ILLUSTRATIVE FINANCIAL STATEMENTS
IFRS 9 SUPPLEMENT

YEAR ENDED 31 DECEMBER 2017

INTERNATIONAL FINANCIAL REPORTING STANDARDS

A Layout (International) Group Ltd

Annual report and financial statements: IFRS 9 *Financial Instruments* Supplement

For the year ended 31 December 2017

IFRSs for on-going users

www.bdo.global

Illustrative Financial Statements: IFRS 9 *Financial Instruments* Supplement

IFRS 9 *Financial Instruments* (IFRS 9) is effective for periods beginning on or after 1 January 2018. This supplement provides example illustrative disclosures that A Layout (International) Group Limited (the Group) might have provided had it adopted IFRS 9 one year earlier than required. It has been assumed that the Group has elected to apply the exemption is IFRS 9 paragraph 7.2.15 not to restate prior periods in the year of initial application of the standard. The Group has chosen to adopt the simplified expected credit loss model for trade receivables in accordance with IFRS 9 paragraph 5.5.15. Disclosures that are new as a result of IFRS 9 are in bold text in this supplement.

Note 3 Financial instruments – risk management

IFRS 7:31	Disclose information to enable evaluation of the nature and extent of risks arising from financial instruments.
IFRS 7:33	For each type of risk, disclose the following qualitative factors: (a) The exposures to risk and how they arise (b) Entity's objectives, policies and processes for managing the risk and the methods used to measure the risk, and (c) Any changes in the above.

3. Financial instruments - Risk Management

The Group is exposed through its operations to the following financial risks:

- Credit risk
- Fair value or cash flow interest rate risk
- Foreign exchange risk
- Other market price risk, and
- Liquidity risk.

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

(i) Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- Trade receivables
- Cash and cash equivalents
- Investments in quoted and unquoted equity securities
- Trade and other payables
- Bank overdrafts
- Floating-rate bank loans
- Fixed rate bank loans
- Interest rate swaps, and
- Forward currency contracts.

Note 3 Financial instruments – risk management (continued)

IFRS 7:7	An entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance.
IFRS 7:8	**The carrying amounts of each of the following categories as specified in IFRS 9 or IAS 39, shall be disclosed either in the statement of financial position or in the notes:** **(a) financial assets measured at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition and (ii) those mandatorily measured at fair value in accordance with IFRS 9.** **(b) financial liabilities at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition and (ii) those that meet the definition of held for trading in IAS 39.** **(c) financial assets measured at amortised cost.** **(d) financial liabilities measured at amortised cost.** **(e) financial assets measured at fair value through other comprehensive income.**
IFRS 7:25	Fair value of financial instruments not measured at fair value.

3. Financial instruments - Risk Management *(continued)*

Principal financial instruments (continued)

(ii) Financial instruments by category

Financial assets

	Fair value through profit or loss		Amortised cost (Loans and receivables 2016)		Fair value through Other comprehensive income (Available-for-sale 2016)	
	2017 CU'000	2016 CU'000	2017 CU'000	2016 CU'000	2017 CU'000	2016 CU'000
Cash and cash equivalents	**-**	-	**21,765**	17,775	**-**	-
Trade and other receivables	**-**	-	**16,306**	13,990	**-**	-
Derivatives	**1,353**	1,275	**-**	-	**-**	-
Equity investments	**-**	-	**-**	-	**3,502**	4,001
Debt securities					**71**	82
Total financial assets	**1,353**	1,275	**38,071**	31,765	**3,573**	4,083

Financial liabilities

	Fair value through profit or loss		Amortised cost	
	2017 CU'000	2016 CU'000	2017 CU'000	2016 CU'000
Trade and other payables	**-**	-	**13,578**	14,666
Loans and borrowings	**-**	-	**29,522**	26,252
Derivatives	**112**	104	**-**	-
Total financial liabilities	**112**	104	**43,100**	40,918

(iii) Financial instruments not measured at fair value

Financial instruments not measured at fair value includes cash and cash equivalents, trade and other receivables, trade and other payables, and loans and borrowings.

Due to their short-term nature, the carrying value of cash and cash equivalents, trade and other receivables, and trade and other payables approximates their fair value.

For details of the fair value hierarchy, valuation techniques, and significant unobservable inputs related to determining the fair value of loans and borrowings, which are classified in level 3 of the fair value hierarchy, refer to note 27.

Note 3 Financial instruments – risk management (continued)

IFRS 13 Fair value measurement disclosures

BDO Comment	**IFRS 13 requires specific disclosures for items measured or disclosed at fair value, dependent on:** - **the level of fair value measurement** - **whether the fair value measurement is recurring or non-recurring.** **Derivative financial instruments are an example of recurring fair value measurement, as a fair value valuation is required at each reporting date.** **In the case of A Layout, there are financial instruments with Level 1 (L1), Level 2 (L2), and Level 3 (L3) fair value measurements.**

IFRS 13:93(a) Disclose the fair value (L1, L2, and L3).

IFRS 13:93(b) Disclose the fair value hierarchy (L1, L2, and L3).

IFRS 13:93(c) Disclose and transfers between levels of the hierarchy (L1, and L2)

IFRS 13:93(d) Disclose in relation to the valuation technique used:

- A description (L2, and L3)
- Any changes for the technique used previously, and reasons why (L2, and L3)
- Significant unobservable inputs (L3).

BDO Comment	**Note that this disclosure has been left blank in this supplement to the 31 December 2017 illustrative financial statements. This is intentional as these elements will be specific on an entity-by-entity, and instrument-by-instrument basis.** **However, an illustrative template has been provided as Appendix A to the 31 December 2017 illustrative financial statements.**

IFRS 13:93(g) Disclose a description of the entity's valuation processes and policies in relation to the item (L3).

IFRS 13:93(h)(i) Disclose a narrative description (i.e. no figures required) of the sensitivity of changes in significant unobservable inputs to fair value (L3).

IFRS 13:93(i) If the items highest and best use differs from its actual use, disclose (L1, L2, and L3):

- this fact
- the reasons why.

3. Financial instruments - Risk Management *(continued)*

(iv) Financial instruments measured at fair value

The fair value hierarchy of financial instruments measured at fair value is provided below.

31 December 2017	Level 1		Level 2		Level 3	
	2017 CU'000	2016 CU'000	2017 CU'000	2016 CU'000	2017 CU'000	2016 CU'000
Financial assets						
Derivative financial assets *(designated hedge instruments)*	**-**	-	**1,586**	942	**-**	-
Derivative financial assets *(fair value through profit or loss)*	**-**	-	**1,353**	1,275	**-**	-
Equity investments	**2,072**	2,369	**-**	-	**1,501**	1,714
	2,072	2,369	**2,939**	2,217	**1,501**	1,714
Financial liabilities						
Derivative financial liabilities (*fair value through profit or loss)*	**-**	-	**112**	104	**-**	-
	-	-	**112**	104	**-**	-

There were no transfers between levels during the period.

The valuation techniques and significant unobservable inputs used in determining the fair value measurement of level 2 and level 3 financial instruments, as well as the inter-relationship between key unobservable inputs and fair value, are set out in the table below.

Financial Instrument	Valuation techniques used	Significant unobservable inputs (Level 3 only)	Inter-relationship between key unobservable inputs and fair value (Level 3 only)
Derivative financial assets and liabilities	*[VALUATION TECHNIQUE]* *[DESCRIPTION]*	Not applicable.	Not applicable.
Equity investments	*[VALUATION TECHNIQUE]* *[DESCRIPTION]* *[PROCESSES AND POLICIES]*	[LIST SIGNIFICANT UNOBSERVABLE INPUTS USED]	*[DESCRIBE WHETHER INCREASES OR DECREASES IN SIGNIFICANT UNOBSERVABLE INPUTS WOULD CAUSE AN INCREASE OR DECREASE IN FAIR VALUE]*

There were no changes to the valuation techniques during the period.

Note 3 Financial instruments – risk management (continued)

IFRS 13 Fair value measurement disclosures

IFRS 13:93(e) **IFRS 13:93(f)**	Disclose a reconciliation between the opening and closing fair value measurement, including any unrealised fair value gains/losses (L3).
IFRS 13:93(h)(i)	Disclose a narrative and quantitative description of the sensitivity of changes in significant unobservable inputs to fair value (L3).
BDO Comment	**Note that this disclosure has been left blank in this supplement to the 31 December 2017 illustrative financial statements. This is intentional as these elements will be specific on an entity-by-entity, and instrument-by-instrument basis.** **However, an illustrative template has been provided as Appendix A to the 31 December 2017 illustrative financial statements.**

3. Financial instruments - Risk Management *(continued)*

(iv) Financial instruments measured at fair value (continued)

The reconciliation of the opening and closing fair value balance of level 3 financial instruments is provided below:

	Equity investments CU'000
At 1 January 2016	1,177
Gains (Loss): included in 'other comprehensive income'	
- Available-for-sale investments	537
At 31 December 2016	1,714
At 1 January 2017	**1,714**
Purchases, disposals and reclassifications	**(103)**
Gains (Loss): included in 'other comprehensive income'	
- Available-for-sale investments	**(110)**
At 31 December 2017	**1,501**

The sensitivity analysis of a reasonably possible change in one significant unobservable input, holding other inputs constant, of level 3 financial instruments is provided below:

Equity investments (level 3)

31 December 2017	**Profit or loss**		**Other comprehensive income (net of tax)**	
	Increase CU'000	**Decrease CU'000**	**Increase CU'000**	**Decrease CU'000**
[SIGNIFICANT UNOBSERVABLE INPUT #1] [REASONABLY POSSIBLE CHANGE]	*[VALUE]*	*[VALUE]*	*[VALUE]*	*[VALUE]*
[SIGNIFICANT UNOBSERVABLE INPUT #2] [REASONABLY POSSIBLE CHANGE]	*[VALUE]*	*[VALUE]*	*[VALUE]*	*[VALUE]*
[SIGNIFICANT UNOBSERVABLE INPUT #3] [REASONABLY POSSIBLE CHANGE]	*[VALUE]*	*[VALUE]*	*[VALUE]*	*[VALUE]*

Note 3 Financial instruments – risk management (continued)

IFRS 7:31	Disclose information to enable evaluation of the nature and extent of risks arising from financial instruments.
IFRS 7:33	For each type of risk, disclose the following **qualitative** factors: (a) The exposures to risk and how they arise (b) Entity's objectives, policies and processes for managing the risk and the methods used to measure the risk, and (c) Any changes in the above
IFRS 7:34	For each type of risk, disclose the following **quantitative** factors: (a) Exposure to that risk, based on the information provided internally to key management personnel (b) Other specific the disclosures required by paragraphs IFRS 7.36–42 where applicable (c) Concentrations of risk (if not apparent from (a) and (b) above).

