Kronospan ApS

Report and Financial Statements

30 September 2018

Company Registration No.: 11 76 61 10

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Spiros Spyrou

Jörg Lippok

Tomazs Janczak (appointed on 5 May 2018)

Henrik Buchleitner (resigned on 5 May 2018)

EXECUTIVE BOARD

Henning Jensen

REGISTERED OFFICE

2 Fabriksvej Street
Pindstrup, 8550 Ryomgaard
Denmark

PRINCIPAL PLACE OF BUSINESS

2 Fabriksvej Street
Pindstrup, 8550 Ryomgaard
Denmark

BANKERS

Danske Bank A/S

AUDITORS

BDO Statsautoriseret revisionsaktieselskab

Kystvejen 29, 8000 Aarhus

Denmark

STATEMENT BY BOARD OF DIRECTORS AND BOARD OF EXECUTIVES

The Board of Directors and the Executive Board have discussed and approved the Annual Report of Kronospan ApS for the year 1 October 2017 – 30 September 2018.

The Annual Report is presented in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU.

In our opinion the Company's Financial Statements give a true and fair view of the Company's financial position at 30 September 2018 and of the results of the Company's operations and cash flows for the financial year 1 October 2017 – 30 September 2018.

The Management's Review includes in our opinion a fair presentation of the matters dealt within the Review.

We recommend the Annual Report be approved at the Annual General Meeting.

Pindstrup, 5 December 2018
Executive Board:

Henning Jensen
CEO

Board of Directors:

Spiros Spyrou Chairman	Jörg Lippok	Tomazs Janczak

DIRECTORS' REPORT

The Directors submit their annual report and financial statements for the year ended 30 September 2018.

PRINCIPAL ACTIVITIES

The principal activities of the Company are the production and sale of Particleboard ("PB"), Melamine Faced Particleboard ("MF-PB") and Tongue and Groove standard and customized boards ("T&G PB and T&G MF-PB").

REVIEW OF OPERATIONS

	2018	**2017**	**Change**
	Euro'000	**Euro'000**	**%**
Revenue	69,316	67,772	2.3
Operating Profit	4,432	4,351	1.9
EBITDA	6,153	6,601	(6.8)

Revenue for the year increased by 2.3% compared to the previous year and amounted to Euro 69.3 million (2017: Euro 67.8 million).

Operating profit increased by 1.9%, mainly as a result of lower raw material prices (recycled wood). The management considers the results satisfactory.

INVESTMENT

	2018	**2017**	**Change**
	Euro'000	**Euro'000**	**%**
Total	7,311	3,204	128.2

The major investments in 2018 and 2017 include modernization of its plant and machinery.

DIRECTORS

The members of the Board of Directors of the Company as at the date of this report are shown on page 3.

Henrik Buchleitner resigned from the Board of Directors on 5 May 2018 and Tomasz Janczak has been appointed to the Board of Directors on the same date.

DIVIDENDS

A final dividend for the year ended 30 September 2017 of Euro 5 million was declared based on a Shareholders' Resolution dated 20 February 2018. Two equal payments of Euro 1.5 million were paid on 27 March 2018 and 27 June and Euro 2 million were paid on 20 September 2018.

A final dividend for the year ended 30 September 2016 of Euro 6 million was declared based on a Shareholders' Resolution dated 23 February 2017, of which Euro 3 million were paid on 3 April 2017 and two equal payments of Euro 1.5 million were made on 29 June 2017 and 27 September 2017.

DIRECTORS' REPORT (continued)

OUTLOOK

The Company expects the next 12 months to provide further opportunities to improve and will continue to:

- Invest in improvements in product quality and customer service
- Ensure it makes its contribution to safe-guarding and improving the environment and workplace in which it operates
- Invest in cost reduction programmes
- Optimise existing technologies to improve efficiency
- Invest in new technologies and products to increase production capacity
- The Company's commercial potential is expected to remain unchanged. A profit and positive cash flows from operating activities are expected and management anticipates improved results in the FY2018/19.

GENERAL RISKS

The demand for particleboard and valued added wood panel products in Denmark is influenced by both local (micro) and global macro-economic factors. The projections are that local and neighbouring countries' demand within the furniture, home/kitchen and building industry will remain stable in the next financial year.

The Company has established a long-term cooperation with a few large buyers which derive a major part of the sales income, primarily through sales of customised boards and this business model is expected to continue. Furthermore, management are in the process of renewing environmental permits as required by the relevant local regulations.

Management believes that current financing arrangements can be carried forward and that the Company's financial resources are properly secured for FY2017/18. Financial risks are described in detail in Note 26 "Risk Management".

DIRECTORS' REPORT (CONTINUED)

FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS

EUR´000	**2017/18**	**2016/17**	**2015/16**	**2014/15**	**2013/14**
Key figures					
Revenue	69,316	67,772	68,128	64,321	63,562
Ordinary operating profit/loss	4,432	4,351	3,854	732	2,031
Loss from Financial income and expenses	194	139	32	(415)	(846)
Profit/loss for the year	**3,661**	**3,560**	**3,083**	**(697)**	**1,000**
Non-current assets	26,690	20,890	19,857	22,260	24,122
Additions to tangible and intangible assets	7,311	3,204	539	3,096	2,573
Curent assets	13,988	15,186	15,569	18,194	20,004
Total assets	**40,678**	**36,076**	**35,426**	**40,454**	**44,126**
Share capital	12,155	12,155	12,155	13,434	13,434
Equity	**16,244**	**17,619**	**20,053**	**22,927**	**24,292**
Provisions	-	-	-	-	296
Non-current liabilities other than provisions	2,808	2,627	2,518	2,245	2,642
Current liabilities other than provisions	21,626	15,830	12,855	15,282	16,896
Cash flows from operating activities	10,835	5,399	10,411	5,835	7,781
Net cash flows from investing activities	(5,158)	(2,957)	(139)	(2,601)	(2,491)
Portion relating to investment in property, plant, equiment and software	(5,413)	(3,154)	(328)	(2,699)	-
Cash flows from financing activities	(5,590)	(6,558)	(6,544)	(582)	(5,290)
Total cash flows	**87**	**(4,116)**	**3,728**	**2,652**	-
Financial ratios (%)					
Return on investment	17.48	12.32	11.14	1.84	4.75
Solvency ratio	39.93	48.84	56.61	56.67	55.05
Return on equity	21.62	18.90	14.35	2.33	4.2
Average number of full-time employees	**217**	**219**	**214**	**215**	**204**

Financial ratios are calculated based on the guidance "Recommendations and Financial Ratios 2015" as issued by the Danish Finance Society. For terms and definitions refer to Note 26 “Other Accounting Policies”.

