

**Envipco Holding N.V.  
Annual Report 2011**

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**Financial Highlights**

	2011	2010
Revenues from continued operation	€50.66m	€47.57m
<b>Gross Profit Margin</b>	21.97%	24.98%
Net profit (loss) before taxes	€(0.24m)	€0.32m
Net profit (loss) after taxes	€(0.51m)	€0.30m
<b>EBITDA</b>		
From continuing operations	€3.19m	€3.30m
Shareholder's equity	€15.65m	€16.65m
Earnings (loss) per share (after reverse stock split)	€(0.205)	€0.120
Earnings (loss) per share (before reverse stock split)	€(0.004)	€0.002
Liquidity ratio (current assets / current liabilities)	1.1	1.2.
Total assets	€45.16m	€40.67m

**General**

Envipco Holding N.V. is a public limited liability company incorporated in accordance with the laws of The Netherlands.

**Mission statement**

Our mission is to become the most respected global company to recover, manage, operate and recycle post consumer beverage containers, using innovative technologies, while creating high value for our shareholders, customers, partners and employees.

**Principal activities**

The Group's principal activities during the year remained the same. These include the following:

- The design, development, manufacture and sale or lease of Reverse Vending Machines (RVM) as the foundation of recycling systems for the collection and processing of used beverage containers.
- The provision of technical support, RVM maintenance and accounting services to the retail stores, bottlers and distributors for containers redeemed through these machines.
- Provision of materials handling services, primarily in the Northeastern part of the USA, for containers that are subject to deposits mandated by law.
- The processing of used Polyethylene terephthalate (PET) and High-density polyethylene (HDPE) plastics for recycling.

## Results

2011 has been a year of continuing investment and development towards our long term growth strategies for the Envipco group. Group revenues increased by 6.5% to €50,661,000 as compared to €47,566,000 in 2010. The Group experienced a net loss of €507,000 for 2011 compared to a profit of €297,000 in 2010. The net loss in 2011 after expensing €915,000 of research and development costs, €440,000 related to listing of all the shares, charging CLRS development expenses of €383,000, reversing €898,000 of stock option charges made since 2008 due to the non-vesting of the share options and a profit of €474,000 arising out of the sale of our Japanese subsidiary.

The Reverse Vending Machine (RVM) business generated 44% of the 2011 total revenues while 56% resulted from the plastic recycling operations. The RVM segment decreased its revenue by 10% (5% in real terms and 5% due to a weaker Euro), while the plastic recycling business revenues increased by 20% in 2011.

The RVM segment activities, mainly based in the United States of America, generated a net profit of \$903,000 in 2011 versus a profit of \$2,076,000 during the previous year. While the recurring revenue from RVM placements increased by \$ 1,302,000 in 2011, the drop in profit is attributable to delayed machine sales in non-deposit markets outside the USA. With the launch of new technology targeted for the non-deposit markets, we expect RVM sales to recover and accelerate in this segment during 2012. The consolidated net equity of the US operations at the balance sheet date was \$13,819,000 (2010: \$11,075,000) with current ratio of 2.1 for 2011 and 1.5 for 2010.

The plastic recycling business in France showed an increase of 20% in revenues to €28,431,000. The recovery of the recycled PET market during the first half of 2011 improved revenues and profits but the volatility of the market witnessed in the second half eroded the results to finish the year with a net loss after taxes of €589,000 (2010 net loss after taxes: €60,000).

No dividend is proposed. The results of 2011 shall be carried forward to the retained earnings, subject to the approval and adoption of the 2011 Annual Report by the shareholders at the next annual general meeting of the shareholders.

The group has a net equity of €15,654,000 at 31 December 2011 (2010: €16,652,000) with debt to equity ratio of 0.83 for the current year and 0.44 for 2010. Group has adequate working capital with current ratio of 1.1 (2010: 1.2) as at the balance sheet date.

In 2011 Envipco settled its anti-trust lawsuit against the competitor Tomra. As part of the settlement, Tomra agreed to remove or disclaim all existing exclusive vendor provisions in agreements with its retail customers and to refrain from entering into designated exclusive agreements in the future. Envipco is satisfied with this settlement agreement and remains committed to providing superior customer service in a free and open market and ensuring fair access to markets as we continue introduction of innovative reverse vending technology.

## Future Outlook

Over the last three years, Envipco has made significant investments in the development of new recycling technology platforms. We introduced the Flex, a smaller footprint RVM to the market in 2011. Initial response and test installations have been very positive. We anticipate meaningful Flex machine sales in several non-deposit markets outside the US in 2012. Our recent launch of the HDS (High Density Solution) platform in Michigan has also been favorably received. We expect significant sales of the HDS platform to ramp up in the Michigan market during 2012. Some of the notable developments are:

In Michigan, Envipco entered into a three year exclusive RVM Distributor Agreement with Tomra/CBSI for the State of Michigan. The assignment of this business doubled Envipco's Michigan RVM platform footprint to over 500 placements with 110 retailer locations. The agreement also included assignment of certain chain account relationships and contracts. Our recent launch of the Ultra-HDS platform, combined with our increased market presence, well positions the Company for substantial HDS sales in 2012.

California: In July 2011 an RVM supply agreement was signed with one of California's largest third party redemption companies. The introduction of Envipco RVMs represents a significant market breakthrough to help California retailers with lower redemption volumes to reduce operating costs and comply with stricter enforcement of State regulations. Significant machine placements are expected over the next several years.

In New York City, Envipco's SortAfter program for small stores increased revenues by 51% in 2011. This positive development was attributable to Envipco's unique on-the-ground service models to accommodate the retail pharmacy channel. The Company expects continued growth in this service offering in 2012.

On 24 January 2012, Environmental Products Corporation, our US subsidiary, renewed the term of its credit facilities with TD Bank N.A, which continues to assist our expansion plan.

Through Envipco's Closed Loop Recycling System "CLRS" [www.reimaginerecycling.com](http://www.reimaginerecycling.com), Envipco entered into a Joint Venture (JV) with Coca-Cola Recycling LLC to pilot and operate 10 such systems in the Texas market. This unique system handles large volumes of beverage containers in bulk at the lowest possible cost. To date 5 units are operating in Dallas, Texas. We remain positive to the prospects for a commercial roll out of the Reimagine – CLRS as the pilot program progresses. The partners are evaluating the results so far and will jointly decide on the next steps to expand the program.

During 2011, Envipco launched an OEM compactor business in Germany based on retrofitting our new innovative compactors in our competitors' RVM machines. The business has developed positively with about 600 compactors delivered in 2011. As we continue to aggressively market this piece of technology, we expect to deliver a significant number of compactors in 2012. Our technology has been endorsed as superior in performance, reliability and price. With over 60,000 RVMs in Europe alone, we expect substantial increase in our OEM business in the years ahead.

During the year 2011, Sorepla, our French plastic recycling operation suffered losses due to heavy price fluctuations in the second half of the year. We expect the negative impact of high raw materials prices to moderate for the second half of 2012. The new bottle-to-bottle production line is in its testing phase and is expected to be fully operational by 1 July 2012, to produce food grade granules. The food grade product output will help mitigate market price fluctuations.

Based on our investments and identified market opportunities, we expect substantial improvement in both our RVM technologies and plastics recycling businesses in 2012.

Prior to October 2011, only 3.5% of the total issued and outstanding shares were listed as "Depository Receipts:(DRS) on the NYSE Euronext Brussels. A prospectus was issued in early October 2011 whereby 100 % of all issued shares were admitted to the NYSE Euronext Brussels. In addition, a reverse stock split of 50 old shares to 1 new share was undertaken and all DRS were cancelled. It is our intention to increase awareness of the Group's potential during 2012 through increased investor activities.

## Research and Development

The Group's Research and Development facilities in Germany and the United States of America, continue to make good progress in product development and innovation for both deposit and non-deposit markets. The Company introduced new modern and innovative technologies to include bulk and low volume recycling solutions at competitive pricing to deposit and non-deposit markets. One of the key developments was the successful launch of our OEM compactor business in the European market. During 2011 the Group's investment in research and development was €2.1 million (2010: €1.8 million) of which €1.2 million (2010: €0.9 million) was capitalised and €0.9



million (2010: €0.9 million) treated as an expense. These new products have already started to contribute positively in the existing and new markets. The capitalised development costs are periodically reviewed by the management and if at any time it appears that a new project will fail to generate revenues, the associated costs are charged to the profit and loss account. To reduce such exposure the Company undertakes prior to the start and during the development of the project, market and technology feasibility studies.

### Liquidity

The Group has a current ratio of 1.1 in 2011 against 1.2 in 2010 and is adequately prepared to meet our short and long term working capital needs. Subsequent to the balance sheet date, in the US we have renewed our US credit facility with TD Bank NA. Net cash outflow from operation during 2011 was €696,000 versus net outflow of €371,000 for 2010. The balance of the €3.8 million from the new shares issued in 2008 was fully paid in 2011.

### Managing Risks

A majority of our current RVM business is dependent upon legislation. The Company may be at risk if such legislation was cancelled, although we have seen no such cancellations over the last 20 years. Theoretically this can happen, but we see that even in such an unlikely scenario there will be a notice period which will help the Company plan for any transition. Equally the reverse can also happen as new legislation is implemented in more states and countries. Customers with whom we have long term contracts can go out of business which would have an impact on our costs due to lower volumes. Sharp fluctuation in foreign exchange risk can impact the cash situation of the Company but is mitigated by proper cash management. Non availability of lines of credit or cash to continue to fund projects under a development stage may impact the long term viability of the Company. For details on financial risk management, refer to Note 5 in the Notes to the consolidated financial statements.

### Capital

The Company and the Foundation, on 26 June 1998 entered into an agreement pursuant to which the Foundation acquired all 23,807,811 ordinary shares of the Company up to a total par value that agreed with the total par value of all issued and outstanding shares. On 22 November 2002 the Company issued 600,000 additional shares of the Company at its par value of €0.01 each. Such shares were also lodged with the Foundation, giving a total of 24,407,811 shares.

The Company further increased its share capital as follows:

- (a) On 10 March 2006, by a new issue of 69,200,000 common stock, each with a par value of €0.01 issued at a price of €0.25 per share (total €17.3 million).
- (b) On 8 December 2008, the share capital was increased by new subscription of 30,022,525 common stock, each with a par value of €0.01 issued at a price of €0.2486 per share (total €7.46 million). The subscription was payable in installments. This balance of €3.8 million outstanding as at 31 December 2010 has been paid in full during the year 2011.

The following further changes were made to the Company's capital during the year:

On 27 June 2011 the general meeting of shareholders decided (i) to amend the Company's Articles of Association with the aim of, among other things, converting the class A shares and the class B shares into ordinary shares not designated by an alphabetical letter, and converting every 50 of those ordinary shares, each with a nominal value of EUR 0.01, into one ordinary share with a nominal value of EUR 0.50 (reverse stock split) and (ii) to apply for admission of the ordinary Envipco shares to trading on the regulated market of NYSE Euronext Brussels. Furthermore, Stichting Envipco Trust, (the Foundation) has decided to terminate the administration of class B shares in Envipco and to terminate the listing of the DRS for those shares.

On 21 September 2011 Company issued a prospectus providing information regarding the admission to trading of the ordinary shares, the reverse stock split and the exchange of the DRS which were delisted. Consequently, after the reverse stock split 2,712,607 shares were admitted to the trading exchange.

#### Admission to trading of ordinary shares

On 6 October 2011 (the Closing Date) the deed of amendment of the Company's articles of association took effect, and the DRS for class B shares were delisted following the close of trading on 5 October 2011 and, simultaneously, the ordinary Envipco shares were admitted to trading on the regulated market of NYSE Euronext Brussels under the new ISIN code NL0009901610 and the new trading symbol ENVI.

#### VVPR Strips

The VVPR strips issued simultaneously to the DRS in 1998 were admitted to trading on the regulated market of NYSE Euronext Brussels under the new ISIN code BE0005645198, simultaneously to the admission to trading of the ordinary shares of Envipco. The VVPR Strips were also subject to the reverse stock split of 50 VVPR Strips into 1 VVPR Strip.

#### Stichting Administratiekantoor van aandelen in Envipco Holding N.V. ('the Stichting Trust Envipco / the Foundation')

The Foundation is a non-membership organisation incorporated under the laws of The Netherlands. Its statutory objectives are to safeguard the interests of the Company and its enterprise, Group companies, and all other parties involved with the Group. The Board of the Foundation consists of the following members:

- ▶ Mr B Santchurn
- ▶ Mr Neil Turpie

After the cancellation of the DRS of Envipco Holding N.V., the trust will remain in existence for another year.

#### Summary as of 31 December 2011 of Issued Share Capital (after the reverse stock split)

	2011	2010
Common stock of €0.50 nominal value per share:		
Opening balance	2,472,607	2,472,607
Shares issued during the year *	<u>240,000</u>	<u>-</u>
Closing balance	<u>2,712,607</u>	<u>2,472,607</u>

\*Stichting Employees Envipco Holding acquired 240,000 shares of the Company at a nominal value of €0.50 for the options granted to Mr Gregory Garvey in part settlement of the director's fees due to him as of 30 June 2011 from the Company. In case these options do not vest or are not exercised these shares will be cancelled.

### Substantial Shareholding

The Group has been notified of, or is aware of the following 5% or more interests at 31 December 2011 and 2010.

	31 December			
	2011		2010	
	Number of Shares	Percentage	Number of Shares	Percentage
A Bouri/Megatrade International SA	1,208,568	44.55%	1,808,568	73.14%
G Garvey/EV Knot LLC*	402,027	14.82%	402,027	16.26%
Douglas Poling/GD Env LLC**	720,000	26.54%	-	-
Stichting Employees Envipco Holding	240,000	8.85%	-	-

\*211,554 (7.80%) of these shares are beneficially owned by Mr Gregory Garvey, and the balance is for the benefit of other parties.