Credit Risk

IFRS 7:35F	**An entity shall explain its credit risk management practices and how they relate to the recognition and measurement of expected credit losses.**

3. Financial instruments - Risk Management *(continued)*

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives monthly reports from the Group Financial Controller through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The Group's internal auditors also review the risk management policies and processes and report their findings to the Audit Committee.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from credit sales. It is Group policy, implemented locally, to assess the credit risk of new customers before entering contracts. Such credit ratings are taken into account by local business practices.

The Risk Management Committee has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from the Risk Management Committee.

The Risk Management Committee determines concentrations of credit risk by quarterly monitoring the creditworthiness rating of existing customers and through a monthly review of the trade receivables' ageing analysis. In monitoring the customers' credit risk, customers are grouped according to their credit characteristics. Customers that are graded as "high risk" are placed on a restricted customer list, and future credit sales are made only with approval of the Risk Management Committee, otherwise payment in advance is required.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with minimum rating "A" are accepted.

Further disclosures regarding trade and other receivables, which are neither past due nor impaired, are provided in note 25.

Note 3 Financial instruments – risk management (continued)

IFRS 7:31 Disclose information to enable evaluation of the nature and extent of risks arising from financial instruments.

IFRS 7:33 For each type of risk, disclose the following **qualitative** factors:

(a) The exposures to risk and how they arise

(b) Entity's objectives, policies and processes for managing the risk and the methods used to measure the risk, and

(c) Any changes in the above.

IFRS 7:34 For each type of risk, disclose the following **quantitative** factors:

(a) Exposure to that risk, based on the information provided internally to key management personnel

(b) Other specific the disclosures required by paragraphs IFRS 7.36–42 where applicable

(c) Concentrations of risk (if not apparent from (a) and (b) above).

IFRS 7:36 **For all financial instruments within the scope of this IFRS, but to which the impairment requirements in IFRS 9 are not applied, an entity shall disclose by class of financial instrument:**

(a) the amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements (eg netting agreements that do not quality for offset in accordance with IAS 32); this disclosure is not required for financial instruments whose carrying amount best represents the maximum exposure to credit risk.

(b) a description of collateral held as security and other credit enhancements, and their financial effect (eg quantification of the extent to which collateral and other credit enhancements mitigate credit risk) in respect of the amount that best represents the maximum exposure to credit risk (whether disclosed in accordance with (a) or represented by the carrying amount of a financial instrument).

Market risk

IFRS 7:21 **21A - An entity shall apply the disclosure requirements in paragraphs 21B-24F for those risk exposures that an entity hedges and for which it elects to apply hedge accounting. Hedge accounting disclosures shall provide information about:**

(a) an entity's risk management strategy and how it is applied to manage risk;

(b) how the entity's hedging activities may affect the amount, timing and uncertainty of its future cash flows;

21C - When paragraphs 22A-24F require the entity to separate by risk category the information disclosed, the entity shall determine each risk category on the basis of the risk exposures an entity decides to hedge and for which hedge accounting is applied. An entity shall determine risk categories consistently for all hedge accounting disclosures.

This page intentionally left blank for formatting.

Note 3 Financial instruments – risk management (continued)

IFRS 7:22	**22A An entity shall explain its risk management strategy for each risk category of risk exposures that it decides to hedge and for which hedge accounting is applied. This explanation should enable users of financial statements to evaluate (for example):** **(a) how each risk arises.** **(b) how the entity manages each risk; this includes whether the entity hedges an item in its entirety for all risks or hedges a risk component (or components) of an item and why.** **(c) the extent of risk exposures that the entity manages.**
IFRS 7:40, IG36 IFRS 7.B17-B28	Disclose: (a) A sensitivity analysis for reasonably possible changes in significant risk variables (profit or loss, and equity) (b) The methods and assumptions used in preparing the sensitivity analysis (c) Changes from the previous period in the methods and assumptions used, and reasons for such changes

3. Financial instruments - Risk Management *(continued)*

Cash in bank and short-term deposits

A significant amount of cash is held with the following institutions:

	31 December 2017			31 December 2016		
	Rating	**Cash at Bank**	**Short-term Deposits**	**Rating**	**Cash at Bank**	**Short-term Deposits**
		CU'000	**CU'000**		**CU'000**	**CU'000**
[INSTITUTION A]	**A**	**10,946**	**3,091**	**A**	10,078	2,380
[INSTITUTION B]	**AA**	**4,471**	**1,262**	**AA**	3,359	793
Note 43		**15,417**	**4,353**		13,437	3,173

The Risk Management Committee monitors the credit ratings of counterparties regularly and at the reporting date does not expect any losses from non-performance by the counterparties. **For all financial assets to which the impairment requirements have not been applied, the carrying amount represents the maximum exposure to credit loss.**

Market risk

Market risk arises from the Group's use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

Fair value and cash flow interest rate risk

The Group is exposed to cash flow interest rate risk from long-term borrowings at variable rate. It is currently group policy that between 50% and 75% of external group borrowings (excluding short-term overdraft facilities and finance lease payables) are fixed rate borrowings. This policy is managed centrally. Local operations are not permitted to borrow long-term from external sources. Where the Group wishes to vary the amount of external fixed rate debt it holds (subject to it being at least 50% and no more than 75% of expected Group borrowings, as noted above), the Group makes use of interest rate swaps to achieve the desired interest rate profile. Although the board accepts that this policy neither protects the Group entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with variability in interest payments, it considers that it achieves an appropriate balance of exposure to these risks.

During 2017 and 2016, the Group's borrowings at variable rate were denominated in [CURRENCY B] and CU.

The Group analyses the interest rate exposure on a quarterly basis. A sensitivity analysis is performed by applying a simulation technique to the liabilities that represent major interest-bearing positions. Various scenarios are run taking into consideration refinancing, renewal of the existing positions, alternative financing and hedging. Based on the simulations performed, the impact on profit or loss and net assets of a 100 basis-point shift (being the maximum reasonable expectation of changes in interest rates [basis point: 1/100th of a percentage point])

Note 3 Financial instruments – risk management (continued)

IFRS 7:21A & 21C

21A - An entity shall apply the disclosure requirements in paragraphs 21B–24F for those risk exposures that an entity hedges and for which it elects to apply hedge accounting. Hedge accounting disclosures shall provide information about:

(a) an entity's risk management strategy and how it is applied to manage risk;

(b) how the entity's hedging activities may affect the amount, timing and uncertainty of its future cash flows;

21C - When paragraphs 22A–24F require the entity to separate by risk category the information disclosed, the entity shall determine each risk category on the basis of the risk exposures an entity decides to hedge and for which hedge accounting is applied. An entity shall determine risk categories consistently for all hedge accounting disclosures.

IFRS 7:22A & 22C

22A An entity shall explain its risk management strategy for each risk category of risk exposures that it decides to hedge and for which hedge accounting is applied. This explanation should enable users of financial statements to evaluate (for example):

(a) how each risk arises.

(b) how the entity manages each risk; this includes whether the entity hedges an item in its entirety for all risks or hedges a risk component (or components) of an item and why.

(c) the extent of risk exposures that the entity manages.

22C When an entity designates a specific risk component as a hedged item (see paragraph 6.3.7 of IFRS 9) it shall provide, in addition to the disclosures required by paragraphs 22A and 22B, qualitative or quantitative information about:

(a) how the entity determined the risk component that is designated as the hedged item (including a description of the nature of the relationship between the risk component and the item as a whole); and

(b) how the risk component relates to the item in its entirety (for example, the designated risk component historically covered on average 80 per cent of the changes in fair value of the item as a whole).

IFRS 7:31

Disclose information to enable evaluation of the nature and extent of risks arising from financial instruments.

IFRS 7:33

For each type of risk, disclose the following **qualitative** factors:

(a) The exposures to risk and how they arise

(b) Entity's objectives, policies and processes for managing the risk and the methods used to measure the risk, and

(c) Any changes in the above.

IFRS 7:34

For each type of risk, disclose the following **quantitative** factors:

(a) Exposure to that risk, based on the information provided internally to key management personnel

(b) Other specific the disclosures required by paragraphs IFRS 7.36–42 where applicable

(c) Concentrations of risk (if not apparent from (a) and (b) above).

IFRS 7:40, IG36
IFRS 7.B17-B28

Disclose:

(a) A sensitivity analysis for reasonably possible changes in significant risk variables (profit or loss, and equity)

(b) The methods and assumptions used in preparing the sensitivity analysis

(c) Changes from the previous period in the methods and assumptions used, and the reason for such changes

3. Financial instruments - Risk Management *(continued)*

Fair value and cash flow interest rate risk (continued)

would be an increase of CU1,350,000 (2016: CU1,780,000) or a decrease of CU1,260,000 (2016: CU1,580,000). The gain or loss potential is then compared to the limits determined by management.