Financial highlights and financial ratios for FY13/14 are calculated based on Danish GAAP. Financial highlights and financials ratios from FY14/15 and onwards are prepared in accordance with IFRS.

ENVIRONMENTAL ISSUES

During the FY2017/18 the company was in compliance with noise limits. An application for the continued operation of the Boiler (Kraft 5) has been filed with the Authorities and it is currently being evaluated. The Company expects a positive outcome.

CORPORATE SOCIAL RESPONSIBILITY (CSR) AND GENDER DIVERSITY

Corporate Responsibility (“CSR”) and Equal Opportunities Statements can be found in the Company’s website: http://www.kronospan-dk.dk/Files//Filer/pdfer/Kronospan%20Aps%20%20statement%20on%20CSR.pdf

DIRECTORS' REPORT (CONTINUED)

KNOWLEDGE RESOURCES

The Company continuously strives to further develop the culture, which is based on its DANSK values (Dialogue, Ambition, Intimacy, Common Sense and Quality).

Educational courses for the management team and other individuals have systemically taken place in order to develop professional and personal competencies, leadership skills and communication.

AUDITORS

All of the current directors have taken all of the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

Approved by the Board of Directors

and signed on behalf of the Board

Executive Board:

Henning Jensen
CEO

Board of Directors:

Spiros Spyrou Chairman	Jörg Lippok	Tomasz Janczak

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Kronospan ApS

Opinion

We have audited the Financial Statements of Kronospan ApS for the financial year 1 October 2017 - 30 September 2018, which comprise income statement, total income statement, balance sheet, cash flow statement, statement of changes in equity and notes including a summary of significant accounting policies, for the Company. The Consolidated Financial Statements are prepared in accordance with the International Financial Reporting Standards as adopted by the EU and additional requirements in the Danish Financial Statements Act.

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 30 September 2018, and of the results of the operations and cash flows for the financial year 1 October 2017 - 30 September 2018 in accordance with the International Financial Reporting Standards as adopted by the EU and additional requirements in the Danish Financial Statements Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of Management's Review.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation of Financial Statements that give a true and fair view in accordance with the International Financial Reporting Standards as adopted by the EU and addition-al requirements in the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the Financial Statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Den-mark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the Financial Statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's re-port. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Aarhus, 5 December 2018

BDO Statsautoriseret revisionsaktieselskab

CVR no. 20 22 26 70

Jeanette Staal

State Authorised Public Accountant

MNE no. mne18547

Company Registration No.: 11766110

Company Name: Kronospan ApS

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 30 September 2018

	Note	2018 Euro'000	2017 Euro'000
Revenue	**3**	**69,316**	**67,772**
Other operating income	**4**	1,070	1,114
Changes in inventories of finished goods and work in progress		(422)	(985)
Raw materials and consumables used		(35,769)	(35,891)
Employee benefit costs	**5**	(14,538)	(14,451)
Depreciation and amortisation expense	**4,8,9**	(1,543)	(2,179)
Other operating expenses	**4**	(13,682)	(11,029)
Profit from operations	**4**	**4,432**	**4,351**
Finance costs	**6**	(61)	(58)
Income from investment in joint venture		255	197
Profit before tax		**4,626**	**4,490**
Income tax expense	**7**	(965)	(930)
Profit for the year		**3,661**	**3,560**
Other comprehensive income:			
Foreign currency exchange differences		(36)	6
Other comprehensive income for the year, net of tax		**(36)**	**6**
Total comprehensive income for the year		**3,625**	**3,566**

All of the profit and other comprehensive income for the year is attributable to equity holders of the Company.

The notes on pages 16 to 38 form an integral part of these financial statements.

Company Registration No.: 11766110

Company Name: Kronospan ApS

STATEMENT OF FINANCIAL POSITION

As at 30 September 2018

	Note	30 September 2018 Euro'000	Euro'000	30 September 2017 Euro'000	Euro'000
ASSETS					
Non current assets					
Property, plant and equipment	**8**	25,893		20,039	
Intangible assets	**9**	70		123	
Investments	**10**	727		728	
Total non-current assets			**26,690**		**20,890**
Current assets					
Inventories	**11**	5,947		5,825	
Trade and other receivables	**12**	7,555		9,077	
Prepayments		372		242	
Cash and cash equivalents	**13**	114		42	
Total current assets			**13,988**		**15,186**
TOTAL ASSETS			**40,678**		**36,076**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Equity attributable to shareholders of the Company					
Share capital	**14**	12,155		12,155	
Other reserves		(29)		7	
Retained earnings		4,118		5,457	
Total equity			**16,244**		**17,619**
Non-current liabilities					
Bank loans	**15**	208		627	
Deferred tax liability	**7**	2,600		2,000	
Total non-current liabilities			**2,808**		**2,627**
Current liabilities					
Bank loans and overdrafts	**15**	5,786		5,807	
Trade and other payables	**16**	15,475		9,791	
Current tax payable		365		232	
Total current liabilities			**21,626**		**15,830**
Total liabilities			**24,434**		**18,457**
EQUITY			**40,678**		**36,076**

The notes on pages 16 to 38 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