\*\*Mr Alexandre Bouri has the voting rights on 600,000 of Mr Douglas Poling's shares and has an option to buy back these shares from Mr Douglas Poling by 8 January 2013.

### Directors and their Interests

As per Articles of Association of the Company, the Board comprises of executive and non-executive board members. The Board includes five non-executive and two executive board members:

#### Non-executive:

Mr Gregory Garvey (Chairman)  
Mr Alexandre Bouri  
Mr Dick Stalenhoef  
Mr Guy Lefebvre  
Mr David D'Addario

#### Executive:

Mr Bhajun Santchurn  
Mr Christian Crépet

The Directors interests in the share capital of the Group are shown below:

	31 December			
	2011		2010	
	Number of Shares	Percentage	Number of Shares	Percentage
A Bouri/Megatrade International SA	1,208,568	44.55%	1,808,568	73.14%
G Garvey/EV Knot LLC*	402,027	14.82%	402,027	16.26%
B Santchurn/Univest Portfolio Inc	40,480	1.49%	40,480	1.64%
C Crépet	6,456	0.24%	6,456	0.26%

\*211,554 (7.80%) of these shares are held by Mr Gregory Garvey.

\*120,676 (4.45%) of these shares are for the benefit of Mr David D'Addario.



## Salaries and Remuneration

The Board of Directors received remuneration totaling €642,531 in 2011, as compared to 2010 of €599,000 (excluding €378,000 of stock option costs). A reversal of €898,000 of stock option costs of prior years resulted in 2011 as these options did not vest.

There are employment contracts in place for Mr Bhajun Santchurn and Mr Christian Crepet.

### Remuneration Policy

According to the Dutch Civil Code, our General Meeting of Shareholders has adopted a remuneration policy in respect of the remuneration of our Board of Directors, which is published on our website. Our non-executive directors propose the remuneration of the individual executive members of our Board of Directors to the General Meeting of Shareholders, taking into account the policy adopted by our General Meeting of Shareholders. The General Meeting of Shareholders determines the remuneration of each executive and non-executive member of the Board of Directors.

### Incentive schemes

On 8 December 2008, management board and shareholders approved an option plan for 13.5 million shares for executives and employees. The allocation of these options is to be decided jointly by Mr Alexandre Bouri and Mr Gregory Garvey. These have not been allocated by 31 December 2011.

In addition to the above, Mr Gregory Garvey has been granted a further 12,000,000 share option on 8 December 2008, at the strike price of €0.32 per share in the Company as an incentive bonus subject to key performance targets to be met on a yearly basis through 31 December 2011. He has also been appointed as the chairman of the Management Board with full operational responsibility for the reverse vending and related products and services segment of the business.

The stock option plan allows employees of the Group and its executives to acquire shares of the Company. The fair value of the options granted is calculated using Black-Scholes model relating to Mr Gregory Garvey's options. The option costs of the previous years were reversed in 2011 as these options did not vest. The gain is relating to the reversal of the options costs recognised as a credit in 2011 to the income statement with a corresponding amount reflected in other comprehensive income as a charge.

Stichting Employees Envipco Holding acquired 240,000 shares of the Company at a nominal value of €0.50 for the options granted to Mr Greg Garvey in part settlement of the director's fees due to him as of 30 June 2011 from the Company. In case these options do not vest or are not exercised these shares will be cancelled.

On 8 December 2008 the General Meeting of Shareholders approved an option plan for 13,500,000 shares for executives and employees. On 27 June 2011 the Board of Directors amended the stock option plan. Following the amendment it is possible to issue shares to a foundation (Stichting Employees Envipco Holding). The Stichting Employees Envipco Holding will for those shares issued to it grant options to the employees or executives of the Company and its affiliates. The options have not been finally allocated and the terms and conditions of the stock option plan are yet to be determined.

Following changes to the capital structure in 2011, once all the share issues are completed and if all share options would have been granted and vested and exercised, the total number of shares shall become 2,982,607. The total shares owned by the parties shall be as follows: Mr Alexandre Bouri 40.52%, Mr Douglas Poling 24.14%, Mr Gregory Garvey 13.48% (excluding options due to non-vesting), Stichting Employees Envipco Holding 8.05% and the employees and public 13.81%.

## Corporate Governance

### Dutch Corporate Governance Code

On 9 December 2003, the Dutch Corporate Governance Committee released the Dutch Corporate Governance Code which was subsequently updated effective as per 1 January 2009 (the "Code"). The Code contains 21 principles and 128 best practice provisions for a managing board, supervisory boards, shareholders and general meetings of shareholders, financial reporting, auditing, disclosure, compliance with and enforcement of the Code.

Dutch companies admitted to trading on a registered stock exchange or, under certain circumstances, registered on a multilateral trading facility, whether in the Netherlands or elsewhere, are required under Dutch law to disclose in their annual reports whether or not they apply the provisions of the Code and, if and to the extent they do not apply, to explain the reasons why.

The Company acknowledges the importance of good corporate governance. Since 2011 the Company supports the Code ([www.envipco.com](http://www.envipco.com)) and has started to implement the relevant provisions of the Code subject to the exceptions set out below:

The Company does not comply with the following provisions of the Dutch corporate governance code:

- II.2 The Company has not in place a formal risk management system. In view of the size of the Company this is not necessary in view of the Board of Directors of the Company. In the view of the Board of Directors the Company has adequate measures in place to monitor risks.
- II.2.14 The Company has not published on its website the main elements of the service agreements with the executive directors. In view of the size of the Company the Board of Directors takes the view that this is not necessary. The Company publishes in its financial statements the elements of the salary of the executive directors.
- III.3.1 The Company has not prepared a profile for the non-executive members of the Board of Directors. In view of the size of the Board of Directors the Board of Directors is of the opinion that this is not necessary.
- III.3.6 The Board of Directors has not made a schedule of retirement by rotation. In view of the size of the Company the Board of Directors is of the opinion that this is not necessary.
- III.4.3 The Company has no secretary. Due to the size of the Company, the Company believes this is not necessary.
- III.5 The Company does not have a remuneration committee or a selection and nomination committee. The tasks to be performed by these committees are performed by the non-executive members of the Board of Directors. In view of the size of the Company there is no need to have a separate remuneration committee and a nomination and selection committee.
- III.7.1 The Company has granted stock options to Mr Greg Garvey, the chairman of the Board of Directors. It is customary in the United States (the residence and working place of Mr Greg Garvey) to grant share options also to non-executive directors.
- V.3 The Company has no internal audit function. In view of the size of the Company, the Company believes this is not necessary. The internal risks are in the view of the Board of Directors adequately monitored.

### General Meetings of Shareholders and Voting Rights

The annual General Meeting of Shareholders must be held within six months after the end of each financial year. The notice convening any General Meeting of Shareholders shall contain an agenda indicating the items for discussion included therein. The notice for convening the General Meeting of Shareholders shall mention the registration date and the manner in which the persons with meeting rights at the General Meeting of Shareholders may procure their registration and the way they may exercise their rights. The registration date is the twenty-eighth day prior to the date of the General Meeting of Shareholders.

Decisions of the General Meeting of Shareholders are taken by a majority of three-fourth of the votes validly cast, except where Dutch law or the Company's Articles of Association provide for a special or greater majority.

#### **Explanatory notes on article 10 of the takeover directive**

Pursuant to the Implementing Decree of 5 April 2006 relating to Article 10 of Directive 2004/25/EC on takeover bids of 21 April 2004 of the European Parliament and the Council of the European Union, Envipco includes the following explanatory notes:

Following changes in the Company's capital (as explained above) as at 31 December 2011 Envipco had issued 2,712,607 ordinary shares. Envipco holds 1,362 shares in its own capital. Stichting Employees Envipco Holding acquired 240,000 shares of the Company at a nominal value of €0.50 for the options granted to Mr Greg Garvey in part settlement of the directors fees due him as of 30 June 2011 from the Company and the Company has a liability to Stichting Employees Envipco Holding for an equal amount. There are no physical share certificates issued, except for entries in the shareholders register. The Articles of Association do not provide for any limitation of the transferability of the ordinary shares.

Significant direct and indirect shareholdings are set out in this report under the section 'Substantial Shareholdings.

Envipco currently does not hold any employee share scheme in which the control rights are not exercised directly by the employees.

The voting right is not subject to any limitation. All shares entitle the holder to one vote per share. No securities with special control rights have been issued. No agreement has been entered with any shareholder that could give rise to any limitation on the transfer of shares and/or voting rights except for an agreement between Mr Alexandre Bouri and Mr Douglas Poling as explained on page 7 under Substantial Shareholding.

Unless otherwise specified by the Articles, all resolutions at the general meeting shall be passed by a majority of three-fourth the votes cast.

The appointment, suspension and discharge of the members of the Board of Managing Directors and their remuneration is decided at the general meeting of the shareholders as per Article 8 of the Articles of Association.

The issue of new shares shall be by a resolution of the general meeting of shareholders and subject to the provisions of Article 5 of the Articles of Association. The general meeting of the shareholders has allowed the management board to issue 13.5 million (270,000 after reverse stock split) shares for incentives to executives and employees.

The Enterprise Chamber may at the request of the Company, any shareholder of the Company, any holder of DRS for shares issued with the cooperation of the Company or a foundation or association with full legal capacity which articles promote the interests of such company, shareholder or holder of depositary receipts, order a shareholder who has obtained 30% or more of the Company's voting rights or more to make a public offer in respect of all shares.

The above mentioned obligation for a person acting solely or together with others to make a public offer does not apply according to the Exemption Decree on Public Offers (*Vrijstellingbesluit overnamebiedingen Wft*) in cases where prior to, but no more than three months prior to, the acquisition of 30% or more of the Company's shares or voting rights, the General Meeting of the Company has approved such acquisition with 95% of the votes cast by others than the acquirer and the person(s) acting with him/her.

#### **Dutch Squeeze-out Proceedings**

After a public offer, pursuant to Section 2:359c of the Dutch Civil Code, a holder of at least 95% of the outstanding shares and voting rights, which has been acquired as a result of a public offer, has the right to require the minority shareholders to sell their shares to him/her.



## Corporate Social Responsibility

As a Company dedicated to improving the rates at which the world recycles, Envipco works closely to help all of our clients reach their environmental goals. From delivering food-grade quality plastic flakes and pellets to helping beverage companies recover significant percentages of their bottles and cans, we have developed customised programs that promote sustainability. Envipco also proactively promotes its comprehensive recycling program and constantly explores new opportunities for greener operations.

Within the communities in which we operate, Envipco is an active and engaged citizen. We recognise our potential role as educators, regularly inviting school groups to tour our manufacturing facility to learn more about the process of recycling. We offer scholarships and internship programs to students interested in pursuing environmentally focused careers.

For years, Envipco has also participated in a program designed to give workers a second chance. The Company hires individuals from halfway houses and shelters, providing employment and training to help them secure stable housing and rebuild their lives. Often starting as temporary workers, many of the participants in the program have gone on to successful careers at Envipco and other area companies.

As a relatively small Company we have begun by setting up the foundation of good corporate social responsibility principles which we intend to adopt as the Company grows. We plan to implement various initiatives to achieve a high level of employee satisfaction, optimising the use of both internal and external resources to have the most efficient carbon foot print while ensuring the adoption of a high code of conduct and ethics relating to all aspects of our business.

## Internal Controls

The executive board is responsible for establishing and maintaining adequate internal controls. The executive board members are involved in the day to day management of the US and the French subsidiaries. Both these members are responsible to implement the management board's decisions and strategy, and are also accountable to the management board for their respective organisations. Envipco internal control system is designed to provide reasonable assurance to the Company's management board regarding the preparation and fair presentation of published financial statements in accordance with International Financial Reporting Standards. All internal control systems, no matter how well designed, have inherent limitations, and therefore can provide only reasonable assurance with respect to financial statement preparation and presentation. Management maintains a comprehensive system of controls intended to ensure that transactions are executed in accordance with Management's authorisation, assets are safeguarded, and financial records are reliable. Management periodically assesses the effectiveness of the Company's internal controls and believes these to be effective and reliable.

## Board of Management

The Company's management board consists of 2 executive and 5 non-executive directors. The non-executive directors shall elect a chairman of the Management Board from among themselves. The Management Board is charged with the management of the Company and is responsible for establishing the Group's strategy and general policies. The executive directors are responsible for the day-to-day management of the Company.

## Audit Committee

The Company has established an audit committee which operates pursuant to the terms of reference adopted by the Board of Directors, which are published on the Company's website. The audit committee was established by the Board of Directors on 27 June 2011 and is composed of three non-executive directors appointed by the Board of Directors. The terms of reference of the audit committee are included in the Board Regulations. The audit committee is chaired by the person appointed thereto by the Board of Directors, provided that this chairman: i) shall be independent (in the manner prescribed by the Dutch Corporate Governance Code, and set out in the Board regulations, ii) shall not be the chairman of the Board of Directors, nor a former executive director, and iii) shall have the necessary qualifications. The audit committee shall meet at least four times per year, or more frequently

according to need. Currently, the audit committee consists of Mr Stalenhoef as chairperson and financial expert, Mr Garvey and Mr Lefebvre.

Due to the frequent discussions of the audit committee with senior management within the Group and discussions with our external auditors, the committee is satisfied with its oversight on financial reporting, risk management and audit functions of the group activities, even though no formal procedure is currently in place due to the size of the company. It has therefore not fully adopted this part of the governance code due to its size.

### **Nomination**

The Articles of Association of the Company provide for the number of directors to be determined by the Management Board. The remuneration and the terms and conditions of employment for each director are determined at the General Meeting.

### **Representation**

The Company is represented by the Board of Management or by two directors acting jointly.