Based on the various scenarios the Group then manages its cash-flow interest rate risk by using floating-to-fixed interest rate swaps (quantitative disclosures are given in note 24). Normally the Group raises long-term borrowings at floating rates and swaps them into fixed.

At 31 December 2017, if interest rates on [CURRENCY B]-denominated borrowings had been 100 basis points higher/lower with all other variables held constant, profit after tax for the year would have been CU540,000 (2016: CU460,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings. At 31 December 2017, if interest rates on CU-denominated borrowings had been 100 basis points higher/lower with all other variables held constant, profit after tax for the year and net assets would have been CU350,000 (2016: CU290,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings. The directors consider that 100 basis points is the maximum likely change in CU and [CURRENCY B] interest rates over the next year, being the period up to the next point at which the Group expects to make these disclosures.

Foreign exchange risk

Foreign exchange risk arises when individual Group entities enter into transactions denominated in a currency other than their functional currency. The Group's policy is, where possible, to allow group entities to settle liabilities denominated in their functional currency) with the cash generated from their own operations in that currency. Where group entities have liabilities denominated in a currency other than their functional currency (and have insufficient reserves of that currency to settle them), cash already denominated in that currency will, where possible, be transferred from elsewhere within the Group.

In order to monitor the continuing effectiveness of this policy, the Board receives a monthly forecast, analysed by the major currencies held by the Group, of liabilities due for settlement and expected cash reserves.

The Group is predominantly exposed to currency risk on purchases made from a major supplier based in [CURRENCY B]. Purchases from this supplier are made on a central basis and the risk is hedged using forward exchange contracts. **The Group's policy is to hedge between 75% and 90% of the forecasted transactions with the major supplier.**

Apart from these particular cash-flows the Group aims to fund expenses and investments in the respective currency and to manage foreign exchange risk at a local level by matching the currency in which revenue is generated and expenses are incurred.

Note 3 Financial instruments - risk management (continued)

IFRS 7:31	Disclose information to enable evaluation of the nature and extent of risks arising from financial instruments.
IFRS 7:34	For each type of risk, disclose the following **quantitative** factors: (a) Exposure to that risk, based on the information provided internally to key management personnel (b) Other specific the disclosures required by paragraphs IFRS 7.36–42 where applicable (c) Concentrations of risk (if not apparent from (a) and (b) above).

3. Financial instruments - Risk Management *(continued)*

Foreign exchange risk (continued)

As of 31 December the Group's net exposure to foreign exchange risk was as follows:

	Functional currency of individual entity									
	CU		[CURRENCY B]		[CURRENCY C]		Other		Total	
	2017 CU000	2016 CU000	2017 CU000	2016 CU000	2017 CU000	2016 CU000	2017 CU000	2016 CU000	2017 CU000	2016 CU000
Net foreign currency financial assets /(liabilities)										
CU	**-**	-	**1,015**	387	**1,521**	1,025	**2,163**	-	**4,699**	1,412
[CURRENCY B]	**1,783**	8,393	**-**	-	**(1,446)**	(700)	**-**	1,399	**337**	9,092
[CURRENCY C]	**1,929**	2,205	**200**	1,001	**-**	-	**-**	82	**2,129**	3,288
Other	**939**	(236)	**-**	-	**(1,521)**	-	**-**	-	**(582)**	(236)
Total net exposure	**4,651**	10,362	**1,215**	1,388	**(1,446)**	325	**2,163**	1,481	**6,583**	13,556

Note 3 Financial instruments - risk management (continued)

IFRS 7:33

For each type of risk, disclose the following **qualitative** factors:

(a) The exposures to risk and how they arise
(b) Entity's objectives, policies and processes for managing the risk and the methods used to measure the risk, and
(c) Any changes in the above.

IFRS 7:34

For each type of risk, disclose the following quantitative factors:

(a) Exposure to that risk, based on the information provided internally to key management personnel
(b) Other specific the disclosures required by paragraphs IFRS 7.36–42 where applicable
(c) Concentrations of risk (if not apparent from (a) and (b) above)

IFRS 7:40, IG36
IFRS 7.B17-B28

Disclose:

(a) A sensitivity analysis for reasonably possible changes in significant risk variables (profit or loss, and equity)
(b) The methods and assumptions used in preparing the sensitivity analysis
(c) Changes from the previous period in the methods and assumptions used, and thereasons for such changes

3. Financial instruments - Risk Management *(continued)*

Foreign exchange risk (continued)

The effect of a 20% strengthening of the [CURRENCY B] against CU at the reporting date on the [CURRENCY B]-denominated trade payables carried at that date would, all other variables held constant, have resulted in a decrease in post-tax profit for the year and decrease of net assets of CU827,000 (2016: CU876,000). A 20% weakening in the exchange rate would, on the same basis, have increased post-tax profit and increased net assets by CU629,000 (2016: CU684,000).

The effect of fluctuations in exchange rates on the [CURRENCY B]-denominated trade payables is partially offset through the use of forward exchange contracts. The effect of a 20% strengthening of the [CURRENCY B] against CU at the reporting date on the forward currency swaps carried at that date would, all other variables held constant, have resulted in an increase in post-tax profit for the year and increase in net assets of CU542,000 (2016: CU315,000). A 20% weakening in the exchange rate would, on the same basis, have decreased post-tax profit and decreased in net assets by CU457,000 (2016: CU394,000).

Other market price risk

The Group holds some strategic equity investments in other companies where those complement the Group's operations (see note 23). The directors believe that the exposure to market price risk from this activity is acceptable in the Group's circumstances.

The effect of a 10% increase in the value of the equity investments held at the reporting date would, all other variables held constant, have resulted in an increase in the **fair value through other comprehensive income** reserve and net assets of CU357,300 (2016: CU408,300). A 10% decrease in their value would, on the same basis, have decreased the **fair value through other comprehensive income** reserve and net assets by the same amount.

Note 3 Financial instruments – risk management (continued)

IFRS 7:31	Disclose information to enable evaluation of the nature and extent of risks arising from financial instruments
IFRS 7:33	For each type of risk, disclose the following **qualitative** factors: (a) The exposures to risk and how they arise (b) Entity's objectives, policies and processes for managing the risk and the methods used to measure the risk, and (c) Any changes in the above.
IFRS 7:34	For each type of risk, disclose the following **quantitative** factors: (a) Exposure to that risk, based on the information provided internally to key management personnel (b) Other specific the disclosures required by paragraphs IFRS 7.36–42 where applicable (c) Concentrations of risk (if not apparent from (a) and (b) above).

Liquidity Risk

	Disclose:
IFRS 7:39(a)	A maturity analysis for derivative and non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities.
IFRS 7:B10A	- Based on internal information provided to key management personnel
IFRS 7:B11	- Judgement to determine appropriate time bands presented
IFRS 7:B11D	- Cash flows are to be the contractual **undiscounted amounts**, and therefore will differ from the amounts presented in the statement of financial position (which are discounted).
IFRS 7:39(b)	A description of how the entity manages the liquidity risk of its financial instruments.

3. Financial instruments - Risk Management *(continued)*

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances (or agreed facilities) to meet expected requirements for a period of at least 45 days. The Group also seeks to reduce liquidity risk by fixing interest rates (and hence cash flows) on a portion of its long-term borrowings, this is further discussed in the 'interest rate risk' section above.

The Board receives rolling 12-month cash flow projections on a monthly basis as well as information regarding cash balances and (as noted above) the value of the Group's investments in corporate bonds. At the end of the financial year, these projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances and will not need to draw down on its agreed CU5,000,000 overdraft facility.

The liquidity risk of each group entity is managed centrally by the group treasury function. Each operation has a facility with group treasury, the amount of the facility being based on budgets. The budgets are set locally and agreed by the board in advance, enabling the Group's cash requirements to be anticipated. Where facilities of group entities need to be increased, approval must be sought from the group finance director. Where the amount of the facility is above a certain level, agreement of the board is needed.

The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities:

At 31 December 2017	**Up to 3 Months CU'000**	**Between 3 and 12 months CU'000**	**Between 1 and 2 year CU'000**	**Between 2 and 5 years CU'000**	**Over 5 years CU'000**
Trade and other Payables	**9,810**	**4,774**	**-**	**-**	**-**
Loans and borrowings	**1,900**	**5,871**	**14,958**	**5,485**	**7,314**
Derivative financial Liabilities	**17**	**52**	**43**	**-**	**-**
Total	**11,727**	**10,697**	**15,001**	**5,485**	**7,314**

At 31 December 2016	**Up to 3 Months CU'000**	**Between 3 and 12 months CU'000**	**Between 1 and 2 year CU'000**	**Between 2 and 5 years CU'000**	**Over 5 years CU'000**
Trade and other payables	10,371	5,200	-	-	-
Loans and borrowings	4,046	12,505	6,616	5,408	7,211
Derivative financial liabilities	12	36	56	-	-
Total	14,429	17,741	6,672	5,408	7,211

Note 3 Financial instruments - risk management (continued)

Capital Disclosures

IAS 1:134 — Disclose information, to enable the evaluation of the entity's capital management objectives, policies, and processes. Including:

IAS 1:135
- Qualitative information
- Quantitative information
- Changes from the previous period
- Compliance with externally imposed capital requirements (i.e. bank covenants, finance lease covenants etc.)
- Consequences of non-compliance with externally imposed capital requirements.

These disclosures are based on internal information provided to key management personnel.

3. Financial instruments - Risk Management *(continued)*

Capital Disclosures

The Group monitors "adjusted capital" which comprises all components of equity (i.e. share capital, share premium, non-controlling interest, retained earnings, and revaluation reserve) other than amounts in the cash flow hedging reserve.