Year ended 30 September 2018

	Note	2018 Euro'000	2017 Euro'000
Cash flows from operating activities			
Profit for the year		3,661	3,559
Adjustment for:			
Depreciation and amortisation	**4,8,9**	1,543	2,179
Finance expense	**6**	61	58
Dividend income		(255)	(197)
Income tax expense	**7**	965	930
Cash flow from operating activities before changes in working capital and provisions		**5,975**	**6,529**
(Increase) / Decrease in inventories		(133)	2,272
Decrease / (increase) in trade and other receivables and prepayments		1,374	(1,986)
Increase / (decrease) in trade and other payables		3,912	(1,387)
Cash generated from operations		**11,128**	**5,428**
Interest paid		(61)	(58)
Income taxes (paid) / refunded		(232)	29
Net cash from operating activities		**10,835**	**5,399**
Cash flows from investing activities			
Purchase of property, plant and equipment		(5,413)	(3,154)
Dividends received		255	197
Net cash used in investing activities		**(5,158)**	**(2,957)**
Cash flows from financing activities			
Repayments of long term loans		(418)	(418)
Repayment of finance lease obligations		(172)	(140)
Dividends paid to equity holders	**24**	(5,000)	(6,000)
Net cash used in financing activities		**(5,590)**	**(6,558)**
Net increase / (decrease) in cash and cash equivalents		**87**	**(4,116)**
Cash and cash equivalents at the beginning of the year		**(5,347)**	**(1,233)**
Exchange gains on cash and cash equivalents		**6**	**2**
Cash and cash equivalents at the end of the year		**(5,254)**	**(5,347)**
Cash and cash equivalents are represented by:			
Cash in hand and at bank	**13**	**114**	**42**
Overdrafts	**15**	**(5,368)**	**(5,389)**
		(5,254)	**(5,347)**

For notes supporting the statement of cash flows, see note 25.

The notes on pages 16 to 38 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 September 2018

	Share capital	Foreign currency translation reserve	Retained earnings	Total attributable to equity holders of the Company
	Euro '000	**Euro '000**	**Euro '000**	**Euro '000**
Changes in equity for 2018				
Balance at 1 October 2017	12,155	7	5,457	**17,619**
Comprehensive income for the year				
Profit for the year	-	(36)	3,661	**3,625**
Total comprehensive income for the year	**-**	**(36)**	**3,661**	**3,625**
Dividends	-	-	(5,000)	**(5,000)**
Balance at 30 September 2018	**12,155**	**(29)**	**4,118**	**16,244**
Changes in equity for 2017				
Balance at 1 October 2016	12,155	1	7,897	**20,053**
Comprehensive income for the year				
Profit for the year	-	-	3,560	**3,560**
Other comprehensive income	-	6	-	**6**
Total comprehensive income for the year	**-**	**6**	**3,560**	**3,566**
Dividends	-	-	(6,000)	**(6,000)**
Balance at 30 September 2017	**12,155**	**7**	**5,457**	**17,619**

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

Reserve	**Description and purpose**
Foreign currency translation reserve	Gains / losses arising on re-translating the net assets prior to adoption of the Euro as measurement currency.
Retained earnings	Profit for the year and prior years.

The notes on pages 16 to 38 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2018

1. PRINCIPAL ACTIVITIES

The principal activities of the Company are the production and sale of Particleboard ("PB"), Melamine Faced Particleboard ("MF-PB") and Tongue and Groove standard and customized boards ("T&G PB and T&G MF-PB).

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union, including International Accounting Standards (IAS) and Interpretations issued by the International Accounting Standards Board (IASB), (collectively IFRSs) and additional disclosure requirements in accordance with Årsregnskabsloven as a result of the IFRS decree.

The Directors are of the opinion that preparation of the financial statements on the going concern basis is appropriate. The principal accounting policies adopted for dealing with items which are considered material or critical in determining the results for the year and in stating the financial position, are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

A complete list of other accounting policies is included in note 27.

Significant judgements and estimates

The preparation of financial statements, in conformity with Generally Accepted Accounting Principles (GAAP) under IFRS, requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, income and expenses. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The Company evaluates its estimates on an on-going basis using historical experience and other factors, including expectations of future events that are considered reasonable under the circumstances.

The following paragraphs detail the estimates and judgements the Company believes to have the most significant impact on the annual results under IFRS:

- *Financial instruments valuation methods.* Valuation methods based on the discounting of future cash flows (effective interest method) or alternative methods based on analysis of recent like arms-length transactions or financial performance of the same type of investees are used for estimation of the value of certain categories of financial instruments for which there are no generally available market information that is believed to be reasonable under the circumstances. The methods may require assumptions of the management not supported by data which are generally available. As a result, the valuation method falls under level 3 of the fair value hierarchy. If profit or loss, income and expenses, assets and liabilities change significantly followed by the change of assumptions the respective disclosures are made in the financial statements.

- *Effective interest method* is used for estimation of fair value of financial instruments and impairment test. For estimation of the fair value of borrowings with fixed rate the interest rate applicable to new instruments with similar credit risk and remaining maturity are used. To determine fair value of other categories of financial instruments and estimation of value in use for impairment test, the weighted average cost (WACC) of the Company's capital as at the reporting date is used. The WACC of the Company's capital is determined by the targets set out by the Board of Directors.

- *Provision for doubtful receivables.* At each statement of financial position date, the Company evaluates the collectability of trade receivables to assess whether there is any objective evidence that a provision for impairment is required. These provisions for impairment are based on, amongst other things, insurance cover, comparisons of the relative age of accounts and consideration of actual write-off history. The actual level of receivables collected may differ from the estimated levels of recovery, which could impact operational results positively or negatively. Further detail of the level of provisions for doubtful receivables is included in note 12.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant judgements and estimates (continued)

- *Accounting for provisions and contingencies.* The Company is subject to a number of claims that are incidental to the normal conduct of its business. The Company routinely assesses the likelihood of any adverse judgements or outcomes to these matters as well as ranges of probable and reasonable estimated losses.

  Reasonable estimates involve judgement made by management after considering information including notifications, settlements, estimates performed by independent parties and legal counsel, available facts, identification of other potentially responsible parties and their ability to contribute, and prior experience.

  A provision is recognised when it is probable that an obligation exists and where a reliable estimate can be made of the amount of the obligation. The required provision may change in the future due to new developments and as additional information becomes available.

  Where it is only possible that an obligation exists or where the recognition criteria for a provision are not met, a contingent liability is disclosed unless the possibility of transferring economic benefits is remote.

  Movements in provisions for the year are disclosed within note 12.