### **Meeting**

Meetings of the Board of Management are convened upon the request of a member of the Board of Management. Resolutions of the Board of Management are passed by an absolute majority of votes.

### **Auditors**

The General Meeting of Shareholders shall appoint the auditors of the company.

### **Post Balance Sheet Events**

Details of the post balance sheet events are given in Note 28 of the Notes to the consolidated financial statements.



**Board Responsibility Statement**

The Company's directors hereby declare that, to the best of their knowledge:

-the annual financial statements for the year 2011 give a true and fair view of the assets, liabilities, financial position and the profit of the Company and its consolidated entities;

-the directors' report gives a true and fair view of the position of the Company and its related entities whose financial information has been consolidated in the annual financial statements as at the balance sheet date 31 December 2011 and of their state of affairs during the financial year 2011;

-the annual report describes the principal risks that the Company faces.

w.s. Gregory Garvey  
Chairman

w.s. Alexandre Bouri

w.s. Dick Stalenhoef

w.s. Guy Lefebvre

w.s. Bhajun Santchurn

w.s. Christian Crepet

w.s. David D'Addario

16 April 2012

(all amounts in thousands of euros)

	Note	2011	2010
Revenue	(6)	50,661	47,566
Cost of revenue		(38,411)	(34,543)
Leasing depreciation		(1,120)	(1,143)
<b>Gross profit</b>		<b>11,130</b>	<b>11,880</b>
Selling expenses	(7&9)	(784)	(621)
General and administrative expenses	(7&9)	(10,466)	(10,901)
Other income	(8)	(105)	31
Gain/(loss) on disposal of a subsidiary		474	-
<b>Operating result</b>		<b>249</b>	<b>389</b>
Financial expense	(10)	(422)	(297)
Financial income	(10)	87	128
Exchange gains		(155)	101
<b>Result before taxes</b>		<b>(241)</b>	<b>321</b>
Income taxes	(11&16)	(343)	(29)
Deferred taxes	(11&16)	47	5
		(296)	(24)
<b>Net results from continuing operations</b>		<b>(537)</b>	<b>297</b>
Non-controlling interests		30	-
<b>Net results from total operations</b>		<b>(507)</b>	<b>297</b>
<b>Other comprehensive income</b>			
Exchange differences on translating foreign operations		417	430
Share options: value of employee services	(20)	(898)	378
Other movements/treasury shares		(37)	(1)
Cash flow hedges:	(24)		
Gains/(losses) recognised on hedging instrument		27	(16)
<b>Total other comprehensive income</b>		<b>(491)</b>	<b>791</b>
<b>Total comprehensive income</b>		<b>(998)</b>	<b>1,088</b>

(all amounts in thousands of euros)

	Note	2011	2010
<b>Profit attributable to :</b>			
Owners of the parent		(507)	309
Non-controlling interest		(30)	(12)
		<u>(537)</u>	<u>297</u>
<b>Total comprehensive income attributable to :</b>			
Owners of the parent		(998)	1,100
Non-controlling interest		(14)	(12)
		<u>(1,012)</u>	<u>1,088</u>
<b>Earnings/(loss) per share for profit attributable To the ordinary equity holders of the parent during the year (after reverse stock split)</b>	(12)		
▶ Basic (euro) – (after reverse stock split)		(0.205)	0.120
- (before reverse stock split)		(0.004)	0.002
▶ Fully diluted (euro) – (after reverse stock split)		(0.205)	0.120
- (before reverse stock split)		(0.004)	0.002

(in thousands of euros)

	Note	2011	2010
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	(13)	3,921	2,829
Property, plant and equipment	(14)	17,857	14,629
Long term deposits	(15)	377	393
Deferred tax assets	(16)	179	167
Total non-current assets		22,334	18,018
<b>Current assets</b>			
Inventory	(17)	12,276	10,406
Trade and other receivables	(18)	8,869	11,211
Cash and cash equivalents	(19)	1,684	1,037
Total current assets		22,829	22,654
<b>Total assets</b>		<b>45,163</b>	<b>40,672</b>

(in thousands of euros)

	Note	2011	2010
<b>Equity</b>	(20)		
Share capital		1,356	1,236
Share premium		48,916	48,916
Retained earnings		(37,255)	(35,720)
Translation reserves		2,637	2,220
Equity attributable to owners of the parent		15,654	16,652
Non-controlling interest		78	92
Total equity		15,732	16,744
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	(21)	8,340	4,534
Other liabilities		280	60
Deferred tax liability	(16)	276	66
Derivative financial instruments	(24)	147	175
Total non-current liabilities		9,043	4,835
<b>Current liabilities</b>			
Borrowings	(21)	1,775	1,227
Bank overdraft		2,962	1,619
Trade creditors		12,482	13,672
Accrued expenses		1,948	1,607
Tax and social security	(22)	1,126	943
Other current liabilities	(22)	95	25
Total current liabilities		20,388	19,093
Total liabilities		29,431	23,928
<b>Total equity and liabilities</b>		45,163	40,672



(in thousands of euros)

	Note	2011	2010
<b>Cash flow (used in) / provided by operating activities</b>			
Operating result		249	389
Book result on disposal of group company		(474)	-
Interest received		87	128
Interest paid		(422)	(297)
Income taxes (paid)/repaid		(52)	(46)
Depreciation and amortisation	(13/14)	3,068	2,814
Employee share options		(898)	378
Other income		-	102
		1,558	3,468
Changes in trade and other receivables		(1,310)	1,015
Changes in inventories		(2,012)	(5,220)
Changes in deferred income		22	(48)
Changes in trade and other payables		1,146	6,323
		(2,154)	2,070
<b>Cash flow (used in)/ provided by operating activities</b>		(596)	5,538
<b>Cash flow (used in)/provided by investing activities</b>			
Net investment in intangible fixed assets	(13)	(1,393)	(992)
Net investment in tangible fixed assets	(14)	(6,853)	(6,502)
Net investment in other financial fixed assets		(6)	23
Proceeds from sale of assets		179	362
		(8,073)	(7,109)
<b>Cash flow (used in)/ provided by investing activities</b>			
<b>Cash flow (used in)/provided by financing Activities</b>			
Proceeds from share issue		3,755	-
Changes in borrowings and capital lease obligations		4,175	1,131
Changes equity for share premium		-	4
		7,930	1,135
<b>Cash flow (used in)/ provided by financing activities</b>			
<b>Net cash flow for the period</b>		(739)	(436)
Foreign currency differences and other changes		43	65
		43	65
<b>Changes in cash and cash equivalents, including bank overdrafts for the period</b>		(696)	(371)
Opening position as at 1 January		(582)	(211)
Closing position as at 31 December		(1,278)	(582)
<b>The closing position consists of:</b>			
Cash and cash equivalents	(19)	1,684	1,037
Bank overdraft		2,962	1,619
		(1,278)	(582)

(in thousands of euros)

	Share capital	Share premium	Retained Earnings	Translation Reserve	Total	Non-controlling interests	Total equity
<b>Balance at 1 January 2010</b>	<b>1,236</b>	<b>48,916</b>	<b>(36,390)</b>	<b>1,790</b>	<b>15,552</b>	<b>104</b>	<b>15,656</b>
<b>Changes in equity for 2010</b>							
Net profit/(loss) for the year	-	-	309	-	309	(12)	297
Other comprehensive income for the year							
-Currency translation adjustments	-	-	-	430	430	-	430
-Share options: value of employee benefits (Note 20)	-	-	378	-	378	-	378
-Cash flow hedge – fair value (Note 24)	-	-	(16)	-	(16)	-	(16)
-Other movements/treasury shares	-	-	(1)	-	(1)	-	(1)
Total comprehensive income for the year	-	-	670	430	1,100	(12)	1,088
<b>Balance at 31 December 2010</b>	<b>1,236</b>	<b>48,916</b>	<b>(35,720)</b>	<b>2,220</b>	<b>16,652</b>	<b>92</b>	<b>16,744</b>
<b>Changes in equity for 2011</b>							
Capital Increase	120	-	(120)	-	-	-	-
Net profit/(loss) for the year	-	-	(507)	-	(507)	(30)	(537)
Other comprehensive income for the year							
-Currency translation adjustments	-	-	-	417	417	-	417
-Share options: value of employee benefits	-	-	(898)	-	(898)	-	(898)
-Cash flow hedge – fair value	-	-	27	-	27	-	27
-Other movements/treasury shares	-	-	(37)	-	(37)	16	(21)
Total comprehensive income for the year	120	-	(1,535)	417	(998)	(14)	(1,012)
<b>Balance at 31 December 2011</b>	<b>1,356</b>	<b>48,916</b>	<b>(37,255)</b>	<b>2,637</b>	<b>15,654</b>	<b>78</b>	<b>15,732</b>

Please refer to note 20 for changes in share capital and reserves.

## **(1) General information**

Envipco Holding N.V. is a public limited liability company incorporated in accordance with the laws of The Netherlands, with its registered address at Herengracht 458, 1017 CA Amsterdam, The Netherlands. Envipco Holding N.V. and Subsidiaries ("the Company" or "Envipco") are engaged principally in Recycling in which it:

- develops, manufactures, assembles, leases, sells, markets and services a line of "reverse vending machines" (RVMs) in the USA, Europe, Australia and the Far East; and
- collects or acquires, cleans, processes and resells recycled plastic and derivative products.

These Financial Statements have been approved for issue by the Board of Management on 16 April 2012 and are subject to approval by the shareholders at the Annual General Meeting of Shareholders. All amounts are in thousands of euros unless stated otherwise.

### **Deposit redemption programs**

Under deposit redemption programs, the Company is responsible for the operation of systems to redeem, collect, account for and dispose of used beverage containers. In connection with these programs, participating retailers lease or purchase RVMs from the Company. The Company then acts in a clearinghouse capacity to collect deposits and handling fees on redeemed containers from participating beverage distributors and to distribute deposit refunds and handling fees to participating retailers. Accordingly, deposits and handling fees are not included as revenue and expense in the consolidated financial statements. The Company earns its revenues through leasing and selling machines to retailers and other participants, and through various services provided to distributors and retailers, including container collection, disposition, and accounting services.

### **Plastics processing program**

The Company operates a plastic processing facility in France, which produces plastic "flake" a product derived from post-consumer plastic beverage containers. The plastic product is sold to various customers for packaging and fibre applications.

## **(2) Summary of significant accounting policies**

### **Basis of preparation**

The consolidated financial statements of Envipco have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (hereafter : IFRS).

Valuation of assets and liabilities and determination of the result takes place under the historical cost convention. Unless presented otherwise at the relevant principle for the specific balance sheet item, assets and liabilities are presented at face value. Income and expenses are accounted for on accrual basis. Profit is only included when realised on the balance sheet date. Losses originating before the end of the financial year are taken into account if they have become known before preparation of the financial statements. Revenues from goods are recognised upon delivery. The cost of these goods is allocated to the same period. Revenues from services are recognised in proportion to the services rendered. The cost of these services is allocated to the same period.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity are disclosed in Note 3.

**Adoption of new Standards****(a) Amendments and Interpretations effective in 2011**

The following amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2011. The group has implemented these for the first time in its financial statements 2011.

**IFRS 3**

**Business Combinations – Measurement of Non-Controlling Interest (NCI).** The amendment clarifies the option to measure NCI at either fair value or proportionate share of the fair value of the acquiree's identifiable net assets at the acquisition date. The amendment has been made to ensure that certain components of NCI are not measured at zero. The group has applied this amendment from 1 January 2011, however, as it does not have any non-controlling interests, this amendment does not impact the group's financial statements.

**IAS 24, Related Party Disclosures –** The standard was revised in respect of the application of the existing disclosure requirements and the definition of a related party. The revised definition means that some entities may have more related parties for which disclosures will be required, however, it provides a partial exemption to government-related entities. The group has applied this amendment with effect from 1 January 2011, and adoption of the standard does not impact equity or income of the group, as it relates to disclosure requirements.

**IAS 32, Financial Instruments: Presentation -** The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. The group has adopted this amendment with effect from 1 January 2011. The amendment does not have any impact on group's financial statements, as the group has no rights issues that are denominated in a currency other than the functional currency of the issuer.

**IFRIC 13, Customer Loyalty Programmes -** The amendment clarifies that the fair value of award credits includes consideration of the amount of discounts or incentives that would otherwise be offered to customers who have not earned award credits from an initial sale. The group has applied this amendment with effect from 1 January 2011. The amendment does not have influence to the group's financial statements, as there are no customer loyalty programs in place.

**IFRIC 14/IAS 19, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction -** The amendment applies in the limited circumstances in which an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment expands the circumstances in which the benefit of such an early payment is recorded as an asset. This amendment is not relevant to the group and has no impact on group's financials, as it does not have any defined benefit assets.

**IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments –** This amendment covers the valuation of own shares if they are issued to repay debts. IFRIC 19 requires the equity instruments issued to be measured at their fair value and difference between that fair value and the carrying value of the debt repaid to be recognised in profit and loss account. The group has applied this amendment with effect from 1 January 2011. There is no impact on the group's financial statements.



The following other amendments and interpretations to existing standards which have been applied by the group but have no material impact on its financials:

IFRS 7, Financial Instruments - Amendments were made to disclosure requirements on financial instruments. As the amendments regard disclosures, they do not impact the equity and income of the group.

IAS 1, Presentation of Financial Statements – The standard clarifies that the analysis of Other Comprehensive Income may be shown in either statement of changes in equity or in the notes to the financial statements. The group has applied this amendment with effect from 1 January 2011, and adoption of the standard does not impact equity or income of the group, as it relates to presentation changes.

