

Illustrative condensed interim financial statements: First-time adopters

International Financial Reporting Standards
October 2010



About this publication

These illustrative condensed consolidated interim financial statements for a first-time adopter in 2010 have been produced by the KPMG International Standards Group (part of KPMG IFRG Limited) and the views expressed herein are those of the KPMG International Standards Group.

Content

The purpose of this publication is to assist you in preparing your first condensed interim financial statements in accordance with International Financial Reporting Standards (IFRSs), in particular IAS 34 *Interim Financial Reporting*. It illustrates one possible format for condensed interim financial statements based on a fictitious multinational corporation involved in general business and adopting IFRSs as its primary basis of accounting for the year ending 31 December 2010.

In these illustrative condensed consolidated interim financial statements IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied in making the transition from previous GAAP to IFRSs. When a standard allows a choice of accounting treatments, this publication illustrates only one of the possible treatments. In the case of IFRS 1, a number of implementation choices exist and only one possible combination is illustrated. The publication does not repeat all of the requirements of IFRS 1 and should be read in conjunction with the standard and related implementation guidance, as well as our publication *IFRS Handbook: First-time adoption of IFRS* (September 2009).

This publication is based on standards and interpretations that have been issued by the International Accounting Standards Board (IASB) by 30 September 2010 and that are effective for a first-time adopter with a first annual IFRS reporting date of 31 December 2010 ("currently effective" requirements). IFRSs that are effective for annual periods beginning *after* 1 January 2010 have not been adopted early in preparing these illustrative condensed consolidated interim financial statements.

As such IFRS 9 *Financial Instruments* has not been early adopted. If a first-time adopter were to early adopt IFRS 9, then IFRS 1 contains an exemption from the requirement to restate comparative information for IFRS 9, which would permit the entity to apply the recognition and measurement requirements of its previous GAAP in the comparative period.

This publication focuses on compliance with IAS 34 and IFRS 1, but does not repeat all of those standards' requirements and related implementation guidance. In addition, IFRSs other than IAS 34 are not discussed in this publication except in the context of disclosure in condensed interim financial statements, and the impact of any requirements that may result from exposure drafts or other current projects of the IASB or the IFRS Interpretations Committee is not illustrated.

When preparing condensed interim financial statements in accordance with IAS 34, an entity should have regard to its local legal and regulatory requirements, which are not considered in this publication, but which may require additional disclosures to be made in condensed interim financial statements. For example, IFRSs do not require the presentation of separate financial statements for the parent entity, and these illustrative condensed consolidated interim financial statements include only consolidated interim financial statements. However, in some jurisdictions parent entity interim financial information also may be required.

IAS 34 addresses only the financial statement component of an interim financial report, and this publication illustrates only that component. However, typically an interim report will include at least some additional commentary by management, either in accordance with local laws and regulations or at the election of the entity.

While these illustrative financial statements are valuable in understanding international reporting requirements effective for a reporting date of 31 December 2010, they should not be used as a substitute for referring to the

standards and interpretations themselves, particularly when a specific requirement is not addressed in this publication or when there is uncertainty regarding the correct interpretation of an IFRS.

References

The illustrative condensed consolidated interim financial statements are contained on the odd-numbered pages of this publication. The even-numbered pages contain explanatory comments and notes. The illustrative condensed consolidated interim financial statements also include references to *Insights into IFRS* (7th edition). The illustrative examples, together with the explanatory notes, however, are not intended to be seen as a complete and exhaustive summary of all disclosure requirements that are applicable under IFRSs.

To the left of each item disclosed, a reference to the relevant paragraph in IAS 34 or related IFRS is provided; generally the references relate only to disclosure requirements. However, in the judgements and estimates note (see note 2(d)) and the accounting policies note (see note 3), references also have been given to relevant recognition and measurement requirements of IFRSs.

Acknowledgements

This publication has been produced by the KPMG International Standards Group (part of KPMG IFRG Limited).

We would like to acknowledge the principal contributors to this publication. Those contributors include Heath Preston, Sanel Tomlinson and David Ward of the KPMG International Standards Group.

Other ways KPMG professionals can help

A more detailed discussion of the general accounting issues that arise from the application of IFRSs can be found in our publication *Insights into IFRS*.

In addition to *Insights into IFRS*, we have a range of publications that can assist you further, including:

- IFRS compared to US GAAP
- Illustrative Financial Statements for annual and interim periods, and for selected industries
- IFRS Handbooks, which include extensive interpretative guidance and illustrative examples to elaborate or clarify the practical application of a standard
- New on the Horizon publications, which discuss consultation papers
- Newsletters, which highlight recent developments
- IFRS Practice Issue publications, which discuss specific requirements of pronouncements
- First Impressions publications, which discuss new pronouncements
- Disclosure checklist.

IFRS-related technical information also is available at www.kpmg.com/ifrs.

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Our approach comprises four key workstreams:

- accounting and reporting
- business impact
- systems, processes and controls
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Technical guide

IFRSs do not require entities to publish interim financial reports; generally local laws and regulations determine such requirements. IAS 34 applies to entities that are either required, or elect, to publish an interim financial report in accordance with IFRSs. IAS 34 encourages entities that are publicly traded to provide an interim financial report at least at the end of the first half of the financial year and to make that interim report available within 60 days of the reporting date.

Preparing an interim financial report that includes interim financial statements for part of a period covered by the first IFRS annual financial statements requires consideration not only of IAS 34 but also of IFRS 1. IFRS 1 includes both general and specific additional disclosure requirements for a first-time adopter. Below is an overview of the basic approach of IAS 34, supplemented by comments on how IFRS 1 may expand the normal requirements in respect of interim financial reporting for a first-time adopter. In deciding how far to expand disclosures over the minimum requirements of IAS 34, in our view an entity should view its first IFRS interim financial statements as an opportunity to enhance communication, not merely as a compliance exercise. It should consider what information is necessary to help users to understand the change from previous GAAP to IFRSs.

The principles of preparing interim financial statements for first-time adopters

IAS 34 defines the minimum content of interim financial statements, including disclosures, and identifies the recognition and measurement principles that should be applied in preparing interim financial statements. For the most part, the recognition and measurement principles are consistent with IFRSs used in the preparation of annual financial statements, though differences exist, for example in the measurement of income tax expense. In addition, a greater use of estimation may be required than in the preparation of annual financial statements.

In addition, IFRS 1 includes specific disclosure requirements for an entity publishing interim financial statements for part of a period covered by its first IFRS annual financial statements, and requires an explanation of the transition from previous GAAP to IFRSs (paragraph 32 of IFRS 1).

Under IAS 34 interim financial statements are in some areas an update from the most recent previous annual IFRS financial statements and hence it permits the disclosure requirements for annual financial statements to be condensed on the assumption that users of the interim financial report have access to the most recent annual financial statements. Since a first-time adopter does not have any previous annual IFRS financial statements, the interim financial statements cannot be seen as simply an update. An entity may publish condensed interim financial statements in accordance with IAS 34 even if it has not published IFRS annual financial statements for the prior period. However, the minimum disclosures prescribed by IAS 34 would be insufficient to provide an understanding of the interim period and therefore further disclosure is required to achieve the overriding goal of IAS 34, i.e. to include all information that is relevant to an understanding of the current interim period. In making these decisions materiality is assessed based on interim period data; some items, such as related party transactions, may be considered material because of their nature rather than their size. This is an area in which significant judgement is required by management.

In our view, a first-time adopter should include a complete set of significant accounting policies and this is the approach that we have taken in these illustrative interim financial statements. Ordinarily, accounting policies would have been disclosed in the annual financial statements of the previous period and would not be repeated in the interim financial statements of the following period, unless changes have been made. If a set of significant IFRS accounting policies previously had been provided in another published document, then a cross reference could be made to that document instead of repeating the information in the interim financial statements. In this case only changes to these policies, if any, may require disclosure in the first IFRS interim financial statements. This issue is discussed in our publication *Insights into IFRS* (6.1.1680.60).

In addition to a complete set of significant accounting policies a first-time adopter should apply judgement in determining other areas that may require more extensive disclosure than what generally would be included in condensed interim financial statements; these may include, but are not limited to:

- significant judgements made in applying accounting policies and key sources of estimation uncertainty
- operating segments
- non-current assets held for sale and discontinued operations
- income tax expense
- earnings per share
- employee benefits
- financial instruments.

Form and content of interim financial statements

IAS 34 permits the presentation of either a condensed or a complete set of interim financial statements. If an entity chooses to publish a complete set of financial statements, then their form and content conform to the requirements of IAS 1 *Presentation of Financial Statements* in addition to the measurement and any supplementary disclosure requirements of IAS 34. A first-time adopter is required to provide additional information concerning the transition to IFRSs, regardless of the approach adopted.

When condensed interim financial statements are prepared by a first-time adopter, in our view they should include all of the headings and sub-totals that are expected to be included in the first IFRS annual financial statements. This issue is discussed in our publication *Insights into IFRS* (6.1.1680.10). In the interest of clearer communication in this period of transition, it may be appropriate for the first IFRS interim financial statements to provide greater disaggregation of the headings and sub-totals than will be used in future interim financial statements. This is why we have presented each line item that the entity expects to present in the first IFRS annual financial statements.

In the absence of IFRS annual financial statements for the prior year, a first-time adopter will need to consider carefully what additional information should be disclosed in its first IFRS interim financial statements as material to an understanding of the current interim period. The differences in recognition, measurement and disclosure requirements between the entity's previous GAAP and IFRSs will be relevant to determining what additional information should be included. Additional line items or notes are required if their omission would make the condensed interim financial statements misleading.

These illustrative condensed consolidated interim financial statements assume that the entity prepares a half-year interim report, but does not produce quarterly interim reports. If the entity illustrated in these illustrative condensed consolidated interim financial statements also had published interim financial statements as at, and for the quarter ended, 31 March 2010, then an additional condensed consolidated statement of comprehensive income for the period from 1 April to 30 June 2010 (and comparatives for the period from 1 April to 30 June 2009) would have been presented with related explanatory notes in these illustrative condensed consolidated interim financial statements. See our publication *Illustrative condensed interim financial statements* (April 2010) for an example of the presentation of a statement of comprehensive income by a quarterly reporter.

Measurement and recognition

IAS 34 sets out general recognition and measurement principles and provides examples of applying such principles. In preparing interim financial statements an entity applies the same accounting policies as in its most recent annual financial statements, with the exception of changes to accounting policies made after the most recent annual financial statements. A first-time adopter should apply those policies that it expects to apply in its first IFRS annual financial statements. If applicable IFRSs are issued or amended between the preparation of interim financial statements and the following annual financial statements or the entity decides on applying different policies or exemptions in its first IFRS financial statements, then changes to policies may be necessary.

An interim period is not a stand-alone reporting period but rather is part of a larger financial year. The principles for recognising assets, liabilities, income and expenses in interim periods generally are the same as in the preparation of annual financial statements. As the preparation of interim financial statements often will require an entity to make greater use of estimates than for annual financial statements, IAS 34 includes examples to illustrate the use of estimates. An entity should have regard to both the measurement and recognition requirements of IAS 34, as well as the standard's illustrative examples, when preparing its interim financial statements.

Disclosure in condensed interim financial statements

As a minimum, the interim report should include all information that is material to an understanding of the current interim period. We prefer that the interim financial statements, including the comparative information, be included in one section in an interim report. However, IFRSs do not prohibit presentation or disclosure in another manner, for example, as may be prescribed by local regulatory requirements or in response to other factors. Normally the disclosures should be reported on a financial year-to-date basis.

With the exception of the requirements of paragraph 16(i) of IAS 34 (to bring in the disclosures required by IFRS 3 *Business Combinations*) and certain disclosures required by IFRS 1 (for a first-time adopter), the disclosure requirements of other IFRSs are not required in condensed interim financial statements. However, the annual disclosure requirements provide helpful guidance in considering appropriate disclosures in respect of events and transactions that are material to an understanding of the current interim period. IAS 34 acknowledges the role of individual IFRSs in determining the extent of disclosure. In these illustrative condensed consolidated interim financial statements a number of additional disclosures are provided on the basis that the information is material to an understanding of the current interim period for this example entity.

A checklist of the minimum disclosure requirements for interim financial reporting under IAS 34 and IFRS 1 for a first-time adopter is included in Appendix II of this publication.

Insights into IFRS

Our publication *Insights into IFRS* is a practical guide to applying IFRSs. *Insights into IFRS* includes additional interpretative guidance on interim financial reporting and on first-time adoption of IFRSs in chapters 5.9 and 6.1, respectively.

IFRS Handbook: First-time adoption of IFRS

Our publication *IFRS Handbook: First-time adoption of IFRS* (September 2009) is a practical guide to applying IFRSs for a first-time adopter. Interpretative guidance on interim financial reporting for a first-time adopter is in chapter 8.

Forthcoming changes to IFRS 1 and IAS 34

As stated in the *About this publication* section, this publication is based on standards and interpretations that have been issued by the IASB by 30 September 2010 and that are effective for a first-time adopter with a first annual IFRS reporting date of 31 December 2010 ("currently effective" requirements). IFRSs that are effective for annual periods beginning *after* 1 January 2010 have not been adopted early in preparing these illustrative condensed consolidated interim financial statements.

In addition, there are some changes to IFRS 1 and IAS 34 on the horizon that an entity may need to consider directly if it prepares its condensed interim financial statements later than for an entity that adopts IFRSs as its primary basis of accounting for the year ending 31 December 2010. There also may be changes to the recognition, measurement and disclosure requirements in other IFRSs that will also need to be taken into account.

Proposed changes

In May 2009 the IASB issued exposure draft ED/2009/05 *Fair Value Measurement* with a comment period that ended on 28 September 2009. This proposed IFRS would define fair value, establish a framework for measuring fair values and require disclosures about fair value measurements. Its proposals include making consequential changes to IAS 34 to require specified disclosures from the proposed Fair Value Measurement IFRS and IFRS 7 *Financial Instruments: Disclosures* in condensed interim financial statements.

In August 2010 the IASB issued exposure draft ED/2010/10 *Removal of Fixed Dates for First-Time Adopters* with a 60-day comment period ending 27 October 2010 to allow for the relief to be available in time for those jurisdictions that are planning to adopt IFRSs in the near future. The exposure draft proposes to change the fixed dates in IFRS 1 in respect of the derecognition exception and the financial instruments initial measurement exemption to the “date of transition to IFRSs”

In September 2010 following a recommendation from the IFRS Interpretations Committee, the IASB issued exposure draft ED/2010/12 *Severe Hyperinflation: proposed amendment to IFRS 1* with a 60-day comment period ending 30 November 2010. The purpose of the amendment is to provide guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because it had a functional currency that was subject to severe hyperinflation.

Other exposure drafts that currently are open for consultation (or for which the comment period recently closed) and that include consequential changes to IFRS 1 and/or IAS 34 include ED/2010/9 *Leases*, ED/2010/3 *Defined Benefit Plans – Proposed amendments to IAS 19*, and ED/2010/8 *Insurance Contracts*.

Possible forthcoming changes

In July 2010 the IASB decided tentatively to amend IFRS 1 and IAS 34 through the 2010 Annual Improvements process to:

- clarify the requirements in IAS 23 *Borrowing Costs* related to borrowing costs incurred on qualifying assets as from the date of transition to IFRSs (IFRS 1); and
- clarify that disclosure of assets for a segment is required only when the amounts are regularly provided to the chief operating decision maker *and* there is a material change from the amount disclosed for that segment in the last annual financial statements (IAS 34).

At the date of this publication the IASB has yet to issue an exposure draft of its suggested 2010 Annual Improvements.

Note Reference **Explanatory note**

- 1.** IAS 34.14 The interim financial statements of a first-time adopter should be prepared on consolidated basis if at the interim reporting date it would be required to prepare consolidated financial statements if that was the annual reporting date. An entity is neither required to include nor prohibited from including separate financial statements of the parent in its interim financial report.

In our view, preparation on a consolidated basis is not required if an entity disposes of its last subsidiary during the interim reporting period. In this case, as the entity no longer is a parent at the end of the interim reporting period, consolidated financial statements are no longer required unless otherwise prescribed, for example by a local regulator. In such cases, we believe that interim financial statements, including the comparatives, should be presented as unconsolidated financial statements and identified as such. Disclosure of the previously reported consolidated information as supplementary information may be useful. This issue is discussed in our publication *Insights into IFRS* (5.9.10.40).

- 2.** IAS 1.10, 34.8 In these illustrative condensed consolidated interim financial statements, the titles of the statements are consistent with the titles used in IAS 34 *Interim Financial Reporting* as amended by IAS 1 *Presentation of Financial Statements*. However, these terms are not mandatory and different titles are permitted.

- 3.** IAS 34.10 Generally, condensed interim financial statements include the headings and subtotals that were included in the most recent annual financial statements. Additional line items are included if their omission would make the interim financial statements misleading. IAS 34 is unclear as to what constitutes "headings and subtotals".

When condensed interim financial statements are prepared by a first-time adopter in our view they should include all of the headings and sub-totals that are expected to be included in the first IFRS annual financial statements. It may be appropriate in the first IFRS interim financial statements to provide greater disaggregation of the headings and sub-totals than may be necessary in future interim financial statements. In this publication we have chosen to present each line item that the entity expects to present in the first IFRS annual financial statements. This issue is discussed in our publication *Insights into IFRS* (6.1.1680.10).

- 4.** IAS 34.19, 20 The statements include comparative information; otherwise interim financial statements cannot claim to be in compliance with IFRSs or (in these illustrative condensed consolidated interim financial statements) IAS 34. This is particularly important for entities that did not produce interim financial statements in prior years. This issue is discussed in our publication *Insights into IFRS* (5.9.70).

IAS 34 prescribes the periods for which financial statements are required to be prepared. Condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows are required for the current interim period and cumulatively for the current financial year-to-date. As this publication illustrates condensed interim financial statements for a six month period, the current and year-to-date information is the same.

- 5.** Unlike for the first IFRS financial statements, when a first-time adopter publishes its first IFRS condensed interim financial statements, IFRSs are not explicit on whether to present the third statement of financial position as a primary financial statement or in the notes. We prefer that a first-time adopter presents the third statement of financial position as a primary financial statement and this presentation has been adopted in this publication. This issue is discussed in our publication *Insights into IFRS* (6.1.1680.40).