- *Depreciation of property, plant and equipment.* The estimated useful economic lives of property, plant and equipment (PPE) are based on management's judgements and experience. When management identifies that actual useful lives differ materially from the estimates used to calculate depreciation that charge is adjusted prospectively.

  Due to the significance of PPE investment to the Company, variations between actual and estimated useful lives could impact operating results either positively or negatively, although few changes to estimated useful lives have been required historically.

- *Impairment of assets.* At each reporting date, the Company is required to assess whether there is any indication that, in management's judgement, the carrying value of tangible or intangible assets may be not be recoverable. If any indication exists, the relevant asset's recoverable value is estimated, being the greater of its value in use and fair value less cost to sell. Where the carrying value exceeds the recoverable value, the asset's carrying value is reduced to the recoverable value.

  An impairment review requires management to make subjective judgements concerning the cash flows, growth rates and discount rates of the cash generating units under review.

  Goodwill and intangible assets with an indefinite life must be tested for impairment at the end of each reporting period irrespective of whether there is any indication of impairment.

  Movements on property, plant and equipment during the year have been included within note 8. Movements on intangible assets during the year have been included within note 9.

Revenue recognition

Revenue represents amounts invoiced for goods sold net of discounts, returns and value added tax. Sales revenue is recognised only when the relevant goods have been delivered, i.e. when the risk and reward has been transferred to the customer.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

All property, plant and equipment is initially recognised at cost. Borrowing costs that are directly attributable to the acquisition, construction or production of property, plant and equipment are capitalised as part of the cost of the property, plant and equipment.

Where property, plant and equipment are to be revalued, they would be subsequently stated at valuation less subsequent depreciation. Any future revaluations of property, plant and equipment would be undertaken in a period not exceeding five years.

Changes in carrying amounts as a result of asset revaluations are recognised in other comprehensive income and accumulated in the revaluation reserve except to the extent that any decrease in value in excess of the credit balance on the revaluation reserve, or reversal of such a transaction, is recognised in profit or loss.

Where an asset that was previously revalued is disposed of, its book value is eliminated, and an appropriate transfer made from the revaluation reserve to retained earnings.

The commissioning date of a significant asset, such as a production line, is when the machine commences to produce economic quantities. There will normally be a short period before this when test production is made, and this is not considered to represent commissioning.

Depreciation of property, plant and equipment is calculated on a straight-line basis so as to reduce cost or valuation to their estimated residual value over their expected useful lives. The annual depreciation rates applicable are as follows:

Buildings	3.3%
Plant and equipment	5.0%
Vehicles and other	25.0%
Land is not depreciated	

Gains or losses on the disposal of property, plant and equipment are determined as the difference between the sale price (net of selling expenses) and the net book value of the asset at the date of disposal.

Repairs and maintenance costs are charged directly to profit and loss. Costs for significant renovation and improvement of property, plant and equipment are capitalised.

Assets under construction are recorded at the cost incurred in their purchase or manufacture including the cost of financing each project until it is commissioned.

Property, plant and equipment are assessed for impairment at each reporting date as detailed in the description of significant judgements and estimates above.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2018

3. REVENUE

	2018 Euro'000	2017 Euro'000
Continuing operations	69,316	67,772
	69,316	67,772

4. PROFIT FROM OPERATIONS

	2018 Euro'000	2017 Euro'000
Profit from operations is arrived at after charging among others the following:		
Staff costs (note 5)	14,538	14,451
Depreciation and amortisation expense (note 8 and 9)	1,543	2,179
Audit fees	37	37
Currency translation differences	178	71

5. EMPLOYEE BENEFIT COSTS

	2018 Euro'000	2017 Euro'000
Cost		
Wages and salaries	13,058	13,134
Employer's social security	398	403
Employer's pension costs – defined contribution plans	1,082	914
	14,538	14,451

	2018 Number	2017 Number
Average number of employees	**217**	**219**

Directors' and key management personnel remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, including the directors of the Company.

	2018 Euro'000	2017 Euro'000
Salaries and other short-term employee benefits	253	225
Employer's social security	2	2
Employer's pension costs - defined contribution plans	21	16
	276	243

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2018

6. FINANCE EXPENSE

	2018 Euro'000	2017 Euro'000
Finance costs		
Bank borrowing	59	54
Finance leases	2	4
	61	58

7. TAXATION

	2018		2017	
	Euro'000	Euro'000	Euro'000	Euro'000
Current tax expense				
Corporation tax on profits for the year	363		232	
Adjustment for (over) / under provision in prior periods	2		-	
		365		232
Deferred tax expense				
Origination and reversal of temporary differences	600		582	
Benefit arising from a previously unrecognised tax loss and / or tax credit of a prior period that is used to reduce deferred tax expense	-		116	
		600		698
Tax expense		**965**		**930**

The charge for the period can be reconciled to the profit per the statement of profit or loss and other comprehensive income as follows:

	2018 Euro'000	2017 Euro'000
Profit before tax	**4,626**	**4,490**
Tax at the domestic income tax rate (2018: 22%; 2017: 22%)	1,018	988
Tax effect of expenses that are not deductible in determining taxable profit	(53)	(58)
Tax expense	**965**	**930**
Effective tax rate for the year	21%	21%

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2018

7. TAXATION (continued)

Deferred Tax Liability

The following are the major deferred tax liabilities recognised by the Company and movements thereon during the year.

	Accelerated tax depreciation	Other	Total
	Euro'000	Euro'000	Euro'000
At 1 October 2016	1,207	465	1,672
Charge to profit and loss	460	42	502
At 30 September 2017	1,667	507	2,174
Charge to profit and loss	425	181	606
At 30 September 2018	2,092	688	2,780

Deferred Tax Assets

The following are the major deferred tax assets recognised by the Company and movements thereon during the year.