The Group's objectives when maintaining capital are:

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

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

Consistent with others in the industry, the Group monitors capital on the basis of the debt to adjusted capital ratio. This ratio is calculated as net debt adjusted capital as defined above. Net debt is calculated as total debt (as shown in the consolidated statement of financial position) less cash and cash equivalents.

Due to recent market uncertainty, the Group's strategy is to preserve a strong cash base and achieve a debt-to-adjusted-capital ratio of approximately 10-12% (2016: 12-15%). The objective of this strategy is to secure access to finance at reasonable cost by maintaining a high credit rating. The debt-to-adjusted-capital ratios at 31 December 2017 and at 31 December 2016 were as follows:

	2017 CU'000	2016 CU'000
Loans and borrowings	**29,522**	26,252
Less: cash and cash equivalents	**(21,765)**	(17,775)
Net debt	**7,757**	8,477
Total equity	**69,155**	64,032
Less: Amounts in the cash flow hedging reserve	**(939)**	(1,080)
Total adjusted capital	**68,216**	62,952
Debt to adjusted capital ratio (%)	**11.37%**	13.47%

The decrease in the debt to adjusted capital ratio during 2017 resulted primarily from the increase in equity due to the profit and the increase of cash resulting from operating activities and the disposal of discontinued activities. As a result of this reduction in net debt, the company was in the position to increase dividend payments to CU6,463,000 for 2017 from CU4,980,000 for 2016.

Note 23 Fair value through other comprehensive income investments

IFRS 7:7	Disclose information that enables the evaluation of the significance of financial instruments on performance and position.
IFRS 7:8(d)	Disclose the carrying amount of available for sale instruments.
IFRS 7:11A	**If an entity has designated investments in equity instruments to be measured at fair value through other comprehensive income, as permitted by paragraph 5.7.5 of IFRS 9, it shall disclose:** **(a) which investments in equity instruments have been designated to be measured at fair value through other comprehensive income.** **(b) the reasons for using this presentation alternative.** **(c) the fair value of each such investment at the end of the reporting period.** **(d) dividends recognised during the period, showing separately those related to investments derecognised during the reporting period and those related to investments held at the end of the reporting period.** **(e) any transfers of the cumulative gain or loss within equity during the period including the reason for such transfers.**
IFRS 7:20(a)(vii)	**Disclose the following items of income, expense, gains or losses either in the statement of comprehensive income or in the notes:** **(a) Net gains or losses on:(vii)investments in equity instruments designated at fair value through other comprehensive income in accordance with paragraph 5.7.5 of IFRS 9.** **For all financial instruments within the scope of this IFRS, but to which the impairment requirements in IFRS 9 are not applied, an entity shall disclose by class of financial instrument:** (a) **the amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements (eg netting agreements that do not quality for offset in accordance with IAS 32); this disclosure is not required for financial instruments whose carrying amount best represents the maximum exposure to credit risk.**
BDO Comment	In order to comply with IFRS 7:7 and 36(a), the **fair value through other comprehensive income** balance will need to be disaggregated to some degree, which will be dependent on the nature of the instruments held by the entity **For illustrative purposes only, the adjacent disclosure has disaggregated available for sale instruments into:** - **Those that are quoted and not quoted** - **Equity and non-equity instruments** - **Geography.** **This may or may not be adequate for all entities and will need to be customised on a case-by-case basis.**

23. Fair value through other comprehensive income (available-for-sale 2016) investments

	2017 CU'000	2016 CU'000
1 January	**4,083**	2,489
Exchange differences	**-**	-
Additions	**148**	52
Disposals	**(400)**	-
Change in fair value recognised in OCI	**(258)**	1,542
31 December	**3,573**	4,083
Less: non-current portion	**(3,125)**	(4,021)
Current portion	**448**	62

Fair value through other comprehensive income (available-for-sale 2016) financial assets include the following:

	2017 CU'000	2016 CU'000
Quoted:		
Equity securities – [Country of Incorporation]	**1,358**	1,552
Equity securities – [Other jurisdictions]	**643**	735
Debt securities	**71**	82
Unquoted:		
Equity securities – [Country of Incorporation]	**929**	1,062
Equity securities – [Other jurisdictions]	**572**	652
	3,573	4,083

Financial assets measured at fair value through other comprehensive income include the Group's strategic equity investments not held for trading and debt securities held to collect and sell. The Group has made an irrevocable election to classify the equity investments at fair value through other comprehensive income rather than through profit or loss because this is considered to be more appropriate for these strategic investments. The current portion relates to those assets the Group expects to sell within the next 12 months.

The fair value of quoted securities is based on published market prices. The fair value of the unquoted securities are based on expected cash flows discounted using a rate based on the market interest rate and the risk premium specific to the unlisted securities (2017: 6% to 7%; 2016: 5.5% to 6.7%).

Note 23 Fair value through other comprehensive income investments (continued)

IFRS 7:7	Disclose information that enables the evaluation of the significance of financial instruments on performance and position.
IFRS 7:11A	**If an entity has designated investments in equity instruments to be measured at fair value through other comprehensive income, as permitted by paragraph 5.7.5 of IFRS 9, it shall disclose:** **(a) which investments in equity instruments have been designated to be measured at fair value through other comprehensive income.** **(b) the reasons for using this presentation alternative.** **(c) the fair value of each such investment at the end of the reporting period.** **(d) dividends recognised during the period, showing separately those related to investments derecognised during the reporting period and those related to investments held at the end of the reporting period.** **(e) any transfers of the cumulative gain or loss within equity during the period including the reason for such transfers.**
BDO Comment	In order to comply with IFRS 7:7 and 11(a), the **fair value through other comprehensive income** balance will need to be disaggregated to some degree, which will be dependent on the nature of the instruments held by the entity **For illustrative purposes only, the adjacent disclosure has disaggregated available for sale instruments into:** - **Those that are quoted and not quoted** - **Equity and non-equity instruments** - **Geography.** **This may or may not be adequate for all entities and will need to be customised on a case-by-case basis.**
IFRS 12:9(d)	Disclose significant judgements and assumptions made in instances where the entity determines that: - Significant influence does not exist, even though more than 20% of the voting rights are held.

23. Fair value through other comprehensive income investments *(continued)*

Fair value through other comprehensive income financial assets include the following:

	2017 CU'000	2016 CU'000
Quoted:		
[Company Name]	**1,358**	**-**
[Company Name]	**643**	**-**
[Company Name]	**71**	**-**
Unquoted:		
[Company Name]	**929**	**-**
[Company Name]	**572**	**-**
	3,573	**-**

Fair value through other comprehensive income (available-for-sale 2016) financial assets are denominated in the following currencies:

	2017 CU'000	2016 CU'000
CU	**1,929**	2,205
[CURRENCY B]	**1,215**	1,388
[CURRENCY C]	**357**	408
Other currencies	**72**	82
	3,573	4,083

One of the Group's strategic investments is a 23% interest in Quoits & Co Limited. This investment is not accounted for using the equity method (as an associate) as the Group does not have the power to participate in the company's operating and financial policies, evidenced by the lack of any direct or indirect involvement at board level and a contractual arrangement which enables the board to take all operational and strategic decisions without consultation with shareholders owning less than 30% of the share capital of Quoits & Co Limited.

Note 24 Derivative financial instruments

IFRS 7:8(a), (e)	Disclose: - Financial assets at fair value through profit or loss (i) Designated as such at initial recognition (ii) Classified as held for trading. - Financial liabilities at fair value through profit or loss: (i) Designated as such at initial recognition (ii) Classified as held for trading.
IFRS 7:24A(a & b)	An entity shall disclose, in a tabular format, the following amounts related to items designated as hedging instruments separately by risk category for each type of hedge (fair value hedge, cash flow hedge or hedge of a net investment in a foreign operation): (a) the carrying amount of the hedging instruments (financial assets separately from financial liabilities); (b) the line item in the statement of financial position that includes the hedging instrument;
IFRS 7.36(a)	**For all financial instruments within the scope of this IFRS, but to which the impairment requirements in IFRS 9 are not applied, an entity shall disclose by class of financial instrument:** **(a) the amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements (eg netting agreements that do not quality for offset in accordance with IAS 32); this disclosure is not required for financial instruments whose carrying amount best represents the maximum exposure to credit risk.**

24. Derivative financial instruments

	2017 CU'000	2016 CU'000
Derivative financial assets		
Derivatives not designated as hedging instruments		
Interest rate swaps	**897**	926
Forward foreign exchange contracts	**456**	349
Total derivatives not designated as hedging instruments	**1,353**	1,275
Derivatives designated as hedging instruments		
Interest rate swaps – cash flow hedges	**546**	352
Interest rate swaps – fair value hedges	**712**	341
Forward foreign exchange contracts – cash flow hedges	**328**	249
Total derivatives designated as hedging instruments	**1,586**	942
Total derivative financial assets	**2,939**	2,217

Current and non-current:

	2017 CU'000	2016 CU'000
Current	**2,314**	1,551
Non-current	**625**	666
Total derivative financial assets	**2,939**	2,217

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets which are included in the consolidated statement of financial position.