The following amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2011. The group has concluded that these are not applicable to the group at this time and these have no consequences for the financial statements:

Consequential amendments from IAS 27 – Consolidated and Separate Financials Statements to:

- IAS 21, The Effects of Changes in Foreign Exchange Rates
- IAS 28, Investments in Associates, and
- IAS 31, Interests in Joint Ventures

(b) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the group*

IFRS 10, Consolidated Financial Statements – The standard changes definition of control and requires an investor to consolidate an investee if all the following conditions are met:

- the entity has power over its investee
- the investor has exposure or rights to variable returns from involvement with the investee; and
- the investor has the ability to use its power to affect returns

As the standard is not expected to change any accounting requirements, it will not have any impact on group's financials.

IFRS 11, Joint Arrangements (replaces IAS 31 Interests in Joint Ventures) – The standard is based on the principle that each party to a joint arrangement accounts for its rights and obligation under that joint arrangement. Changes to IAS 28, Investments in Associates and Joint Ventures contributed to the issue of IFRS 11, where most of the requirements of IAS 28 – Investment in Associates are being carried forward unchanged, except for the new requirements on accounting for joint venture. An entity will be regarded as joint operator where it has rights to the assets and obligations for the liabilities in relation to a joint arrangement and thus should account for the assets and liabilities, and related revenues and expenses from such an arrangement. On the other hand if the party has rights to the net assets to a joint arrangement it is regarded as having an interest in a joint venture and thus should apply equity accounting. The new standard is not expected to have any material impact on the group's financials.

IFRS 12, Disclosure of Interests in Other Entities - The amendment clarifies certain existing disclosures that were previously included in IAS 27, IAS 28 and IAS 31 and introduces some new disclosure requirements in particular, for unconsolidated structured entities. No material impact on group financials is expected as the amendments relate to disclosure requirements.

IFRS 13, Fair Value Measurement – The standard provides guidance for measuring fair value and disclosure requirements about that fair value measurement, where it is permitted to do so under another IFRS. Currently, group is investigating any possible impact of this amendment on its financials.



IAS 19, Employee Benefits - The amendment provides for a key change which requires entities to recognise all changes in the defined benefit obligations and in the fair value of related plan assets when these changes occur. The amendment is not expected to be relevant to the financial statements, as the group has no defined benefit plans in place.

Some other amendments, interpretations and improvements were made that are not relevant to the group and expected to have no significant consequences on its financial statements.

#### Consolidated cash flow statement

The Group's consolidated statement of cash flows is presented using the indirect method.

The funds in the cash flow statement consist of cash and cash equivalents. Bank overdrafts are included as a component of cash and cash equivalents when the overdrafts are repayable on demand and often fluctuate. Cash flows in foreign currencies are translated at an average rate. Exchange rate differences concerning finances are shown separately in the cash flow statement.

#### Consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2011.

#### Subsidiaries

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

Inter-company transactions and balances between Group companies are eliminated.

The consolidated financial statements comprise the financial data of Envipco Holding N.V. and the following group companies:

Envipco Finance Company Limited – London, United Kingdom – 100%  
 Sorepla Industrie S.A. – Neufchateau, France – 97.5%  
 Sorepla Technologie S.A. – Rebeville, France – 100%  
 Envipco Automaten GmbH, Westerkapfen, Germany – 100%  
 Envipco Pickup & Processing Services Inc., Delaware, U.S.A. – 99.85%  
 Environmental Products Corporation, Delaware, U.S.A. – 99.85%  
 Environmental Products Recycling Inc., Delaware, U.S.A. – 99.85%  
 Posada Holding B.V. – Amsterdam, The Netherlands – 100%  
 Tek-O-Matic Enterprises Inc., Quebec, Canada – 74%  
 Recypac Inc., Quebec, Canada – 100%  
 Aeromaritime Mediterranean Corporation, Delaware, U.S.A. – 100%  
 Envipco Japan Limited, Japan – 100% up to moment of disposal as per 30 June 2011  
 Stichting Employees Envipco Holding, Amersfoort, The Netherlands

Stichting Employees Envipco Holding owns 240,000 shares of Envipco Holding N.V. (EHNH).  
 Stichting Employees Envipco Holding is controlled by EHNH, as the board of Stichting Employees Envipco Holding consists of 2 members of the Board of Envipco Holding N.V.  
 EHNH is entitled to the benefits from selling these shares and shall compensate all costs and expenses of Stichting Employees Envipco Holding.

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

### Segment reporting

The segments are identified on the basis of internal reports about components of the entity that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess its performance. Group considers geography and products as its main segments. Management measures geographical segment performance based on the segment's operating result. Similarly the respective assets and liabilities are allocated to the geographical segments. This coincides with the Group's internal organisational and management structure and its internal financial management reporting system. A business segment is a group of operations engaged in providing services or products that are subject to risks and returns that are different from those of other business segments.

### Foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Euros, which is the Company's functional and presentation currency. The subsidiaries that are included in the consolidation have the Euro, US Dollars, UK Sterling Pounds and the Japanese Yen as their functional currency. Transactions and cash flows in foreign currencies are translated into the functional currency at the rate prevailing when the transaction took place. Related exchange rate differences from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the income.

Balance sheets of entities that have a functional currency other than the Euro are translated using the closing rates at each reporting date. The income statements of such entities are translated at the average rates during the period. The resulting exchange difference is recognised in other comprehensive income in equity. When a foreign entity is sold, such cumulative exchange difference is reclassified in the income as part of the gain or loss on sale.

Translation gains and losses on inter-company balances which are in substance a part of the investment in such Group company are also recognised in other comprehensive income. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### Revenue

#### General

Group revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts, allowances for credit notes likely to be sent out, other revenue reducing factors, and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, collectability is reasonably assured and when specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies related to the sale have been resolved. When revenue recognition involves the use of estimates, the Group bases its estimates on historical results taking into consideration the type of client, the type of transaction and the specifics of each arrangement. In USA, under Bottle Bill deposit system, one of the subsidiary's billing include mandatory deposits on the beverage containers which once collected, are passed through to the operators of redemption sites where Envipco machines are used. These pass through amounts are included in receivables and payables but are not recognised as revenues.

### Services

The Group's primary service offerings include repairs and maintenance, and pickup and processing. These services are provided on a time and material basis or as a fixed-price contract with contract terms generally ranging from less than one year to three years.

Revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred. Revenue from fixed-price contracts involving managed services is generally recognised in the period the services are provided using a straight-line basis over the term of the contract.

If circumstances arise that may change the original estimates of revenues, costs, or extent of progress toward completion, then revisions to the estimates are made. These revisions may result in increases or decreases in estimated revenues or costs, and such revisions are reflected in income in the period in which management becomes aware of the circumstances that give rise to the revision.

### Product

Revenue from product sales is generally recognised when the product is delivered to the client and when there are no unfulfilled obligations that affect the client's final acceptance of the arrangement. Delivery does not occur until products have been shipped, risk of loss has transferred to the client and client acceptance has been obtained, client acceptance provisions have lapsed, or the Group has objective evidence that the criteria specified in the client acceptance provisions are either perfunctory or have been satisfied. Revenues from product lease are recognised over the term of the lease.

### Cost of revenue

Cost of revenue includes all direct material and labour costs and those indirect costs related to contract performance, such as indirect labour, supplies, housing and depreciation costs. The Group performs ongoing profitability analysis of its service contracts in order to determine whether the latest estimates - revenues, costs and profits - require updating. If, at any time, these estimates indicate that a contract will be unprofitable, the entire estimated loss for the remainder of the contract is recorded immediately and presented as losses on contracts under provisions.

### Leases

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

Leases where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased asset or the present value of the minimum lease payment. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance cost is charged to the income over the lease period using the effective interest method. Assets acquired under finance leases are depreciated over the shorter of their useful life or the lease term.

### Deferred tax

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

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



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

### **Intangible assets**

All intangible assets have finite lives based on their economic use except for Goodwill. The intangible assets with finite lives are amortised using the straight line method. The useful life is estimated at 10 years.

#### **(a) Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired company at the date of acquisition and is carried at cost less accumulated impairment losses. Goodwill is tested annually for impairment. An impairment loss is recognised for the amount by which the goodwill of a cash generating unit exceeds its recoverable amount.

The recoverable amount is the higher of the cash generating unit's fair value less costs to sell and value in use. Impairment testing of goodwill is performed at the level of the cash generating units, which is the smallest identifiable group of assets to independently generate cash flows. For the group, the smallest cash generating units comprise the activities of one single country. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

#### **(b) Patents, licenses and concessions**

Patents are acquired intangible assets and are measured initially at their fair values at the acquisition date. They are amortised using the straight-line method based on the estimated useful lives of ten years.

Concessions relate to RVM distribution rights in the US Midwest market for three years.

#### **(c) Research and development**

Research costs are recognised as an expense as incurred.

Development costs that are directly attributable to the design and testing of identifiable and unique products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the product so that it will be available for use;
- management intends to complete the product and use or sell it;
- there is an ability to use or sell the product;
- it can be demonstrated how the product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the product are available; and
- the costs attributable to the product during its development can be reliably measured.

The capitalised development cost is amortised when the asset becomes available for use. Some developed assets have become available for use in 2011. Once the asset is completely developed it is amortised over the estimated useful life, which is 5-10 years.

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

### **Property, plant and equipment**

Property, plant and equipment are valued at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition of the asset. In addition, the cost of leasehold improvements includes the estimated future costs of returning leased facilities to their original condition, if required. Subsequent expenditures that extend the asset's useful life are capitalised. Expenditures for repairs and maintenance are expensed when incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values, based on the estimated useful lives of such assets.

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

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Assets under construction will be depreciated once the assets are complete and available for use.

Depreciation is based on the estimated useful lives of assets as follows:

Buildings	25-40 years
Plant and machinery	3-10 years
Vehicles and equipment	3-8 years

#### **Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other highly liquid investments with original maturities of three months or less.

#### **Trade receivables**

Trade receivables are recognised initially at fair value, which is generally the face value, and subsequently carried at amortised cost less provision for impairment. Impairment provisions for credit losses are recognised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

#### **Inventory**

Product inventory is valued at the lower of cost or net realisable value based on first in first out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Spare parts inventory is valued at the lower of historical cost, or net realisable value. Appropriate consideration is given to excessive inventory levels, product deterioration and other factors when establishing the net realisable value.

#### **Derivative financial instruments and hedging activities**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- (a) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
- (b) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or
- (c) hedges of a net investment in a foreign operation (net investment hedge).

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



The fair values of derivative instruments used for hedging purposes are disclosed in note 24. Movements on the hedging reserve in shareholders' equity are shown in consolidated statement of changes in equity. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised as other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the profit or loss.

Amounts accumulated in equity are recycled in the profit or loss in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the statement of comprehensive income within finance income or expense. The gain or loss relating to the ineffective portion is recognised in the profit or loss within other income.

### **Equity**

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

The Company records purchases of its own ordinary shares (treasury shares) under the cost method whereby the entire cost of the acquired shares is deducted from equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity.

### **Borrowings**

Borrowings are recognised initially at fair value and subsequently stated at amortised cost.

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

Borrowing costs have been shown as a deduction from the long term debt (See Note 21).

### **Trade creditors and other current liabilities**

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

### **Employee benefit plans**

The Group subsidiaries sponsor employee benefit plans which cover substantially all of their employees. Such plan is referred to as defined contribution. A defined contribution plan is a plan under which the Group companies pay fixed contributions into a separate entity. Under defined contribution plans, the Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, Envipco pays contributions to publically or privately administered funds or insurance companies. Contributions are generally based on fixed amounts of eligible compensation and the cost for such plans is recognised based on employee service.

### **Share-based compensation**

The group has a share-based compensation agreement with one of the directors, under which the entity receives services from employee as consideration for equity instruments (options) of the group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the period from

the date of grant to the date of vesting of the option. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised. The expected non-vesting of the share options resulted in the reversal of €898,000 charged in prior years from 2008 thru 2011.

#### Government grants

Government grants received on capital expenditure are generally deducted in arriving at the carrying amount of the asset purchased. Grants for revenue expenditure are netted against the cost incurred by the group. Where retention of a grant is dependent on the group satisfying certain criteria, it is initially recognised as deferred income. When the criteria for retention have been satisfied, the deferred income balance is released to the consolidated income statement or netted against the asset purchased.

#### Deferred income

In some of the Group's services contracts, the Group bills the client prior to performing the services resulting in the recognition of deferred income on the consolidated balance sheet.

### (3) Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including estimates and assumptions concerning the future that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. The main areas for which the use of different estimates and assumptions could cause material adjustment to the carrying amounts of assets and liabilities are discussed below.

#### Deferred tax valuation

The Group recognises deferred tax assets for loss carry-forwards and deductible temporary differences, estimating the amount of future taxable profit that will be probable, against which the loss carry-forwards and deductible temporary difference can be utilised (Note 16).

#### Goodwill impairment testing

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy on intangible assets stated in Note 2. Goodwill is tested for impairment based on value-in-use calculations. These calculations require estimates (Note 13).

#### Allowance for inventory obsolescence

All RVM parts inventory is valued at the lower of cost and net realisable value. For repaired inventory, the estimated value has been assessed at 50% of cost.

#### Intangible assets

The group amortises its intangible assets, except for Goodwill, over the contracted term or their expected useful lives which are as follows:

Patents, licenses and concessions	3-10 years
Capitalised development costs	5-10 years

#### Property, plant and equipment

The Group estimates useful lives of its assets as follows:

Buildings	25-40 years
Plant and machinery	3-10 years
Vehicles and equipment	3-8 years

**(4) Capital management**

The Group's capital consists of its net equity. Management monitors and assesses the capital requirements for the Group and ensures that enough funding is available to meet the working capital requirements and also for the future business development. To raise funding, the Group considers both committed credit lines and equity contributions.

One of the Group's subsidiaries has to comply with certain financial covenants under its loan agreement, details of which are given in Note 21. The group's current funding requirements have been met from the balance of 2008 subscription received during 2011 (refer to Note 20 for details) and from the committed credit lines.