	Tax losses	Other	Total
	Euro'000	Euro'000	Euro'000
At 1 October 2016	116	254	370
Charge to profit and loss	(116)	(80)	(196)
At 30 September 2017	-	174	174
Credit to profit and loss	-	6	6
At 30 September 2018	-	180	180

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2018

8. PROPERTY, PLANT AND EQUIPMENT

Year ended 30 September 2018

	Land and buildings Euro'000	Plant and equipment Euro'000	Vehicles and other Euro'000	Construction in progress Euro'000	Total Euro'000
Cost or valuation					
At 1 October 2017	20,692	99,549	4,252	276	124,769
Additions	-	3,541	450	3,320	7,311
Exchange difference	(39)	91	(78)	(1)	(27)
Transfers	-	42	-	(42)	-
At 30 September 2018	20,653	103,223	4,624	3,553	132,053
Accumulated depreciation and impairment					
At 1 October 2017	15,899	85,277	3,554	-	104,730
Charge for the year	305	958	227	-	1,490
Exchange difference	(30)	(156)	126	-	(60)
At 30 September 2018	16,174	86,079	3,907	-	106,160
Carrying amount					
At 30 September 2018	4,479	17,144	717	3,553	25,893

Year ended 30 September 2017

	Land and buildings Euro'000	Plant and equipment Euro'000	Vehicles and other Euro'000	Construction in progress Euro'000	Total Euro'000
Cost or valuation					
At 1 October 2016	20,683	96,922	3,894	37	121,536
Additions	-	2,419	100	685	3,204
Exchange difference	9	44	2	-	55
Transfers	-	164	282	(446)	-
Disposals	-	-	(26)	-	(26)
At 30 September 2017	20,692	99,549	4,252	276	124,769
Accumulated depreciation and impairment					
At 1 October 2016	15,587	83,630	3,366	-	102,583
Charge for the year	305	1,609	212	-	2,126
Exchange difference	7	38	2	-	47
Disposals	-	-	(26)	-	(26)
At 30 September 2017	15,899	85,277	3,554	-	104,730
Carrying amount					
At 30 September 2017	4,793	14,272	698	276	20,039

The Company has elected that after initial asset recognition, all classes of Property, plant and equipment shall be carried at their cost less any accumulated depreciation.

During the year ended 30 September 2016 Company management revised its estimates on Property, plant and equipment useful lives to comply with Group depreciation policy which is in compliance with IFRS practice and the industry norm.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2018

8. PROPERTY, PLANT AND EQUIPMENT (continued)

There were no borrowing costs capitalised in the current or prior period.

The Company did not hold any Plant and Equipment and Vehicles and other under finance leases (2017: Euro 0.191 million)

Bank borrowings of Euro 0.63 million (2017: Euro 1.05 million) are secured on Mortgage over buildings.

As a result, of the management review during the year ended 30 September 2018 and 2017 no impairment has been made.

9. INTANGIBLE ASSETS

Year ended 30 September 2018

	Software Euro'000	Total Euro'000
Cost		
At 1 October 2017	211	211
At 30 September 2018	211	211
Amortisation		
At 1 October 2017	88	88
Charge for the year	53	53
At 30 September 2018	141	141
Carrying amount		
At 30 September 2018	70	70

Year ended 30 September 2017

	Software Euro'000	Total Euro'000
Cost		
At 1 October 2016	211	211
At 30 September 2017	211	211
Amortisation		
At 1 October 2016	35	35
Charge for the year	53	53
At 30 September 2017	88	88
Carrying amount		
At 30 September 2017	123	123

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2018

10. INVESTMENTS

	Investment in Joint venture Euro'000	Total Euro'000
At 1 October 2016	728	728
At 30 September 2017	728	728
Exchange difference	(1)	(1)
At 30 September 2018	727	727

The details of the joint venture which also acts as the main resin supplier to the Company are as follows:

Name	Country of Incorporation	Principal Activities	Shareholding % 2018	Shareholding % 2017
Nordalim A/S	Denmark	Manufacture and sale of Urea/Melamin, Urea/Formaldehyde Resin and Chemicals	50	50

11. INVENTORIES

	2018 Euro'000	2017 Euro'000
Raw materials	3,513	3,199
Finished products	2,434	2,626
	5,947	5,825

Raw material valued at Euro 3.513 million (2017: 3.199 million) include a provision of Euro 1.700 million (2017: Euro 1.753 million) and are therefore carried at fair value less costs to sell.

Finished goods valued at Euro 2.434 million (2017: 2.626 million) include a provision of Euro 0.04 million (2017: Euro 0.140 million) and are therefore carried at fair value less costs to sell.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2018

12. TRADE AND OTHER RECEIVABLES

	2018 Euro'000	2017 Euro'000
Trade receivables	5,932	9,027
Taxes, subsidies, social insurance	399	50
Other accounts receivable	1,224	-
	7,555	9,077

Trade receivables are further analysed as follows:

	2018 Euro'000	2017 Euro'000
Gross value	5,932	9,027
Impairment	-	-
Net value	**5,932**	**9,027**
Analysis of trade receivables:		
Not due	3,438	8,869
Due and not impaired		
- Insured	2,425	76
- Not insured	69	82
	2,494	158
- Due 0 - 90 days	2,494	158
- Due + 90 days	-	-
	2,494	158
Due and impaired		
- Due 0 - 90 days	-	-
- Due + 90 days	-	-
	-	-
Total	**5,932**	**9,027**

Uninsured trade receivables that are due and not impaired represent balances with customers who have no default history.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2018

13. CASH AND CASH EQUIVALENTS

	Cash Euro'000	Bank overdrafts Euro'000	Net Euro'000
Balance at 1 October 2016	116	(1,349)	(1,233)
Movement for the year	(74)	(4,040)	(4,114)
Balance as at 30 September 2017	42	(5,389)	(5,347)
Movement for the year	72	21	93
Balance as at 30 September 2018	114	(5,368)	(5,254)

14. SHARE CAPITAL

	2018 Number	2017 Number	2018 Euro'000	2017 Euro'000
Authorised ordinary shares of DKK 1 each	90,457	90,457	12,155	12,155
Issued ordinary shares of DKK 1 each	90,457	90,457	12,155	12,155
Share premium			-	-

There are no restrictions attaching to the ordinary shares.

