective interest rates on non-current receivables were as follows:

	2005	2004
Loans to related parties (Note 38)	6.5-7.0%	6.5-7.0%

IFRS7p36 There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of internationally dispersed customers.

IFRS7p14 Certain European subsidiaries of the Group transferred receivable balances amounting to €1,014 to a bank in exchange for cash during the year ended 31 December 2005. The transaction has been accounted for as a collateralised borrowing (Note 18).

IFRS7p20(e) The Group has recognised a provision of €74 (2004: €61) for the impairment of its trade receivables during the year ended 31 December 2005. The Group has used a provision for impaired receivables of €35 during the year ending 31 December 2005 (2004: €29). The creation and usage of a provision for impaired receivables have been included in 'selling and marketing costs' in the income statement (Note 25).

IFRS7p37(b) *As of 31 December 2005 trade receivables at nominal value of €109 (2004: €70) were impaired and fully provided for. All impaired receivables were overdue more than 120 days.*

IFRS7p37(a) *As of 31 December 2005 and 2004, all overdue receivables were provided for.*

IFRS7p34(a) *The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:*

	2005	*2004*
Euro	*9,846*	*8,441*
US dollar	*5,987*	*6,365*
UK pound	*6,098*	*4,500*
Other currencies	*156*	*158*
	22,087	*19,464*

IFRS7p16 *Movements on the provision for impairment of receivables are as follows:*

	2005	*2004*
At 1 January	*70*	*65*
Provision for receivables impairment	*74*	*61*
Receivables written off during the year as uncollectible	*(28)*	*(50)*
Unused amounts reversed	*(10)*	*(8)*
Unwind of discount (Note 27)	*3*	*2*
At 31 December	*109*	*70*

Note – Other financial assets at fair value through profit or loss

IFRS7p27(b)
39AG71-73 Listed securities:

		2005	2004
IFRS7p8, 34 (a)	– Equity securities – eurozone	5,850	3,560
	– Equity securities – US	4,250	3,540
	– Equity securities – UK	1,720	872
		11,820	7,972

IFRS7p8 The carrying amounts of the above financial assets are classified as follows:

	2005	2004
Held for trading	9,847	7,972
Designated as at fair value through profit or loss on initial recognition	1,973	–
	11,820	7,972

7p15 Other financial assets at fair value through profit or loss are presented within the section on operating activities as part of changes in working capital in the cash flow statement (Note 32).

Changes in fair values of other financial assets at fair value through profit or loss are recorded in 'other (losses)/gains – net' in the income statement (Note 22).

IFRS7p27(b) *The fair value of all equity securities is based on their current bid prices in an active public market.*

Note – Cash and cash equivalents

	2005	2004
Cash at bank and in hand	12,698	30,798
Short-term bank deposits	9,530	5,414
	22,228	36,212

7p45 Cash and bank overdrafts include the following for the purposes of the cash flow statement:

		2005	2004
	Cash and cash equivalents	22,228	36,212
7p8	Bank overdrafts (Note 18)	(2,650)	(6,464)
		19,578	29,748