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Note Reference **Explanatory note**

1.	When interim financial statements are unaudited, they may be labelled as such in practice. This also may be a requirement in some jurisdictions.
2. IAS 34.41, C7	The carrying amount of assets that are measured based on fair value is determined at the end of the interim reporting period, including property, plant and equipment accounted for in accordance with the revaluation model. The fair value assessment at the end of an interim reporting period may involve a higher degree of estimation than is used for the annual financial statements as, in our experience, external valuers are not used at interim reporting dates. When there are significant changes to market conditions during an interim period, we would expect the corresponding valuations to be updated at the end of the interim reporting period; otherwise, in our view extrapolations based upon the previous annual reporting date may be appropriate for certain assets for interim financial statements. This issue is discussed in our publication <i>Insights into IFRS</i> (5.9.140.10).
3. IAS 34.10	Although not required by IAS 34, in our view non-current assets or the assets of a disposal group classified as held for sale at the end of the interim reporting period are presented separately from other assets and liabilities in the condensed interim statement of financial position. This issue is discussed in our publication <i>Insights into IFRS</i> (5.9.40.20).
IFRS 5.40	Additionally, comparatives are not restated to reflect classification as held for sale at the end of the current reporting period. In our view, non-current assets (disposal groups) classified as held for sale are classified as current in the statement of financial position as they are expected to be realised within 12 months of the date of classification as held for sale. Consequently the presentation of a “three column statement of financial position” with the headings of “Assets/Liabilities not for sale”, “Assets/Liabilities held for sale” and “Total” generally would not be appropriate if the assets and liabilities held for sale continue to be included in non-current line items. This issue is discussed in our publication <i>Insights into IFRS</i> (5.4.110.30).
4. IAS 34.B9,	For defined benefit plans the amount in the interim statement of financial position generally is determined by adjusting the opening statement of financial position for the current service cost, interest cost, expected return on plan assets, amortisation of actuarial gains and losses (if any), and contributions to the plan. Generally it does not involve obtaining an updated actuarial valuation. However, when there are significant changes to the plan or market conditions during the interim period, we would expect the actuarial valuation to be updated at the end of the interim reporting period. In our view, when it is necessary to update the actuarial valuation at the end of the interim reporting period and internal expertise is not available to do so, an actuary should perform the updated valuation. This issue is discussed in our publication <i>Insights into IFRS</i> (4.4.330.15 and 5.9.150).

Reference

Condensed consolidated statement of financial position¹

IAS 34.8(a), 20(a)

In thousands of euro

	Note	30 June 2010	31 December 2009	1 January 2009
Assets				
Property, plant and equipment ²	13	14,585	31,049	34,937
Intangible assets ²	14	5,890	4,661	5,429
Biological assets ²		7,629	8,716	8,070
Investment property ²		1,305	1,050	950
Investments in equity-accounted investees		1,791	1,558	1,140
Other investments, including derivatives ²		3,767	3,525	3,212
Deferred tax assets		1,343	1,376	1,902
Employee benefits		300	731	587
Non-current assets		36,610	52,666	56,227
Inventories	11	9,105	12,119	12,716
Biological assets ²		156	140	402
Other investments, including derivatives ²		267	1,032	821
Current tax assets		-	228	-
Trade and other receivables		15,182	17,999	16,311
Prepayments		-	1,200	895
Cash and cash equivalents		2,356	1,850	2,529
Assets classified as held for sale ^{2, 3}	8	12,891	-	-
Current assets		39,957	34,568	33,674
Total assets		76,567	87,234	89,901
Equity				
Share capital	15	14,979	14,550	14,550
Share premium	15	4,875	3,500	3,500
Reserves		1,046	449	322
Retained earnings		3,667	14,006	10,600
Equity attributable to owners of the Company		24,567	32,505	28,972
Non-controlling interests		1,252	842	601
Total equity		25,819	33,347	29,573
Liabilities				
Loans and borrowings	16	16,154	19,206	21,478
Derivatives		-	5	-
Employee benefits ⁴	18	606	841	2,204
Deferred income/revenue		1,424	1,462	-
Provisions	19	900	400	682
Deferred tax liabilities		2,137	1,567	1,436
Non-current liabilities		21,221	23,481	25,800
Bank overdraft		120	282	303
Current tax liabilities		209	-	25
Loans and borrowings	16	6,559	4,386	2,017
Trade payables		18,781	24,363	30,618
Other payables		20	7	9
Deferred income/revenue		38	168	156
Provisions	19	150	1,200	1,400
Liabilities classified as held for sale ³	8	3,650	-	-
Current liabilities		29,527	30,406	34,528
Total liabilities		50,748	53,887	60,328
Total equity and liabilities		76,567	87,234	89,901

Note Reference **Explanatory note**

1. *IAS 34.8(b), 20(b)* A condensed statement of comprehensive income is presented either in:
 - a single statement (i.e. a condensed statement of comprehensive income); or
 - two statements (i.e. a condensed separate income statement, displaying components of profit or loss, and a condensed statement of comprehensive income, beginning with profit or loss and displaying components of other comprehensive income).

IAS 34.8A This analysis is based on a single condensed statement of comprehensive income. When an entity adopts the two-statement approach for the presentation of its statement of comprehensive income, it applies such approach consistently for interim and annual reporting periods. Please see Appendix I for an illustration of a two-statement approach.
2. *IAS 34.33, 37, 38* Revenues are recognised in interim financial statements when earned. Revenues that are received seasonally, cyclically or occasionally within a financial year are not anticipated or deferred at the end of the interim reporting period unless this treatment would be appropriate at the end of an annual reporting period. This issue is discussed in our publication *Insights into IFRS* (5.9.110).
3. *IAS 34.30(b), 33, 39* Expenses are recognised in interim financial statements when an obligation has been incurred. Costs incurred unevenly within a financial year are not anticipated or deferred at the end of the interim reporting period unless this treatment would be appropriate at the end of an annual reporting period. This issue is discussed in our publication *Insights into IFRS* (5.9.110 – 130).
4. *IFRIC 17.15* IFRIC 17 *Distributions of Non-cash Assets to Owners* specifies that the difference between the dividend payable (measured at the fair value of the assets to be distributed) and the carrying amount of the assets distributed is presented as a separate line item in profit or loss.
5. *IAS 34.30(c), B12-B22* The general principle established in IAS 34 is that the interim income tax expense is based on the weighted average annual income tax rate expected for the full year, applied to the pre-tax interim income. However, application of this general principle gives rise to a number of related issues not addressed in IAS 34, including the treatment of non-tax deductible items and the use of a consolidated effective tax rate. These issues are discussed in our publication *Insights into IFRS* (5.9.160).
6. *IAS 34.10* Although not required by IAS 34, in our view operations that are discontinued at the end of the interim period or are disposed of during the interim period are presented separately in the statement of comprehensive income. This issue is discussed in our publication *Insights into IFRS* (5.9.40.20).
7. *IAS 1.82(g), (h)* An entity presents each component of other comprehensive income by nature. The only exception to this principle relates to equity-accounted investees. An entity's share of other comprehensive income of an equity-accounted investee is presented as a separate line item.
8. *IAS 1.94* An entity may present reclassification adjustments directly in the statement of comprehensive income or in the notes. In these illustrative condensed consolidated interim financial statements reclassification adjustments are presented directly in the condensed consolidated statement of comprehensive income.
9. *IAS 1.91* Individual components of other comprehensive income may be presented either net of related tax effects, or before related tax effects with an aggregate amount presented for income tax. In these illustrative condensed consolidated interim financial statements we followed the latter approach.
10. See explanatory note 1 on page 14.

Reference Condensed consolidated statement of comprehensive income¹

IAS 34.8(b)(i), 20(b) For the six months ended 30 June

In thousands of euro

	Note	2010	2009
Continuing operations			
Revenue ²		49,980	51,593
Cost of sales ³	11, 13, 14, 19	(31,460)	(31,920)
Gross profit		18,520	19,673
Gain on distribution to owners of the Company ⁴	15	2,556	-
Other income	13	620	190
Distribution expenses ³		(7,698)	(7,498)
Administrative expenses ³	9	(8,474)	(8,358)
Research and development expenses ³		(605)	(349)
Other expenses ³	8, 9, 10	(710)	-
Results from operating activities		4,209	3,658
Finance income	9	456	345
Finance costs		(880)	(1,004)
Net finance costs		(424)	(659)
Share of profit of equity-accounted investees (net of income tax)		233	278
Profit before income tax	5	4,018	3,277
Income tax expense ⁵	12	(1,147)	(744)
Profit from continuing operations		2,871	2,533
Discontinued operation⁶			
Profit (loss) from discontinued operation (net of income tax)	7	379	(422)
Profit for the period		3,250	2,111
Other comprehensive income^{7 8, 9}			
Foreign currency translation differences – foreign operations		457	330
Foreign currency translation differences – equity-accounted investees		10	-
Net loss on hedge of net investment in foreign operation		(3)	(8)
Revaluation of property, plant and equipment		200	-
Effective portion of changes in fair value of cash flow hedges		(93)	97
Net change in fair value of cash flow hedges reclassified to profit or loss		(17)	(11)
Net change in fair value of available-for-sale financial assets		199	74
Net change in fair value of available-for-sale financial assets reclassified to profit or loss		(47)	-
Defined benefit plan actuarial gains (losses) ¹⁰		72	(15)
Income tax on other comprehensive income		(104)	(48)
Other comprehensive income for the period, net of income tax		674	419
Total comprehensive income for the period		3,924	2,530

Note Reference **Explanatory note**

- 1.** IAS 34.15, 16(d), C4

An entity may elect to recognise actuarial gains and losses in other comprehensive income in the periods in which they occur. If an entity elects to recognise actuarial gains and losses in other comprehensive income and does not update its actuarial valuation at the end of the interim reporting period, then there would be no actuarial gains or losses to recognise during the interim period. In our view, entities that choose to recognise actuarial gains and losses in other comprehensive income do not need to update their actuarial valuation, unless otherwise required by IFRSs (e.g. there have been material changes to the plan or to market conditions since the last actuarial valuation). However, we believe that such entities should disclose the reason why no actuarial gains and losses are recognised in the interim financial statements. This issue is discussed in our publication *Insights into IFRS* (5.9.150).

In these illustrative condensed consolidated interim financial statements the actuarial valuation of the defined benefit plan is updated due to a curtailment and limited note disclosure is provided. The appropriate level of disclosure for an interim reporting period may vary depending on the materiality of the changes in the actuarial valuation.
- 2.** IAS 33.2(b), 34.11

An entity within the scope of IAS 33 *Earnings per Share* (i.e. if its ordinary shares or potential ordinary shares are publicly traded or if it is in the process of issuing ordinary shares or potential ordinary shares in a public securities market) presents basic and diluted earnings per share for that period in the statement that presents the components of profit or loss for an interim period. The additional disclosure requirements of IAS 33 are however not required in interim financial statements.
- 3.**

Although not required specifically, in these illustrative condensed consolidated interim financial statements we have illustrated earnings per share from continuing operations on the face of the condensed consolidated statement of comprehensive income and the earnings per share from discontinued operations in the notes (see note 5). The appropriate level of disclosure for an interim reporting period may vary depending on materiality.

Reference Condensed consolidated statement of comprehensive income (continued)

IAS 34.8(b)(i), 20(b) For the six months ended 30 June

In thousands of euro

Note	2010	2009
Profit attributable to:		
Owners of the Company	3,053	2,023
Non-controlling interests	197	88
Profit for the period	3,250	2,111
Total comprehensive income attributable to:		
Owners of the Company	3,716	2,396
Non-controlling interests	208	134
Total comprehensive income for the period	3,924	2,530
Earnings per share²		
Basic earnings per share (euro)	0.84	0.52
Diluted earnings per share (euro)	0.80	0.51
Continuing operations³		
Basic earnings per share (euro)	0.72	0.66
Diluted earnings per share (euro)	0.69	0.65

IAS 34.11

IAS 34.11

Note Reference **Explanatory note**

1. IAS 1.106 IAS 1 requires an entity to disclose in the statement of changes in equity:
- total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests;
 - for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; and
 - for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing each change resulting from:
 - profit or loss;
 - *each* item of other comprehensive income; and
 - the amounts of transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interest in subsidiaries that do not result in a loss of control.

Improvements to IFRSs 2010 amended IAS 1 to clarify that this level of detail is not required to be presented in the statement of changes in equity and instead changes in other comprehensive income can be shown as just one line item in the statement of changes in equity with a corresponding footnote explaining the changes in each item of other comprehensive income. This approach is illustrated in our publication, *Illustrative financial statements* (August 2010).

2. IFRS 2 *Share-based Payment* does not address specifically how share-based payment transactions are presented within equity, e.g. whether an increase in equity in connection with a share-based payment transaction should be presented in a separate line item within equity or within retained earnings. In our view, either approach would be allowed under IFRSs. In these illustrative condensed consolidated interim financial statements the increase in equity recognised in connection with a share-based payment transaction is presented within retained earnings. This issue is discussed in our publication *Insights into IFRS* (4.5.620.10 – 20).

IAS 34.8(c), 20(c)

For the six months ended 30 June 2009

	Note	Attributable to equity holders of the Company										
		Share capital	Share premium	Trans-lation reserve	Hedging reserve	Fair value reserve	Revalua-tion reserve	Reserve for own shares	Retained earnings	Total interests	Non-con-trolling interests	Total equity
In thousands of euro												
Balance at 1 January 2009		14,550	3,500	(129)	434	17	-	-	10,600	28,972	601	29,573
Total comprehensive income for the period												
Profit for the period												
Other comprehensive income¹												
Foreign currency translation differences – foreign operations		-	-	284	-	-	-	-	2,023	2,023	88	2,111
Net loss on hedge of net investment in foreign operation		-	-	(8)	-	-	-	-	-	(8)	-	(8)
Effective portion of changes in fair value of cash flow hedges, net of tax		-	-	-	65	-	-	-	-	65	-	65
Net change in fair value of cash flow hedges reclassified to profit or loss, net of tax		-	-	-	(8)	-	-	-	-	(8)	-	(8)
Net change in fair value of available-for-sale financial assets, net of tax		-	-	-	-	50	-	-	-	50	-	50
Defined benefit plan actuarial gains (losses), net of tax		-	-	-	-	-	-	-	(10)	(10)	-	(10)
Total other comprehensive income		-	-	276	57	50	-	-	(10)	373	46	419
Total comprehensive income for the period		-	-	276	57	50	-	-	2,013	2,396	134	2,530
Transactions with owners of the Company, recognised directly in equity												
Dividends to owners of the Company	15	-	-	-	-	-	-	-	(524)	(524)	-	(524)
Share-based payment transactions ²	17	-	-	-	-	-	-	-	173	173	-	173
Total transactions with owners of the Company		-	-	-	-	-	-	-	(351)	(351)	-	(351)
Balance at 30 June 2009		14,550	3,500	147	491	67	-	-	12,262	31,017	735	31,752

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Condensed consolidated statement of changes in equity (continued)

Reference

IAS 34.8(c), 20(c)

For the six months ended 30 June 2010

<i>Note</i>	capital	premium	reserve	reserve	reserve	reserve	reserve	shares	earnings	Total	interests	equity
	14,550	3,500	171	478	80	-	(280)	14,006	32,505	842	33,347	
Balance at 1 January 2010												
Total comprehensive income for the period	-	-	-	-	-	-	-	3,053	3,053	197	3,250	
Profit for the period												
Other comprehensive income	-	-	433	-	-	-	-	-	433	24	457	
Foreign currency translation differences – foreign operations	-	-	10	-	-	-	-	-	10	-	10	
Foreign currency translation differences – equity-accounted investees	-	-	(3)	-	-	-	-	-	(3)	-	(3)	
Net loss on hedge of net investment in foreign operation	-	-	-	-	-	134	-	-	134	-	134	
Revaluation of property, plant and equipment, net of tax	-	-	-	(62)	-	-	-	-	(62)	-	(62)	
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	(12)	-	-	-	-	(12)	-	(12)	
Net change in fair value of cash flow hedges reclassified to profit or loss, net of tax	-	-	-	-	133	-	-	-	133	-	133	
Net change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	(31)	-	-	-	(31)	-	(31)	
Net change in fair value of available-for-sale financial assets reclassified to profit or loss, net of tax	-	-	-	-	-	-	-	-	-	-	-	
Defined benefit plan actuarial gains (losses), net of tax	-	-	440	(74)	102	134	-	48	48	24	48	
Total other comprehensive income	-	-	440	(74)	102	134	-	48	650	24	674	
Total comprehensive income for the period	-	-	440	(74)	102	134	-	3,101	3,703	221	3,924	

Note *Reference* **Explanatory note**

1. IFRSs do not mandate a specific method of presenting treasury shares within equity. Laws may prescribe the allocation method. Therefore, an entity should take into account its legal environment when choosing how to present its own shares within equity. Whichever method is selected, it should be applied consistently to all treasury shares. In these illustrative condensed consolidated interim financial statements treasury shares are presented in a separate category of equity. This issue and other presentation alternatives are discussed in our publication *Insights into IFRS* (3.11.310).

In addition, depending on the legislation of the country in which an entity is domiciled, it may or may not be allowable for an entity to record a portion of the treasury shares transaction to share premium. In these illustrative condensed consolidated interim financial statements we have assumed that recording a portion of the transaction in share premium is allowed.

Condensed consolidated statement of changes in equity (continued)

For the six months ended 30 June 2010

IAS 34.8(c), 20(c)

	In thousands of euro								Note	
	Share capital	Share premium	Trans- lation reserve	Hedging reserve	Fair value reserve	Revalua- tion reserve	Reserve for own shares	Retained earnings	Non-con- trolling interests	Total equity
Transactions with owners of the Company, recognised directly in equity										
Contributions by and distributions to owners of the Company										
Issue of ordinary shares related to business combinations	24	63	-	-	-	-	-	-	87	87
Issue of ordinary shares	390	1,160	-	-	-	-	-	-	1,550	1,550
Issue of convertible notes, net of tax	-	109	-	-	-	-	-	-	109	109
Own shares sold ¹	-	8	-	-	-	-	22	-	30	30
Dividends to owners of the Company	-	-	-	-	-	-	-	(1,243)	(1,243)	(1,243)
Non-cash distribution to owners of the Company	-	-	-	-	-	(27)	-	(12,473)	(12,500)	(12,500)
Share-based payment transactions	-	-	-	-	-	-	-	361	361	361
Share options exercised	15	35	-	-	-	-	-	-	50	50
Total contributions by and distributions to owners of the Company										
	429	1,375	-	-	-	(27)	22	(13,355)	(11,556)	(11,556)
Changes in ownership interests in subsidiaries										
Acquisition of non-controlling interests without a change in control	-	-	-	-	-	-	-	(85)	(85)	(200)
Acquisition of non-controlling interests with a change in control	-	-	-	-	-	-	-	-	304	304
Total changes in ownership interests in subsidiaries										
	-	-	-	-	-	-	-	(85)	189	104
Total transactions with owners of the Company										
	429	1,375	-	-	-	(27)	22	(13,440)	(11,641)	189
	14,979	4,875	611	404	182	107	(258)	3,667	24,567	1,252
										25,819
	Balance at 30 June 2010									

Note Reference **Explanatory note**

1.	In these illustrative condensed consolidated interim financial statements we have presented cash flows from operating activities using the indirect method, whereby profit or loss is adjusted for the effects of non-cash transactions, accruals and deferrals, and items of income or expense associated with investing or financing cash flows. An entity also may present operating cash flows using the direct method, disclosing major classes of gross cash receipts and payments related to operating activities. Such presentation is illustrated in Appendix II to our publication <i>Illustrative financial statements</i> (August 2010).
2. IAS 722	Cash flows from operating, investing or financing activities may be reported on a net basis if the cash receipts and payments are on behalf of customers and the cash flows reflect the activities of the customer or when the cash receipts and payments for items concerned turn over quickly, the amounts are large and the maturities are short.
3. IAS 718, 20, App A	For an entity that elects to present operating cash flows using the indirect method often there is confusion about the correct starting point: should it be profit or loss as presented in the statement of comprehensive income, or can a different figure, such as profit before income tax, be used? IAS 7 <i>Statement of Cash Flows</i> refers to profit or loss, but the example provided in the appendix to the standard starts with profit before taxation. We prefer to follow the standard since the appendix is illustrative only and therefore does not have the same status. This issue is discussed in our publication <i>Insights into IFRS</i> (2.3.30.20).
4. IAS 731	IFRSs do not specify the classification of cash flows from interest and dividends received and paid, and an entity elects an accounting policy for classifying interest and dividends paid as either operating or financing activities, and interest and dividends received as either operating or investing activities. The presentation selected is applied consistently. This issue is discussed in our publication <i>Insights into IFRS</i> (2.3.50).
5.	In our view, borrowing costs that are capitalised in respect of qualifying assets should be presented in the condensed consolidated statement of cash flows either in operating activities or financing activities depending on the entity's accounting policy for presenting interest paid in the statement of cash flows. This is consistent with the requirement to classify separately the different components of a single transaction. This issue is discussed in our publication <i>Insights into IFRS</i> (2.3.50.40).
6. IAS 735	Taxes paid are classified as operating activities unless it is practicable to identify them with, and therefore classify them as, financing or investing activities. This issue is discussed in our publication <i>Insights into IFRS</i> (2.3.50.20).
7. IAS 735	In these illustrative condensed consolidated interim financial statements we have presented a condensed consolidated statement of cash flows that includes an analysis of all cash flows in total (i.e. including both continuing and discontinued operations). Amounts related to discontinued operations by operating, investing and financing activities are disclosed in the notes (see note 7). However, in our view there are numerous ways in which cash flows from discontinued operations may be presented. This issue is discussed in our publication <i>Insights into IFRS</i> (5.4.220.40).