Note 24 Derivative financial instruments (continued)

IFRS 7:21A(c)	**An entity shall apply the disclosure requirements in paragraphs 21B-24F for those risk exposures that an entity hedges and for which it elects to apply hedge accounting. Hedge accounting disclosures shall provide information about:** **(c) the effect that hedge accounting has had on the entity's statement of financial position, statement of comprehensive income and statement of changes in equity.**
IFRS 22B	To meet the requirements in paragraph 22A, the information should include (but is not limited to) a description of: (a) the hedging instruments that are used (and how they are used) to hedge risk exposures; (b) how the entity determines the economic relationship between the hedged item and the hedging instrument for the purpose of assessing hedge effectiveness; and (c) how the entity establishes the hedge ratio and what the sources of hedge ineffectiveness are.
IFRS 7:23A & 23D	**23A Unless exempted by paragraph 23C, an entity shall disclose by risk category quantitative information to allow users of its financial statements to evaluate the terms and conditions of hedging instruments and how they affect the amount, timing and uncertainty of future cash flows of the entity.** **23B To meet the requirement in paragraph 23A, an entity shall provide a breakdown that discloses:** **(a) a profile of the timing of the nominal amount of the hedging instrument; and** **(b) if applicable, the average price or rate (for example strike or forward prices etc) of the hedging instrument.** **23D An entity shall disclose by risk category a description of the sources of hedge ineffectiveness that are expected to affect the hedging relationship during its term.**
IFRS 7:24A(b)	An entity shall disclose, in a tabular format, the following amounts related to items designated as hedging instruments separately by risk category for each type of hedge (fair value hedge, cash flow hedge or hedge of a net investment in a foreign operation): (b) the line item in the statement of financial position that includes the hedging instrument;
IFRS 7:24C(b)(ii)	**hedge ineffectiveness recognised in profit or loss;**
IFRS 7:31	Disclose information that enables the evaluation of the nature and extent of the risks arising from financial instruments the entity is exposed to.
IFRS 7:36(b)	For all financial instruments within the scope of this IFRS, but to which the impairment requirements in IFRS 9 are not applied, an entity shall disclose by class of financial instrument: (c) a description of collateral held as security and other credit enhancements, and their financial effect (eg quantification of the extent to which collateral and other credit enhancements mitigate credit risk) in respect of the amount that best represents the maximum exposure to credit risk (whether disclosed in accordance with (a) or represented by the carrying amount of a financial instrument).

24. Derivative financial instruments *(continued)*

Derivative financial liabilities	**2017 CU'000**	**2016 CU'000**
Derivatives not designated as hedging instruments		
Interest rate swaps	**112**	104
Forward foreign exchange contracts	**-**	-
Total derivatives not designated as hedging instruments	**112**	104
Total derivative financial liabilities	**112**	104
Less non-current portion		
Interest rate swaps	**(43)**	(56)
Forward foreign exchange contracts	**-**	-
Current portion	**69**	48

The Group has elected to adopt the hedge accounting requirements of IFRS 9 *Financial Instruments*. The Group enters into hedge relationships where the critical terms of the hedging instrument and the hedged item match, therefore, for the prospective assessment of effectiveness a qualitative assessment is performed. Hedge effectiveness is determined at the origination of the hedging relationship. Quantitative effectiveness tests are performed at each period end to determine the continuing effectiveness of the relationship. In instances where changes occur to the hedged item which result in the critical terms no longer matching, the hypothetical derivative method is used to assess effectiveness.

Cash flow interest rate swaps

The Group manages its cash-flow interest rate risk by using floating-to-fixed interest rate swaps. Normally the Group raises long-term borrowings at floating rates and swaps them into fixed rates.

The ineffective portion recognised in finance expense that arose from cash flow hedges amounts to a loss of CU50,000 (2016: CU50,000).

At 31 December 2017, the main floating rates were EURIBOR and LIBOR. Gains and losses recognised in the cash flow hedging reserve in equity on interest rate swap contracts as at 31 December 2017 will be released to the consolidated statement of comprehensive income as the related interest expense is recognised.

Note 24 Derivative financial instruments (continued)

IFRS 7:24A	An entity shall disclose, in a tabular format, the following amounts related to items designated as hedging instruments separately by risk category for each type of hedge (fair value hedge, cash flow hedge or hedge of a net investment in a foreign operation): (a) the carrying amount of the hedging instruments (financial assets separately from financial liabilities); (b) the line item in the statement of financial position that includes the hedging instrument; (c) the change in fair value of the hedging instrument used as the basis for recognising hedge ineffectiveness for the period; and (d) the nominal amounts (including quantities such as tonnes or cubic metres) of the hedging instruments.
IFRS 7:24B(a)(I - iv) & (b)(i)	**An entity shall disclose, in a tabular format, the following amounts related to hedged items separately by risk category for the types of hedges as follows:** **(a) for fair value hedges:** **(i) the carrying amount of the hedged item recognised in the statement of financial position (presenting assets separately from liabilities);** **(ii) the accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item recognised in the statement of financial position (presenting assets separately from liabilities);** **(iii) the line item in the statement of financial position that includes the hedged item;** **(iv) the change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period; and** **(b) for cash flow hedges and hedges of a net investment in a foreign operation:** **(i) the change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period (ie for cash flow hedges the change in value used to determine the recognised hedge ineffectiveness in accordance with paragraph 6.5.11(c) of IFRS 9);**
IFRS 7:24C(a)(i & ii))	**An entity shall disclose, in a tabular format, the following amounts separately by risk category for the types of hedges as follows:** **(a) for fair value hedges:** **(i) hedge ineffectiveness—ie the difference between the hedging gains or losses of the hedging instrument and the hedged item—recognised in profit or loss (or other comprehensive income for hedges of an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income in accordance with paragraph 5.7.5 of IFRS 9); and** **(ii) the line item in the statement of comprehensive income that includes the recognised hedge ineffectiveness.**

24. Derivative financial instruments *(continued)*

The effects of the cash flow interest rate swap hedging relationships are as follows at 31 December:

	2017 CU'000	2016 CU'000
Carrying amount of derivatives	546	352
Change in fair value of designated hedging instrument	194	352
Change in fair value of designated hedged item	(194)	(352)
Notional amount	10,000	9,000
Maturity date	31 June 2018	1 July 2017
Hedge ratio	1:1	1:1

Fair value interest rate swaps

The Group enters into fixed-to-floating interest rate swaps to hedge the fair value interest rate risk arising where it has borrowed at fixed rates included in loans and borrowings.

The ineffective portion recognised in finance income and expense in the consolidated statement of comprehensive income that arises from fair value hedges amounts to CUnil (2016: CUnil). Gains and losses on the hedged instrument attributable to the hedged risk amount to CU371,000 (2016: CU180,000). Gains and losses on the hedged item attributable to the hedged risk amount to CU250,000 (2016: CU180,000). Accumulated gains and losses on the hedged item attributable to the hedged risk amount to CU70,000 (2016: CU92,000).

At 31 December 2017, the fixed interest rates vary from 6.5% to 7.2 % (2016: 5.9% to 7.0%). Information on the maturities of the loans is provided in note 27.

The effects of the fair value interest rate swap hedging relationships are as follows at 31 December:

	2017 CU'000	2016 CU'000
Carrying amount of derivatives	712	341
Change in fair value of designated hedging instruments	371	341
Change in fair value of designated hedged item	(371)	(341)
Notional amount	8,000	5,000
Maturity date	1 July 2018	1 July 2017
Hedge ratio	1:1	1:1

Note 24 Derivative financial instruments (continued)

IFRS 7:22B	To meet the requirements in paragraph 22A, the information should include (but is not limited to) a description of: (a) the hedging instruments that are used (and how they are used) to hedge risk exposures; (b) how the entity determines the economic relationship between the hedged item and the hedging instrument for the purpose of assessing hedge effectiveness; and (c) how the entity establishes the hedge ratio and what the sources of hedge ineffectiveness are.
IFRS 7:23	23A Unless exempted by paragraph 23C, an entity shall disclose by risk category quantitative information to allow users of its financial statements to evaluate the terms and conditions of hedging instruments and how they affect the amount, timing and uncertainty of future cash flows of the entity. 23B To meet the requirement in paragraph 23A, an entity shall provide a breakdown that discloses: (a) a profile of the timing of the nominal amount of the hedging instrument; and (b) if applicable, the average price or rate (for example strike or forward prices etc) of the hedging instrument. 23D An entity shall disclose by risk category a description of the sources of hedge ineffectiveness that are expected to affect the hedging relationship during its term.
IFRS 7:24A	An entity shall disclose, in a tabular format, the following amounts related to items designated as hedging instruments separately by risk category for each type of hedge (fair value hedge, cash flow hedge or hedge of a net investment in a foreign operation): (a) the carrying amount of the hedging instruments (financial assets separately from financial liabilities); (b) the line item in the statement of financial position that includes the hedging instrument; (c) the change in fair value of the hedging instrument used as the basis for recognising hedge ineffectiveness for the period; and (d) the nominal amounts (including quantities such as tonnes or cubic metres) of the hedging instruments.
IFRS 7:24B(b)(i)	An entity shall disclose, in a tabular format, the following amounts related to hedged items separately by risk category for the types of hedges as follows: (b)for cash flow hedges and hedges of a net investment in a foreign operation: (i) the change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period (ie for cash flow hedges the change in value used to determine the recognised hedge ineffectiveness in accordance with paragraph 6.5.11(c) of IFRS 9);
IFRS 24C(b)(ii)	An entity shall disclose, in a tabular format, the following amounts separately by risk category for the types of hedges as follows: (a)for cash flow hedges and hedges of a net investment in a foreign operation: (ii)hedge ineffectiveness recognised in profit or loss;
IFRS 7:31	Disclose information that enables the evaluation of the nature and extent of the risks arising from financial instruments the entity is exposed to.

24. Derivative financial instruments *(continued)*

Cash flow forward foreign exchange contracts

Foreign exchange risk arises when individual group operations enter into transactions denominated in a currency other than their functional currency. Where the risk to the Group is considered to be significant, Group treasury will enter into a matching forward foreign exchange contract with a reputable bank.