15. BANK LOANS AND OVERDRAFTS

	2018 Euro'000	2017 Euro'000
Bank loans and overdrafts	5,994	6,434
Less: Instalments due after more than one year	(208)	(627)
Bank loans and overdrafts and other loans due within one year	5,786	5,807

Bank loans and overdrafts and other loans due after more than one year are analysed as follows:

	2018 Euro'000	2017 Euro'000
Instalments due after 1 year but not more than 2 years	208	418
Instalments due after 2 years but not more than 5 years	-	209
Instalments due after 5 years	-	-
	208	627

15. BANK LOANS AND OVERDRAFTS (continued)

Bank loans and overdrafts are analysed as follows:

	2018 Euro'000	2017 Euro'000
Current portion of long term loans	418	418
Bank overdrafts (note 13)	5,368	5,389
	5,786	5,807

The weighted average interest rates paid were as follows:

	2018 %	2017 %
Bank loans	1.90	1.94
Bank overdrafts	1.41	0.96

The carrying amount of short and long term borrowings approximate their fair value.

	2018 Euro'000	2017 Euro'000
Bank loans	626	1.045
Bank overdrafts	5.368	5.389

Long term bank borrowings and bank overdrafts are secured by a joint security over Buildings for a total of DKK 52.25 million (Euro 7.013). Any remaining uncovered bank overdraft balance is secured at all times by inventory and trade receivables. The bank overdraft facilities are subject to renewal on 28 February 2019.

At 30 September 2018, the Company had available Euro 4.99 million (2017: Euro 4.94 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

16. TRADE AND OTHER PAYABLES

	2018 Euro'000	2017 Euro'000
Trade payables	4,108	3,688
Investment payables	2,024	50
Amounts due to related parties (note 19)	4,284	1,030
Finance lease payments due within one year (note 17)	-	172
Other payables and accruals	5,059	4,851
	15,475	9,791

Trade and other payables principally comprise amounts outstanding for trade purchases and on-going costs.

The directors consider that the carrying amount of trade payables approximates to their fair value.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2018

17. OBLIGATIONS UNDER FINANCE LEASES

17.1. Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2018 Euro'000	**2017 Euro'000**	**2018 Euro'000**	**2017 Euro'000**
Amounts payable under finance leases	-	176	-	172
Within one year	-	176	-	172
	-	176	-	172
Less: Future finance charges	-	(4)	-	-
Present value of lease obligations	-	172	-	172
Less: Amount due for settlement within 12 months (shown under current liabilities)			-	(172)
Amount due for settlement after 12 months			-	-

The Company leased one front end loader under finance lease. Finance lease ended on 30 June 2018. For the year ending 30 September 2017, the average effective borrowing rate was 1.75%. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in DKK.

The fair value of the Company's lease obligations approximates their carrying amount.

The Company's obligations under finance leases are secured by the lessor's charge over the leased assets.

The lease arrangement included a purchase option upon expiry date on 30 June 2018 for DKK 0.625 million (Euro equivalent 0.084 million).

18. ENVIRONMENTAL POLICY

The Company's environmental policy is to be constantly aware of the environment and to ensure it makes its contribution to safe-guarding and improving the environment and workplace in which it operates.

All investment projects comprise latest technology plant, taking into account up to date environmental standards and regulations applicable in the EU and the country of operation.

It is Company policy not to account for any assets in relation to emission rights certificates held. The Company recognises the value of any surplus emission certificates only upon disposal.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2018

19. RELATED PARTY TRANSACTIONS

The Company is controlled by Kronospan Baltic Holding Ltd incorporated in Cyprus which owns 100% of the Company's shares. The ultimate controlling party of the Company is Betuva Stiftung a discretionary, irrevocable foundation registered in Liechtenstein, which itself owns all the assets and is controlled by the foundation board.

The following transactions were carried out with related parties:

Sales of goods and services

	Sale of goods		Sale of services		Amounts owed by related parties	
	2018 Euro'000	2017 Euro'000	2018 Euro'000	2017 Euro'000	2018 Euro'000	2017 Euro'000
Fellow Subsidiaries	-	42	-	-	-	-
Other related parties	843	781	131	129	-	-
	843	823	131	129	-	-

Purchase of goods and services

	Purchase of goods (incl. fixed assets)		Purchase of services		Amounts owed to related parties	
	2018 Euro'000	2017 Euro'000	2018 Euro'000	2017 Euro'000	2018 Euro'000	2017 Euro'000
Fellow subsidiaries	275	-	-	-	-	-
Other related parties	11,793	10,081	200	100	4,284	1,030
	12,068	10,081	200	100	4,284	1,030

Sales and purchases of goods and services are made with related parties on an arm's length basis in the normal course of business.

Other related parties represent entities which are under common control of the ultimate controlling party of the Company.

20. CONTINGENT LIABILITIES

The Company has extended jointly with its Joint Venture Partner an indefinite guarantee for Euro 1.15 million each to a large supplier in relation to purchases carried out by their Joint venture company Nordalim A/S as part of its operating activity.

A payment guarantee has been issued to Naturstyrelsen for future purchase of wood in the forest.

21. CAPITAL COMMITMENTS

As at 30 September 2018 and 2017 the Company had no capital commitments.

22. EVENTS AFTER THE REPORTING PERIOD

There were no material events after the reporting period, which have a bearing on the understanding of the financial statements

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2018

23. CONSOLIDATED FINANCIAL STATEMENTS

The Company is included in the consolidated financial statements of Kronospan Baltic Holdings Ltd, the parent company at Grayoak House, 9 Tagmatarchou Pouliou Street,1101 Ayios Andreas, Nicosia, Cyprus with Company registration no. HE162412.

24. DIVIDENDS

	2018 Euro'000	2017 Euro'000
Interim dividend paid	5,000	6,000
	5,000	6,000

A final dividend for the year ended 30 September 2017 of Euro 5 million was declared based on a Shareholders' Resolution dated 20 February 2018. Two equal payments of Euro 1.5 million were paid on 27 March 2018 and 27 June and Euro 2 million were paid on 20 September 2018.

A final dividend for the year ended 30 September 2016 of Euro 6 million was declared based on a Shareholders' Resolution dated 23 February 2017, of which Euro 3 million were paid on 3 April 2017 and two equal payments of Euro 1.5 million were made on 29 June 2017 and 27 September 2017.