Reference

Condensed consolidated statement of cash flows^{1, 2}

IAS 34.8(d), 20(d)

For the six months ended 30 June

In thousands of euro

	Note	2010	2009
Cash flows from operating activities			
Profit for the period ³		3,250	2,111
Adjustments for:			
Depreciation		2,435	2,490
Gain on distribution to owners of the Company	15	(2,556)	-
Amortisation of intangible assets		295	355
(Reversal of) impairment losses on property, plant and equipment	13	(393)	512
Impairment losses on intangible assets	13, 14	116	131
Reversal of impairment losses on intangible assets	13, 14	(100)	-
Impairment losses on remeasurement of disposal group	8	25	-
Change in fair value of biological assets		67	(30)
Net increase in biological assets due to births		(7)	(8)
Change in fair value of investment property		(55)	(50)
Net finance costs		424	659
Share of profit of equity-accounted investees, net of income tax		(233)	(278)
Gain on sale of property, plant and equipment	13	(26)	(25)
Gain on sale of discontinued operation, net of income tax	7	(516)	-
Equity-settled share-based payment transactions		361	173
Gain on curtailment	18	(100)	-
Income tax expense		1,122	700
		4,109	6,740
Change in:			
- inventories		114	1,215
- intangible assets – service concession arrangement		(40)	-
- trade and other receivables		(2,065)	2,126
- prepayments		1,200	(1,200)
- trade and other payables		(2,352)	(1,765)
- provisions and employee benefits, excluding gain on curtailment		(205)	132
- deferred income/revenue, including government grant		(168)	-
Cash generated from operating activities		593	7,248
Interest paid ^{4, 5}		(920)	(800)
Income taxes paid ⁶		(200)	(950)
Net cash (used in) from operating activities		(527)	5,498
Cash flows from investing activities			
Interest received ⁴		116	85
Dividends received ⁴		51	100
Proceeds from sale of property, plant and equipment		1,177	406
Proceeds from sale of investments		495	359
Disposal of discontinued operation, net of cash disposed of ⁷	7	10,890	-
Acquisition of subsidiary, net of cash acquired	9	(2,125)	-
Acquisition of property, plant and equipment	13	(10,201)	(2,315)
Acquisition of investment property		(200)	-
Plantations and acquisition of non-current biological assets		(155)	(219)
Acquisition of other investments		(215)	-
Development expenditure		(581)	(601)
Net cash used in investing activities		(748)	(2,185)

Note Reference **Explanatory note**

1. IAS 7.16 When a hedging instrument is accounted for as a hedge of an identifiable position, the cash flows of the hedging instrument are classified in the same manner as the cash flows of the position being hedged. This issue is discussed in our publication *Insights into IFRS* (2.3.60.10).

If hedge accounting is not applied to a derivative instrument, then we prefer that the gains or losses on the derivative instrument are not presented as an adjustment to revenues, cost of sales or other line items related to the hedged item, even if the derivative instrument is intended to be an economic hedge of these items. However, in our view, derivative gains or losses may be shown in the statement of comprehensive income as either operating or financing items depending on the nature of the item being economically hedged. This issue is discussed in our publication *Insights into IFRS* (5.6.220.110).

In our view, these possibilities for the presentation in the statement of comprehensive income also apply to the presentation in the statement of cash flows. This issue is discussed in our publication *Insights into IFRS* (5.6.220.120).
2. IAS 7.31 IFRSs do not specify the classification of cash flows from interest and dividends received and paid, and an entity elects an accounting policy for classifying interest and dividends paid as either operating or financing activities, and interest and dividends received as either operating or investing activities. The presentation selected is applied consistently. This issue is discussed in our publication *Insights into IFRS* (2.3.50).

Reference

Condensed consolidated statement of cash flows (continued)

For the six months ended 30 June

In thousands of euro

	Note	2010	2009
Cash flows from financing activities			
Proceeds from the issue of share capital	15	1,550	-
Proceeds from the issue of convertible notes	16	5,000	-
Proceeds from the issue of redeemable preference shares	16	2,000	-
Proceeds from the sale of own shares	15	30	-
Proceeds from exercise of share options		50	-
Proceeds from settlement of derivatives ¹		6	11
Payment of transaction costs related to loans and borrowings	16	(311)	-
Acquisition of non-controlling interests	9	(200)	-
Repurchase of own shares		-	(280)
Repayment of borrowings	16	(4,811)	(3,408)
Payment of finance lease liabilities	16	(130)	(123)
Dividends paid ²	15	(1,243)	(524)
Net cash from (used in) financing activities		1,941	(4,324)
Net increase (decrease) in cash and cash equivalents		666	(1,011)
Cash and cash equivalents at 1 January		1,568	2,226
Effect of exchange rate fluctuations on cash held		2	7
Cash and cash equivalents at 30 June		2,236	1,222

Note Reference **Explanatory note**

- 1.** *IAS 34.3, 19* In order to state compliance with IAS 34, condensed interim financial statements must comply with all of the requirements of the standard.
- 2.** *IAS 1.4, 25, 34.15* An entity discloses explanations of events and transactions that are significant to an understanding of the changes in financial position and performance of an entity since the last annual financial statements, and considers whether disclosure about the adoption of a going concern basis in its interim financial statements is relevant. As the most recent annual financial statements of a first-time adopter will not have been prepared under IFRSs and significant differences may exist between previous GAAP and IFRSs, the first IFRS interim financial statements may be more extensive than those prepared in subsequent periods. It may be necessary to supplement the previous GAAP annual financial statements so that those financial statements provide a better basis for understanding the first IFRS interim financial statements.

IAS 1.4, 25, 10.16(b) If management determines that a material uncertainty relative to an entity's ability to continue as a going concern exists at the date at which interim financial statements are authorised for issue, then such uncertainty is disclosed in those interim financial statements, whether or not it was disclosed in the most recent annual financial statements.
- 3.** *IFRS 1.32* An explanation of the impact of the transition from previous GAAP to IFRSs is required. A first-time adopter discloses in the first IFRS interim financial statements a reconciliation between its previous GAAP and IFRSs that gives sufficient detail to enable users to understand the material adjustments to the statement of financial position, statement of comprehensive income and, if applicable, statement of cash flows.
- 4.** *IAS 10.17* Unlike in a complete set of financial statements, for condensed interim financial statements there is no explicit requirement to disclose the date that the condensed interim financial statements were authorised for issue and who gave such authorisation. We prefer that an entity discloses the date of authorisation in condensed interim financial statements since it is relevant to a user's understanding, as any event that occurs after that date is not disclosed or adjusted in the condensed interim financial statements of the current interim period.
- 5.** Notes 2(b), 2(c) and most of 2(d) generally would not be included in condensed interim financial statements. However, they have been included here as they are considered material to understand the first-time adopter's first IFRS condensed interim financial statements. In subsequent interim financial statements for part of the period covered by the first IFRS financial statements, it may be appropriate to include a cross-reference to the first interim financial statements. This issue is discussed in our publication *Insights into IFRS* (6.1.1680.60 – 70).
- 6.** *IAS 21.53* If the consolidated financial statements are presented in a currency different from the parent entity's functional currency, then an entity discloses that in its annual financial statements this fact, its functional currency, and the reason for using a different presentation currency.

Reference Notes to the condensed consolidated interim financial statements

1. Reporting entity

[Name] (the “Company”) is a company domiciled in [country]. The condensed consolidated interim financial statements of the Company as at and for the six months ended 30 June 2010 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interests in associates and jointly controlled entities. The Group primarily is involved in the manufacture of paper and paper-related products, the cultivation of trees and the sale of wood (see note 5).

The consolidated financial statements of the Group as at and for the year ended 31 December 2009 which were prepared under [name of previous GAAP] are available upon request from the Company’s registered office at [address] or at [website address].

2. Statement of compliance^{1, 2}

(a) Statement of compliance

IAS 34.19

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. These are the Group’s first IFRS condensed consolidated interim financial statements for part of the period covered by the first IFRS annual financial statements and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

IFRS 1.32

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in note 23.³ This note includes reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of transition reported under [country] GAAP (previous GAAP) to those reported for those periods and at the date of transition under IFRSs.

These condensed consolidated interim financial statements were approved by the Board of Directors on [date].⁴

(b) Basis of measurement⁵

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

IAS 1.117(a)

- derivative financial instruments are measured at fair value;
- available-for-sale financial assets are measured at fair value;
- biological assets are measured at fair value less costs to sell;
- investment property is measured at fair value;
- liabilities for cash-settled share-based payment arrangements are measured at fair value; and
- the defined benefit asset is recognised as the net total of the plan assets, plus unrecognised past service cost and unrecognised actuarial losses, less unrecognised actuarial gains and the present value of the defined benefit obligation.

(c) Functional and presentation currency^{5, 6}

IAS 1.51(d), (e)

These condensed consolidated interim financial statements are presented in euro, which is the Company’s functional currency. All financial information presented in euro has been rounded to the nearest thousand.

Note *Reference* **Explanatory note**

- | | |
|-----------|---|
| 1. | Notes 2(b), 2(c) and most of 2(d) generally would not be included in condensed interim financial statements. However, they have been included here as they are considered material to understand the first-time adopter's first IFRS condensed interim financial statements. In subsequent interim financial statements for part of the period covered by the first IFRS financial statements, it may be appropriate to include a cross-reference to the first interim financial statements. This issue is discussed in our publication <i>Insights into IFRS</i> (6.1.1680.60 – 70). |
| 2. | Issues related to identifying and accounting for agency relationships are discussed in our publication <i>Insights into IFRS</i> (4.2.660). |

Reference Notes to the condensed consolidated interim financial statements

2. Statement of compliance (continued)

(d) Use of estimates and judgements¹

The preparation of the condensed consolidated interim financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

IAS 34.16(d)

In preparing these condensed consolidated interim financial statements, the significant judgements made by management applying the Group's accounting policies and the key sources of estimation uncertainty are expected to be the same as those to be applied in the first annual IFRS financial statements.

(i) Judgements

IAS 1.122, 125,
129, 130

The key judgements made in applying accounting policies that have the most significant effect on the amounts recognised in these condensed consolidated interim financial statements are as follows:

Commission revenue

IAS 1.122

Commission revenue relates to the sale of products in which the Group acts as an agent in the transaction rather than as the principal.² Management considered the following factors in distinguishing between an agent and a principal:

- The Group does not take title of the goods and has no responsibility in respect of the goods sold.
- Although the Group collects the revenue from the final customer, all credit risk is borne by the supplier of the goods.
- The Group cannot vary the selling prices set by the supplier by more than 1 percent.

Classification of investment property

IAS 1.122

The Group has sublet a vacated warehouse, but has decided not to treat this property as an investment property because it is not the Group's intention to hold it for long-term capital appreciation or rental. Accordingly, the property still is treated as a lease of property, plant and equipment.

Accounting for an arrangement containing a lease

IAS 1.122, 17.31(e)

During 2009 the Group entered into an arrangement whereby a supplier built equipment, which the supplier will use to provide a specific chemical used in manufacturing a new product in the American paper manufacturing and distribution division for a minimum period of 16 years. Due to the unusual nature of the product and the manufacturing process, the supplier is unlikely to be able to sell the chemical to other customers. It would not be economically feasible for the supplier to produce the chemical using different equipment. The Group pays a fixed annual fee over the term of the arrangement, plus a variable charge based on the quantity of chemical delivered.

Although the arrangement is not in the legal form of a lease, the Group concluded that the arrangement contains a lease of the equipment, because fulfilment of the arrangement is economically dependent on the use of the equipment, and it is unlikely that any parties other than the Group will receive more than an insignificant part of the output. The lease was classified as a finance lease. The Group could not estimate reliably the relative fair values of the lease element and other elements of the required payments. Therefore, at inception of the lease the Group recognised an asset and a liability at an amount equal to the estimated fair value of the equipment.

Note *Reference* **Explanatory note**

- | | | |
|-----------|-------------------|---|
| 1. | <i>IAS 17.15A</i> | The <i>Improvements to IFRSs 2009</i> deleted guidance in paragraphs 14 and 15 of IAS 17 <i>Leases</i> in relation to leases of land and buildings. In assessing the classification of each element as a finance or an operating lease, land and buildings are assessed separately in accordance with paragraphs 7 to 13 of IAS 17. This issue is discussed in our publication <i>Insights into IFRS</i> (5.1.230). |
|-----------|-------------------|---|

Reference Notes to the condensed consolidated interim financial statements

2. Statement of compliance (continued)

(d) Use of estimates and judgements (continued)

(i) Judgements (continued)

Lease classification

IAS 1.122, 17.15A The warehouse and factory leases were entered into many years ago as combined leases of land and buildings. Since the land title does not pass, the Group determined that the land lease is an operating lease. Since the rent paid to the landlord of the building is increased to market rent at regular intervals, and the Group does not participate in the residual value of the building, it was determined that substantially all the risks and rewards of the building are with the landlord. As such, the Group determined that the building lease is an operating lease.¹

(ii) Use of estimates

IAS 1.122, 125, 129, 130 Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next six months are as follows:

Key assumptions used in discounted cash flow projections

Key assumptions used in the calculation of recoverable amounts are discount rates, terminal value growth rates and EBITDA margins. See note 14 for details in respect of the calculation of the recoverable amount of the group of cash-generating units (CGUs) that comprise the Timber products operating segment.

Utilisation of tax losses

IAS 1.129 In the year ended 31 December 2009 €240 thousand of previously unrecognised tax losses were recognised as management considered it probable that future taxable profits would be available against which they could be utilised. Management revised its estimates following the pilot of a new type of paper, which is proving popular with customers and is increasing the subsidiary's results from operating activities. An additional €25 thousand of previously unrecognised tax losses were recognised in the six months ended 30 June 2010, following a further change in estimates of the subsidiary's future results from operating activities. Management has assumed that the recoverability of the balance of losses of €225 thousand is still in doubt because a trend of profitable growth in the subsidiary is not yet fully established. If profitable growth continues for a further year from June 2010, then the remaining unrecognised deferred tax asset will be recognised, resulting in additional tax income of €90 thousand.

Measurement of defined benefit obligations

IAS 1.129 The calculation of the defined benefit obligation is sensitive to the healthcare cost trend rates and the mortality assumptions. As the actuarial estimates of mortality continue to be refined, an increase of one year in the lives shown below is considered reasonably possible in the next six months. The effect of this change would be an increase in the employee benefit liability of €300 thousand.

Note Reference **Explanatory note**

- 1.** IAS 19.120A (n)/(vi) If mortality rates are considered a principal actuarial assumption in measuring a defined benefit plan, then an entity discloses the mortality assumptions used at the end of the reporting period. Mortality rates may be significant when, for example, pension benefits are paid as annuities over the lives of participants, rather than as lump sum payments on retirement.
- 2.** IAS 1.117(b) The accounting policies describe each specific accounting policy that is relevant to an understanding of the financial statements. In our view, it would be appropriate for a first-time adopter of IFRS to provide descriptions of significant accounting policies under IFRS, or include a cross reference to another published document that includes them. We have prepared this publication assuming that a set of significant IFRS accounting policies has *not* been presented in another published document, therefore we have illustrated an extensive set of accounting policies. If a set of significant accounting policies had previously been provided in another published document, then a cross reference could instead be made to this document. In this case only changes to these policies, if any, may require disclosure in the first IFRS condensed interim financial statements. This issue is discussed in our publication *Insights into IFRS* (6.1.1680.60).
- 3.** Accounting policies in these illustrative condensed consolidated interim financial statements reflect facts and circumstances of the fictitious corporation on which these illustrative condensed interim financial statements are based. They should not be relied upon for a complete understanding of IFRS requirements and should not be used as a substitute for referring to the standards and interpretations themselves. Accounting policy disclosures appropriate for an entity depend on the facts and circumstances of that entity and may differ from the disclosures illustrated in this publication. The recognition and measurement requirements of IFRSs are discussed in our publication *Insights into IFRS*.
- 4.** IFRS 1.7, 8 In preparing its first IFRS interim financial statements, an entity selects accounting policies based on IFRSs that it expects to be effective for its first IFRS annual financial statements; this may include the early adoption of new standards or interpretations that are not effective for the first IFRS reporting period but for which early adoption is permitted. An entity does not apply earlier versions of standards that no longer are effective. Generally those policies are applied consistently at the date of transition to fully restate on a retrospective basis the opening statement of financial position on an IFRS basis, and in each of the periods presented in the first IFRS interim financial statements; this is the case even if a particular standard does not require retrospective application for existing IFRS users. The retrospective application of IFRSs effectively requires an entity to remeasure all transactions and events as of the date that they arose originally, using IFRSs effective as at the entity's first annual IFRS reporting date. The mandatory exceptions and optional exemptions provide relief from this general principle.