The hedged forecast transactions denominated in foreign currency are expected to occur at various dates within the next 12 months. Gains and losses recognised in the hedging reserve in equity on forward foreign exchange contracts as at 31 December 2017 are recognised in the consolidated statement of comprehensive income in the period or periods during which the hedged forecast transaction affects the consolidated statement of comprehensive income. This is generally within 12 months from the end of the financial year unless the gain or loss is included in the initial carrying value of non-current assets through a basis adjustment (immediate transfer from cash flow hedging reserve to cost of asset) in which case recognition is over the lifetime of the asset as it is depreciated.

The ineffective portion recognised in cost of sales that arose from cash flow hedges amounts to a loss of CU300,000 (2016: 175,000).

The effects of the cash flow forward foreign exchange contract hedging relationships are as follows at 31 December:

	2017 CU'000	2016 CU'000
Carrying amount of derivatives	328	249
Change in fair value of designated hedging instruments	79	249
Change in fair value of designated hedged item	(79)	(249)
Notional amount	2,000	1,500
Maturity date	1 July 2018	1 July 2017
Hedge ratio	1:1	1:1

Note 25 Trade and other receivables

IAS 1:77, 78(b)	Disclose further sub-classifications of the line items in the statement of financial position, including: - Trade receivables from - Related party receivables - Prepayments - Other amounts.
IAS 24:18(b), (c)	For related party receivables, disclose: - Amount outstanding - Impairment.
IFRS 7:6	When this IFRS requires disclosures by class of financial instrument, an entity shall group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. An entity shall provide sufficient information to permit reconciliation to the line items presented in the statement of financial position.
IFRS 7:14	An entity shall disclose: (a) the carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities, including amounts that have been reclassified in accordance with paragraph 3.2.23(a) of IFRS 9; and (b) the terms and conditions relating to its pledge.
IFRS 7:35F(c)	An entity shall explain its credit risk management practices and how they relate to the recognition and measurement of expected credit losses. To meet this objective an entity shall disclose information that enables users of financial statements to understand and evaluate: (c) how the instruments were grouped if expected credit losses were measured on a collective basis;
IFRS 7.36	For all financial instruments within the scope of this IFRS, but to which the impairment requirements in IFRS 9 are not applied, an entity shall disclose by class of financial instrument: (a) the amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements (eg netting agreements that do not quality for offset in accordance with IAS 32); this disclosure is not required for financial instruments whose carrying amount best represents the maximum exposure to credit risk. (b) a description of collateral held as security and other credit enhancements, and their financial effect (eg quantification of the extent to which collateral and other credit enhancements mitigate credit risk) in respect of the amount that best represents the maximum exposure to credit risk (whether disclosed in accordance with (a) or represented by the carrying amount of a financial instrument)
IFRS 7:25, 29(a)	Disclose the fair value of each class of financial assets (unless carrying amount approximates fair value).

25. Trade and other receivables

	2017 CU'000	2016 CU'000
Trade receivables	**15,463**	12,846
Less: provision for impairment of trade receivables	**(851)**	(896)
Trade receivables - net	**14,612**	11,950
Receivables from related parties	**1,243**	1,781
Loans to related parties	**451**	259
Total financial assets other than cash and cash equivalents classified as loans and receivables	**16,306**	13,990
Prepayments	**200**	250
Contract Assets	**367**	600
Total trade and other receivables	**17,385**	15,152
Less: non-current portion – Loan to related parties	**(180)**	(388)
Less: non-current portion – Trade receivables	**(512)**	(312)
Current portion	**16,693**	14,452

The carrying value of trade and other receivables classified at amortised cost approximates fair value.

Trade receivables amounting to CU1,500,000 (2016: CU nil) were pledged to the World Bank as collateral to secure a loan of CU1,000,000 (2016: CU nil) (see note 27).

Note 25 Trade and other receivables (continued)

IFRS 7:15	If the entity holds collateral that it is able to sell or re-pledge even if the owner of the collateral has not defaulted, disclose: - Collaterals fair value; - Fair value sold or re-pledged collateral, and whether there is an obligation to return it - Terms and conditions.
IFRS 7:35M & 35N	35M To enable users of financial statements to assess an entity's credit risk exposure and understand its significant credit risk concentrations, an entity shall disclose, by credit risk rating grades, the gross carrying amount of financial assets and the exposure to credit risk on loan commitments and financial guarantee contracts. 35N For trade receivables, contract assets and lease receivables to which an entity applies paragraph 5.5.15 of IFRS 9, the information provided in accordance with paragraph 35M may be based on a provision matrix (see paragraph B5.5.35 of IFRS 9).

25. Trade and other receivables *(continued)*

At 31 December 2017, CU250,000 (2016: CUnil) of trade receivables had been sold to a provider of invoice discounting and debt factoring services. The Group is committed to underwrite any of the debts transferred and therefore continues to recognise the debts sold within trade receivables until the debtors repay or default. The proceeds from transferring the debts of CU221,000 (2016: CUnil) are included in other financial liabilities until the debts are collected or the Group makes good any losses incurred by the service provider.

The Group does not hold any collateral as security.

At 31 December 2017 the lifetime expected loss provision for trade receivables is as follows:

	Current	More than 30 days past due	More than 60 days past due	More than 120 days past due	Total CU'000
Expected loss rate	1%	3%	10%	50%	
Gross carrying amount	14,689	618	116	40	15,463
Loss provision	147	19	12	20	197

As at 31 December 2017 trade receivables of CU851,000 (2016: CU896,000) were past due and fully impaired. The receivables due at the end of the financial year relate to two of the customers in the Southern region, whose offices and production facilities were partially destroyed by fire during the year. In the prior year, it was due to three customers in the North whose production facilities were badly damaged by flooding.

The main factors considered by the Risk Management Committee in determining that the amounts due are impaired are that the customers are unlikely to be able to recommence trading for some time, the debts are 3 months or more past due and there is currently uncertainty over whether the insurance claim related to the fire will be paid. The debts outstanding at the end of the prior period were not recovered. The ageing of these receivables is as follows:

	2017 CU'000	2016 CU'000
3 to 6 months	**611**	841
6 to 12 months	**43**	55
	654	896

All non-current receivables are due within 3 years of 31 December 2017. None of those receivables has been subject to a significant increase in credit risk since initial recognition and, consequently, 12 month expected credit losses have been recognised, and there are no non-current receivable balances lifetime expected credit losses.

Note 25 Trade and other receivables (continued)

IFRS 7:20a)(vi)

(a) Disclose the following items of income, expense, gains or losses either in the statement of comprehensive income or in the notes:Net gains or losses on:
(vi) financial assets measured at amortised cost.

25. Trade and other receivables *(continued)*

Movements in the impairment allowance for trade receivables are as follows:

	2017 CU'000	2016 CU'000
At 1 January under IAS 39	**896**	401
Restated through opening retained earnings	**220**	-
Opening provision provision for impairment of trade receivables	**1,116**	-
Increase during the year	**1,341**	661
Receivable written off during the year as uncollectible	**(896)**	(108)
Unused amounts reversed	**-**	(58)
At 31 December	**1,561**	896

The movement in the impairment allowance for trade receivables has been included in the cost of sales line in the consolidated statement of comprehensive income.

Receivables from related parties and loans to related parties are considered to be a low credit risk. Credit risk for these assets has not increased significantly since their initial recognition.

Movements in the impairment allowance for receivables from related parties and loans to related parties for the year ended 31 December 2017 are as follows:

	Receivables from related parties CU'000	Loans from related parties CU'000	Total CU'000
At 1 January under IAS 39			
Restated through opening retained earnings	**1**	**1**	**2**
Opening provision for impairment	**1**	**1**	**2**
Increase during the year	**1**	**2**	**3**
At 31 December	**2**	**3**	**5**

The movement in the impairment allowance for receivables from related parties and loans from related parties has been included in the administrative expense line in the consolidated statement of comprehensive income.

Note 26 Trade and other payables

IAS 1:77	Disclose further sub-classifications of the line items in the statement of financial position.
IFRS 7:25, 29(a)	Disclose the fair value of each class of financial liability (unless carrying amount approximates fair value)

26. Trade and other payables

	2017 CU'000	2016 CU'000
Trade payables	**12,789**	11,487
Other payables	**643**	1,781
Accruals	**146**	1,398
Total financial liabilities, excluding loans and borrowings, classified as financial liabilities measured at amortised cost	**13,578**	14,666
Other payables - tax and social security payments	**743**	481
Deferred income	**213**	364
Dividends payable	**50**	60
Total Trade and other payables	**14,584**	15,571

The carrying value of trade and other payables classified as financial liabilities measured at amortised cost approximates fair value.

Note 33 Reserves

IAS 1:79(b)	Disclose the nature and purpose of each reserve.
IAS 16:77(f)	Disclose any restrictions on the distribution of the revaluation surplus.

33. Reserves

The following describes the nature and purpose of each reserve within equity:

Reserve	Description and purpose
Fair value through other comprehensive income reserve	Gains/losses arising on financial assets classified as fair value through other comprehensive income.
Cash flow hedging reserve	Gains/losses arising on the effective portion of hedging instruments carried at fair value in a qualifying cash flow hedge.
Foreign exchange reserve	Gains/losses arising on retranslating the net assets of overseas operations into CU.
Retained earnings	All other net gains and losses and transactions with owners (eg dividends) not recognised elsewhere.