**(5) Financial Risk Management**

The Group has exposure to Credit, Liquidity and Market risks on the financial instruments used by it. The Board of Directors has the overall responsibility to monitor and manage these risks.

**Credit risk**

Credit risk arises from the possibility of asset impairment occurring because counterparties are not able to meet their obligations in transactions mainly involving trade receivables. While the Group's trade receivables are mostly exposed to credit risk, the exposure to concentrations of credit risk is limited due to the diverse geographic areas and industries covered by its operations. One of the Group's subsidiaries has an exposure to credit risk resulting in about 15% of subsidiary's revenues and trade receivables to be concentrated with one customer of this subsidiary. Another subsidiary has a single customer for its sales and receivables in 2011. The US subsidiary is dependent on two customers for 37% of its revenues and 21% of its receivables and in 2010, 21% of its revenues and 25% of receivables. In the normal course of business, the Group provides credit to clients, provides credit evaluations of these clients, and maintains an impairment provision for credit losses. Cash and cash equivalents are held with reliable counterparties.

European receivables are monitored periodically and US operations manage receivables through a system of deposit accounting where Envipco acts as a clearing house, but disburses funds to customers only after collections have been made from its receivables.

The carrying amount of financial assets represents the maximum credit exposure. This maximum exposure to credit risk for trade and other receivables at the reporting date by geographic region was:

		€'000 Current	€'000 31-60 Days	€'000 61-90 Days	€'000 >90 Days	€'000 TOTAL
2011	Europe	1,511	831	1,108	-	3,450
	United States	5,403	8	-	8	5,419
	Others	-	-	-	-	-
		<b>6,914</b>	<b>839</b>	<b>1,108</b>	<b>8</b>	<b>8,869</b>
2010	Europe	839	803	2,670	2,155	6,467
	United States	3,957	624	80	27	4,688
	Others	31	25	-	-	56
		<b>4,827</b>	<b>1,452</b>	<b>2,750</b>	<b>2,182</b>	<b>11,211</b>

**Liquidity risk**

Liquidity risk arises from the possibility that the Group may encounter difficulty in meeting its obligations as they fall due. The Group's policy is to ensure, as far as possible, that it will always have sufficient liquidity to meet its obligations in a timely manner. The executive directors follow prudent liquidity risk management by maintaining sufficient cash, enforcing strict credit policy and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

Liquidity is managed by invoice factoring in Europe and closely pursuing receivable collections in the US and also by keeping the committed credit lines in place. The following are the Group's contractual maturities of financial liabilities:

	€'000 In 1 Year	€'000 1-2 Years	€'000 2-5 Years	€'000 > 5 Years	€'000 TOTAL
<b>2011 Europe</b>					
Operational leases & payables	13,806	-	-	-	13,806
Bank debt & finance Leases	1,369	1,206	2,848	442	5,865
<b>United States</b>					
Operational leases & payables	5,972	229	324	-	6,525
Bank debt & finance leases	406	1,687	2,014	81	4,188
<b>Others</b>					
Leases & payables	-	-	-	-	-
<b>Total</b>	<b>21,553</b>	<b>3,122</b>	<b>5,186</b>	<b>523</b>	<b>30,384</b>
Off-balance sheet	(400)	(553)	-	-	(953)
	<b>21,153</b>	<b>2,569</b>	<b>5,186</b>	<b>523</b>	<b>29,431</b>
<b>2010 Europe</b>					
Operational leases & Payables	10,233	-	-	-	10,233
Bank debt & finance leases	1,187	1,408	1,327	485	4,407
<b>United States</b>					
Operational leases & payables	7,706	-	392	-	8,490
Bank debt & finance leases	40	89	1,162	-	1,291
<b>Others</b>					
Leases & Payables	733	-	-	-	733
<b>Total</b>	<b>19,899</b>	<b>1,889</b>	<b>2,881</b>	<b>485</b>	<b>25,154</b>
Off-balance sheet	(442)	(392)	(392)	-	(1,226)
	<b>19,457</b>	<b>1,497</b>	<b>2,489</b>	<b>485</b>	<b>23,928</b>

The Group's current assets at 31 December 2011 amounted to €24,192,000 (2010: €25,966,000) including off balance sheet deferred lease revenue of €1,363,000 in 2011 and €3,312,000 in 2010.

### Market risk

Market risk arises from the fact that the value of financial instruments may be positively or negatively affected by fluctuating prices on the financial markets. Market risk includes currency risk, fair value interest rate risk, and price risk.

### Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to exchange rate fluctuations. Exposure to currency risks arises primarily when receivables and payables are denominated in a currency other than the operating company's local currency. In addition, the Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the Japanese yen. The Group manages its currency risk by closely monitoring the currency fluctuations and does not hedge its currency risk.



**Sensitivity analysis**

A 5% strengthening of US Dollar against the Euro would have increased the profit after tax by €111,000 (2010: €37,000) and would result in net decrease in equity of €64,000 (2010: €65,000) and a 5% decline in US Dollar against the Euro would have had equal but opposite effect on the basis that all other variables remain constant.

**Interest rate risk**

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group tries to minimise its interest rate risk by negotiating a fixed interest rate for the borrowings.

**Cash flow sensitivity analysis**

A reduction of 0.25 basis points in interest rates would have increased the profit after tax and equity by €16,000 (2010: €1,000) and an increase of 0.25 basis points would have had equal but opposite effect with other factors remaining constant.

**Price risk**

The Group does have an exposure to raw material price risk in France.

Sorepla, our French plastic recycling company buys its raw materials comprising of baled plastics at spot and short term contracted prices which may be subject to wide commodity price swings. While selling prices eventually adjust to these price fluctuations, it can often take few months for such adjustments to take effect. Price fluctuations of 10% may impact profitability before tax by €2,400,000 on an annual basis, assuming selling prices cannot be adjusted. With the new investment, Sorepla expects to mitigate such fluctuations by negotiating its selling prices based on a formula taking into account purchase prices.



**(6) Segment information**

Envipco considers geography and products as its main segments. Management measures geographical segment performance based on the segment's operating result. Similarly the respective assets and liabilities are allocated to the geographical segments. The segments are identified on the basis of internal reports about components of the entity that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess its performance. The Group's main continuing operations relate to its core activity of Recycling. This activity has two main operating segments – RVMs and Plastics. The RVMs business segment include operations in the USA and Japan (which was disposed of on 30 June 2011) and in 2011 Germany has an RVM segment due to compactor sales to a single new customer, whereas Plastics operations are based in France. The non-operating segments include the Holding company and the research and development facility in Germany and rest of the non-active Group entities. Segment information for continuing operations is presented by geographical areas where a segment is based except for the non-operating segments. Segment information of the main operating segments is detailed below:

(in thousands of euros)	2011				2010			
	Europe	North America	Rest of the World	Total	Europe	North America	Rest of the World	Total
<b>Revenues</b>								
Continuing operations – Recycling								
RVM								
Sale of goods	861	2,154	-	3,015	-	4,469	-	4,469
Service revenue	-	12,169	-	12,169	-	10,544	590	11,134
Leasing revenue	-	6,671	375	7,046	-	8,278	-	8,278
Plastics								
Sale of goods	27,816	-	-	27,816	23,600	-	-	23,600
Service revenue	615	-	-	615	85	-	-	85
<b>Total</b>	<b>29,292</b>	<b>20,994</b>	<b>375</b>	<b>50,661</b>	<b>23,685</b>	<b>23,291</b>	<b>590</b>	<b>47,566</b>
	2011				2010			
	Europe	North America	Rest of the World	Total	Europe	North America	Rest of the World	Total
<b>Gross assets</b>								
Continuing operations – Recycling								
RVM	989	18,546	-	19,535	478	16,027	307	16,812
Plastics	21,093	-	-	21,093	16,928	-	-	16,928
Non-operating segments	4,535	-	-	4,535	6,932	-	-	6,932
<b>Total</b>	<b>26,617</b>	<b>18,546</b>	<b>-</b>	<b>45,163</b>	<b>24,338</b>	<b>16,027</b>	<b>307</b>	<b>40,672</b>

RVM segment assets in North America include €942,000 (2010: €616,000) of assets of a joint venture (refer to Note 27).

## (6) Segment information (continued)

	2011				2010			
	Europe	North America	Rest of the World	Total	Europe	North America	Rest of the World	Total
<b>Segment Results</b>								
Continuing operations – Recycling								
RVM	56	647	(99)	604	-	1,565	(78)	1,487
Plastics	(589)	-	-	(589)	(60)	-	-	(60)
Non-operating segments	(522)	-	-	(522)	(1,130)	-	-	(1,130)
<b>Total</b>	<b>(1,055)</b>	<b>647</b>	<b>(99)</b>	<b>(507)</b>	<b>(1,190)</b>	<b>1,565</b>	<b>(78)</b>	<b>297</b>

RVM segment results in North America include €383,000 of charges (2010: €265,000) for CLRS development costs.

	2011				2010			
	Europe	North America	Rest of the World	Total	Europe	North America	Rest of the World	Total
<b>Gross Liabilities</b>								
Continuing operations – Recycling								
RVM	374	10,709	-	11,083	-	8,557	733	9,290
Plastics	17,591	-	-	17,591	13,790	-	-	13,790
Non-operating segments	-	-	757	757	848	-	-	848
<b>Total</b>	<b>17,965</b>	<b>10,709</b>	<b>757</b>	<b>29,431</b>	<b>14,638</b>	<b>8,557</b>	<b>733</b>	<b>23,928</b>

Plastic segment liabilities for 2010 are after capitalising parent's debt of €2,300,000.

	2011				2010			
	Europe	North America	Rest of the World	Total	Europe	North America	Rest of the World	Total
<b>Cost of Property, Plant &amp; Equipment and Intangibles Additions</b>								
Continuing operations – Recycling								
RVM	-	3,513	-	3,513	-	2,531	-	2,531
Plastics	3,499	-	-	3,499	3,978	-	-	3,978
Non-operating segments	1,160	-	-	1,160	987	-	-	987
<b>Total</b>	<b>4,659</b>	<b>3,513</b>	<b>-</b>	<b>8,172</b>	<b>4,965</b>	<b>2,531</b>	<b>-</b>	<b>7,496</b>

**(6) Segment information (continued)**

	2011				2010			
	Europe	North America	Rest of the World	Total	Europe	North America	Rest of the World	Total
<b>Depreciation &amp; Amortisation Expense</b>								
Continuing operations – Recycling								
RVM	30	1,571	-	1,601	-	1,429	17	1,446
Plastics	1,280	-	-	1,280	1,265	-	-	1,265
Non-operating segments	187	-	-	187	103	-	-	103
<b>Total</b>	<b>1,497</b>	<b>1,571</b>	<b>-</b>	<b>3,068</b>	<b>1,368</b>	<b>1,429</b>	<b>17</b>	<b>2,814</b>

There were no non-cash expenses other than depreciation and amortisation except for an amount in the non-operating segment relating to the reversal of €898,000 (2010 charge: €378,000) in respect of the share options.

There were no associates or joint ventures where equity accounting was required.

**(7) Expenses****Selling expenses**

Selling expenses consist of costs associated with market development, marketing and promotions and trade shows.

**General and administrative expenses**

General and administrative expenses include depreciation expenses for an amount of €1,949,000 (2010: €1,671,000), research and development costs of €915,000 (2010: €963,000), payments made under operating leases of €255,000 (2010: €448,000), and bad debt charge of €103,000 (2010: €160,000). The fee paid to the Group's auditor for the following services is included in general expenses and can be specified as follows:

BDO, Netherlands

	2011	2010
	€'000	€'000
Other audit services	15	-
Audit fee	85	72
	<b>100</b>	<b>72</b>

**(8) Other income**

Other income includes government grant received by the Group companies of €22,000 (2010: €52,000) and €13,000 (2010: €63,000) sundry income during the year. The government grant is a yearly incentive offered to businesses in recycling industry and is not repayable.

**(9) Employee benefit expense**

	2011	2010
	€'000	€'000
Salaries	9,144	8,368
Social security expenses	1,670	2,023
Pension expenses	199	41
Equity share based payments	(898)	378
	<u>10,115</u>	<u>10,810</u>
	<u>2011</u>	<u>2010</u>
Average number of employees		
Continuing operations		
North America	131	129
Europe	109	97
Japan	-	-
	<u>240</u>	<u>226</u>
Total		

**Remuneration of the Management Board**

The remuneration of the Management Board charged to the result in 2011 was €643,000 (2010: €599,000 excluding share option cost of €378,000) and can be specified as follows:

(in thousands of euros)	Salary/fee	Other short term benefits	Social cost	Pension	Share based payments	Total
<b>2011</b>						
B. Santchurn	303	-	33	2	-	338
C. Crepet	146	-	83	-	-	229
G. Garvey	43	-	-	-	(898)	(855)
T.J.M. Stalenhoef	18	-	-	-	-	18
G. Lefebvre	15	-	-	-	-	15
A. Bouri	-	-	-	-	-	-
D. D'Addario	-	-	-	-	-	-
Total	<u>525</u>	<u>-</u>	<u>116</u>	<u>2</u>	<u>(898)</u>	<u>(255)</u>
<b>2010</b>						
B. Santchurn	272	68	21	4	-	365
C. Crepet	118	-	24	11	-	153
G. Garvey	53	-	-	-	378	431
T.J.M. Stalenhoef	18	-	-	-	-	18
G. Lefebvre	10	-	-	-	-	10
A. Bouri	-	-	-	-	-	-
D. D'Addario	-	-	-	-	-	-
Total	<u>471</u>	<u>68</u>	<u>45</u>	<u>15</u>	<u>378</u>	<u>977</u>

**(10) Financial expense and income**

The financial expense and income are fully in respect of loans and receivables. No interest expense or income is recognised using the effective interest rate method.