Reference Notes to the condensed consolidated interim financial statements

2. Statement of compliance (continued)

(d) Use of estimates and judgements (continued)

(ii) Use of estimates (continued)

Measurement of defined benefit obligations (continued)

IAS 19.120A(n)(vi) Assumptions regarding future mortality are based on published statistics and mortality tables. The current longevities underlying the values of the liabilities in the defined benefit plans are as follows:¹

	30 June 2010 and 31 December 2009		
	Europe	America	Other regions
Longevity at age 65 for current pensioners			
Males	19.0	18.3	18.0
Females	22.0	21.0	18.8
	Europe	America	Other regions
Longevity at age 65 for current members aged 45			
Males	19.5	19.0	18.7
Females	23.1	22.9	20.0

Provisions

IAS 1.129, 3785(a), (b) In accordance with Romanian law, land contaminated by the Group's subsidiary in Romania must be restored to its original condition before the end of 2014. Because of the long-term nature of the liability, the biggest uncertainty in estimating the provision is the costs that will be incurred. In particular, the Group has assumed that the site will be restored using technology and materials that are available currently. See note 19 for further details.

IAS 1.112(a), 117(a) **3. Significant accounting policies^{2, 3}**

The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements and in preparing the opening IFRS statement of financial position at 1 January 2009 for the purposes of the transition to IFRSs, unless otherwise indicated.⁴

(a) Basis of consolidation

(i) Business combinations

Acquisitions on or after 1 January 2008

For acquisitions on or after 1 January 2008, the Group measures goodwill at the acquisition date as the fair value of the consideration transferred including the recognised amount of any non-controlling interests in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The Group elects on a transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognised amount of the identifiable net assets, at the acquisition date. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Note *Reference* **Explanatory note**

- | | |
|-----------|--|
| 1. | The accounting for common control transactions in the absence of specific guidance in IFRSs is discussed in our publication <i>Insights into IFRS</i> (5.13). This publication illustrates one possible method to account for common control transactions. |
|-----------|--|

Reference Notes to the condensed consolidated interim financial statements

3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(i) Business combinations (continued)

Acquisitions prior to 1 January 2008

As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after 1 January 2008. In respect of acquisitions prior to 1 January 2008, goodwill represents the amount recognised under the Group's previous accounting framework, [country GAAP].

(ii) Acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders. Therefore no goodwill is recognised as a result of such transactions.

(iii) Subsidiaries

IAS 27.24

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

IAS 27.28

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iv) Special purpose entities

SIC-12.10

The Group establishes a number of special purpose entities (SPEs) for trading and investment purposes. The Group does not have any direct or indirect shareholdings in these entities. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. SPEs controlled by the Group were established under terms that impose strict limitations on the decision-making powers of the SPEs' management and that result in the Group receiving the majority of the benefits related to the SPEs' operations and net assets, being exposed to the majority of risks incident to the SPEs' activities, and retaining the majority of the residual or ownership risks related to the SPEs or their assets.

(v) Acquisitions from entities under common control¹

IAS 27.38B

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity and any resulting gain/loss is recognised directly in equity.

Note *Reference* **Explanatory note**

- | | |
|-----------|--|
| 1. | An associate may have accounting policies for items that are not applicable to the investor. If disclosure of the accounting policies of an investee is considered necessary for an understanding of income from, or the carrying amount of, equity-accounted investees, then in our view this information should be included in the accounting policy for investments in equity-accounted investees. This issue is discussed in our publication <i>Insights into IFRS</i> (3.5.530.10). |
| 2. | IFRSs do not specify the line item against which unrealised gains and losses resulting from transactions with equity-accounted investees are eliminated (e.g. against the investment). In our view, an entity should disclose the accounting policy adopted. This issue is discussed in our publication <i>Insights into IFRS</i> (3.5.430.80). |

Reference Notes to the condensed consolidated interim financial statements

3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(vi) Loss of control

IAS 27.35 Upon loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(vii) Investments in associates and jointly controlled entities (equity-accounted investees)¹

IAS 28.6 Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

IAS 28.23, 31.57 Investments in associates and jointly controlled entities are accounted for using the equity method (equity-accounted investees) and are recognised initially at cost. The cost of the investment includes transaction costs.

IAS 28.27 The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

IAS 28.30 When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(viii) Jointly controlled operations

IAS 31.13 A jointly controlled operation is a joint venture carried on by each venturer using its own assets in pursuit of the joint operations. The consolidated financial statements include the assets that the Group controls and the liabilities that it incurs in the course of pursuing the joint operation, and the expenses that the Group incurs and its share of the income that it earns from the joint operation.

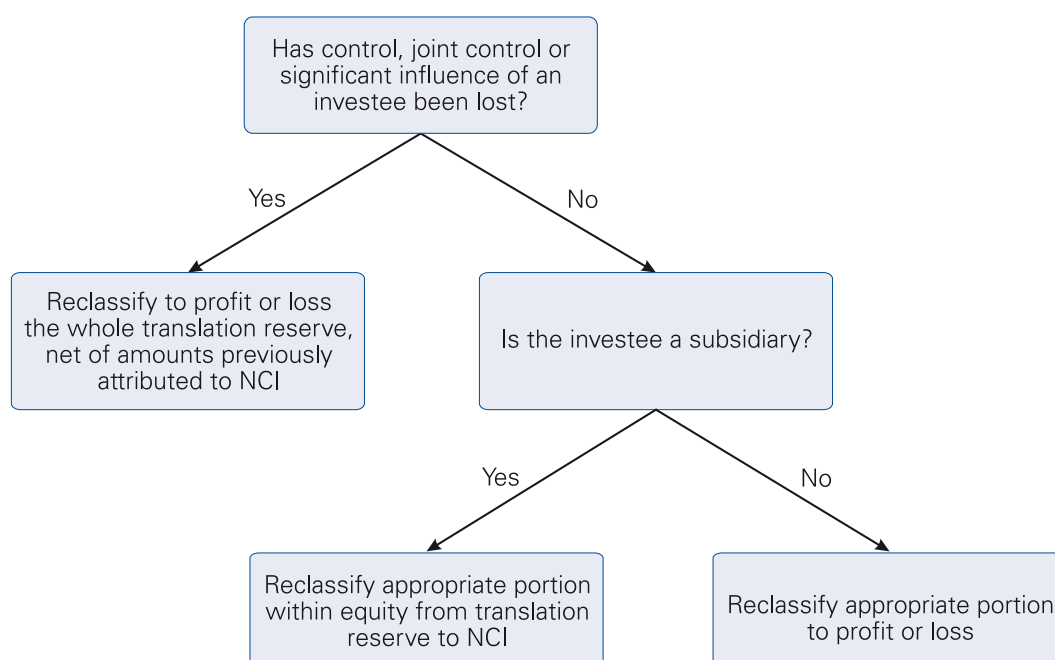
(ix) Transactions eliminated on consolidation

IAS 27.21 Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee.² Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Note Reference **Explanatory note**

1. *IFRS 1.D12* Generally, IAS 21 *The Effects of Changes in Foreign Exchange Rates* requires an entity to classify certain translation differences as a separate component of equity. However, a first-time adopter may deem the cumulative translation differences for all foreign operations to be zero at the date of transition to IFRSs. When this is the case, the gain or loss on a subsequent disposal of any foreign operation excludes translation differences that arose before the date of transition to IFRSs.

2. The following decision tree outlines the principles that apply to reclassification of the foreign currency translation reserve on partial disposal of a foreign operation. This issue is discussed in our publication *Insights into IFRS* (2.7.320).



Reference Notes to the condensed consolidated interim financial statements

3. Significant accounting policies (continued)

(b) Foreign currency

(i) Foreign currency transactions

IAS 21.21, 23(a) Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity investments, a financial liability designated as a hedge of the net investment in a foreign operation (see (iii) below), or qualifying cash flow hedges, which are recognised in other comprehensive income.

(ii) Foreign operations

IAS 21.39 The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to euro at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to euro at exchange rates at the dates of the transactions.

IAS 21.42 The income and expenses of foreign operations in hyperinflationary economies are translated to euro at the exchange rate at the reporting date. Prior to translating the financial statements of foreign operations in hyperinflationary economies, their financial statements for the current period are restated to account for changes in the general purchasing power of the local currency. The restatement is based on relevant price indices at the reporting date.

IAS 21.48 Since 1 January 2009, the Group's date of transition, foreign currency differences are recognised and presented in other comprehensive income and in the foreign currency translation reserve (translation reserve)¹ in equity. However, if the operation is a non-wholly owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the profit or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.²

Note *Reference* **Explanatory note**

1. *IFRS1.B2, B3* An exception from applying the general requirements of IFRSs in respect of the derecognition of financial instruments at the date of transition applies to transactions that took place before 1 January 2004. Under a mandatory exception in IFRS 1, an entity applies the derecognition requirements of IFRSs prospectively to transactions occurring on or after 1 January 2004 in respect of all non-derivative financial assets and liabilities. Under this exception, the previous GAAP accounting for transfers of financial assets and liabilities before 1 January 2004 is not altered (e.g. previously derecognised assets and liabilities are not re-recognised unless a subsequent transaction requires such recognition) and therefore the opening IFRS statement of financial position is not adjusted in respect of such transactions.

Notwithstanding this mandatory exception, an entity may elect to apply the derecognition requirements of IFRSs retrospectively from any date prior to 1 January 2004, provided that the information required to do this was obtained at the time of initially accounting for those transactions. This issue is discussed in our publication *Insights into IFRS* (6.1.810.40).

Reference Notes to the condensed consolidated interim financial statements

3. Significant accounting policies (continued)

(b) Financial currency (continued)

(ii) Foreign operations (continued)

IAS 21.15 When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and presented in the translation reserve in equity.

(iii) Hedge of a net investment in foreign operation

IAS 39.102 The Group applies hedge accounting to foreign currency differences arising between the functional currency of the foreign operation and the Company's functional currency (euro), regardless of whether the net investment is held directly or through an intermediate parent. Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognised in other comprehensive income to the extent that the hedge is effective, and are presented within equity in the translation reserve. To the extent that the hedge is ineffective, such differences are recognised in profit or loss. When the hedged net investment is disposed of, the relevant amount in the translation reserve is reclassified to profit or loss as part of the profit or loss on disposal.

(c) Financial instruments

(i) Non-derivative financial assets

IAS 39.44 The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

IAS 39.17 The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.¹ Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

IAS 32.42 Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

IAS 39.45 The Group classifies non- derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

IFRS 7.21 **Financial assets at fair value through profit or loss**

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

IFRS 7.B5(a) Financial assets designated at fair value through profit or loss comprise of interest rate swaps and forward exchange contracts.

Note *Reference* **Explanatory note**

- | | | |
|-----------|--------------------|---|
| 1. | <i>IFRIC 12.24</i> | A financial asset recognised in a service concession arrangement is accounted for in accordance with IAS 39 <i>Financial Instruments: Recognition and Measurement</i> as a loan or receivable, an available-for-sale financial asset or, if so designated upon initial recognition, a financial asset at fair value through profit or loss. |
|-----------|--------------------|---|

Reference Notes to the condensed consolidated interim financial statements

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(i) Non-derivative financial assets (continued)

IFRS 7.21

IAS 39.46(b)

Held-to-maturity financial assets

If the Group has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

Held-to-maturity financial assets comprise of debentures.

IFRS 7.21

IAS 39.46(a)

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise of cash and cash equivalents, and trade and other receivables, including service concession receivables.¹

IAS 7.46

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

Service concession arrangement

The Group recognises a financial asset arising from a service concession arrangement when it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction or upgrade services provided. Such financial assets are measured at fair value upon initial recognition. Subsequent to initial recognition the financial assets are measured at amortised cost.

If the Group is paid for the construction services partly by a financial asset and partly by an intangible asset, then each component of the consideration received or receivable is accounted for separately and is recognised initially at the fair value of the consideration received or receivable (see also note 3(e)(iii)).

Note *Reference* **Explanatory note**

1. *IFRS1.B2, B3* An exception from applying the general requirements of IFRSs in respect of the derecognition of financial instruments at the date of transition applies to transactions that took place before 1 January 2004. Under a mandatory exception in IFRS 1, an entity applies the derecognition requirements of IFRSs prospectively to transactions occurring on or after 1 January 2004 in respect of all non-derivative financial assets and liabilities. Under this exception, the previous GAAP accounting for transfers of financial assets and liabilities before 1 January 2004 is not altered (e.g. previously derecognised assets and liabilities are not re-recognised unless a subsequent transaction requires such recognition) and therefore the opening IFRS statement of financial position is not adjusted in respect of such transactions.

Notwithstanding this mandatory exception, an entity may elect to apply the derecognition requirements of IFRSs retrospectively from any date prior to 1 January 2004, provided that the information required to do this was obtained at the time of initially accounting for those transactions. This issue is discussed in our publication *Insights into IFRS* (6.1.810.40).

Reference Notes to the condensed consolidated interim financial statements

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(i) Non-derivative financial assets (continued)

IFRS 7.21, B5(b)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the previous categories. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(k)(i)) and foreign currency differences on available-for-sale debt instruments (see note 3(b)(i)), are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

Available-for-sale financial assets comprise of equity securities and debt securities.

(ii) Non-derivative financial liabilities

IAS 39.44

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

IAS 39.39

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.¹

IFRS 7.21,
IAS 32.42

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

IAS 7.8

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

IFRS 7.21

(iii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Note *Reference* **Explanatory note**

- | | |
|-----------|---|
| 1. | Issues related to the classification of preference share capital as debt or equity are discussed in our publication <i>Insights into IFRS</i> (3.11.170). The disclosures illustrated here are not intended to be a complete description of accounting policies that may be applicable to preference share capital. |
| 2. | <i>IFRS 1.IG36</i> To the extent that the liability element of a compound financial instrument was no longer outstanding at the date of transition to IFRSs, a first-time adopter need not to separate the initial equity component of the financial instrument. |

Reference Notes to the condensed consolidated interim financial statements

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(iii) Share capital (continued)

IAS 32.AG26

Preference share capital¹

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity upon approval by the Company's shareholders.

Preference share capital is classified as a financial liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognised as interest expense in profit or loss as accrued.

IAS 32.33

Repurchase, disposal and reissue of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for own shares. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in share premium.

IAS 32.28-32

(iv) Compound financial instruments

Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder, when the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component.² Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest and losses and gains relating to the financial liability are recognised in profit or loss. On conversion, the financial liability is reclassified to equity; no gain or loss is recognised on conversion.

(v) Derivative financial instruments, including hedge accounting

IAS 39.11

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Note *Reference* **Explanatory note**

1. In this publication we illustrate hedge accounting applied to cash flow hedges and hedges of net investments in foreign operations. If fair value hedging also is used by an entity, then the accounting policies and disclosures are amended accordingly. Below is an example of an accounting policy for fair value hedging:

Fair value hedges

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognised in profit or loss. The hedged item is adjusted to reflect changes in its fair value in respect of the risk being hedged; the gain or loss attributable to the hedged risk is recognised in profit or loss with an adjustment to the carrying amount of the hedged item.

Reference Notes to the condensed consolidated interim financial statements

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(v) Derivative financial instruments, including hedge accounting (continued)

IAS 39.88

On initial designation of the derivative as the hedging instrument, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be “highly effective” in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80 – 125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported profit or loss.

IAS 39.46

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges¹

IAS 39.95

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

IAS 39.101

When the hedged item is a non-financial asset, the amount accumulated in equity is included in the carrying amount of the asset when the asset is recognised. In other cases the amount accumulated in equity is reclassified to profit or loss in the same period that the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified in profit or loss.

Separable embedded derivatives

Changes in the fair value of separated embedded derivatives are recognised immediately in profit or loss.

Other non-trading derivatives

When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in profit or loss.

Note Reference **Explanatory note**

1. *IFRS 1.D5* An entity may elect to measure an item of property, plant and equipment at the date of transition to IFRSs at its fair value and use that fair value as its deemed cost at that date. Furthermore, it includes all intangible assets that meet the recognition criteria in IAS 38 at that date, except for intangible assets acquired in a business combination that were not recognised in the acquirer's consolidated statement of financial position under its previous GAAP and also would not qualify for recognition under IAS 38 in the separate statement of financial position of the acquiree.
- IFRS 1.D6* A first-time adopter may elect to use a previous GAAP revaluation of an item of property, plant and equipment at, or before, the date of transition to IFRSs as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to either:
 - fair value; or
 - cost or depreciated cost under IFRSs adjusted to reflect, for example, changes in a general or specific price index.
- IFRS 1.D8* A first-time adopter also may use an event-driven fair value as a deemed cost when, under its previous GAAP, some or all of its assets and liabilities have been measured at fair value at one particular date because of an event such as a privatisation or initial public offering.
2. *IFRS 1.D23* A first-time adopter may apply the transitional requirements of IAS 23 *Borrowing Costs*. This allows the entity to capitalise borrowing costs in respect of qualifying assets for which the commencement date for capitalisation is on or after the later of 1 January 2009 and the date of transition, or an earlier date chosen by the entity. This issue is discussed in our publication *Insights into IFRS* (6.1.630.10).

Reference Notes to the condensed consolidated interim financial statements

3. Significant accounting policies (continued)

(d) Property, plant and equipment

IAS 16.73(a)

(i) Recognition and measurement

IAS 16.30

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment at 1 January 2009, the date of transition to IFRSs, was determined by reference to its fair value at that date.¹

IAS 16.16, 22

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.²

IAS 39.101

Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

IAS 16.45

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

IAS 16.41, 71

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment, and is recognised net within other income/expenses in profit or loss. When revalued assets are sold, any related amount included in the revaluation reserve is transferred to retained earnings.

(ii) Reclassification to investment property

IAS 40.62

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as an investment property. Any gain arising on remeasurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in other comprehensive income and presented in the revaluation reserve in equity. Any loss is recognised immediately in profit or loss.

Note Reference **Explanatory note**

- 1.** *IFRS 1.IG44* An entity recognises in its opening IFRS statement of financial position all internally generated intangible assets that qualify for recognition under IAS 38 *Intangible Assets*; similarly, it derecognises internally generated intangible assets that do not qualify for recognition. Furthermore, it includes all intangible assets that meet the recognition criteria in IAS 38 at that date, except for intangible assets acquired in a business combination that were not recognised in the acquirer's consolidated statement of financial position under its previous GAAP and also would not qualify for recognition under IAS 38 in the separate statement of financial position of the acquiree.
- 2.** *IFRS 1.C4(g)* An entity applies IFRSs to all business combinations that occurred on or after the date of transition. This may require restatement of business combinations accounted for under its previous GAAP. However, an entity may elect not to restate business combinations that occurred before the date of transition (past business combinations). If this exemption is applied, then the balance of goodwill at the date of transition, arising from an unrestated business combination is adjusted only in respect of the following:

 - to recognise separately certain intangible assets that were subsumed within goodwill under its previous GAAP, including any consequential effect on deferred tax and non-controlling interests;
 - to subsume within goodwill certain intangible assets that were recognised separately under its previous GAAP, including any consequential effect on deferred tax and non-controlling interests;
 - to correct any errors discovered upon the transition to IFRSs; and
 - to recognise any impairment loss on goodwill at the date of transition.

Reference Notes to the condensed consolidated interim financial statements

3. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

(iii) Subsequent costs

IAS 16.13 The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iv) Depreciation

IAS 16.6, 44 Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

IAS 16.73(b) Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

IAS 16.73(c) The estimated useful lives for the current and comparative periods are as follows:

- buildings 40 years
- plant and equipment 5 – 12 years
- fixtures and fittings 5 – 10 years
- major components 3 – 5 years

IAS 16.51 Depreciation methods, useful lives and residual values are reviewed at each annual reporting date and adjusted if appropriate.