25. NOTE SUPPORTING THE STATEMENT OF CASH FLOWS

	Loans and borrowings (note 15) Euro'000	Finance lease Euro'000	Total Euro'000
At 1 October 2017	1,045	172	1,217
Net cash flows	(418)	(172)	(590)
At 30 September 2018	626	-	626

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2018

26. RISK MANAGEMENT

General objectives, policies and processes

The Company operates procedures designed to reduce or eliminate financial risk and ensure that funds are available for current and future needs. The policies are approved by the Board and the use of financial instruments is strictly controlled.

Principal financial instruments

A summary of the financial instruments held by category is provided below:

Financial assets

	Loans and receivables	
	2018	**2017**
	Euro'000	**Euro'000**
Trade, related party and other receivables *(excl. prepayments, VAT, corporate and other taxes, social security)*	6,985	9,028
Cash and cash equivalents	114	42
Total financial assets	**7,099**	**9,070**

Financial liabilities

	Financial liabilities at amortised cost	
	2018	**2017**
	Euro'000	**Euro'000**
Trade, related party, investment and other payables *(excl. prepayments, dividend payable, VAT, corporate and other taxes, social security, provisions)*	15,198	8,190
Loans and borrowings *(including overdrafts)*	5,994	6,434
Finance leases	-	172
Total financial liabilities	**21,192**	**14,796**

Fair values of bank overdrafts, trade and other payables approximate their book value largely due to the short-term maturities of these instruments

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company is mainly exposed to credit risk from credit sales. The major part of trade receivables normally 90% of each receivable is covered by credit insurance. Where credit insurance is not available, or is restricted, Company policies provide the basis for establishing a credit limit for each customer. Customers may also purchase on a pre-payment basis.

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 acceptable ratings are authorised.

The Company does not enter into derivatives to manage credit risk, although in certain isolated cases may take steps to mitigate such risks if it is sufficiently concentrated.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2018

26. RISK MANAGEMENT (continued)

Credit risk (continued)

Quantitative disclosures of the credit risk exposure in relation to financial assets are set out below. These also include certain other liquid non-financial assets with potential credit risk. Further disclosures regarding trade and other receivables, which are neither past due nor impaired, are provided in note 12.

	Carrying value		Maximum exposure	
	2018	**2017**	**2018**	**2017**
	Euro'000	**Euro'000**	**Euro'000**	**Euro'000**
Trade and other receivables *[agree to note 12]*	7,555	9,077	7,555	9,077
Prepayments *(suppliers)*	372	242	372	242
Cash and cash equivalents	114	42	114	42
	8,041	9,361	8,041	9,361

Market risk

(i) *Interest rate risk*

As a result of the relevant portion of floating rate borrowings the Company is exposed to interest rate risk, in particular the risk of variation in national currency and Euro interest rates. Whilst the Company takes steps to minimise its exposure to cash flow interest rate risk, changes in interest rates will have an impact on profit. Management continually monitor interest rate movements to assess the impact that this will have upon interest costs. The annualised effect of a 1% increase in the interest rate at the statement of financial position date on variable rate debt carried at that date would, all other variables being held constant, have resulted in a decrease of the Company's pre-tax profit for the year of Euro 0.058 million (2017: Euro 0.066 million). A 1% decrease in the interest rate would, on the same basis, have increased pre-tax profits by the same amount.

(ii) *Currency risk*

The Company is exposed to foreign exchange risk as a result of fluctuations between the national currency and the Euro. Where possible, income streams in one currency are used to meet payment obligations in the same currency. Group policy allows forward purchase for trade related payable items which are due for payment during the next month.

The following table details the Company's sensitivity to a 5% increase or decrease in the Euro against the relevant local currency which represents management's assessment of the reasonably possible change in foreign exchange rates.

26. RISK MANAGEMENT (continued)

Market risk (continued)

(ii) *Currency risk (continued)*

	Impact of DKK	
	2018	**2017**
	Euro'000	**Euro'000**
1. Denominated in DKK		
Monetary financial assets	6,376	9,070
Monetary financial liabilities	(16,705)	(11,967)
Net liabilities	**(10,329)**	**(2,897)**
Impact on results	**Gain / (loss)**	
5% DKK appreciation (Euro depreciation)	(516)	(145)
5% DKK depreciation (Euro appreciation)	516	145
2. Denominated in Euro		
Monetary financial assets	723	-
Monetary financial liabilities	(4,487)	(2,829)
Net liabilities	**(3,764)**	**(2,829)**

Liquidity risk

Company liquidity risk management aims to ensure that the Company is able to timely obtain the financing required to properly carry on its business activities, implement its strategy, and meet its payment obligations when due, while avoiding the need of having to obtain funding under unfavourable terms.

For this purpose, liquidity management at the Company comprises:

- consistent financial planning and cash flow forecasting at company levels with different time horizons monthly, annual and three year business plans;
- diversification of financing sources;
- diversification of the maturities of the debt issued in order to avoid excessive concentration of debt repayments in short periods of time;
- arrangement of committed credit facilities with relationship banks, ensuring the right balance between satisfactory liquidity and adequate commitment fees.

26. RISK MANAGEMENT (continued)

Maturity of financial liabilities

The table below summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted payments.

As at 30 September 2018	On demand	Less than 12 months	1 - 5 years	> 5 years	Total
	Euro'000	Euro'000	Euro'000	Euro'000	Euro'000
Bank overdrafts	5,368	-	-	-	5,368
Bank borrowings	-	425	209	-	634
Trade, related party, investment and other payables (excl. prepayments, dividend payable, VAT, corporate and other taxes, social security, provisions)	-	15,198	-	-	15,198
	5,368	15,623	209	-	21,200

As at 30 September 2017	On demand	Less than 12 months	1 - 5 years	> 5 years	Total
	Euro'000	Euro'000	Euro'000	Euro'000	Euro'000
Bank overdrafts	5,389	-	-	-	5,389
Bank borrowings	-	434	637	-	1,071
Trade, related party, investment and other payables (excl. prepayments, dividend payable,VAT, corporate and other taxes, social security, provisions)	-	8,190	-	-	8,190
Finance leases	-	176	-	-	176
	5,389	8,800	637	-	14,826

Bank and other borrowings include interest calculated at the rate applicable at 30 September

Finance lease commitments are based on the interest rate implicit in the finance lease agreement.