**(11) Income taxes****Effective tax rate**

Envipco operates in several jurisdictions with varied local statutory income tax rates. This causes a difference between the average statutory income tax rate and The Netherlands tax rate of 25.0%. The following table reconciles income taxes based on the Group's weighted average statutory income tax rate and the Group's income tax benefit from continuing operations:

Reconciliation between the company's effective tax rate and the statutory income tax rate in The Netherlands, which currently is 25.0%, can be specified as follows:

		2011		2010
		€'000		€'000
Profit/(loss) before tax		(241)		321
Taxation (charge)/credit @ statutory rate	25.0%	60	25.5%	(82)
Tax (charge) credit for different statutory tax rates on foreign subsidiaries		(93)		(282)
Gain on disposal of subsidiary under participation exemption		118		-
Effect of unused losses for which no deferred tax asset has been recognised		(381)		340
Effective income tax		(296)		(24)

None of the items of other comprehensive income is included in income taxes.

**Current and deferred tax income/(expense)**

	2011	2011	2010	2010
	€'000	€'000	€'000	€'000
	This period	Total	This period	Total
Current				
- Netherlands	-	-	-	-
- France	(244)	(244)	-	-
- USA	(99)	(99)	(29)	(29)
	(343)	(343)	(29)	(29)
Deferred				
- France	120	120	(27)	(27)
- Germany	(73)	(73)	32	32
	47	47	5	5
<b>Total</b>	<b>(296)</b>	<b>(296)</b>	<b>(24)</b>	<b>(24)</b>



**(11) Income taxes (continued)**

Tax losses, where no deferred tax has been recognised totaling €26,389,000 (2010: €24,212,000), of which €290,000 in the years 2012 through 2015 and €26,099,000 in the years 2016 through 2029 will expire.

**(12) Earnings per share**

The numerator for both basic and fully diluted net result per ordinary share (earnings per share or EPS) is net result attributable to holders of ordinary shares. The denominator for basic EPS is the number of ordinary shares outstanding during the year, excluding ordinary shares held as treasury shares. The fully diluted EPS is same as the basic EPS as the outstanding employee stock options were out-of-the-money i.e. as their exercise price is greater than the weighted average share price during the year.

The net result per ordinary share has been calculated according to the following schedule:

	2011 €'000	2011 €'000	2010 €'000	2010 €'000
	Continued operations	Total Operations	Continued operations	Total operations
<b>Numerator</b>				
Profit/(loss) for the year and earnings used in basic EPS	(507)	(507)	297	297
<b>Earning/(loss) used in basic and diluted EPS</b>	<b>(507)</b>	<b>(507)</b>	<b>297</b>	<b>297</b>
<b>Denominator</b>				
	'000	'000	'000	'000
Weighted average number of shares used in basic EPS after reverse stock split	2,473	2,473	2,473	2,473
Weighted average number of shares used in diluted EPS after reverse stock split	2,473	2,473	2,473	2,473

Following the reverse stock split in 2011, basic and diluted earnings/(loss) per share for 2011 and 2010 have been calculated using the weighted-average number of current ordinary shares of 2,472,607 (exclusive of 240,000 treasury shares). Treasury shares have been deducted to calculate the outstanding shares.

**(13) Intangible assets**

(in thousands of euros)

	Goodwill	Patents, licenses & concessions	Development costs	Total
<b>At 1 January 2010</b>				
Cost	123	561	1,336	2,020
Accumulated amortisation	-	(10)	(53)	(63)
Net carrying amount	123	551	1,283	1,957
<b>Changes to net carrying amount in 2010</b>				
Additions	-	92	900	992
Disposals	-	(44)	-	(44)
Reclassification - cost	-	10	(30)	(20)
Reclassifications – depreciation	-	(10)	30	20
Amortisation	-	(42)	(45)	(87)
Currency translation differences	10	1	-	11
Total changes in 2010	10	7	855	872
<b>At 31 December 2010</b>				
Cost	133	620	2,206	2,959
Accumulated amortisation and impairment	-	(62)	(68)	(130)
Net carrying amount	133	558	2,138	2,829
<b>Changes to net carrying amount in 2011</b>				
Additions	-	238	1,155	1,393
Disposals	-	(75)	-	(75)
Amortisation	-	(81)	(157)	(238)
Currency translation differences	4	8	-	12
Reclassification - cost	-	-	-	-
Reclassification - depreciation	-	-	-	-
Total changes in 2011	4	90	998	1,092
<b>At 31 December 2011</b>				
Cost	137	791	3,361	4,289
Accumulated amortisation and impairment	-	(143)	(225)	(368)
Net carrying amount	137	648	3,136	3,921

**(13) Intangible assets (continued)****Goodwill**

No impairment charges were recognised on any goodwill during the period. All goodwill as per 31 December 2011 and 2010 relates to goodwill of one Cash Generating Unit in the RVM segment, which was tested for any impairment, based on its value in use, by using present value of discrete cash flows for next three years and the present value of the terminal cash flow with the following assumptions: cost of capital 10.52%, effective tax rate 34% working capital requirement 10% of revenue and terminal cash flow growth rate of 2.5%.

Concessions relate to a three year exclusive RVM Distributor Agreement in Michigan, USA, including assignment of certain chain account relationships and contracts. The amount is being amortised over the term of the contract.

**Development costs**

All capitalised development costs relate to internally developed assets in respect of new product range namely Ultra, Flex, Ultra HDS, Mini Bulk, new compactor and bulk volume solutions for the existing and new markets. All material, labour and overhead costs directly attributable to these projects have been capitalised.

€1,155,000 (2010: €900,000) of the development cost was capitalised in 2011. Fully developed assets are amortised over their expected useful lives, which are between five to ten years.

One of the compactor developments was completed during the year and development cost relating to this asset is being amortised over ten years, its expected useful life.

Key projects under development during 2011 include Flex Hybrid, Ultra, Ultra HDS, USD (Scanning) and Mini Bulk.

**(14) Property, plant and equipment**

(in thousands of euros)

	Reverse vending machines	Land & buildings	Plant & machinery	Vehicles & equipment	Total
<b>At 1 January 2010</b>					
Cost	15,946	7,060	9,272	2,953	35,231
Accumulated depreciation	(12,931)	(2,769)	(6,850)	(1,937)	(24,487)
Net carrying amount	<b>3,015</b>	<b>4,291</b>	<b>2,422</b>	<b>1,016</b>	<b>10,744</b>
<b>Changes to net carrying amount in 2010</b>					
Additions	1,367	174	4,737	224	6,502
Disposals	(169)	(77)	(28)	(44)	(318)
Depreciation	(1,143)	(473)	(782)	(329)	(2,727)
Currency translation	250	80	58	40	428
Reclassifications – cost	(1,320)	(19)	(288)	9	(1,618)
Reclassifications - depreciation	1,320	19	288	(9)	1,618
Total changes in 2010	<b>305</b>	<b>(296)</b>	<b>3,985</b>	<b>(109)</b>	<b>3,885</b>
<b>At 31 December 2010</b>					
Cost	16,074	7,218	13,751	3,182	40,225
Accumulated depreciation	(12,754)	(3,223)	(7,344)	(2,275)	(25,596)
Net carrying amount	<b>3,320</b>	<b>3,995</b>	<b>6,407</b>	<b>907</b>	<b>14,629</b>
<b>Changes to net carrying amount in 2011</b>					
Additions	1,898	136	4,772	47	6,853
Disposals	(218)	-	(74)	(5)	(297)
Depreciation	(1,120)	(493)	(1,089)	(128)	(2,830)
Currency translation	122	22	(646)	4	(498)
Reclassifications – cost	(4,230)	(111)	727	(1,756)	(5,370)
Reclassifications - depreciation	4,230	111	(240)	1,269	5,370
Total changes in 2011	<b>682</b>	<b>(335)</b>	<b>3,450</b>	<b>(569)</b>	<b>3,228</b>
<b>At 31 December 2011</b>					
Cost	13,646	7,265	18,530	1,472	40,913
Accumulated depreciation	(9,644)	(3,605)	(8,673)	(1,134)	(23,056)
Net carrying amount	<b>4,002</b>	<b>3,660</b>	<b>9,857</b>	<b>338</b>	<b>17,857</b>

Plant and machinery includes €6,692,000 (2010: €4,456,000) for assets which are under construction.

**(15) Long term deposits**

	2011 €'000	2010 €'000
Schedule of movement		
<b>At beginning of year</b>	<b>393</b>	<b>326</b>
Additions	-	67
Releases	(16)	-
<b>At end of year</b>	<b>377</b>	<b>393</b>

**(15) Long term deposits (continued)**

Other non-current assets

	2011	2010
	€'000	€'000
Deposits with Suppliers and Vendors	377	393
	<b>377</b>	<b>393</b>

**(16) Deferred tax**

	2011	2011	2011	2011	2011
	€'000	€'000	€'000	€'000	€'000
	Asset	Liability	Net	(Charge)/credit profit & loss	(Charge)/credit Equity
Available profits/(losses)	179	(276)	(97)	47	-
At 31 December 2011	<b>179</b>	<b>(276)</b>	<b>(97)</b>	<b>47</b>	<b>-</b>

	2010	2010	2010	2010	2010
	€'000	€'000	€'000	€'000	€'000
	Asset	Liability	Net	(Charge)/credit profit & loss	(Charge)/credit Equity
Available profits/(losses)	167	(66)	101	5	-
At 31 December 2010	<b>167</b>	<b>(66)</b>	<b>101</b>	<b>5</b>	<b>-</b>

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax relates to the same fiscal authority. The taxable loss for which no deferred tax asset was recorded is €26,389,000 (2010: €24,212,000) of which €290,000 in the years 2012 through 2015 and €26,099,000 in the years 2016 through 2029 will expire. During the year €47,000 (2010: €4,000) of deferred taxes were recognised relating to previous year unused tax losses.

**(17) Inventory**

	2011	2010
	€'000	€'000
Finished goods	2,654	1,320
Raw material and parts	8,252	9,626
Work in progress	2,235	344
Provision for obsolescence	(865)	(884)
Inventory	<b>12,276</b>	<b>10,406</b>



**(17) Inventory (continued)**

In 2011 inventory amounted to €25,884,000 (2010: €21,467,000) has been included in the cost of revenue.

Finished goods are valued at lower of cost and net realisable value. Cost includes material cost, direct labour and overheads. Raw material and parts are valued at lower of cost and net realisable value. Cost includes purchase cost and cost of bringing the part to its present location. Work in progress is valued including direct material cost and a proportion of direct labour and overheads.

Estimates of net realisable value of inventory are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. As such estimates are continuously evaluated, it is common that in the normal course of business, circumstances that previously caused inventories to be written down below cost no longer exist resulting in reversals of write-downs.

**Schedule of movement of provision for obsolescence**

	2011	2010
	€'000	€'000
At beginning of period	884	557
Additions	207	669
Release of provision	(226)	(342)
At end of period	865	884

The increase/ (decrease) in provisions relating to raw materials is effected through cost of revenue.

**(18) Trade and other receivables**

	2011	2010
	€'000	€'000
Trade receivables	8,538	7,168
Receivable from shareholders	-	3,755
Other receivables	68	134
Prepaid expenses	263	154
Trade and other receivables	8,869	11,211

Estimates of the recoverability of trade receivables are based on the most reliable evidence available at the time the estimates are made. As these estimates are continuously evaluated, it is common that in the normal course of business, circumstances that previously caused trade receivables to be impaired no longer exist resulting in reversals of impairment charges. Trade receivables are shown net of bad debt provisions of €1,341,000 and €1,299,000 at the end of years 2011 and 2010 respectively.

**Schedule of movement of provision for bad debts**

	2011	2010
	€'000	€'000
At beginning of period	1,299	1,151
Additions	103	160
Release of provision	(61)	(12)
At end of period	1,341	1,299

**(19) Cash and cash equivalents**

	2011	2010
	€'000	€'000
Cash at bank and in hand	1,684	1,037
Cash and cash equivalents	<u>1,684</u>	<u>1,037</u>

The cash balances are at the free disposal of the Company except for €244,000 (2010: €242,000) relating to the investment in jointly controlled assets (note 27).

**(20) Shareholders' equity****Share Capital****Authorised and Issued Share Capital**

On 27 June 2011 the general meeting of shareholders decided (i) to amend the Company's Articles of Association with the aim of, among other things, converting the class A shares and the class B shares into ordinary shares not designated by an alphabetical letter, and converting every 50 of those ordinary shares, each with a nominal value of EUR 0.01, into one ordinary share with a nominal value of EUR 0.50 (reverse stock split) and (ii) to apply for admission of the ordinary Envipco shares to trading on the regulated market of NYSE Euronext Brussels.

The following table presents information about the share capital of the Company immediately before and after the abovementioned changes:

	Before changes in capital structure			After changes in capital structure
	Class A shares	Class B shares	Class A shares and Class B shares	Shares
Number of authorised shares	200,000,000	200,000,000	400,000,000	8,000,000
Authorised share capital	€ 2,000,000	€ 2,000,000	€ 4,000,000	€ 4,000,000
Number of issued shares	65,200,000	70,430,350	135,630,350	2,712,607
Issued share capital	€ 652,000	€ 704,303.50	€ 1,356,303.50	€ 1,356,303.50
Nominal value	€ 0.01	€ 0.01	€ 0.01	€ 0.50

As per 1 January 2011, the number of outstanding shares of the Company amounted to 123,630,336 shares, divided into 65,200,000 Class A shares and 58,430,336 Class B shares. After the increase in company's capital, the number of outstanding shares of the Company amounts to 135,630,350 shares, divided into 65,200,000 Class A shares and 70,430,350 Class B shares. Since all the capital structure changes have been incorporated the total number of outstanding shares of the Company amounts to 2,712,607 Shares.

All Shares that are issued and outstanding are fully paid up.