(e) Intangible assets¹

(i) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. See note 3(a)(i) for the policy on measurement of goodwill at initial recognition.

IFRS 1.C4(g) In respect of acquisitions prior to 1 January 2008, goodwill is included on the basis of its deemed cost, which represents the amount recognised under previous GAAP, adjusted for the reclassification of certain intangibles (see note 23(x)).²

Subsequent measurement

IAS 28.23(a) Goodwill is measured at cost less accumulated impairment losses. In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted investee.

Note Reference **Explanatory note**

1. *IAS 38.8* Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services prior to the commencement of commercial production or use.

IFRS 1.IG47 If an internally generated intangible asset qualifies for recognition at the date of transition, then an entity recognises the asset in its opening IFRS statement of financial position even if it had recognised the related expenditure as an expense under previous GAAP. If the asset does not qualify for recognition under IAS 38 until a later date, then its cost is the sum of the expenditure incurred from that later date. This issue is discussed in our publication *IFRS Handbook: First-time adoption of IFRS* (September 2009).
2. *IFRS 1.IG44* At the date of transition, the opening IFRS statement of financial position excludes all research and development costs that do not meet the criteria for recognition under paragraph 38 of IAS 38.
3. *IFRS 1.D23* A first-time adopter may apply the transitional requirements of IAS 23. This allows the entity to capitalise borrowing costs in respect of qualifying assets for which the commencement date for capitalisation is on or after the later of 1 January 2009 and the date of transition; or an earlier date chosen by the entity. This issue is discussed in our publication *Insights into IFRS* (6.1.660.40).

Reference Notes to the condensed consolidated interim financial statements

3. Significant accounting policies (continued)

(e) Intangible assets (continued)

(ii) Research and development^{1, 2}

IAS 38.55

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred.

IAS 38.57, 66

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.³ Other development expenditure is recognised in profit or loss as incurred.

IAS 38.74

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Service concession arrangements

IFRIC 12.17

The Group recognises an intangible asset arising from a service concession arrangement when it has a right to charge for usage of the concession infrastructure. An intangible asset received as consideration for providing construction or upgrade services in a service concession arrangement is measured at fair value upon initial recognition. Subsequent to initial recognition, the intangible asset is measured at cost, which includes capitalised borrowing costs, less accumulated amortisation and accumulated impairment losses.

(iv) Other intangible assets

IAS 38.74

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

(v) Subsequent expenditure

IAS 38.18

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(vi) Amortisation

IAS 38.8

Amortisation is based on the cost of an asset less its residual value.

IAS 38.118(a), (b)

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

- patents and trademarks 10 – 20 years
- capitalised development costs 5 – 7 years
- customer relationships 4 – 5 years
- service concession arrangement 20 years

IAS 38.104

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

The estimated useful life of an intangible asset in a service concession arrangement is the period from when the Group is able to charge the public for the use of the infrastructure to the end of the concession period.

Note Reference **Explanatory note**

- 1.** *IAS 41.54(a), (b)* If biological assets are measured at cost less any accumulated depreciation and accumulated impairment losses because their fair value cannot be estimated reliably, then an entity discloses a description of such biological assets and an explanation of why their fair value cannot be measured reliably.
- 2.** *IAS 40.75(c)* If the classification of property is difficult, then an entity discloses the criteria developed to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business.
- 3.** *IAS 40.56, 79(a), (b), (e)* If an entity accounts for investment property using the cost model, then it discloses the depreciation method and the useful lives or the depreciation rates used, as well as the fair value of such investment property.
- 4.** *SIC-27.10(b)* An entity discloses the accounting treatment applied to any fee received in an arrangement in the legal form of a lease to which lease accounting is not applied because the arrangement does not, in substance, involve a lease.
- 5.** *IFRS 1.IG14, IAS 17.13* At the date of transition, an entity classifies leases as operating leases or finance leases on the basis of circumstances existing at the inception of the lease. In some cases, the lessee and the lessor may agree to change the provisions of the lease, other than by renewing the lease, in a manner that would have resulted in a different classification under IAS 17 had the changed terms been in effect at the inception of the lease. If so, then the revised agreement is considered as a new agreement over its term and the classification, recognition and measurement of the lease are determined using assumptions that were, or would have been, used as of the modification date. However, changes in estimates (e.g. changes in estimates of the economic life or of the residual value of the leased asset) or changes in circumstances (e.g. default by the lessee) do not result in reclassification of leases.
- 6.** *IFRS 1.IG16* SIC-15 *Operating Leases-Incentives* applies to lease terms beginning on or after 1 January 1999. However, a first-time adopter applies SIC-15 to all leases, whether they started before or after that date.

Reference Notes to the condensed consolidated interim financial statements

3. Significant accounting policies (continued)

(f) Biological assets

IAS 41.12, 13

Biological assets are measured at fair value less costs to sell, with any change therein recognised in profit or loss.¹ Costs to sell include all costs that would be necessary to sell the assets, including transportation costs. Standing timber is transferred to inventory at its fair value less costs to sell at the date of harvest.

(g) Investment property

IAS 40.75(a)

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.² Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.³

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

IAS 40.60

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(h) Leased assets^{4, 5, 6}

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

IAS 40.75(b)

Other leases are operating leases and are not recognised in the Group's statement of financial position.

(i) Inventories

IAS 2.36(a)

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventories.

IAS 2.6

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

IAS 2.20

The cost of standing timber transferred from biological assets is its fair value less costs to sell at the date of harvest.

Note Reference **Explanatory note**

1. *IFRS 1.IG39* An entity applies IAS 36 *Impairment of Assets* in:

- determining whether any impairment loss in respect of goodwill exists at the date of transition to IFRSs; and
- measuring any impairment loss on other assets that exists at that date, and reversing any impairment loss that no longer exists at that date.

IFRS 1.IG40 The estimates used to determine whether an entity recognises an impairment loss and to measure any such impairment loss at the date of transition to IFRSs are consistent with estimates made for the same date under its previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error (paragraphs 14 and 15 of IFRS 1). The entity reports the impact of any later revisions to those estimates as an event of the period in which it makes the revisions.

2. In our view, an entity should establish criteria that it applies consistently to determine whether a decline in a quoted market price is significant or prolonged. IFRSs do not contain any specific quantitative thresholds for significant or prolonged. In our view, for equity securities that are quoted in an active market, the general concepts of significance and materiality should apply. We believe a decline in excess of 20 percent generally should be regarded as significant and a decline in a quoted market price that persists for nine months generally should be considered to be prolonged; however, it may be appropriate to consider a shorter period.

In our view, apart from significant or prolonged thresholds, an entity can establish additional events triggering impairment. These can include, among other things, a combination of significant and prolonged thresholds based on the particular circumstances and nature of that entity's portfolio. For example, a decline in the fair value in excess of 15 percent persisting for six months could be determined by an entity to be an impairment trigger. This issue is discussed in our publication *Insights into IFRS* (3.6.1410.30 – 40).

Reference Notes to the condensed consolidated interim financial statements

3. Significant accounting policies (continued)

(j) Construction contracts in progress

Construction contracts in progress represent the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date (see note 3(o)(iii)) less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

IAS 11.43

Construction contracts in progress is presented as part of trade and other receivables in the statement of financial position for all contracts in which costs incurred plus recognised profits exceed progress billings. If progress billings exceed costs incurred plus recognised profits, then the difference is presented as deferred income in the statement of financial position.

(k) Impairment¹

(i) Non-derivative financial assets

IFRS 7.B5(f),
IAS 39.58, 59

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline² in its fair value below its cost is objective evidence of impairment.

Loans and receivables and held-to-maturity financial assets

IAS 39.63

The Group considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investment securities with similar risk characteristics.

IAS 39.64

In assessing collective impairment the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

IAS 39.66

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired asset continues to be recognised. When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Note *Reference* **Explanatory note**

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|-----------|---|
| 1. | IFRSs do not specify the line item in the statement of comprehensive income in which an impairment loss is presented. If an entity classifies expenses based on their function, then any impairment loss is allocated to the appropriate function. In our view, if an impairment loss cannot be allocated to a function, then it should be included in other expenses, with additional information provided in the notes. This issue is discussed in our publication <i>Insights into IFRS</i> (3.10.430.20). |
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Reference Notes to the condensed consolidated interim financial statements

3. Significant accounting policies (continued)

(k) Impairment (continued)

(i) Non-derivative financial assets (continued)

Available-for-sale financial assets

IAS 39.67-70

Impairment losses on available-for-sale financial assets are recognised by reclassifying losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(ii) Non-financial assets

IAS 36.9

The carrying amounts of the Group's non-financial assets, other than biological assets, assets arising from employee benefits, investment property measured at fair value, inventories, assets arising from construction contracts and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each period at the same time. An impairment loss is recognised if the carrying amount of an asset or its related CGU exceeds its estimated recoverable amount.

IAS 36.18, 80

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

IAS 36.102

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

IAS 36.104

Impairment losses are recognised in profit or loss.¹ Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a *pro rata* basis.

Note *Reference* **Explanatory note**

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| 1. | The obligation for estimated future payments is measured on a discounted basis. The obligation is discounted using a high quality corporate bond rate or a government bond rate when there is an insufficiently deep corporate bond market. The currency and maturity of the bond should match the currency and maturity of the pension obligation. This issue is discussed in our publication <i>Insights into IFRS</i> (4.4.300.10). |
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Reference Notes to the condensed consolidated interim financial statements

3. Significant accounting policies (continued)

(k) Impairment (continued)

(ii) Non-financial assets (continued)

IAS 36.124

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Non-current assets held for sale (or distribution to owners)

IFRS 5.15, 19

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution to owners rather than through continuing use, are classified as held for sale or distribution. Immediately before classification as held for sale or distribution, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on a *pro rata* basis, except that no loss is allocated to those assets not in the scope of IAS 36 *Impairment of Assets*, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

IFRS 5.25
IAS 28.13(a)

Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale or distribution.

(m) Employee benefits

(i) Defined contribution plans

IAS 19.44

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Defined benefit plans

IAS 19.50, 56, 78

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.¹

Note Reference **Explanatory note**

1. *IFRS1.IG19* An entity's actuarial assumptions at the date of transition to IFRSs are consistent with actuarial assumptions made for the same date under its previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those assumptions were in error (paragraph 14 of IFRS 1). The impact of any later revisions to those assumptions is an actuarial gain or loss of the period in which the entity makes the revisions.

IFRS1.IG20 An entity may need to make actuarial assumptions at the date of transition to IFRSs that were not necessary under its previous GAAP. Such actuarial assumptions do not reflect conditions that arose after the date of transition to IFRSs. In particular, discount rates and the fair value of plan assets at the date of transition to IFRSs reflect market conditions at that date. Similarly, the entity's actuarial assumptions at the date of transition to IFRSs about future employee turnover rate do not reflect a significant increase in estimated employee turnover rates as a result of a curtailment of the pension plan that occurred after the date of transition to IFRSs (paragraph 16 of IFRS 1).
2. The components of the statement of comprehensive income charge for defined benefit obligations do not have to be charged or credited in the same line item. The interest cost and expected return on plan assets may be included with interest and other financial income respectively, or the net total may be shown as personnel expenses. However, disclosure is required in the annual financial statements of the line items in which the components of the post-employment cost are recognised. In addition, the approach that is adopted should be applied consistently. This issue is discussed in our publication *Insights into IFRS* (4.4.1130.10).

Reference Notes to the condensed consolidated interim financial statements

3. Significant accounting policies (continued)

(m) Employee benefits (continued)

(ii) Defined benefit plans (continued)

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities. When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

IAS 19.93A, 120A(a) All actuarial gains and losses at 1 January 2009, the date of transition to IFRSs, were recognised in retained earnings.¹ The Group recognises all actuarial gains and losses arising subsequently from defined benefit plans in other comprehensive income and expenses related to defined benefit plans in personnel expenses in profit or loss.²

IAS 19.109 The Group recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, change in the present value of defined benefit obligation and any related actuarial gains or losses and past service cost that had not previously been recognised.

(iii) Other long-term employee benefits

IAS 19.128 The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognised in profit or loss in the period in which they arise.

(iv) Termination benefits

IAS 19.133 Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

(v) Short-term employee benefits

IAS 19.10 Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Note *Reference* **Explanatory note**

1. *IFRS 2.IG19* IFRSs do not specify whether the remeasurement of the liability in a cash-settled share-based payment arrangement is presented as an employee cost or as finance income or finance cost. In our view, both presentations are permitted and an entity should elect an accounting policy that is applied consistently. This issue is discussed in our publication *Insights into IFRS* (4.5.630.30).
2. The accounting for site restoration provisions is a complex issue that involves analysing specific facts and circumstances. Depending on the circumstances a site restoration provision may be recognised as part of the cost of the related asset, or as an expense in profit or loss. Site restoration provisions are discussed in our publication *Insights into IFRS* (3.2.70.30).
3. IFRSs do not provide guidance on the specific types of costs that would be considered unavoidable in respect of onerous contracts. This issue is discussed in our publication *Insights into IFRS* (3.12.660.30).

Reference Notes to the condensed consolidated interim financial statements

3. Significant accounting policies (continued)

(m) Employee benefits (continued)

(vi) Share-based payment transactions

IFRS 2.15, 19, 21A The grant-date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

IFRS 2.32 For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes. The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period that the employees unconditionally become entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expenses in profit or loss.¹

IAS 37.14 **(n) Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

IAS 37.39 **(i) Warranties**

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

IAS 37.72(a) **(ii) Restructuring**

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

IAS 37.21 **(iii) Site restoration²**

In accordance with the Group's published environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land, and the related expense, is recognised when the land is contaminated.

IAS 37.66 **(iv) Onerous contracts**

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost³ of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

Note *Reference* **Explanatory note**

- | | |
|-----------|---|
| 1. | Revenue recognition can be complex and appropriate disclosures will depend on the circumstances of the individual entity. Revenue recognition issues, such as combining and segmenting construction contracts, software revenue recognition, real estate sales and barter transactions, are discussed in our publication <i>Insights into IFRS</i> (4.2). |
| 2. | The accounting for multiple-deliverable contracts is discussed in our publication <i>Insights into IFRS</i> (4.2.40). |

Reference Notes to the condensed consolidated interim financial statements

3. Significant accounting policies (continued)

(o) Revenue¹

IAS 18.35(a)

(i) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

IAS 18.15

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. For sales of timber and paper products, usually transfer occurs when the product is received at the customer's warehouse; however, for some international shipments transfer occurs upon loading the goods onto the relevant carrier at the port. Generally for such products the customer has no right of return. For sales of livestock, transfer occurs upon receipt by the customer.

(ii) Loyalty programme

IFRIC 13.6

The Group has a customer loyalty programme whereby customers are awarded credits known as "P-points" entitling customers to the right to purchase paper products at a discount from the Group. The fair value of the consideration received or receivable in respect of the initial sale is allocated between the P-points and the other components of the sale. The amount allocated to the P-points is estimated by reference to the fair value of the right to purchase paper products at a discount. The fair value of the discounted paper products is estimated based on the amount of the discount, adjusted to take into account the expected forfeiture rate. Such amount is deferred and revenue is recognised when the P-points are redeemed and the Group has fulfilled its obligations to supply the discounted paper products. The amount of revenue recognised in those circumstances is based on the number of P-points that have been redeemed in exchange for discounted paper products, relative to the total number of P-points that is expected to be redeemed. Deferred revenue is also released to income when it is no longer considered probable that the P-points will be redeemed.

(iii) Services

IAS 18.20

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

The Group is involved in managing forest resources, as well as performing related services. When the services under a single arrangement are rendered in different reporting periods, the consideration is allocated on a relative fair value basis between the services.²

Note Reference **Explanatory note**

1. *IAS 18.8, A21* In an agency relationship, amounts collected on behalf of and passed on to the principal are not revenue of the agent. The revenue of the agent is the amount of commission, plus any other amounts charged by the agent to the principal or other parties. In our view, determining whether an entity is acting as an agent or principal is based on an evaluation of the risks and responsibilities taken by the entity, including inventory risk and responsibility for the delivery of goods or services. This issue is further discussed in our publication *Insights into IFRS* (4.2.660).

2. *IAS 20.24* An entity also may present government grants related to assets as a deduction in arriving at the carrying amount of the asset.

A government grant may take the form of a transfer of a non-monetary asset. An alternative course that is sometimes followed is to recognise both asset and grant at a nominal amount. We believe that an entity should choose an accounting policy, to be applied consistently, to measure transferred or donated assets either at the fair value of the assets received or at the nominal amount paid. We prefer to measure these transactions at fair value. This issue is discussed in our publication *Insights into IFRS* (5.7.70.50).

Reference Notes to the condensed consolidated interim financial statements

3. Significant accounting policies (continued)

(o) Revenue (continued)

(iv) Construction contracts

IAS 11.22

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognised as incurred unless they create an asset related to future contract activity.

The stage of completion is assessed by reference to surveys of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in profit or loss.

(v) Commissions¹

IAS 18.8

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Group.

(vi) Rental income

IAS 17.50

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Rental income from subleased property is recognised as other income.

(vii) Service concession arrangements

IFRIC 12.13

Revenue relating to construction or upgrade services under a service concession arrangement is recognised based on the stage of completion of the work performed, consistent with the Group's accounting policy on recognising revenue on construction contracts (see (iv) above). Operation or service revenue is recognised in the period in which the services are provided by the Group. When the Group provides more than one service in a service concession arrangement, the consideration received is allocated by reference to the relative fair values of the services delivered when the amounts are separately identifiable.

(p) Government grants

IAS 20.39

IAS 41.39

An unconditional government grant related to a biological asset is recognised in profit or loss as other income when the grant becomes receivable.

Other government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant and are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset.² Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised.

Note Reference **Explanatory note**

- | | | |
|----|-------------------------|---|
| 1. | <i>IFRS 1.IG16</i> | SIC-15 applies to lease terms beginning on or after 1 January 1999. However, a first-time adopter applies SIC-15 to all leases, whether they started before or after that date. |
| 2. | | IFRSs do not contain specific guidance on how to account for rent that was considered contingent at inception of the lease but is confirmed subsequently. The treatment of contingent rent is discussed in our publication <i>Insights into IFRS</i> (5.1.390.30). |
| 3. | <i>IFRS 1.D9, IG204</i> | IFRS 1 includes an optional exemption that permits an entity to apply the transitional requirements in IFRIC 4 <i>Determining whether an Arrangement contains a Lease</i> . If the entity elects the optional exemption, then it assesses arrangements existing at the date of transition based on the facts and circumstances existing at that date. |

Reference Notes to the condensed consolidated interim financial statements

3. Significant accounting policies (continued)

(q) Lease payments

IAS 17.33, SIC-15.3 Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.¹

IAS 17.25 Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments² are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Determining whether an arrangement contains a lease³

IFRIC 4.10 At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

IFRIC 4.12-15 At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

IFRS 7.20, 24 **(r) Finance income and finance costs**

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, fair value gains on financial assets at fair value through profit or loss, gains on the remeasurement to fair value of any pre-existing interest in an acquiree, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, losses on disposal of available-for-sale financial assets, dividends on preference shares classified as liabilities, fair value losses on financial assets at fair value through profit or loss, impairment losses recognised on financial assets (other than trade receivables), and losses on hedging instruments that are recognised in profit or loss.