Note 34 Analysis of amounts recognised in other comprehensive income

IAS 1:106A	Disclose an analysis of other comprehensive income by item for each component of equity.
IFRS 7:(c),(d),(e)	For cash flow hedges disclose: – the amount that was recognised in other comprehensive income during the period; – the amount that was reclassified from equity to profit or loss for the period, showing the amount included in each line item in the statement of comprehensive income; and – the amount that was removed from equity during the period and included in the initial cost or other carrying amount of a non-financial asset or non-financial liability whose acquisition or incurrence was a hedged highly probable forecast transaction.
IFRS 7:24	**24B An entity shall disclose, in a tabular format, the following amounts related to hedged items separately by risk category for the types of hedges as follows:** **(a) for fair value hedges:** **(ii) the accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item recognised in the statement of financial position (presenting assets separately from liabilities);** **(v) the accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses in accordance with paragraph 6.5.10 of IFRS 9.** **(b) for cash flow hedges and hedges of a net investment in a foreign operation:** **(ii) the balances in the cash flow hedge reserve and the foreign currency translation reserve for continuing hedges that are accounted for in accordance with paragraphs 6.5.11 and 6.5.13(a) of IFRS 9; and** **(i) the balances remaining in the cash flow hedge reserve and the foreign currency translation reserve from any hedging relationships for which hedge accounting is no longer applied.**

34. Analysis of amounts recognised in other comprehensive income

	Revaluation reserve CU'000	Fair value through other comprehensive income (Available-for-sale 2016) reserve CU'000	Cash flow hedging reserve for continuing interest rate swap hedges CU'000	Cash flow hedging reserve for continuing foreign exchange contract hedges CU'000	Foreign exchange reserve CU'000	Retained earnings CU'000
Year to 31 December 2017						
Items that will not be reclassified to profit or loss:						
Loss on property revaluation	**(4,460)**	**-**	**-**	**-**	**-**	**-**
Actuarial gain on defined benefit pension schemes	**-**	**-**	**-**	**-**	**-**	**266**
Tax relating to items that will not be reclassified (Note 10)	**1,026**	**-**	**-**	**-**	**-**	**(61)**
Fair value through other comprehensive income investments:						
Valuation (losses)/gains on fair value through other comprehensive income equity investments	**-**	**(349)**	**-**	**-**	**-**	**-**
Tax relating to items that may be reclassified (Note 10)	**-**	**57**	**-**	**-**	**-**	**-**

*Table continued to next page

Note 34 Analysis of amounts recognised in other comprehensive income (continued)

IAS 1:106A	Disclose an analysis of other comprehensive income by item for each component of equity.
IFRS 7:(c),(d),(e)	For cash flow hedges disclose: – the amount that was recognised in other comprehensive income during the period; – the amount that was reclassified from equity to profit or loss for the period, showing the amount included in each line item in the statement of comprehensive income; and – the amount that was removed from equity during the period and included in the initial cost or other carrying amount of a non-financial asset or non-financial liability whose acquisition or incurrence was a hedged highly probable forecast transaction.
IFRS 7:24	**24B An entity shall disclose, in a tabular format, the following amounts related to hedged items separately by risk category for the types of hedges as follows:** **(c) for fair value hedges:** **(ii) the accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item recognised in the statement of financial position (presenting assets separately from liabilities);** **(v) the accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses in accordance with paragraph 6.5.10 of IFRS 9.** **(d) for cash flow hedges and hedges of a net investment in a foreign operation:** **(iii) the balances in the cash flow hedge reserve and the foreign currency translation reserve for continuing hedges that are accounted for in accordance with paragraphs 6.5.11 and 6.5.13(a) of IFRS 9; and** **(ii) the balances remaining in the cash flow hedge reserve and the foreign currency translation reserve from any hedging relationships for which hedge accounting is no longer applied.**

34. Analysis of amounts recognised in other comprehensive income (continued)

	Revaluation reserve CU'000	Fair value through other comprehensive income (Available-for-sale 2016) reserve CU'000	Cash flow hedging reserve for continuing interest rate swap hedges CU'000	Cash flow hedging reserve for continuing foreign exchange contract hedges CU'000	Foreign exchange reserve CU'000	Retained earnings CU'000
Items that are or may be reclassified subsequently to profit or loss:						
Fair value through other comprehensive income investments:						
Valuation (losses)/gains on fair value through other comprehensive income debt securities	-	(9)	-	-	-	-
Cash flow hedges:						
Gains recognised on hedging instruments	-	-	731	200	-	-
Transferred to profit or loss for the year (included in administrative expenses)	-	-	-	(48)	-	-
Transferred to profit and loss for the year (included in finance expense)	-	-	(200)	-	-	-
Transferred to initial carrying amount of property, plant and equipment	-	-	-	(775)	-	-
Transferred to initial carrying amount of inventory	-	-	-	165	-	-
	-	-	-	(127)	-	-
Exchange differences arising on translation of foreign operations	-	-	-	-	2,084	-
Tax relating to items that may be reclassified (Note 10)	-	2	(156)	(58)	-	-
	(3,434)	(299)	(375)	(516)	2,084	205

Note 34 Analysis of amounts recognised in other comprehensive income (continued)

IAS 1:106A	Disclose an analysis of other comprehensive income by item for each component of equity.
IFRS 7:(c),(d),(e)	For cash flow hedges disclose: – the amount that was recognised in other comprehensive income during the period; – the amount that was reclassified from equity to profit or loss for the period, showing the amount included in each line item in the statement of comprehensive income; and – the amount that was removed from equity during the period and included in the initial cost or other carrying amount of a non-financial asset or non-financial liability whose acquisition or incurrence was a hedged highly probable forecast transaction.

34. Analysis of amounts recognised in other comprehensive income *(continued)*

	Revaluation reserve	Available-for-sale reserve	Cash flow hedging reserve	Foreign exchange reserve	Retained earnings
	CU'000	CU'000	CU'000	CU'000	CU'000
Year to 31 December 2016					
Items that will not be reclassified to profit or loss:					
Loss on property revaluation	(1,154)	-	-	-	-
Actuarial gain on defined benefit pension schemes	-	-	-	-	157
Share of associates' other comprehensive income	-	-	-	-	412
Tax relating to items that will not be reclassified (Note 10)	289	-	-	-	(142)
Items that are or may be reclassified to profit or loss:					
Available-for-sale investments:					
Valuation (losses)/gains on available-for-sale investments	-	1,542	-	-	-
Cash flow hedges:					
Gains recognised on hedging instruments	-	-	458	-	-
Transferred to profit or loss for the year (included in administrative expenses)	-	-	275	-	-
Transferred to initial carrying amount of inventory	-	-	(132)	-	-
			601		
Exchange differences arising on translation of foreign operations	-	-	-	1,024	-
Tax relating to items that may be reclassified (Note 10)	-	(386)	(150)	-	-
	(865)	1,156	451	1,024	427

Note 45 Accounting policies

General

IAS 1:117(b)	Disclose accounting policies that are relevant to understanding the financial statements (i.e. those for material items).

Financial assets

IFRS 7:21, B5	Paragraph 21 requires disclosure of the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements. For financial instruments, such disclosure may include: (a) for financial liabilities designated as at fair value through profit or loss: (i) the nature of the financial liabilities the entity has designated as at fair value through profit or loss; (ii) the criteria for so designating such financial liabilities on initial recognition; and (iii) how the entity has satisfied the conditions in paragraph 4.2.2 of IFRS 9 for such designation. (aa) for financial assets designated as measured at fair value through profit or loss: (i) the nature of the financial assets the entity has designated as measured at fair value through profit or loss; and (ii) how the entity has satisfied the criteria in paragraph 4.1.5 of IFRS 9 for such designation. (b) [deleted] (c) whether regular way purchases and sales of financial assets are accounted for at trade date or at settlement date (see paragraph 3.1.2 of IFRS 9).

45. Accounting policies

Financial assets

The Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. Other than financial assets in a qualifying hedging relationship, the Group's accounting policy for each category is as follows:

Fair value through profit or loss

This category comprises only in-the-money derivatives (see "Financial liabilities" section for out-of-money derivatives). They are carried in the statement of financial position at fair value with changes in fair value recognised in the consolidated statement of comprehensive income in the finance income or expense line. Other than derivative financial instruments which are not designated as hedging instruments, the Group does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

Amortised cost

These assets arise principally from the provision of goods and services to customers (eg trade receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions for trade receivables are recognised based on the simplified approach within IFRS 9 using the lifetime expected credit losses. During this process the probability of the non-payment of the trade receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised within cost of sales in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Impairment provisions for receivables from related parties and loans to related parties are recognised based on a forward looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those where the credit risk has not increased significantly since initial recognition of the financial asset, twelve month expected credit losses along with gross interest income are recognised. For those for which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

From time to time, the Group elects to renegotiate the terms of trade receivables due from customers with which it has previously had a good trading history. Such renegotiations will lead to changes in the timing of payments rather than changes to the amounts owed and, in consequence, the new expected cash flows are discounted at the original effective interest rate and any resulting difference to the carrying value is recognised in the consolidated statement of comprehensive income (operating profit).

Note 45 Accounting policies (continued)

General

IAS 1:117(b)	Disclose accounting policies that are relevant to understanding the financial statements (i.e. those for material items).

Financial assets, Financial liabilities

IFRS 7:11A	If an entity has designated investments in equity instruments to be measured at fair value through other comprehensive income, as permitted by paragraph 5.7.5 of IFRS 9, it shall disclose the reasons for using this presentation alternative.
IFRS 7:21, B5	Paragraph 21 requires disclosure of the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements. For financial instruments, such disclosure may include: (a) for financial liabilities designated as at fair value through profit or loss: (i) the nature of the financial liabilities the entity has designated as at fair value through profit or loss; (ii) the criteria for so designating such financial liabilities on initial recognition; and (iii) how the entity has satisfied the conditions in paragraph 4.2.2 of IFRS 9 for such designation. (aa) for financial assets designated as measured at fair value through profit or loss: (i) the nature of the financial assets the entity has designated as measured at fair value through profit or loss; and (ii) how the entity has satisfied the criteria in paragraph 4.1.5 of IFRS 9 for such designation. (b) [deleted] (c) whether regular way purchases and sales of financial assets are accounted for at trade date or at settlement date (see paragraph 3.1.2 of IFRS 9).