**(20) Shareholders' equity (continued)**

On 8 December 2008 the Company issued 30,022,525 Class A shares (equal to 600,450.5 Shares after reverse stock split) with nominal value of €0.01, at a price of €0.2486 per share to Mr Alexandre Bouri. All outstanding subscription amounts were received by the company in 2011.

On 19 July 2011 and 25 July 2011 respectively, the Company issued 12,000,014 Class B shares (equal to 240,000 Shares) to Stichting Employees Envipco Holding. The Class B shares issued on 19 July 2011 have been issued following the assignment of 12,000,000 stock options of Mr Greg Garvey to Stichting Employees Envipco Holding on the same date. The shares issued to the Stichting Employees Envipco Holding in 2011 are fully paid up.

On 8 December 2008 the General Meeting of Shareholders approved an option plan for 13,500,000 shares for executives and employees. On 27 June 2011 the Board of Directors amended the stock option plan. Following the amendment it is possible to issue shares to a foundation (Stichting Employees Envipco Holding). The Stichting Employees Envipco Holding will for those shares issued to it grant options to the employees or executives of the Company and its affiliates. The options have not been finally allocated and the terms and conditions of the stock option plan are yet to be determined.

Stichting Employees Envipco Holding acquired 240,000 shares of the Company at a nominal value of €0.50 for the options granted to Mr Greg Garvey in part settlement of the directors fees due to him as of 30 June 2011 from the Company and the Company has a liability to Stichting Employees Envipco Holding for an equal amount.

Following changes to the capital structure in 2011, once all the share issues are completed and if all share options would have been granted and vested and exercised, the total number of shares shall become 2,982,607. The total shares owned by the parties shall then be as follows: Mr Alexandre Bouri 40.52%, Mr Douglas Poling 24.14%, Mr Gregory Garvey 13.48% (excluding options due to non-vesting), Stichting Employees Envipco Holding 8.05% and the employees and public 13.81%.

There is one vote for each ordinary share.

**Share options**

12,000,000 share options were granted on 8 December 2008 to one of the directors at a strike price of €0.32. The underlying share price on that day was €0.2486 based on an earlier private transaction. Options are conditional on the employee remaining with the Company till 31 December 2011 (the vesting period) and can vest sooner if the Company meets targets regarding EBITDA or stock market value. Up to 4,000,000 options are exercisable in each of the years 2009, 2010 and 2011 if certain targets are met. The options expire on 31 March 2012. The options will be settled in equity. As of 31 December 2011 none of the share options for Mr Gregory Garvey are expected to vest because the conditions for vesting are not met. Consequently, a reversal of the prior year charges amounted to a credit in 2011 of €898,000 (comprising of charges of €378,000 each for 2010 and 2009 and €142,000 for 2008).

The fair value was determined using Black-Scholes pricing model. The volatility was calculated using last 5 years share prices and risk free interest rate used is for long-term government bonds with no expected dividend payments by the Company and the assumptions that all the vesting conditions will be met as of 31 December 2011.

	2011	2010
Outstanding at 1 January (after reverse stock split)	240	240
Granted during the period	-	-
Exercised during the period	-	-
Outstanding at 31 December (after reverse stock split)	240	240

**(20) Shareholders' equity (continued)****Share premium reserve**

For full detailed movements in share premium reserve please refer to the consolidated statement of changes in equity.

**Retained earnings**

At the Company's Annual General Shareholders' Meeting it will be proposed to include the 2011 net result to retained earnings.

**Translation reserve**

Group entities whose functional currency is other than Euro, Group's reporting currency, are translated using closing rates for balance sheets and average rates for income statements. The resulting difference is recognised as translation reserve in equity.

**(21) Non-current liabilities**

	2011 €'000	2010 €'000
Borrowings	8,340	4,534
	2011 €'000	2010 €'000
Other liabilities	280	60
	280	60

**Borrowings**

	2011 €'000	2010 €'000
Sorepla Industrie S.A. entered into various secured and unsecured borrowing agreements with various parties totaling €5,865,000 (2010: €4,407,000) with maturity dates ranging from 2012 to 2018. €4,407,000 of the debt is secured by the assets under finance leases (see note 25) and €1,775,000 is secured by fixed and floating charges on other assets.	5,865	4,407
Envipco Pickup and Processing Services Inc. (EPPSI), entered into a seven year loan agreement on 30 May 2007 for USD 1,875,000 with a floating interest rate. This loan is secured by the real estate and improvements. In addition to the interest the monthly payments also include a portion of principal calculated based on a 25 year amortisation period with a balloon payment at end of year 7. To hedge the risk of floating interest rate the subsidiary has entered into a fixed interest rate swap agreement for the duration of the loan. Net borrowing costs deducted is €12,000.	1,269	1,291
Others	63	63
Environmental Products Corporation (EPC) borrowed a facility from a third party lender for USD 7.5 million of which USD 5,000,000 as a line of credit (LOC) repayable after 2 years with interest and USD 2,500,000 as a Term Loan, repayable after 5 years with interest. The LOC is renewable annually for a term of another 2 years and are collateralised by a fixed and floating charge on all assets of EPC and guaranteed by the parent. Net borrowing costs deducted is €69,000.	2,918	-
<b>Total</b>	<b>10,115</b>	<b>5,761</b>

The debt covenants for the US subsidiaries EPC and EPPSI have been met during the year. Though the borrowing costs of €81,000 have been deducted, the debt is payable in full inclusive of the borrowing costs.

Future payments under long term borrowings	2011 €'000	2010 €'000
Current	1,775	1,227
Due between 2 to 5 years	7,855	3,994
> 5 years	485	540
<b>Total borrowings</b>	<b>10,115</b>	<b>5,761</b>



**(21) Non-current liabilities (continued)**

<b>Schedule of movement</b>	<b>2011</b> <b>€'000</b>	<b>2010</b> <b>€'000</b>
At beginning of period	5,761	4,252
Increase	4,548	1,409
(Decrease)	(431)	-
Translation effect	237	100
At end of period	<b>10,115</b>	<b>5,761</b>

**Deferred income**

These represent grant assistance received during the years 1999 through 2003 by a consolidated subsidiary for the acquisitions of Plant and Machinery. The grants are amortised over the useful lives of the assets and any un-amortised amount is shown as a deferred income liability.

	<b>2011</b> <b>€'000</b>	<b>2010</b> <b>€'000</b>
Un-amortised balance	<b>83</b>	<b>61</b>

**(22) Other current liabilities**

	<b>2011</b> <b>€'000</b>	<b>2010</b> <b>€'000</b>
Provisions	95	25
Tax and social security contributions	1,126	943
	<b>1,221</b>	<b>968</b>

**(23) Employee benefit plans**

Group companies provide pension benefits for their employees. The way these benefits are provided varies according to the legal, fiscal and economic conditions of each country. Such benefits are provided under defined contribution plans.

For the year ended 31 December 2011, expenses relating to defined contribution plans amounted to €37,000 (2010: €41,000).

**(24) Derivative financial instruments****Interest Rate Management**

A derivative financial instrument is used to reduce exposure to changes in interest rates. The instrument, designated as cash flow hedge, is an interest rate swap agreement, which has effectively fixed the interest rate on a term loan (Note 21). The Company manages its risk related to the instrument by matching the notational amounts and expiration dates of the derivative instrument with the Company's associated debt instrument. The hedge will terminate with the term loan on 15 May 2014. The increase/(decrease) in the value of interest rate swap agreement is recognised as an adjustment to accumulated other comprehensive income/(loss). At 31 December 2011 the fair value of the interest rate swap was a liability of approximately €147,000 (2010: €175,000) and is included in long-term liabilities and as part of accumulated other comprehensive income/(loss). The Company does not issue or hold derivative contracts for speculative purposes. The movement does not relate to any changes in the credit risk.

**(24) Derivative financial instruments (continued)**

Interest rate swap – cash flow hedge

	Liabilities €'000	Liabilities €'000
Opening balance	175	146
Change in value	(31)	16
Translation adjustment	3	13
Closing balance	147	175

**(25) Commitments and contingencies****Operating lease commitments-where a Group company is the lessee**

The future minimum lease payments under non-cancellable operating leases as of 31 December 2011 and 2010 were as follows:

	2011 €'000	2010 €'000
Current	400	442
Between 2 to 5 years	553	784
	953	1,226

The leases relate to buildings, plant and equipment, office machines and vehicles. Rent expenses for the year ended 31 December 2011 were approximately €255,000 (2010: €448,000).

**Operating lease commitments-where a Group company is the lessor**

The future minimum lease payments receivable under non-cancellable RVM operating leases as of 31 December 2011 and 2010 were as follows:

	2011 €'000	2010 €'000
Current	1,363	1,418
Between 2 to 5 years	1,697	1,894
	3,060	3,312

Lease revenues from RVMs for the year ended 31 December 2011 were approximately €2,089,000 (2010: €2,515,000).

**Finance lease commitments-where a Group company is the lessee**

	2011		2010	
	Buildings €'000	Plant €'000	Buildings €'000	Plant €'000
Current	120	746	272	575
Between 2 to 5 years	278	2,725	366	1,498
Over 5 years	-	178	70	245
	398	3,649	708	2,318
Carrying value at 31 December	2,655	5,579	1,359	3,716

**(25) Commitments and contingencies (continued)****Other commitments**

The French subsidiary Sorepla has a remaining investment commitment of about €850,000 relating to the new line for a process to produce food grade approved recycled PET, which will be met during the first half of 2012.

**Legal proceedings**

Group companies are parties to various legal actions that are incidental to the conduct of business.

The Group sold its helicopter business to ITP during 2008 and as part of its sale, the buyer agreed to pay additional earn-outs based upon certain conditions. ITP is in default of their agreement and the Group is proceeding with legal action in the London arbitration courts against ITP for its earn-outs. The Group results do not include any earn-outs as at 31 December 2011. These will be recognised when awarded by the court. ITP is alleging that the seller owes up to \$750,000 which management strongly disputes and will vigorously defend and is of the belief that these are unwarranted claims. Consequently no provisions are made in the financial statements.

In 2011 Envipco settled the anti-trust lawsuit against its competitor Tomra. As part of the settlement, Tomra agreed to remove or disclaim all existing exclusive vendor provisions in agreements with its retail customers and to refrain from entering into designated exclusive agreements in the future.

The French subsidiary Sorepla is in dispute with one of its suppliers for breach of its supply contract. In excess of €2.75 million is being claimed by Sorepla as compensation. Due to the uncertainty of the outcome, no amount for such claims has been recognised in the accounts. Court proceedings have been initiated to pursue the Group's claims for breach of contracts.

Envipco Holding N.V. owns certain intellectual property rights on the applications and secured readings of security ink applied on beverage containers which are subject to deposits in certain deposit mandated countries. The Company believes that DPG Deutsche Pfandsystem GmbH "DPG" and other parties are infringing its IP rights. Envipco initiated legal proceedings against DPG and other parties in the German court. The matter is in progress. Envipco expects an eventual positive outcome. However, no potential income has been recognised in the financial statements.

HSM GmbH & Co. Kg has filed a patent infringement claim against Envipco for alleged breach of our compactors. Envipco intends to vigorously defend this allegation and is preparing a counterclaim for this unwarranted suit which has no merit.

The Company is not aware of any other legal proceedings than the above that can have a material impact on the accounts.

**Loans**

Please refer to Note 21.

**(26) Related party transactions**

Transactions and relations with the shareholders are explained in note 20. Under Book 2 of the Netherlands Civil Code the receivable from the majority shareholder was restructured (refer to note 20 for further details). The key management personnel comprised of the management board (refer to note 9 for further details). €85,000 of interest was charged on the outstanding balance in 2011 (2010: €125,000) from Mr Alexandre Bouri.

Group companies enter into transactions with each other in the normal course of business. These transactions are eliminated in consolidation. Net research and development costs of €1,144,000 were incurred on behalf of other group subsidiaries by the parent company. The Group companies charge interest on intercompany loans. No interest is charged on the intercompany current account balances. The parent company also charges head office expenses to its subsidiaries, although no charge was made to its German subsidiary for the years 2010-11.

The Company has provided a guarantee to Envipco Automaten GmbH for the subordination of its receivable in 2011 of €610,000 (2010: €275,000) from this subsidiary and during the year one of the US subsidiaries has provided a €288,000 guarantee for the warranty obligations of its German affiliate. The Company also provided a guarantee to the US subsidiary's lender TD Bank for the credit facilities of USD 7.5 million in 2011.

The Group companies had following intra-group transactions:

	2011	2010
	€'000	€'000
Goods and services	2,713	1,326
Other charges and services	-	396
Research and development	1,144	1,623
	<b>3,857</b>	<b>3,345</b>

**(27) Jointly controlled assets**

Environmental Products Corporation, a US subsidiary, executed an agreement on 22 December 2009 for the evaluation and pilot of innovative recycling concepts in selected US non-deposit markets. The pilot will employ new proprietary technology developed by Envipco for large scale collection of PET and aluminum beverage containers. According to IAS 31 the investment has been treated as Jointly controlled assets. The agreement was amended on 13 December 2011 and based there on, during the year the Group invested €335,000 (2010: €881,000), its share of capital contribution based on 50:50 ownership for this pilot operation. The Group's share of expenses in 2011 amounted to €383,000 (2010: €265,000). The Group's share of results and assets has been included in these financial statements. The Group's share of equity at the balance sheet date amounted to €942,000 (2010: €616,000).

**(28) Post balance sheet events**

On 24 January 2012, the US bank facility was renewed for another two year term.

Mr Alexandre Bouri has agreed to loan a sum of €1,000,000 payable in two tranches of €500,000 each, first of which was received on 11 April 2012 and the balance by 30 April 2012, which is to be used for the increase of capital of the French recycling group.