Note *Reference* **Explanatory note**

- | | | |
|-----------|-----------------|---|
| 1. | <i>IAS 1.35</i> | Gains and losses arising from a group of similar transactions are reported on a net basis, e.g. foreign exchange gains and losses or gains and losses arising on financial instruments held for trading. However, such gains and losses are reported separately if they are material. |
| 2. | | An entity may present foreign currency gains and losses on financial assets and liabilities that arise from operating activities (e.g. receivables arising on the sale of goods) as part of income and expenses before finance costs, and foreign currency gains and losses related to financing activities as part of finance income and finance costs. This issue is discussed in our publication <i>Insights into IFRS</i> (4.6.230.20). |

Reference Notes to the condensed consolidated interim financial statements

3. Significant accounting policies (continued)

(r) Finance income and finance costs (continued)

IAS 23.8 Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.^{1, 2}

(s) Income tax

IAS 12.58 Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

IAS 12.46 Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

IAS 12.22(c), 39 Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

IAS 12.71, 74 Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

IAS 12.56 A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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Reference Notes to the condensed consolidated interim financial statements

3. Significant accounting policies (continued)

(t) Discontinued operations

IFRS 5.34 A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale or distribution, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

(u) Earnings per share

IAS 33.10, 31 The Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(v) Segment reporting

IFRS 8.5 An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

IFRS 8.25 Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

IFRS 8.24(b) Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

(w) Distributions of non-cash assets to owners of the Company

IFRIC 17.11, 13 The Group measures a liability to distribute non-cash assets to owners of the Company at the fair value of the assets to be distributed. The carrying amount of the liability is remeasured at each reporting period and at the settlement date with any changes recognised directly in equity as adjustments to the amount of the distribution.

IFRIC 17.14 On settlement of the transaction, the Group recognises the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the liability in profit or loss.

Note *Reference* **Explanatory note**

- 1.** *IAS 34.10, 16* The appropriate level of disclosure around financial instruments will depend on the circumstances of the individual entity. For example, IAS 34 *Interim Financial Reporting* does not require explicitly the inclusion of information that would be presented in annual financial statements under IFRS 7 *Financial Instruments: Disclosures* in condensed interim financial statements.

Ordinarily, an entity would consider whether such disclosures, including any changes in an entity's financial risk management objectives and policies or to the nature and extent of risks arising from financial instruments during the interim period, are material to an understanding of current period financial statements or if omission of them would make the condensed interim financial statements misleading. In such circumstances appropriate disclosure would be included in the condensed interim financial statements.

For a first-time adopter, different criteria may need to be applied as there may not have been any previous annual financial statements that included all the IFRS 7 required disclosures. Significant judgement is needed on the extent of disclosures that need to be given on areas such as financial instruments. For example, if, under its previous GAAP, the entity had made disclosures similar to those required under IFRS 7 it is possible that only limited disclosures may be necessary such as focusing on changes since the last annual financial statements and cross referring a reader to those previous GAAP annual financial statements. Where there has not been any IFRS 7-type disclosure in the past, more extensive disclosures may be required.

In these illustrative condensed consolidated interim financial statements we have included all of the financial risk management disclosures that would be required under IFRS 7 in annual financial statements. In subsequent interim financial statements for part of the period covered by the first IFRS financial statements, it may be appropriate to include a cross-reference to the first interim financial statements. This issue is discussed in our publication *Insights into IFRS* (6.1.1680.60 – 70).

- 2.** *IFRS 73, 5* The disclosure requirements of IFRS 7 are limited to financial instruments that fall within the scope of that standard; therefore, operational risks that do not arise from the entity's financial instruments are excluded from the requirements, as are commodity contracts that meet the "own use" exemption detailed in paragraphs 5 to 7 of IAS 39.

- 3.** In these illustrative condensed consolidated interim financial statements the qualitative disclosures in respect of financial instruments have been separated from the related quantitative disclosures. Alternatively, all financial instrument disclosures could be grouped together.

- 4.** In these illustrative condensed consolidated interim financial statements the disclosures in respect of financial risk management has been presented to illustrate different potential scenarios and situations that an entity may encounter in practice. An entity tailors its respective disclosures for the specific facts and circumstances relative to its business and risk management practices, and also takes into account the significance of its exposure to risks from the use of financial instruments.

Reference Notes to the condensed consolidated interim financial statements

4. Financial risk management

Overview^{1, 2, 3}

IFRS 7.31 The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk.

IFRS 7.33 This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these condensed consolidated interim financial statements.⁴

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and *ad hoc* reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

Trade and other receivables

IFRS 7.34(c) The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk. Approximately 20 percent (year ended 31 December 2009: 18 percent) of the Group's revenue is attributable to sales transactions with a single multinational customer. However, geographically there is no concentration of credit risk.

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Reference

Notes to the condensed consolidated interim financial statements

4. Financial risk management (continued)

Credit risk (continued)

Trade and other receivables (continued)

The Risk Management Committee has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from the Risk Management Committee; these limits are reviewed quarterly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

More than 85 percent of the Group's customers have been transacting with the Group for over four years, and no impairment loss has been recognised against these customers. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale, retail or end-user customer, geographic location, industry, aging profile, maturity and existence of previous financial difficulties. Trade and other receivables relate mainly to the Group's wholesale customers. Customers that are graded as "high risk" are placed on a restricted customer list and monitored by the Risk Management Committee, and future sales are made on a prepayment basis.

IFRS 7.33(c)

As a result of improving economic circumstances in the first six months of 2010, certain purchase limits for customers of the Recycled Papers segment are being reinstated in line with long-term averages. During 2008 and 2009 certain customer purchase limits were significantly restricted, particularly for customers of the Standard and Recycled Papers segments, since the Group's experience has been that the economic downturn has had a greater impact in these segments than in the Group's other business segments. The Group will continue to monitor and adjust limits as appropriate.

IFRS 7.36(b)

Goods are sold subject to retention of title clauses, so that in the event of non-payment the Group may have a secured claim. The Group otherwise does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

IFRS 7.34(a),
7.36(a),(c)

The Group held cash and cash equivalents of €2,356 thousand at 30 June 2010 (31 December 2009: €1,850 thousand), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with bank and financial institution counterparties, which are rated AA- to AA+, based on rating agency [X] ratings.

Investments

The Group limits its exposure to credit risk by investing only in liquid debt securities and only with counterparties that have a credit rating of at least A1 from Standard & Poor's and A from Moody's. Management actively monitors credit ratings and given that the Group only has invested in securities with high credit ratings, management does not expect any counterparty to fail to meet its obligations.

Note *Reference* **Explanatory note**

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|-----------|-------------------|---|
| 1. | <i>IFRS 7B11F</i> | The IFRS 7 application guidance provides guidance on an entity's description of how it manages the liquidity risk inherent in the maturity analysis of financial liabilities. In particular, it lists factors that an entity might consider when providing this disclosure. |
|-----------|-------------------|---|

Reference Notes to the condensed consolidated interim financial statements

4. Financial risk management (continued)

Credit risk (continued)

Guarantees

The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries. At 30 June 2010 no guarantees were outstanding (31 December 2009: none).

IFRS 7.33

Liquidity risk¹

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

IFRS 7.39(c)

The Group uses activity-based costing to cost its products and services, which assists it in monitoring cash flow requirements and optimising its cash return on investments. Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Group maintains the following lines of credit:

IAS 7.50(a)

- €5 million overdraft facility that is unsecured. Interest would be payable at the rate of Euribor plus 160 basis points (31 December 2009: Euribor plus 150 basis points).
- €10 million that can be drawn down to meet short-term financing needs. The facility has a 30-day maturity that renews automatically at the option of the Group. Interest would be payable at a rate of Euribor plus 110 basis points (31 December 2009: Euribor plus 100 basis points).

IFRS 7.33

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Risk Management Committee. Generally the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the euro, but also US Dollars (USD) and Pound Sterling (GBP). The currencies in which these transactions primarily are denominated are euro, USD, GBP and Swiss Francs (CHF).

IFRS 7.22

At any point in time the Group hedges 75 to 85 percent of its estimated foreign currency exposure in respect of forecast sales and purchases over the following six months. The Group also hedges at least 80 percent of all trade receivables and trade payables denominated in a foreign currency. The Group uses forward exchange contracts to hedge its currency risk, most with a maturity of less than one year from the reporting date.

Note Reference **Explanatory note**

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|------------------------------|--|
| <p>1. IAS 1.135</p> | <p>The disclosures in respect of capital management are based on the information provided internally to key management personnel of the entity, e.g. the entity's board of directors or CEO.</p> |
| <p>IAS 1.135
(c)-(e)</p> | <p>When applicable, an entity describes changes in quantitative and qualitative data about its objectives, policies and processes for managing capital as compared to the prior period, a statement of whether it has complied with externally imposed capital requirements and any instances of non-compliance therewith.</p> |
| <p>IAS 1.136</p> | <p>When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or distorts a financial statement user's understanding of an entity's capital resources, the entity discloses separate information for each capital requirement to which the entity is subject.</p> |
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- | | |
|------------------------------------|--|
| <p>2. IAS 1.135(a)(iii)</p> | <p>When an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the disclosures on the management of capital.</p> |
|------------------------------------|--|

Reference Notes to the condensed consolidated interim financial statements

4. Financial risk management (continued)

Market risk (continued)

Currency risk (continued)

IFRS 7.22

The principal amounts of the Group's GBP and USD bank loans, taken out by euro functional currency Group entities, have been fully hedged using forward contracts that mature on the same dates that the loans are due for repayment.

Interest on borrowings is denominated in the currency of the borrowing. Generally, borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily euro, but also GBP and USD. This provides an economic hedge without derivatives being entered into and therefore hedge accounting is not applied in these circumstances.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group's policy is to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

IFRS 7.22

The Group's investment in its Swiss subsidiary is hedged by a CHF-denominated secured bank loan, which mitigates the currency risk arising from the subsidiary's net assets. The Group's investments in other subsidiaries are not hedged.

Interest rate risk

IFRS 7.22

The Group adopts a policy of ensuring that between 45 and 65 percent of its exposure to changes in interest rates on borrowings is on a fixed-rate basis, taking into account assets with exposure to changes in interest rates. This is achieved by entering into interest rate swaps.

Other market price risk

Equity price risk arises from available-for-sale equity securities held for meeting partially the unfunded portion of the Group's defined benefit obligations as well as investments at fair value through profit or loss. Management of the Group monitors the mix of debt and equity securities in its investment portfolio based on market indices. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Risk Management Committee.

IFRS 7.B5(a)(iii)

The primary goal of the Group's investment strategy is to maximise investment returns in order to meet partially the Group's unfunded defined benefit obligations; management is assisted by external advisors in this regard. In accordance with this strategy, certain investments are designated at fair value through profit or loss because their performance is actively monitored and they are managed on a fair value basis.

The Group does not enter into commodity contracts other than to meet the Group's expected usage and sale requirements; such contracts are not settled net.

IAS 1.134, 1.135(a),
(b)

Capital management^{1, 2}

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of share capital, non-redeemable preference shares, retained earnings and non-controlling interests of the Group. The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders.

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Reference Notes to the condensed consolidated interim financial statements

4. Financial risk management (continued)

Capital management (continued)

- IAS 1.135(a)* The Board's target is for employees of the Group to hold 5 percent of the Company's ordinary shares by 2012. At present employees hold 1 percent of ordinary shares, or 2 percent assuming that all outstanding share options vest and/or are exercised. Currently management is discussing alternatives for extending the Group's share option programme beyond key management and other senior employees; at present other employees are awarded share appreciation rights and participate in an employee share purchase programme. The Group is in discussions with employee representatives, but no decisions have been made.
- IAS 1.135(a)* From time to time the Group purchases its own shares on the market; the timing of these purchases depends on market prices. Primarily the shares are intended to be used for issuing shares under the Group's share option programme. Buy and sell decisions are made on a specific transaction basis by the Risk Management Committee; the Group does not have a defined share buy-back plan.
- IAS 1.135(c)* There were no changes in the Group's approach to capital management during the six month period ended 30 June 2010.

Note Reference **Explanatory note**

1. IAS 34.16(g) If IFRS 8 *Operating Segments* requires an entity to disclose segment information in its annual financial statements, then an entity discloses:

- revenues from external customers, if included in the measure of segment profit or loss reviewed by the chief operating decision maker (CODM) or otherwise regularly provided to the CODM;
- inter-segment revenues, if included in the measure of segment profit or loss reviewed by the CODM or otherwise regularly provided to the CODM;
- the measure of segment profit or loss;
- total assets for which there have been material changes in the amount disclosed in the last annual financial statements;
- differences from the last annual financial statements in the basis of segmentation or measurement of segment profitability; and
- a reconciliation of total reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operation.

Interim financial reports are an update of the most recent annual financial statements. Consistent with this, IAS 34 specifies only certain segment information to be disclosed in condensed interim financial statements. When an entity presents segment information based on IFRS 8 for the first time (as would occur for a first-time adopter in these illustrative condensed consolidated interim financial statements), careful consideration should be given as to whether additional disclosures are needed to explain the first-time application of the standard.

2. In these illustrative condensed consolidated interim financial statements the packaging segment, which is also a discontinued operation, is presented as an operating segment.

3. IFRS 8.16 IFRS 8 requires that information about other business activities and operating segments that are not reportable be combined and disclosed in an "all other segments" category separate from other reconciling items in the reconciliations required by paragraph 28 of IFRS 8. The sources of the revenue included in the "all other segments" category are described.

4. IAS 34.16 (g)/(iv) It is not clear in IAS 34 whether, in the first year of application of IFRS 8, the condensed interim financial statements would need to disclose information about segment assets given that segment assets would not have been presented in the last annual financial statements. We prefer that information about segment assets be disclosed in the first interim financial statements in the first year of application of IFRS 8, if such information is provided regularly to the CODM.

Reference Notes to the condensed consolidated interim financial statements

5. Operating segments
Information about reportable segments¹
For the six months ended 30 June

IAS 34.16(g)

In thousands of euro

	Standard Papers		Recycled Papers		Packaging (Discontinued) ²		Forestry		Timber Products		Research and Development		Other ³		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
External revenues	31,759	36,821	13,656	11,030	7,543	23,193	1,984	1,823	1,550	1,493	-	-	1,031	426	57,523	74,786
Inter-segment revenue	-	-	159	161	940	2,835	1,341	1,338	923	962	438	497	444	383	4,245	6,176
Reportable segment profit before tax	1,847	2,382	3,509	1,101	(162)	(466)	695	490	(120)	640	50	33	385	98	6,204	4,278
Reportable segment assets ⁴	37,200	28,257	2,005	19,604	-	11,999	20,211	15,455	4,777	3,554	2,345	1,985	7,300	3,551	73,838	84,405

IAS 34.16(g)(i)

IAS 34.16(g)(ii)

IAS 34.16(g)(iii)

IAS 34.16(g)(iv)

Note *Reference* **Explanatory note**

- | | |
|---|--|
| 1. <i>IAS 34.21</i> | An entity whose business is highly seasonal is encouraged but not required to provide, as additional disclosure, financial information for the 12 months ending on the interim reporting date and comparative information for the comparable 12-month period. |
| 2. <i>IFRS 1.22, IAS 1.38, 34.21</i> | When compliance with IAS 34 is claimed, comparative information for both quantitative, and when appropriate, narrative information is required. For a first-time adopter who elects voluntarily to provide explanatory disclosures about the seasonality or cyclicity of interim operations, part of the comparative period will be covered by a period prior to the date of transition to IFRSs. If a first-time adopter presents comparative information in its first IFRS interim financial statements on the basis of previous GAAP, then it will need to provide additional information to explain the transition to IFRSs. |

Reference Notes to the condensed consolidated interim financial statements

5. Operating segments (continued)

IAS 34.16(g)(vi)

Reconciliation of reportable segment profit or loss

For the six months ended 30 June

In thousands of euro

	2010	2009
Total profit or loss for reportable segments	5,819	4,180
Other profit or loss	385	98
	6,204	4,278
Elimination of inter-segment profits	(1,695)	(1,235)
Elimination of discontinued operations	162	466
Unallocated amounts:		
Other corporate expenses	(886)	(510)
Share of profit of equity-accounted investees	233	278
Profit before tax	4,018	3,277

Segment assets

IAS 34.16(g)(iv)

The major changes in segment assets during the period relate to:

- The distribution of Papier GmbH, a wholly owned subsidiary within the Recycled Papers segment to the Group's shareholders in June 2010 (see note 15).
- The sale of the Packaging segment in May 2010 (see note 7).

6. Seasonality of operations

IAS 34.16(b)

The Group's Forestry segment is subject to seasonal fluctuations as a result of weather conditions. In particular, the cultivation of pine trees and the provision of related services in key geographical areas are adversely affected by winter weather conditions, which occur primarily from January to March. The Group attempts to minimise the seasonal impact through the management of inventories to meet demand during this period. However, the first half of the year typically results in lower revenues and results for this segment.

IAS 34.21

For the 12 months ended 30 June 2010 the Forestry segment reported revenue of €6,486 thousand and profit before tax of €1,184 thousand.¹

For the 12 months ended 30 June 2009 under its previous GAAP the Forestry segment reported revenue of €6,280 thousand and profit before tax of €975 thousand. As part of this period predates the date of transition to IFRSs, precise information for that period in accordance with IFRSs is not readily available.² Details of the type of GAAP adjustments that would need to be made to these previous GAAP amounts such that they would be on an IFRS basis are set out in note 23, and relate mainly to the changes in accounting policies for biological assets, leases, employee benefits and embedded derivatives.

Note *Reference* **Explanatory note**

- 1.** *IAS 34.16(i)* An entity should disclose the effects of changes in the composition of an entity during an interim period, including business combinations, obtaining and losing control of subsidiaries and long-term investments, restructurings and discontinued operations.

Although not required specifically, in these illustrative condensed consolidated interim financial statements we have illustrated the relevant disclosures that would be required by IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* in the Group's annual financial statements. The appropriate level of disclosure for an interim reporting period may vary depending on the materiality of the discontinued operation.

Reference Notes to the condensed consolidated interim financial statements

7. Discontinued operation¹

IAS 34.16(i)

In May 2010 the Group sold its entire Packaging segment (see note 5); the segment was not classified as held for sale or a discontinued operation at 31 December 2009 and the comparative condensed consolidated statement of comprehensive income has been re-presented to show the discontinued operation separately from continuing operations. Management committed to a plan to sell this division early in 2010 following a strategic decision to place greater focus on the Group's key competencies, being the manufacture of paper used in the printing industry, forestry and the manufacture of timber products.