Note – Other reserves

		Convertible bond	Land and buildings revaluation[1]	Hedging reserve	Available for sale investments	Currency translation adjustment	Total
	Balance at 1 January 2004	–	1,152	65	1,320	3,827	6,364
16p39, IFRS7p20(a)(ii)	Revaluation – gross (Notes 6 and 9)	–	1,133	–	123	–	1,256
12p61	Revaluation – tax (Note 19)	–	(374)	–	(41)	–	(415)
28p39	Revaluation – associates	–	–	–	(14)	–	(14)
16p41	Depreciation transfer – gross	–	(130)	–	–	–	(130)
16p41	Depreciation transfer – tax (Note 19)	–	43	–	–	–	43
1p96(b)	Cash flow hedges:						
IFRS7p23(c)	– Fair value gains in year	–	–	300	–	–	300
12p61	– Tax on fair value gains (Note 19)	–	–	(101)	–	–	(101)
32p59(b), IFRS7p23(d)	– Transfers to net profit	–	–	(236)	–	–	(236)
12p61	– Tax on transfers to net profit (Note 19)	–	–	79	–	–	79
32p59(c), IFRS7p23(e)	– Transfers to inventory	–	–	(67)	–	–	(67)
12p61	– Tax on transfers to inventory (Note 19)	–	–	22	–	–	22
39p102(a)	Net investment hedge (Note 10)	–	–	–	–	40	40
1p96(b)	Currency translation differences:						
21p52(b)	– Group	–	(50)	–	–	(171)	(221)
28p39	– Associates	–	–	–	–	(105)	(105)
	Balance at 31 December 2004	–	1,774	62	1,388	3,801	7,025
16p39, IFRS7p20a(ii)	Revaluation – gross (Note 9)	–	–	–	560	–	560
12p61	Revaluation – tax (Note 19)	–	–	–	(168)	–	(168)
28p39	Revaluation - associates	–	–	–	(12)	–	(12)
16p41	Depreciation transfer – gross	–	(149)	–	–	–	(149)
16p41	Depreciation transfer – tax (Note 19)	–	49	–	–	–	49
1p96(b)	Cash flow hedges:						
IFRS7p23(c)	– Fair value gains in year	–	–	368	–	–	368
12p61	– Tax on fair value gains (Note 19)	–	–	(123)	–	–	(123)
32p59(b), IFRS7p23(d)	– Transfers to net profit	–	–	(120)	–	–	(120)
12p61	– Tax on transfers to net profit (Note 19)	–	–	40	–	–	40
32p59(c), IFRS7p23(e)	– Transfers to inventory (Note 19)	–	–	(151)	–	–	(151)
12p61	– Tax on transfers to inventory	–	–	50	–	–	50
39p102(a)	Net investment hedge (Note 10)	–	–	–	–	(45)	(45)
1p96(b)	Currency translation differences:						
21p52(b)	– Group	–	15	–	–	2,051	2,066
28p39	– Associates	–	–	–	–	(74)	(74)
	Convertible bond – equity component (Note 33)	7,761	–	–	–	–	7,761
12p81(a)	Tax on equity component (Note 19)	(2,328)	–	–	–	–	(2,328)
	Balance at 31 December 2005	5,433	1,689	126	1,768	5,733	14,749

[1] An entity should disclose in its financial statements whether there are any restrictions on the distribution of the 'land and buildings' fair value reserve to the equity holders of the Company (16p77(f)).

Note – Trade and other payables

		2005	2004
1p74	Trade payables	11,983	9,391
	Amounts due to related parties (Note 38)	2,202	1,195
	Social security and other taxes	2,002	960
	Accrued expenses	1,483	828
		17,670	12,374

Note – Borrowings

	2005	2004
Non-current		
Bank borrowings	32,193	40,244
Convertible bond (Note 33)	42,822	–
Debentures and other loans	3,300	18,092
Redeemable preference shares (Note 34)	30,000	30,000
	108,315	88,336
Current		
Bank overdrafts (Note 14)	2,650	6,464
Collateralised borrowings (Note 11)	1,014	–
Bank borrowings	3,368	4,598
Debentures and other loans	2,492	4,608
	9,524	15,670
Total borrowings	117,839	104,006

IFRS7p14 Total borrowings include secured liabilities (bank and collateralised borrowings) of €38,694 (2004: €51,306). Bank borrowings are secured by the land and buildings of the Group (Note 6). Collateralised borrowings are secured by trade receivables (Note 11).

IFRS7p34(a) The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the balance sheet dates are as follows:

		2005	2004
IFRS7p34(a)	6 months or less	9,400	15,454
	6-12 months	124	216
	1-5 years	75,182	60,858
	Over 5 years	33,133	27,478
		117,839	104,006

IFRS7p39(a) The remaining contractual maturity of non-current borrowings is as follows:

	2005	2004
Between 1 and 2 years	5,870	10,065
Between 2 and 5 years	74,967	45,138
Over 5 years	27,478	33,133
	108,315	88,336

In 2005, the Group refinanced its borrowings that fell due between one and five years by issuing a convertible bond (Note 33).

10p20 On 1 February 2005, the Group issued 10,000 6.5% US dollar bonds to finance its expansion programme and working capital requirements in the US. The bonds are repayable on 31 December 2010.

IFRS7p25, 29 The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amount		Fair value	
	2005	**2004**	**2005**	**2004**
Bank borrowings	32,193	40,244	32,590	39,960
Redeemable preference shares (Note 34)	30,000	30,000	28,450	28,850
Debentures and other loans	3,300	18,092	3,240	17,730
Convertible bond (Note 33)	42,822	–	42,752	–
	108,315	88,336	107,032	86,540

IFRS7p27(a) The fair values are based on cash flows discounted using a rate based on the borrowing rate of 7.5% (2004: 7.2%).

IFRS7p25 The carrying amounts of short-term borrowings approximate their fair value.