**SEPARATE COMPANY BALANCE SHEET AS AT 31 DECEMBER**  
BEFORE PROPOSED APPROPRIATION OF RESULT

**ENVIPCO**

(in thousands of euros)

	Note	2011	2010
<b>Assets</b>			
<b>Fixed assets</b>			
Intangible assets	(B)	3,642	2,668
Financial fixed assets	(C)/(H)	13,149	11,435
Loans to group companies	(D)	1,354	438
		18,145	14,541
<b>Current assets</b>			
Receivables	(E)	36	3,781
Cash	(F)	748	451
		784	4,232
<b>Total assets</b>		<b>18,929</b>	<b>18,773</b>
<b>Equity and liabilities</b>			
<b>Shareholders' equity</b>	(G)		
Share capital		1,356	1,236
Share premium		45,780	46,778
Legal reserve		3,136	2,138
Retained earnings		(37,255)	(35,720)
Translation reserve		2,637	2,220
		15,654	16,652
<b>Provisions</b>			
Non-current liabilities			
Provisions for Consolidated Group Companies		-	883
Loans from group companies	(I)	2,633	733
Other non-current liabilities	(J)	259	63
<b>Current liabilities</b>			
Creditors and other liabilities		383	442
		383	442
<b>Total equity and liabilities</b>		<b>18,929</b>	<b>18,773</b>

**SEPARATE COMPANY INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER**  
BEFORE PROPOSED APPROPRIATION OF RESULT

**ENVIPCO**

(in thousands of euros)

	2011	2010
<b>Result from Group companies after income taxes</b>		
Result for the year	68	1,664
Result of sale of subsidiary	474	-
<b>Other results after income taxes</b>	(1,049)	(1,355)
<b>Net result</b>	<b>(507)</b>	<b>309</b>



**(A) General information****Accounting principles used to prepare separate Company financial statements**

The Company financial statements have been prepared in accordance with Part 9 of Book 2 of the Netherlands Civil Code. In accordance with Article 2:362 subsection 8 of the Civil Code, the Company has elected to apply the valuation of the accounting policies used in the consolidated financial statements to the separate Company financial statements. Furthermore, in accordance with Article 2:402 of the Civil Code, the Company has elected to present an abbreviated income statement. All amounts are in thousands of Euros unless stated otherwise.

In addition, Consolidated Group companies (financial fixed assets) are valued based on their net equity, determined using the Group accounting policies. In case the net equity of a Group company is negative, the Company records a provision for as far as the Company assesses that it has a legal or constructive obligation to reimburse the Group companies' losses. This provision shall be deducted from receivables on the Group company if these receivables are part of the net investment in the Group company.

**Composition of shareholders' equity**

Refer to Note G Shareholders' equity of the separate Company financial statements.

**(B) Intangible assets**

(in thousands of euros)

	Patents & licenses	Development costs	Total
<b>At 31 December 2010</b>			
Cost	590	2,206	2,796
Accumulated amortisation and impairment	(60)	(68)	(128)
Net carrying amount	<b>530</b>	<b>2,138</b>	<b>2,668</b>
<b>At 31 December 2011</b>			
Cost	596	3,361	3,957
Accumulated amortisation and impairment	(90)	(225)	(315)
Net carrying amount	<b>506</b>	<b>3,136</b>	<b>3,642</b>

**(C) Financial fixed assets**

	2011 €'000	2010 €'000
At beginning of the year	11,435	7,145
Investments	1,286	2,302
Treasury shares	(11)	(6)
Results of the group companies for the year	68	1,664
Exchange differences	417	330
Sale of group company	604	-
Movement of provision	(883)	-
Impairment of loans in subsidiaries	233	-
	<b>13,149</b>	<b>11,435</b>

Financial fixed assets relate to the investments in group companies.

**(D) Loans to group companies**

	2011 €'000	2010 €'000
At beginning of the year	438	2,839
Additions	916	-
Redemptions	-	(2,401)
	<b>1,354</b>	<b>438</b>

The receivables include subordinated amount of €610,000 (2010: €275,000) from the German subsidiary.

**(E) Receivables**

Receivables of €3,755,000 as of 31 December 2010 from Mr Alexandre Bouri was paid in full during 2011. The current receivables are for VAT recoverable within 12 months.

**(F) Cash and cash equivalents**

	<b>2011</b>	<b>2010</b>
	€'000	€'000
Cash at bank and in hand	748	451
Cash and cash equivalents	<b>748</b>	<b>451</b>

The cash balances are at the free disposal of the Company. .

**(G) Shareholders' equity**

At the General Meeting of the Shareholders, the Company's shareholders approved that the 2011 net results of the Company be transferred to the retained earnings.

Refer to Consolidated statement of changes in equity and Note 20 Shareholders' equity of the Company's consolidated financial statements for further information regarding the Company's shareholders' equity. Transactions and relations with the shareholders are explained in Note 20. Under Book 2 of the Netherlands Civil Code the receivable from the majority shareholder was restructured (refer to Note 20 for further details). €85,000 (2010: €125,000) of interest was charged on the outstanding balance during 2011.

According to Book 2 of the Netherlands Civil Code, the company is required to restrict part of its equity from distribution to shareholders, by forming a legal reserve equal to the amount it has capitalised for development costs. The equity enclosed in this legal reserve is not at the disposal of the General Meeting of Shareholders. Therefore, this amount cannot be distributed to shareholders until the capitalised development costs have been recognised in the profit and loss account. The capitalised development costs as at 31 December 2011 amount to €3,136,000 (2010: €2,138,000). A legal reserve equalling this amount has been created in 2011 by decreasing the share premium reserve with this amount. In the consolidated statement of changes in equity and note 20 of the IFRS consolidated financial statements the legal reserve is included in the share premium reserve. The comparative information has been adjusted to reflect this change.

**(H) Subsidiaries and affiliates of Envipco**

The company has the following subsidiaries:

Envipco Finance Company Limited – London, United Kingdom – 100%  
 Sorepla Industrie S.A. – Neufschateau, France – 97.5%  
 Sorepla Technologie S.A. – Rebeville, France – 100%  
 Envipco Automaten GmbH, Westerkappeln, Germany – 100%  
 Envipco Pickup & Processing Services Inc., Delaware, U.S.A. – 99.85%  
 Environmental Products Corporation, Delaware, U.S.A. – 99.85%  
 Environmental Products Recycling Inc., Delaware, U.S.A. – 99.85%  
 Posada Holding B.V. – Amsterdam, The Netherlands – 100%  
 Tek-O-Matic Enterprises Inc., Quebec, Canada – 74%  
 Recypac Inc., Quebec, Canada – 100%  
 Aeromaritime Mediterranean Corporation, Delaware, U.S.A. – 100%  
 Envipco Japan Limited, Japan – 100% up to moment of disposal as per 30 June 2011

**(I) Loans from group companies**

	<b>2011</b>	<b>2010</b>
	€'000	€'000
At beginning of the year	733	-
Additions	1,900	733
	<b>2,633</b>	<b>733</b>

**(J) Non-current liabilities****Borrowings**

Refer to Note 21 Borrowings of the Company's consolidated financial statements for further information regarding the Company's borrowings.

**(K) Remuneration of the Board of Management****Remuneration of the Management Board**

The remuneration of the Management Board charged to the result in 2011 was €643,000 (2010: €599,000 excluding a share option charge of €378,000) and can be specified as follows:

(in thousands of euros)	Salary/fee	Other short term benefits	Social cost	Pension	Share based payments	Total
<b>2011</b>						
B. Santchurn	303	-	33	2	-	338
C. Crepet	146	-	83	-	-	229
G. Garvey	43	-	-	-	(898)	(855)
T.J.M. Stalenhoef	18	-	-	-	-	18
G. Lefebvre	15	-	-	-	-	15
A..Bouri	-	-	-	-	-	-
D. D'Addario	-	-	-	-	-	-
<b>Total</b>	<b>525</b>	<b>-</b>	<b>116</b>	<b>2</b>	<b>(898)</b>	<b>(255)</b>
<b>2010</b>						
B. Santchurn	272	68	21	4	-	365
C. Crepet	118	-	24	11	-	153
G. Garvey	53	-	-	-	378	431
T.J.M. Stalenhoef	18	-	-	-	-	18
G. Lefebvre	10	-	-	-	-	10
A. Bouri	-	-	-	-	-	-
D. D'Addario	-	-	-	-	-	-
<b>Total</b>	<b>471</b>	<b>68</b>	<b>45</b>	<b>15</b>	<b>378</b>	<b>977</b>

**(L) Research and developments costs**

During the year research and development costs of €915,000 (2010: €963,000) were expensed.

**(M) Commitments and contingencies**

The Company has provided a guarantee to Envipco Automaten GmbH for the subordination of its receivable in 2011 of €610,000 (2010: €275,000) from this subsidiary and during the year one of the US subsidiaries has provided a €288,000 guarantee for the warranty obligations of its German affiliate. The Company also provided a guarantee to the US subsidiary's lender TD Bank for the credit facilities of USD 7.5 million in 2011.



Amsterdam, 16 April 2012

w.s. Mr. Gregory Garvey (Chairman)

w.s. Mr. Alexandre Bouri

w.s. Mr. Dick Stalenhoef

w.s. Mr. Guy Lefebvre

w.s. Mr. Bhajun Santchurn

w.s. Mr. David D'Addario

w.s. Mr. Christian Crépet

**(N) Events after the balance sheet date**

For events after the balance sheet date please refer to Note 28 Post balance sheet events of the Company's consolidated financial statements.

**(O) Statutory rules concerning appropriation of results**

In Article 15 of the Company statutory regulations the following has been presented concerning the appropriation of result:

- 1 In the Company's books, a dividend reserve shall be maintained for each class of shares. These dividend reserves shall be designated as 'dividend reserve' followed by the letter corresponding with the relevant class of shares.
- 2 The Company may make distributions to shareholders and other persons entitled to distributable profits only to the extent that the shareholders' equity exceeds the sum of the paid and called-up part of the share capital and the reserves which must be maintained by law.
- 3 An amount equal to three percent of the average balance of the relevant dividend reserve over the relevant financial year, increased by the amounts withdrawn from the reserves pursuant to the provisions of paragraph 5 of this article, shall be retained from the profit as referred to in paragraph 2 of this article and added to each of the dividend reserves.  
If the amount calculated as described above is larger than the available profit, the amounts to be added shall be decreased pro rata.
- 4 The profit that remains after applying the above shall be at the disposal of the general meeting.  
If the general meeting does not resolve to add the profit to the company's general reserve, the profit shall be added to the abovementioned dividend reserves pro rata to the nominal amount of the shares of the single class.
- 5 Losses shall be charged to the company's general reserve and, if and to the extent this reserve is insufficient, to the divided reserves pro rata to the nominal amount of the shares of the single class.
- 6 Each withdrawal from the dividend reserve pursuant to the provisions of the preceding paragraph must be compensated before any addition can be made to any dividend reserve pursuant to paragraph 4.
- 7 The general meeting shall resolve to distribute such amounts on the shares corresponding with a particular dividend reserve as has been decided upon by the meeting of the holders of the single class of shares, up to the amount of the positive balance of that dividend reserve and if and to the extent the relevant dividend reserve is sufficient.  
The general meeting may only decide not to distribute the amounts referred to in the preceding sentence if and to the extent that it can be demonstrated and that the Company's liquidity position does not allow this.
- 8 The general meeting is authorised to apply the dividend reserves for a different purpose after having obtained the prior approval of the all holders of shares of a particular class, on the understanding that the distribution shall be charged to the various reserves pro rata to the nominal amount of the shares of the relevant classes.
- 9 The company may only make interim additions to the dividend reserves if the requirement in paragraph 2 has been met and provided that the prior approval of the general meeting has been obtained.

- 10 No distribution shall be made in favor of the company on shares acquired by the company in its own capital or DRS for such shares.
- 11 Shares or DRS for shares on which, pursuant to the provisions of paragraph 7, no distribution is made in favour of the company do not count for the purpose of calculating the profit appropriation.
- 12 The claim for payment of dividends shall lapse on the expiry of a period of five years.

**(P) Appropriation of result for the financial year 2010**

The annual report 2010 was determined in the General Meeting of Shareholders held on 27 June 2011. The General Meeting of Shareholders has determined the appropriation of result in accordance with the proposal being made to that end.

**(Q) Dividend distributions**

Dividend distributions may only be paid out of the profit as shown in the separate Company financial statements adopted by the General Meeting. Dividends may not be paid if the distribution would reduce shareholders' equity below the sum of the paid up and called up part of the issued share capital and any reserves which must be retained according to Dutch law or the Company's Articles of Association.

The Board of Management proposes the amount that shall be reserved from the profits as disclosed in the adopted annual accounts.

**(R) Proposed appropriation of loss for the financial year 2011**

The Board of Directors proposes that the loss for the financial year 2011 amounting to €507,000 will be taken to the retained earnings. The financial statements do reflect this proposal.

**(S) Auditor's report**

The auditor's report is set forth on the following page.

## INDEPENDENT AUDITOR'S REPORT

To: the General Meeting of Shareholders and the Management of Envipco Holding N.V.

### Report on the financial statements

We have audited the accompanying financial statements 2011 of Envipco N.V., Amsterdam. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at December 31, 2011, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of the significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at December 31, 2011 the company profit and loss account for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

#### *Management's responsibility*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion with respect to the consolidated financial statements*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Envipco Holding N.V. as at December 31, 2011 its result and its cash flows for the year then ended

in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

*Opinion with respect to the company financial statements*

In our opinion, the company financial statements give a true and fair view of the financial position of Envipco Holding N.V. as at December 31, 2011 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

**Report on other legal and regulatory requirements**

Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the management board report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the management board report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Dutch Civil Code.

Amstelveen, 16 April 2012

BDO Audit & Assurance B.V.  
on its behalf,

sgd. O. van Agthoven RA