For the six months ended 30 June

In thousands of euro

	2010	2009
Results of discontinued operation		
Revenue	7,543	23,193
Expenses	(7,705)	(23,659)
Results from operating activities	(162)	(466)
Income tax	25	44
Results from operating activities, net of income tax	(137)	(422)
Gain on sale of discontinued operation	846	-
Income tax on gain on sale of discontinued operation	(330)	-
Profit (loss) for the period	379	(422)
Basic earnings per share (euro)	0.12	(0.14)
Diluted earnings per share (euro)	0.11	(0.14)
Cash flows from (used in) discontinued operation		
Net cash used in operating activities	(225)	(910)
Net cash from investing activities	10,890	852
Net cash from financing activities	-	-
Effect on cash flows	10,665	(58)

IAS 7.40(d)

Effect of disposal on the financial position of the Group

In thousands of euro

	Note	2010
Property, plant and equipment	13	(7,986)
Inventories		(134)
Trade and other receivables		(3,955)
Cash and cash equivalents		(110)
Deferred tax liabilities		110
Trade and other payables		1,921
Net assets and liabilities		(10,154)
Consideration received, satisfied in cash		11,000
Cash and cash equivalents disposed of		(110)
Net cash inflow		10,890

IAS 7.40(c)

IAS 7.40(a), (b)

Note *Reference* **Explanatory note**

1. *IAS 34.17(b)* Impairment losses are an example of the kinds of disclosures that, if material, are required by IAS 34.
2. *IFRS 3.B67(e)* An entity discloses and explains any gain or loss recognised in the current reporting period that:
 - relates to the identifiable assets acquired or liabilities assumed in a business combination that was effected in the current or the previous reporting period; and
 - is of such size, nature or incidence that disclosure is relevant to an understanding of the combined entity's financial performance.
3. *IFRS 3.63* If the specific disclosures pursuant to the requirements of IFRS 3 *Business Combinations* and other IFRSs are not sufficient to enable users of the financial statements to evaluate the nature and financial effects of business combinations effected in the current period, or any adjustments recognised in the current period relating to business combinations effected in prior periods, then an entity discloses additional information.
4. *IFRS 3.45* If the initial accounting for an acquisition was based on provisional values, and those provisional values are adjusted within 12 months of the acquisition date, then comparative information is restated, including recognition of any additional depreciation, amortisation or other profit or loss effect resulting from finalising the provisional values. In these illustrative condensed consolidated interim financial statements, it is assumed that there were no acquisitions in the comparative period; hence comparative information has not been illustrated. An entity discloses adjustments to amounts recognised for prior period business combinations that were determined provisionally.

Reference Notes to the condensed consolidated interim financial statements

8. Non-current assets and non-current liabilities held for sale

Part of a manufacturing facility within the Standard Papers segment is presented as a disposal group held for sale following the commitment of the Group's management, on 15 June 2010, to a plan to sell part of the facilities. Efforts to sell the disposal group have commenced and a sale is expected by June 2011. As at 30 June 2010 the disposal group comprised assets of €12,891 thousand less liabilities of €3,650 thousand detailed as follows:

In thousands of euro

Note

Property, plant and equipment	13	8,756
Inventories		2,750
Trade and other receivables		1,385
Trade and other payables		(3,650)
		<u>9,241</u>

IAS 34.17(b) An impairment loss of €25 thousand on the remeasurement of the disposal group to the lower of its carrying amount and its fair value less costs to sell has been recognised in other expenses in the condensed consolidated statement of comprehensive income.¹

9. Acquisition of subsidiary and non-controlling interests^{2, 3}

IFRS 3.B64(a)-(c),
IAS 34.16(i)

Acquisition of subsidiary⁴

On 31 March 2010 the Group obtained control of Papyrus Pty Limited, a manufacturer and distributor of standard pulp and paper by acquiring 65 percent of the shares and voting interests in the company. As a result, the Group's equity interest in Papyrus increased from 25 percent to 90 percent.

IFRS 3.B64(d) Taking control of Papyrus will enable the Group to modernise its production process through access to Papyrus' patented technology. The acquisition is expected to provide the Group with an increased share of the standard paper market through access to the acquiree's customer base. The Group also expects to reduce costs through economies of scale.

IFRS 3.B64(q) In the three months to 30 June 2010 Papyrus contributed revenue of €4,500 thousand and profit of €90 thousand to the Group's results. If the acquisition had occurred on 1 January 2010, management estimates that consolidated revenue would have been €50,355 thousand, and consolidated profit for the period would have been €3,427 thousand. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2010.

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

IFRS 3.B64(f),
IAS 7.40(a), (b)

Consideration transferred

In thousands of euro

Note

Cash		2,500
Equity instruments (8,000 ordinary shares)	15	87
Replacement share-based payment awards – value of past services	17	120
Contingent consideration		250
Settlement of pre-existing relationship		(326)
		<u>2,631</u>

Note *Reference* **Explanatory note**

- | | |
|-----------|--|
| 1. | <i>IFRS 3.B64(g)</i> , For contingent consideration arrangements and indemnification assets, an entity discloses the amount recognised at the acquisition date, a description of the arrangement and basis for determining the amount, and an estimate of the range of outcomes (undiscounted) or, if a range cannot be estimated, then an entity discloses this fact and the reasons why a range cannot be estimated. If the maximum payment amount is unlimited, then an entity discloses this fact. |
|-----------|--|

Reference Notes to the condensed consolidated interim financial statements

9. Acquisition of subsidiary and non-controlling interests (continued)

Acquisition of subsidiary (continued)

Consideration transferred (continued)

Equity instruments issued

IFRS 3.B64(f)(iv)

The fair value of the ordinary shares issued was based on the listed share price of the Company at 31 March 2010 of €10.88 per share.

Replacement share-based payment awards

IFRS 3.B64(l)

The terms of the acquisition agreement required the Group to exchange equity-settled share-based payment awards held by employees of Papyrus (the acquiree's awards) for equity-settled share-based payment awards of the Company (the replacement awards). The details of the acquiree's awards and replacement awards are as follows:

	Acquiree's awards	Replacement awards
Terms and conditions	• Grant date 1 April 2009 • Vesting date 31 March 2010 • Service condition	• Vesting date 31 March 2013 • Service condition
Market-based measure at acquisition date	€527 thousand	€571 thousand

The consideration for the business combination includes €120 thousand transferred to employees of Papyrus when the acquiree's awards were replaced by Group awards. An amount of €400 thousand will be recognised as post-acquisition compensation cost. The determination of these amounts includes an estimated forfeiture rate of 9 percent. See note 17 for further details on the replacement awards.

Contingent consideration¹

IFRS 3.B64(g),
B67(b)(iii)

The Group has agreed to pay the selling shareholders additional consideration of €600 thousand if the acquiree's cumulative EBITDA over the next three years exceeds €1,800 thousand; in other cases, nothing is payable. The Group has included €250 thousand as contingent consideration related to the additional consideration, which represents its fair value at the acquisition date based upon a discount rate of 11 percent.

Settlement of pre-existing relationship

IFRS 3.B64(l)

The Group and Papyrus are parties to a supply contract under which Papyrus supplies the Group with timber at a fixed price under a long-term contractual agreement. The agreement contains a clause allowing the Group to terminate the agreement by paying Papyrus €326 thousand. At the acquisition date this pre-existing relationship effectively was terminated as part of the acquisition. The fair value of the agreement at the acquisition date was €600 thousand, of which €400 thousand related to the unfavourable aspect of the contract to the Group relative to market prices. The Group has attributed €326 thousand of the consideration transferred, being the lower of the termination amount and the value of the off-market element of the contract, to the extinguishment of the supply contract with Papyrus. This amount has been recognised in other expenses in the condensed consolidated statement of comprehensive income.

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Reference Notes to the condensed consolidated interim financial statements

9. Acquisition of subsidiary and non-controlling interests (continued)

Acquisition of subsidiary (continued)

Identifiable assets acquired and liabilities assumed

IFRS 3.B64(i),
IAS 7.40(a)-(d)

In thousands of euro

Note

	Property, plant and equipment	13	1,955
	Intangible assets		250
	Inventories		825
	Trade and other receivables		848
IAS 7.40(c)	Cash and cash equivalents		375
	Loans and borrowings	16	(500)
	Deferred tax liabilities		(79)
	Contingent liabilities	20	(20)
	Site restoration provision	19	(150)
	Trade and other payables		(260)
	Total net identifiable assets		3,244

IFRS 3.B67(a)(i), (ii) The following fair values have been determined on a provisional basis:

- The fair value of intangible assets (Papyrus' patented technology and customer relationships) has been determined provisionally pending completion of an independent valuation.
- The contingent liability of €20 thousand represents a present obligation in respect of a claim for contractual penalties made by one of Papyrus' customers. While the Group acknowledges responsibility, it disputes the amount claimed by the customer of €100 thousand. The claim is expected to go to arbitration in April 2011. The recognised fair value of €20 thousand is based on the Group's interpretation of the underlying contract, taking the range of possible outcomes of the arbitration process into account, and supported by independent legal advice. There are no reimbursement rights related to the obligation.
- Papyrus' operations are subject to specific environmental regulations. The Group had conducted a preliminary assessment of the site restoration provisions arising from these regulations, and has recognised a provisional amount in its initial accounting. However, the Group is continuing its review of these matters during the measurement period. If new information obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date identifies adjustments to the above amount for provisions, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised.

IFRS 3.B64(h) The trade receivables comprise gross contractual amounts due of €900 thousand, of which €52 thousand was expected to be uncollectible at the acquisition date.

Goodwill

Goodwill has been recognised as a result of the acquisition as follows:

In thousands of euro

	Total consideration transferred	2,631
IFRS 3.B64(o)	Non-controlling interests, based on their proportionate interest in the recognised amounts of the asset and liabilities of the acquiree	324
IFRS 3.B64(p)(i)	Fair value of existing interest in the acquiree	830
	Fair value of identifiable assets	(3,244)
	Goodwill	541

Note *Reference* **Explanatory note**

1. *IAS 34.16(c)* An entity discloses the nature and amount of items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence.
2. *IAS 34.17(a)* Inventory write-downs and their reversal are examples of the kinds of disclosures that, if material, are required by IAS 34.
3. *IAS 34.30(a), B23, B25-B28* Inventory write-downs and interim period manufacturing variances at the end of the interim reporting period are recognised using the same procedures as at an annual reporting date. Therefore, they are recognised even if they are expected to be restored or absorbed by the end of the financial year. Discretionary purchase rebates and discounts are not anticipated. Contractual rebates are recognised based upon the best estimate of the amount that will be received. This issue is discussed in our publication *Insights into IFRS* (5.9.100).

Reference Notes to the condensed consolidated interim financial statements

9. Acquisition of subsidiary and non-controlling interests (continued)

Acquisition of subsidiary (continued)

Goodwill (continued)

IFRS 3.B64(p)(iii) The remeasurement to fair value of the Group's existing 25 percent interest in the acquiree resulted in a gain of €250 thousand, which has been recognised in finance income in the condensed consolidated statement of comprehensive income.

IFRS 3.B64(e), (k) The goodwill is attributable mainly to the skills and technical talent of the acquiree's work force, and the synergies expected to be achieved from integrating the company into the Group's existing standard paper business. None of the goodwill recognised is expected to be deductible for income tax purposes.

Acquisition-related costs

IFRS 3.B64(l), (m) The Group incurred acquisition-related costs of €50 thousand relating to external legal fees and due diligence costs. The legal fees and due diligence costs have been included in administrative expenses in the condensed consolidated statement of comprehensive income.

Acquisition of non-controlling interests

In June 2010 the Group acquired an additional 15 percent interest in Windmill N.V. for €200 thousand in cash, increasing its ownership from 60 to 75 percent. The carrying amount of Windmill's net assets in the Group's financial statements on the date of the acquisition was €767 thousand. The Group recognised a decrease in non-controlling interests of €115 thousand and a decrease in retained earnings of €85 thousand.

IAS 27.41(e) The following summarises the effect of changes in the Company's ownership interest in Windmill N.V.:

In thousands of euro

Company's ownership interest at the beginning of the period	392
Effect of increase in Company's ownership interest	115
Share of comprehensive income	290
Company's ownership interest at the end of the period	797

10. Earthquake related expenses¹

IAS 34.16(c) During the six months ended 30 June 2010 expenses of €359 thousand were incurred due to an earthquake near production facilities in [country] and are included in other expenses in the condensed consolidated statement of comprehensive income. The expenses relate to the survey of production facilities and the removal of damaged items.

IAS 34.17(a) **11. Write-down of inventory^{2,3}**

During the six months ended 30 June 2010 the Group recognised a write-down of finished goods inventory of €258 thousand related to paper purchased for a specific customer who subsequently declared bankruptcy. The write-down is included in cost of sales in the condensed consolidated statement of comprehensive income. There were no inventory write-downs recognised during the six months ended 30 June 2009.

Note *Reference* **Explanatory note**

- | | | |
|----|-----------------------------------|---|
| 1. | <i>IAS 34.15</i> | Although not required explicitly by IAS 34, any changes in an entity's effective tax rate may be material to an understanding of the current interim period, in which case information in respect of such changes would be disclosed. |
| 2. | <i>IAS 34.17(b),
(d), (e)</i> | Impairment losses and reversals of such impairment losses, acquisitions and disposals of property, plant and equipment, and commitments for the purchase of property, plant and equipment are examples of the kinds of disclosures that, if material, are required by IAS 34. |
| 3. | | This note include more extensive disclosure than what generally would be included in condensed interim financial statements in order to provide sufficient information for an understanding of the first-time adopter's first interim period under IFRSs. |

Reference

Notes to the condensed consolidated interim financial statements

12. Income tax expense¹

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year applied to the pre-tax income of the interim period. The Group's consolidated effective tax rate in respect of continuing operations for the six months ended 30 June 2010 was 29 percent (six months ended 30 June 2009: 23 percent). The change in effective tax rate was caused mainly by the following factors:

- A tax incentive granted in previous years in [country] was withdrawn during the second quarter of 2010 and is not expected to be available in the future.
- The subsidiary acquired on 31 March 2010 (see note 9) operates in a tax jurisdiction with higher tax rates.
- Some losses occurred during the year ended 31 December 2009 for which no deferred tax asset has been recognised because management did not consider it probable that future taxable profits would be available against which those tax losses could be utilised. In the first half of 2010, after signing a significant contract with a new customer, management reassessed this estimate and now considers it probable that future taxable profits will be available against which those tax losses could be utilised. This change partially offsets the increases to the effective tax rate discussed above.

13. Property, plant and equipment²

IAS 34.17(d)

Acquisitions and disposals

During the six months ended 30 June 2010 the Group acquired assets with a cost, excluding capitalised borrowing costs, of €12,156 thousand (six months ended 30 June 2009: €2,315 thousand), including assets acquired through business combinations (see note 9) of €1,955 thousand (six months ended 30 June 2009: nil).

Assets with a carrying amount of €7,986 thousand were disposed of as part of the discontinued operation (see note 7). Other assets with a carrying amount of €1,151 thousand were disposed of during the six months ended 30 June 2010 (six months ended 30 June 2009: €381 thousand), resulting in a gain on disposal of €26 thousand (six months ended 30 June 2009: gain of €25 thousand), which is included in other income in the condensed consolidated statement of comprehensive income. Assets with a carrying amount of €8,756 thousand were transferred to held for sale (see note 8) (six months ended 30 June 2009: nil) and assets with a carrying amount of €9,650 thousand were distributed to the Group's shareholders (see note 15) (six months ended 30 June 2009: nil).

IAS 34.16(d), 17(b)

Reversal of impairment loss

In 2009³ regulatory restrictions on the manufacture of a new product in the Standards Paper operating segment caused the Group to assess the recoverable amount of the related production line.

IAS 36.130(a), (d)(i)

The production line relates to a cutting edge new product that was expected to be available for sale in 2010. However, a regulatory inspection in 2009 revealed that the product did not meet certain environmental standards, necessitating substantial changes to the manufacturing process. As a result production was deferred and the expected launch date was delayed.

IAS 36.130(e)

The recoverable amount of the CGU (the production line that produces the product) was estimated based on its value in use, assuming that the production line would go live in August 2012. Based on the assessment in 2009, the carrying amount of the production line was determined to be €1,408 thousand higher than its recoverable amount, and an impairment loss for the year ended 31 December 2009 has been recognised (€1,123 thousand of the loss related to property, plant and equipment and €285 thousand related to capitalised development costs (see note 14)). In the six months ended 30 June 2010, following certain changes to the recovery plan, the Group reassessed its estimates and €493 thousand, of which €393 thousand relates to property, plant and equipment, of the initially recognised impairment has been reversed.

Note *Reference* **Explanatory note**

1. *IAS 36.131* In respect of the aggregate amount of impairment losses or reversals that are not disclosed because they are not considered material, an entity discloses:
 - the main classes of assets affected by impairment losses or reversals; and
 - the main events and circumstances that led to the losses or reversals.

2. *IAS 34.16(d), 17(b), B35, B36* Reviews for indicators of impairment and any resulting impairment tests are performed at the end of an interim reporting period in the same manner as at the end of an annual reporting period.

IAS 34 requires disclosure of the nature and amount of changes in estimates, and identifies impairment losses as an example of the kinds of disclosures that, if material, are required by the standard. In these illustrative condensed consolidated interim financial statements we have illustrated the relevant disclosures that would be required by IAS 36 *Impairment of Assets* in respect of the indicator-based impairment testing carried out during the interim period.

Reference Notes to the condensed consolidated interim financial statements

13. Property, plant and equipment (continued)

IAS 34.16(d), 17(b) **Reversal of impairment loss (continued)**

IAS 36.126(a), (b) The impairment loss and subsequent reversals have been recognised in cost of sales in the condensed statement of comprehensive income.

IAS 36.130(g) The estimate of value in use was determined using a pre-tax discount rate of 9.5 percent (2009: 9.8 percent).

IAS 34.17(e) **Capital commitments**

During the six months ended 30 June 2010 the Group entered into a contract to purchase property, plant and equipment for €1,465 thousand (six months ended 30 June 2009 and year ended 31 December 2009: nil); delivery is expected in March 2012.

14. Intangible assets

IAS 36.126 (a), (b) **Reversal of impairment loss¹**

IAS 34.16(d), 17(b) As described in note 13, the Group recognised an impairment loss of €285 thousand in respect of capitalised development costs related to the affected production line in the year ended 31 December 2009. In the six months ended 30 June 2010 €100 thousand of the loss was reversed.

IFRS 3.B67(d), **Goodwill**

IAS 34.16(i) **Reconciliation of carrying amount**

In thousands of euro

Cost

Balance at beginning of period
Acquisition through business combinations (see note 9)
Distributed to owners of the Company (see note 15)
Balance at end of period

30 June 2010	31 December 2009
3,545	3,545
541	-
(400)	-
3,686	3,545

Impairment losses

Balance at beginning of period
Impairment loss
Balance at end of period

138	138
116	-
254	138

Carrying amounts

Balance at beginning of period
Balance at end of period

3,407	3,407
3,432	3,407

IAS 34.16(d), 17(b) Following a segment loss in the Timber products operating segment in the six months ended 30 June 2010 (see note 5), the Group assessed the recoverable amount of the group of CGUs that comprise that operating segment.² As a result of this test, an impairment loss of €116 thousand (six months ended 30 June 2009: nil) has been recognised. The impairment loss was allocated fully to goodwill, reducing the goodwill included in the Timber products operating segment to €960 thousand, and has been recognised in cost of sales in the condensed consolidated statement of comprehensive income.