45. Accounting policies *(continued)*

Financial assets *(continued)*

Amortised cost (continued)

The Group's financial assets measured at amortised cost comprise trade and other receivables and cash and cash equivalents in the consolidated statement of financial position.

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 – for the purpose of the statement of cash flows - bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities on the consolidated statement of financial position.

Fair value through other comprehensive income

The Group has a number of strategic investments in listed and unlisted entities which are not accounted for as subsidiaries, associates or jointly controlled entities. For those investments, the Group has made an irrevocable election to classify the investments at fair value through other comprehensive income rather than through profit or loss as the Group considers this measurement to be the most representative of the business model for these assets. They are carried at fair value with changes in fair value recognised in other comprehensive income and accumulated in the fair value through other comprehensive income reserve. Upon disposal any balance within fair value through other comprehensive income reserve is reclassified directly to retained earnings and is not reclassified to profit or loss.

The Group has debt securities whose objective is achieved by both holding these securities in order to collect contractual cash flows and having the intention to sell the debt securities before maturity. The contractual terms of the debt securities give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Dividends are recognised in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment, in which case the full or partial amount of the dividend is recorded against the associated investments carrying amount.

Purchases and sales of financial assets measured at fair value through other comprehensive income are recognised on settlement date with any change in fair value between trade date and settlement date being recognised in the fair value through other comprehensive income reserve.

Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired.

Other than financial liabilities in a qualifying hedging relationship (see below), the Group's accounting policy for each category is as follows:

Note 45 Accounting policies (continued)

General

IAS 1:117(b)	Disclose accounting policies that are relevant to understanding the financial statements (i.e. those for material items).

Financial liabilities, Hedge accounting

IFRS 7:21, B5	Paragraph 21 requires disclosure of the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements. For financial instruments, such disclosure may include: (a) for financial liabilities designated as at fair value through profit or loss: (i) the nature of the financial liabilities the entity has designated as at fair value through profit or loss; (ii) the criteria for so designating such financial liabilities on initial recognition; and (iii) how the entity has satisfied the conditions in paragraph 4.2.2 of IFRS 9 for such designation. (aa) for financial assets designated as measured at fair value through profit or loss: (i) the nature of the financial assets the entity has designated as measured at fair value through profit or loss; and (ii) how the entity has satisfied the criteria in paragraph 4.1.5 of IFRS 9 for such designation. (b) [deleted] (c) whether regular way purchases and sales of financial assets are accounted for at trade date or at settlement date (see paragraph 3.1.2 of IFRS 9).

45. Accounting policies *(continued)*

Fair value through profit or loss

This category comprises only out-of-the-money derivatives (see "Financial assets" for in the money derivatives). They are carried in the consolidated statement of financial position at fair value with changes in fair value recognised in the consolidated statement of comprehensive income. The Group does not hold or issue derivative instruments for speculative purposes, but for hedging purposes. Other than these derivative financial instruments, the Group does not have any liabilities held for trading nor has it designated any financial liabilities as being at fair value through profit or loss.

Other financial liabilities

Other financial liabilities include the following items:

Bank borrowings and the Group's perpetual preference shares are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated statement of financial position. For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

- Liability components of convertible loan notes are measured as described further below.

- Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Hedge accounting

Hedge accounting is applied to financial assets and financial liabilities only where all of the following criteria are met:

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge;

- The hedge relationship meets all of the hedge effectiveness requirements including that an economic relationship exists between the hedged item and the hedging instrument, the credit risk effect does not dominate the value changes, and the hedge ratio is designated based on actual quantities of the hedged item and hedging instrument.

Cash flow hedges

The effective part of forward contracts designated as a hedge of the variability in cash flows of foreign currency risk arising from firm commitments, and highly probable forecast transactions, are measured at fair value with changes in fair value recognised in other comprehensive income and accumulated in the cash flow hedge reserve. The Group uses such contracts to fix the cost of equipment, inventories and services, and the income from foreign currency sales, in the functional currency of the Group entity concerned.

Note 45 Accounting policies (continued)

General

IAS 1:117(b)	Disclose accounting policies that are relevant to understanding the financial statements (i.e. those for material items).

Hedge accounting

IFRS 7:21, B5	Paragraph 21 requires disclosure of the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements. For financial instruments, such disclosure may include: (a) for financial liabilities designated as at fair value through profit or loss: (i) the nature of the financial liabilities the entity has designated as at fair value through profit or loss; (ii) the criteria for so designating such financial liabilities on initial recognition; and (iii) how the entity has satisfied the conditions in paragraph 4.2.2 of IFRS 9 for such designation. (aa) for financial assets designated as measured at fair value through profit or loss: (i) the nature of the financial assets the entity has designated as measured at fair value through profit or loss; and (ii) how the entity has satisfied the criteria in paragraph 4.1.5 of IFRS 9 for such designation. (b) [deleted] (c) whether regular way purchases and sales of financial assets are accounted for at trade date or at settlement date (see paragraph 3.1.2 of IFRS 9).

45. Accounting policies *(continued)*

Cash flow hedges (continued)

If a highly probable forecast transaction results in the recognition of a non-monetary asset, the cumulative loss/(gain) is added to/(subtracted from) the cost of the asset acquired ("basis adjustment"). The same approach is followed where a cash flow hedge of a hedged forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment to which fair value hedge accounting is applied. Otherwise the cumulative gain or loss recognised in other comprehensive income is reclassified from the cash flow hedge reserve to profit or loss at the same time as the hedged transaction affects profit or loss. The two transactions are recognised in the same line item.

If a forecast transaction is no longer considered highly probable but the forecast transaction is still expected to occur, the cumulative gain or loss recognised in other comprehensive income is frozen and recognised in profit or loss in accordance with the policy set out in the paragraph above. Subsequent changes in the fair value of the derivative are recognised in profit or loss. If the Group closes out its position before the transaction takes place (even though it is still expected to take place) the cumulative gain or loss on changes in fair value of the derivative is similarly recognised in accordance with the policy set out in the paragraph above. If, at any point, the hedged transaction is no longer expected to occur, the cumulative gain or loss is reclassified from the cash flow hedge reserve to profit or loss immediately.

The effective portion of gains and losses on derivatives used to manage cash flow interest rate risk (such as floating to fixed interest rate swaps) are also recognised in other comprehensive income and accumulated in the cash flow hedge reserve. However, if the Group closes out its position early, the cumulative gains and losses recognised in other comprehensive income are frozen and reclassified from the cash flow hedge reserve to profit or loss using the effective interest method. The ineffective portion of gains and losses on derivatives used to manage cash flow interest rate risk are recognised in profit or loss within finance expense or finance income.

Fair value hedges

Where derivatives are used to hedge the Group's exposure to fair value interest rate risk (such as fixed to floating rate swaps), the hedged item is remeasured to take into account the gain or loss attributable to the hedged risk (in the case of a fixed rate loan, the hedged risk is changes in the fair value of interest rates) with the gains or losses arising recognised in profit or loss. This offsets the gain or loss arising on the hedging instrument which is measured at fair value through profit or loss.

Hedges of a net investment in a foreign operation

The Group enters into derivative currency contracts to hedge changes in the net investment of foreign operations arising from movements in the forward exchange rate. To the extent that the hedge is effective, gains and losses arising on the derivative are recognised in other comprehensive income. The ineffective portion of such hedges is recognised in profit or loss.

CONTACT

For further information about how BDO can assist you and your organisation, please get in touch with one of our key contacts listed below. Alternatively, please visit www.bdo.global/en-gb/services/audit-assurance/ifrs/ifrs-country leaders where you can find full lists of regional and country contacts.

EUROPE		
Anne Catherine Farlay	France	annecatherine.farlay@bdo.fr
Jens Freiberg	Germany	jens.freiberg@bdo.de
Teresa Morahan	Ireland	tmorahan@bdo.ie
Ehud Greenberg	Israel	ehudg@bdo.co.il
Roald Beumer	Netherlands	roald.beumer@bdo.nl
Reidar Jensen	Norway	reidar.jensen@bdo.no
Maria Sukonkina	Russia	m.sukonkina@bdo.ru
David Cabaleiro	Spain	david.cabaleiro@bdo.es
René Krügel	Switzerland	rene.kruegel@bdo.ch
Brian Creighton	United Kingdom	brian.creighton@bdo.co.uk
ASIA PACIFIC		
Aletta Boshoff	Australia	aletta.boshoff@bdo.com.au
Wayne Basford	Australia	wayne.basford@bdo.com.au
Zheng Xian Hong	China	zheng.xianhong@bdo.com.cn
Fanny Hsiang	Hong Kong	fannyhsiang@bdo.com.hk
Keyur Dave	India	keyurdave@bdo.in
Khoon Yeow Tan	Malaysia	tanky@bdo.my
LATIN AMERICA		
Marcelo Canetti Segura	Argentina	mcanetti@bdoargentina.com
Luis Pierrend	Peru	lpierrend@bdo.com.pe
Ernesto Bartesaghi	Uruguay	ebartesaghi@bdo.com.uy
NORTH AMERICA & CARIBBEAN		
Armand Capisciolto	Canada	acapisciolto@bdo.ca
Wendy Hambleton	USA	whambleton@bdo.com
MIDDLE EAST		
Arshad Gadit	Bahrain	arshad.gadit@bdo.bh
Antoine Gholam	Lebanon	agholam@bdo-lb.com
SUB SAHARAN AFRICA		
Nigel Griffith	South Africa	ngriffith@bdo.co.za

www.bdo.global

1711-02