IFRS7p34(a) The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2005	**2004**
Euro	77,100	76,600
US dollar	25,353	12,542
UK pound	15,000	14,500
Other currencies	386	364
	117,839	104,006

DV7p50(a)

The Group has the following undrawn borrowing facilities:	**2005**	**2004**
Floating rate:		
– Expiring within one year	6,150	4,100
– Expiring beyond one year	14,000	8,400
Fixed rate:		
– Expiring within one year	18,750	12,500
	38,900	25,000

The facilities expiring within one year are annual facilities subject to review at various dates during 2006. The other facilities have been arranged to help finance the proposed expansion of the Group's activities in Europe.

Note – Other (losses)/gains – net

		2005	**2004**
IFRS7p20(a)(i)	Other financial assets at fair value through profit or loss (Note 13):		
	Held for trading:		
	– Fair value losses	*(609)*	*(302)*
18p35(b)(v)	*– Dividend income*	*200*	*150*
	– Other fair value gains	*405*	*–*
	Designated upon initial recognition:		
	– Fair value losses	*(230)*	*(130)*
18p35(b)(v)	*– Dividend income*	*130*	*57*
	– Other fair value gains	*205*	*–*
	Derivative financial instruments (Note 10):		
IFRS7p20(a)(i)	– Forward contracts: transactions not qualifying as hedges	86	88
	Net foreign exchange (losses)/gains (Note 29)	(277)	200
		(90)	63

Note – Other income

		2005	2004
IFRS7p20(b)	Interest income on available-for-sale securities	1,180	1,120
18p35(b)(v)	Dividend income on available-for-sale securities	1,900	1,193
	Investment income	3,080	2,313
	Insurance reimbursement	–	66
		3,080	2,379

The insurance reimbursement relates to the excess of insurance proceeds over the carrying values of goods damaged.

Note – Finance costs

		2005	2004
IFRS7p20(b)	Interest expense:		
	– Bank borrowings	(4,695)	(7,168)
	– Dividend on redeemable preference shares (Note 34)	(1,950)	(1,950)
	– Convertible bond (Note 33)	(3,083)	–
37p84(e)	Provisions – discount unwinding (Note 21)	(41)	(35)
		(9,769)	(9,153)
21p52(a)	Net foreign exchange transaction gains/(losses) (Note 30)	2,594	(1,995)
	Fair value gains on financial instruments:		
IFRS7p23(d)	– Interest rate swaps: cash flow hedges, transfer from equity	102	88
IFRS7p24(a)(i)	– Interest rate swaps: fair value hedges	(16)	31
IFRS7p24(a)(ii)	*Fair value adjustment of bank borrowings attributable to interest rate risk*	*16*	*(31)*
		(7,073)	(11,060)

Note – Convertible bond

IFRS7p17 The Company issued 500,000 5.0% convertible bonds at a nominal value of €50 million on 2 January 2005. The bonds mature five years from the issue date at their nominal value of €50 million or can be converted into shares at the holder's option at the rate of 33 shares per €500. The fair values of the liability component and the equity conversion component were determined at issuance of the bond.

32p28
32p31 The fair value of the liability component, included in long-term borrowings, was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity in other reserves (Note 16), net of deferred income taxes.

The convertible bond recognised in the balance sheet is calculated as follows:

		2005	2004
	Face value of convertible bond issued on 2 January 2005	50,000	–
12Apx-Ap9	Equity component (Note 16)	(7,761)	–
	Liability component on initial recognition at 2 January 2005	42,239	–
	Interest expense (Note 27)	3,083	–
	Interest paid	(2,500)	–
	Liability component at 31 December 2005 (Note 18)	42,822	–

IFRS7p25 The fair value of the liability component of the convertible bond at 31 December 2005 amounted to €42,617 (2004: nil). The fair value is calculated using cash flows discounted at a rate based on the borrowing rate of 7.5%.

32p32 Interest expense on the bond is calculated using the effective interest method by applying the effective interest rate of 7.3% to the liability component.

Note – Redeemable preference shares

32p15, 18(a) The Company issued 30 million cumulative redeemable preference shares with a par value of €1 per share on 4 January 2004. The shares are mandatorily redeemable at their par value on 4 January 2012, and pay dividends at 6.5% annually.

Note – Related-party transactions (extract)

IFRS7p15 Certain loans advanced to directors during the year amounting to €50 (2004: €30) are collateralised by shares in listed companies. The fair value of these shares was €65 at the balance sheet date (2004: €39).

Note (Appendix III) – Leases – Accounting for finance leases by lessee (extract)

The gross finance lease obligation is as follows:

		2005	2004
IFRS7p39(a)- AppxBp14(a)	No later than 1 year	2,749	3,203
	Later than 1 year and no later than 5 years	6,292	7,160
	Later than 5 years	2,063	2,891
		11,104	13,254
	Future finance charges on finance costs	(2,106)	(2,656)
	Present value of finance lease liabilities	8,998	10,598

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