Capital disclosures

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Company consists of debt (including finance lease liabilities, less cash and cash equivalents) and equity (including loans financed or underwritten by the shareholders).

The Company's strategy is to maintain the debt-to-adjusted capital ratio at below [1:1]:

	2018	2017
	Euro'000	Euro'000
Total bank debt	5,994	6,607
Less cash and cash equivalents	(114)	(42)
Net debt	**5,880**	**6,565**
Total equity	16,244	17,619
Adjusted capital	**16,244**	**17,619**
Debt to adjusted capital ratio	**0.36**	**0.37**

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2018

27. OTHER ACCOUNTING POLICIES

Changes in accounting policies

(i) New standards, amendments to published standards and interpretations to existing standards effective in the current financial year adopted by the Company.

There have been no standards adopted including IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers by the Company for the first time for the financial year beginning on or after 1 October 2017 that will have a material impact on the Company.

(ii) Standards, amendments and interpretations to published standards not yet effective

A number of new standards and amendments to standards and interpretations, including IFRS 16 Leases, are effective for annual periods beginning after 1 October 2018, and have not been applied in preparing these financial statements, as there is no financial lease at the end of 2017/18.

Intangibles

Intangible assets are shown at cost and are amortised on a straight-line basis method over their estimated useful life Intangibles are subject to impairment reviews whenever events or changes in circumstances indicate that their carrying value may not be recoverable. Where the carrying value is more than the recoverable value, the asset's carrying value is reduced to the recoverable value. The annual amortisation rates applicable are as follows:

Software	25%

Investments in joint ventures

The Company´s share in joint venture is stated at cost less provision for impairment in value, which is recognized as an expense in the period in which the impairment is identified.

Taxation

Corporation tax is provided on the taxable profit for the year at the applicable tax rate.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the statement of financial position differs to its tax base, except for differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and the timing of the transaction affects neither accounting or taxable profits.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised. A deferred tax asset is recognised for tax exemptions and tax credits to the extent that the future tax savings can be reasonably estimated.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the statement of financial position date and expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

27. OTHER ACCOUNTING POLICIES (continued)

Foreign currency transactions

The books and records of the Company are maintained in local currency to comply with local legal requirements. However, for the purpose of IFRS reporting, the Euro was treated as the reporting currency. Consequently, the following translation was done:

i) Statement of profit or loss and other comprehensive income items were translated into Euro at the average monthly exchange rate for the year.
ii) All assets and liabilities were translated into Euro at the exchange rate prevailing on the statement of financial position date.

All foreign exchange gains or losses resulting from the above translation were credited or debited to the translation reserve within equity in accordance with IAS 21.

Inventories

Inventories are valued at the lower of cost and net realisable value. Materials are valued at cost which consists of purchase price, freight inwards, and customs duties and are decreased by discounts received. The value of materials used and trading goods dispatched is calculated on a weighted average cost basis.

Finished goods produced are valued at the average cost of materials and direct labour plus depreciation of plant and equipment used in production based on the normal level of activity of the Company and a share of production overheads. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and sale. Trading goods are valued at purchase price. Provisions are also made for slow moving and obsolete finished goods and spare parts.

Leasing and sale and leaseback

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

Assets held under finance leases are recognised as assets of the Company at their fair value or, if lower, the present value of the minimum lease payments, each being determined at the date of acquisition. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the statement of profit or loss and other comprehensive income over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Sale and leaseback arrangements, by means of a finance lease, are accounted for in the same manner as a standard finance lease agreement. On sale, the asset is not removed from property, plant and equipment and any profit or loss on disposal is deferred and amortised over the shorter of the lease term or the useful life of the asset.

Employee benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Company’s obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

Termination benefits in accordance with legislation are payable to employees. Management does not believe that the probability of occurrence poses a material impact on the financial statements, and only recognises termination benefits when it is demonstrably committed to payment.

The Company makes provisions for bonuses where contractual obligations exist for payment.

27. OTHER ACCOUNTING POLICIES (continued)

Research and development

The Company does not undertake any research and development on its own behalf, but licences appropriate technology when required. The annual licence fees are charged to other operating expenses in the statement of profit or loss and other comprehensive income while lump sum payments for new technologies acquired are amortised over their expected useful life.

Dividends

Interim dividends are recognised in equity in the year in which they are paid. Final dividends are recognised in equity in the year in which they are declared. Dividend income is recognised when the right to receive payment is established.

Financial assets

The Company classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. The Company has not classified any of its financial assets as held to maturity.

Other than financial assets in a qualifying hedging relationship, the Company's accounting policy for each category is as follows:

(i) *Loans and receivables*

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. 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 are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms of the receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flow associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised, in other operating expenses, in the statement of profit or loss and other 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.

The Company's loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position.

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

Financial liabilities

The Company's financial liabilities comprise:

(i) *Bank loans and overdrafts*

Are initially recognised at fair value. 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 statement of financial position. Interest expense in this context includes initial transaction costs and premia payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

27. OTHER ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

(ii) *Trade payables and other short-term liabilities*

Are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method

Provisions

Provisions are recognised for liabilities of uncertain timing or amount that have arisen as a result of past transactions and are discounted at a pre-tax rate reflecting current market assessments of the value of money and the risks specific to the liability.

Net finance costs

Interest and other costs on borrowings to finance construction or production of qualifying assets are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed in the year to which they relate.

Explanation of financial Ratios

$$\text{Return on investment} = \frac{\text{Ordinary operating profit x 100}}{\text{Average invested capital}}$$

$$\text{Solvency ratio} = \frac{\text{Equity at year end x 100}}{\text{Total assets}}$$

$$\text{Return on equity} = \frac{\text{Profit for the year x 100}}{\text{Average Equity}}$$

Non-GAAP financial measures

In evaluation of our business, we utilise certain non-GAAP financial measures, specifically EBITDA.

EBITDA refers to Earnings Before Interest, Tax, Depreciation, Amortisation and Impairment, Currency translation differences and Deferred grants credited, where Earnings relates to net profit before items considered by management to be outside the ordinary course of business.