IAS 36.134(c), (d) The recoverable amount of the group of CGUs was based on value in use and was determined with the assistance of independent valuers.

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Reference Notes to the condensed consolidated interim financial statements

14. Intangible assets (continued)

Goodwill (continued)

IAS 1.125,
36.134(f)

Value in use was determined by discounting the future cash flows expected to be generated from the continuing use of the units. Value in use as at 30 June 2010 was determined similarly as in the 31 December 2009 goodwill impairment test and was based on the following key assumptions:

IAS 36.134(d)(i)-(v)

- Cash flows were projected based on past experience, actual operating results and the 5-year business plan. Cash flows for a further 20-year period were extrapolated using a constant growth rate of 4 percent (2009: 5 percent), which does not exceed the long-term average growth rate for the industry. Management believes that this 25-year forecast period was justified due to the long-term nature of the forestry business.
- Revenue was projected based on past experience in the first year of the business plan. The anticipated annual revenue growth included in the cash flow projections was 5 to 7 percent for the years 2010 to 2014.
- The timber price growth was assumed to be 1 percent per annum above inflation in the first 5 years, which is in line with information obtained from external sources. The estimate was based on statistical analysis of long-term market price trends adjusted annually for actual experience.
- Environmental cost growth, based on past experience, was considered to be 25 percent in 2011 and in line with inflation thereafter. This represents an increase over the 20 percent estimate used in the impairment testing in 2009, and reflects various regulatory developments in a number of European countries in which the unit operates.
- A pre-tax discount rate of 9.8 percent (2009: 10 percent) was applied in determining the recoverable amount of the units. The discount rate was estimated based on an industry average weighted average cost of capital, which was based on a possible range of debt leveraging of 40 percent at a market interest rate of 7 percent.

The values assigned to the key assumptions represent management's assessment of future trends in the forestry industry and are based on both external sources and internal sources (historical data).

Following an impairment in the timber products CGU, the recoverable amount is equal to the carrying amount. Therefore, any adverse change in a key assumption may result in a further impairment loss.

Other CGUs were not tested for impairment as there were no impairment indicators at 30 June 2010.

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Reference Notes to the condensed consolidated interim financial statements

15. Capital and reserves

Issues, repurchases and repayments

Issue of ordinary shares

IAS 34.16(e)

In April 2010 the general meeting of shareholders decided on the issue of 130 thousand ordinary shares at an exercise price of €11.92 per share. All issued shares are fully paid.

Additionally, 5 thousand ordinary shares were issued as a result of the exercise of vested options arising from the 2006 share option programme granted to key management (2009: nil).

Finally, 8 thousand ordinary shares were issued as a result of the acquisition of Papyrus Pty Limited (see note 9).

Issue of redeemable preference shares

During the six months ended 30 June 2010, 1 million redeemable preference shares were issued with a par amount of €2 per share (2009: nil). All issued shares are fully paid. The redeemable preference shares are mandatorily redeemable at par on 31 May 2016.

The Group is obliged to pay holders of redeemable preference shares annual dividends of 4.4 percent of the par amount on 31 May each year until and including maturity. Redeemable preference shares do not carry the right to vote. All shares rank equally with regard to the Company's residual assets on liquidation, except that holders of the redeemable preference shares rank ahead of other shareholders but participate only to the extent of the par amount of their shares. The redeemable preference shares are classified as liabilities (see note 16).

Dividends

IAS 34.16(f)

The following dividends were declared and paid by the Company:

For the six months ended 30 June

In thousands of euro

25.25 cents per qualifying ordinary share (2009: 2.77 cents)
25.03 cents per non-redeemable preference share (2009: 25.03 cents)

	2010	2009
25.25 cents per qualifying ordinary share (2009: 2.77 cents)	805	86
25.03 cents per non-redeemable preference share (2009: 25.03 cents)	438	438
	1,243	524

Note *Reference* **Explanatory note**

- | | | |
|-----------|------------------|---|
| 1. | <i>IAS 34.15</i> | Although not required specifically, in these illustrative condensed consolidated interim financial statements we have illustrated details of non-current assets and non-current liabilities held for distribution to owners. The appropriate level of disclosure for an interim reporting period may vary depending on the materiality of the non-current assets and non-current liabilities held for distribution. |
|-----------|------------------|---|

Reference Notes to the condensed consolidated interim financial statements

15. Capital and reserves (continued)

IFRIC 17.16(a)

Non-current assets and non-current liabilities held for distribution to owners of the Company¹

On 15 May 2010 the directors of the Company announced that the Group would distribute all of its shares in Papier GmbH, a wholly-owned subsidiary within the Recycled Papers segment to the Company's shareholders. Upon authorisation of the distribution, the Group recognised a dividend payable of €12,500 thousand, being the fair value of the assets to be distributed in connection with the announced distribution.

In 3 June 2010 the Group distributed Papier GmbH, comprising assets of €17,408 thousand less liabilities of €7,464 thousand detailed as follows:

In thousands of euro

Property, plant and equipment	9,650
Investment property	100
Intangible assets (goodwill)	400
Deferred tax asset	225
Inventories	2,900
Trade and other receivables	4,133
Loans and borrowings	(3,064)
Provisions	(200)
Deferred tax liabilities	(450)
Trade and other payables	(3,750)
Carrying amount of net assets distributed	9,944
Dividends to shareholders	12,500
Carrying amount of net assets distributed	(9,944)
Gain on distribution to the owners of the Company	2,556

The investment property distributed to the owners of the Company had a cost of €60 thousand, with a €40 thousand revaluation being recognised in the revaluation reserve upon reclassification from property, plant and equipment to investment property (€27 thousand net of income tax).

IFRIC 17.16(b)

There was no change in the fair value of the assets to be distributed between the date that the distribution was approved and the date that the dividend was settled.

Note *Reference* **Explanatory note**

1. *IAS 34.16(e)* IAS 34 requires the disclosure of issues and repayments of debt securities. The disclosure in these illustrative condensed consolidated interim financial statements provides additional disclosure to that required by IAS 34 by reconciling the opening and closing balance of total loans and borrowings.
2. *IAS 34.17(i)* These illustrative condensed consolidated interim financial statements do not illustrate any loan default or breach of a loan agreement that has not been remedied on or before the end of the interim reporting period; however, such events are examples of the kinds of disclosures that, if material, are required by IAS 34.

IAS 1.72-76 When the breach has not been remedied or the terms of the loan payable have not been renegotiated by the end of the interim reporting period, the entity determines the effect of the breach on the current/non-current classification of the liability in the condensed statement of financial position and on the disclosure in the notes to the condensed interim financial statements.

Reference Notes to the condensed consolidated interim financial statements

IAS 34.16(e) **16. Loans and borrowings**^{1, 2}

<i>In thousands of euro</i>	Currency	Interest rate nominal*	Face value	Carrying amount	Year of maturity
Balance at 1 January 2010				23,592	
New issues					
Convertible notes	euro	3.00%	5,000	4,596	2013
Redeemable preference shares	euro	4.40%	2,000	1,939	2016
Unsecured bank loan acquired (see note 9)	USD	3.80%	530	500	2011
Repayments					
Loan from associate	euro	4.80%	(1,000)	(1,000)	-
Secured bank loan	GBP	LIBOR+1 %	(3,811)	(3,811)	-
Finance lease liabilities	euro	6.5-7.0%	(130)	(130)	-
Other movements					
Loans and borrowings transferred in distribution to owners – Unsecured bond issues (see note 15)	euro	LIBOR	(3,064)	(3,064)	-
Other			-	91	-
Balance at 30 June 2010				22,713	

* Dividend rate for redeemable preference shares.

Convertible notes issued in the period

In thousands of euro

Proceeds from issue of convertible notes (1,250,000 notes at €4 par value)	5,000
Transaction costs	(250)
Net proceeds	4,750
Amount classified as equity	(163)
Accreted interest	9
Carrying amount	4,596

The notes are convertible into 250 thousand ordinary shares of the Group in June 2013 at the option of the holder, which is a rate of one share for every five convertible notes; unconverted notes become repayable on demand.

Convertible notes become repayable on demand if the Group exceeds a net debt to adjusted equity ratio of 1.95.

Redeemable preference shares

In thousands of euro

Proceeds from issue of redeemable preference shares	2,000
Transaction costs	(61)
Carrying amount at date of issue	1,939

The rights of redeemable preference shareholders are discussed in note 15.

Note *Reference* **Explanatory note**

1. Although not required specifically, in these illustrative condensed consolidated interim financial statements we have illustrated details of share-based payment transactions in the period. The appropriate level of disclosure for an interim reporting period may vary depending on the materiality of the share-based payment transactions.

Additional disclosures may be required in the first interim financial statements prepared by a first-time adopter of IFRSs to understand the arrangements that are in existence on transition. The level of disclosures to be provided requires significant judgement. In subsequent interim financial statements for part of the period covered by the first IFRS financial statements, it may be appropriate to include a cross-reference to the first interim financial statements. This issue is discussed in our publication *Insights into IFRS* (6.1.1680.60 – 70).

This publication assumes that disclosures, other than details of transactions for the current period, are not needed.

Reference Notes to the condensed consolidated interim financial statements

17. Share-based payment¹

The Group issued the following share-based payments:

Share option programme (equity-settled)

IFRS 2.45(a),
IAS 34.17(j)

On 1 January 2009 the Group established a share option programme that entitles key management personnel to purchase shares in the Company.

On 1 January 2010 a further grant on similar terms was offered to key management and senior employees. In accordance with this programme options are exercisable at the market price of the shares at the date of grant.

The terms and conditions relating to these grants of the share option are as follows; all options are to be settled by physical delivery of shares:

	Grant date/employees entitled	Number of instruments in thousands	Vesting conditions	Contractual life of options
	Option grant to key management personnel on 1 January 2009	200	3 years' service and 5 percent increase in operating income in each of the 3 years	10 years
	Option grant to key management personnel on 1 January 2010	100	3 years' service and 5 percent increase in operating income in each of the 3 years	10 years
	Option grant to senior employees on 1 January 2010	100	3 years' service	10 years

IFRS 2.46, 47(a)(i),
IAS 1.125

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using the Black-Scholes model.

Replacement awards (equity-settled)

In connection with the acquisition of Papyrus Pty Limited the Group exchanged equity-settled share-based payment awards held by employees of Papyrus (the acquiree's awards) for equity-settled share-based payment awards of the Group (the replacement awards) (see note 9).

IFRS 2.52

The market-based measure of each of the 150 thousand replacement awards at the grant date (business combination acquisition date) was €3.81. The share price as at the acquisition date amounted to €10.88, and the expected weighted average life of the awards at that date was 5.9 years.

Expected volatility is estimated taking into account historic average share price volatility.

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Reference Notes to the condensed consolidated interim financial statements

17. Share-based payment (continued)

Share purchase plan (equity-settled)

IFRS 2.44, 45(a) On 1 January 2010 the Group offered 26 of its employees the opportunity to participate in an employee share purchase plan. To participate in the plan, the employees must save an amount of 5 percent of their gross monthly salary, with a maximum of €300 per month, for a period of 36 months. Under the terms of the plan, immediately after the three-year period the employees are entitled to invest their savings to purchase shares at a price 20 percent below the market price as at the grant date. Only employees that remain in service and save the required amount of their gross monthly salary for 36 consecutive months will become entitled to purchase the shares. Employees who cease their employment, or who refrain from investing the required amount of their gross monthly salary in a certain month before the 36-month period expires, will be refunded for their invested amounts.

The requirement that the employee has to save in order to purchase shares under the share purchase plan is a non-vesting condition. This feature has been incorporated into the fair value at grant date by applying a discount to the valuation obtained from the Monte Carlo Sampling model. The discount has been determined by estimating the probability that the employee will stop saving based on expected future trends in the share price and employee behaviour. The adjusted fair value at grant date amounts to €4.02 per share.

Share appreciation rights (cash-settled)

IFRS 2.45(a) On 1 January 2007 and 1 January 2010 the Group granted 100 thousand and 300 thousand share appreciation rights (SARs), respectively, to other employees that entitle the employees to a cash payment after 3 years. The amount of the cash payment is determined based on the increase in the share price of the Company between grant date and vesting date.

IFRS 2.52 The fair value of the SARs at grant date is determined using the Black-Scholes formula. The fair value of the liability, classified as an employee benefit liability, is remeasured at the end of each reporting period and at settlement date.

Inputs for measurement of grant date fair values

The following inputs were used in the measurement of the fair values at grant date of the share-based payment plans:

	Share option programme					
	Key management personnel	Key management personnel	Senior employees	Replacement awards	Share purchase plan	SARs
	2010	2009	2010	2010	2010	2010
Fair value of share options and assumptions						
<i>IFRS 2.47(a)</i> Fair value at grant date	€5.60	€3.75	€5.50	€3.81	€4.02	€4.40
Share price at grant date	€10.10	€10.50	€10.10	€10.88	€10.10	€10.10
Exercise price	€10.10	€10.50	€10.10	€10.10	€8.08	€10.10
Expected volatility (weighted average volatility)	40.1%	40.9%	40.1%	44.2%	43.3%	40.3%
Option life (expected weighted average life)	8.6 years	8.8 years	5.4 years	5.9 years	n/a	n/a
Expected dividends	3.2%	3.2%	3.2%	3.2%	n/a	3.2%
Risk-free interest rate (based on government bonds)	3.9%	3.8%	3.8%	3.9%	n/a	4.4%

Note *Reference* **Explanatory note**

- | | | |
|-----------|------------------|--|
| 1. | <i>IAS 34.17</i> | The reversal of a provision is an example of the kinds of disclosures that, if material, are required by IAS 34. |
|-----------|------------------|--|

Reference Notes to the condensed consolidated interim financial statements

18. Employee benefits

As a result of a curtailment in the pension arrangement for a number of employees in France, the Group's defined benefit pension obligation decreased by €100 thousand during the six months ended 30 June 2010 (six months ended 30 June 2009: nil). A corresponding gain on curtailment is included in the Group's condensed consolidated statement of comprehensive income for the six months ended 30 June 2010.

IAS 34.16(c)
IAS 34.17

19. Provisions¹

A provision of €900 thousand was recognised during the year ended 31 December 2009 in respect of the Group's obligation to rectify environmental damage to a site in France. The required work was completed during the six months ended 30 June 2010 at a cost of €800 thousand. The unused provision of €100 thousand was reversed and has been included in cost of sales in the condensed consolidated statement of comprehensive income at 30 June 2010.

IAS 34.16(c)

In accordance with Romanian law, land contaminated by the Group's subsidiary in Romania must be restored to its original condition before the end of 2014. During the six months ended 30 June 2010 the Group recognised €300 thousand in provisions for this purpose. Because of the long-term nature of the liability, the biggest uncertainty in estimating the provision is the costs that will be incurred. In particular, the Group has assumed that the site will be restored using technology and materials that are available currently. The provision has been calculated using a discount rate of 5.9 percent. The rehabilitation is expected to occur progressively over the next four years.

As part of the acquisition of Papyrus Pty Limited the Group recognised provisional environmental provisions of €150 thousand (see note 9).

IAS 34.16(j)

20. Contingencies

A subsidiary is defending an action brought by an environmental agency in Europe. While liability is not admitted, if defence against the action is unsuccessful, then fines and legal costs could amount to €950 thousand, of which €250 thousand would be reimbursable under an insurance policy. Based on legal advice, the directors do not expect the outcome of the action to have a material effect on the Group's financial position.

As part of the acquisition of Papyrus Pty Limited the Group recognised a contingent liability of €20 thousand in respect of a claim for contractual penalties made by one of Papyrus' customers (see note 9).

Note *Reference* **Explanatory note**

- 1.** *IAS 34.17(j)* Related party transactions are an example of the kinds of disclosures that, if material, are required by IAS 34.

In respect of related party transactions, care should be taken in determining the level of disclosure that is necessary in condensed interim financial statements. If the nature and amounts of related party transactions are consistent with those reported previously, then no disclosure may be necessary in the condensed interim financial statements.

However, if related party transactions are significant, then disclosure may be necessary even if the nature and amounts of those transactions are consistent with previous periods. This issue is discussed in our publication *Insights into IFRS* (5.9.60.50).

Reference Notes to the condensed consolidated interim financial statements

IAS 34.17(j) **21. Related parties¹**

Parent and ultimate controlling party

During the six months ended 30 June 2010 a majority of the Company's shares were acquired by Cameron Paper Co from Brown Products Corporation. As a result the new ultimate controlling party of the Group is AJ Pennypacker.

Transactions with key management personnel

Unsecured loans to directors during the six months ended 30 June 2010 amounted to €65 thousand (six months ended 30 June 2009: €32 thousand). No interest is payable by the directors and the loans are repayable in full twelve months after the issue date. As at 30 June 2010 the balance outstanding was €15 thousand (31 December 2009: €12 thousand).

Key management personnel receive compensation in the form of short-term employee benefits, post-employment benefits and share-based payment awards (see note 17). Key management personnel received total compensation of €750 thousand for the six months ended 30 June 2010 (six months ended 30 June 2009: €725 thousand).

Other related party transactions

	Transaction value for the six months ended		Balance outstanding	
	30 June 2010	30 June 2009	30 June 2010	31 December 2009
<i>In thousands of euro</i>				
Sale of goods				
Parent B of the Group	350	265	110	250
Associate	595	200	560	392
Expenses				
Associate – administrative services	311	339	96	339
Associate – interest expense	8	-	-	12

During the six months ended 30 June 2010 there were no transactions and outstanding balances with Parent A of the Group.

All outstanding balances with these related parties are to be settled in cash within six months of the reporting date. None of the balances are secured.

In addition, during the six months ended 30 June 2010 the Group repaid a loan of €1,000 thousand received from one of its associates (see note 16).

IAS 19.143

As a result of the termination of the employment of one of the Group's executives in France, the executive received an enhanced retirement entitlement. Accordingly, the Group has recorded an expense of €25 thousand for the six months ended 30 June 2010 (six months ended 30 June 2009: nil).

IAS 34.16(h) **22. Subsequent event**

On 22 July 2010 the Group announced its intention to acquire all of the shares of ABC Company for €6,500 thousand. The transaction still has to be approved by the Group's shareholders and by regulatory authorities. Approvals are not expected until late in 2010 or early in 2011.

Note Reference **Explanatory note**

- 1.** *IFRS 1.23* IFRS 1 requires an entity to provide extensive disclosures to explain how the transition from its previous GAAP to IFRSs affected the reported financial position, financial performance and cash flows of the entity.

IFRS 1.32 If a first-time adopter presented an interim report for the comparable interim period in the previous year, then the following reconciliations are disclosed:

- a reconciliation of its equity under its previous GAAP to its equity under IFRSs at the end of the comparative interim period; and
- a reconciliation of total comprehensive income (or profit or loss if total comprehensive income was not presented) under its previous GAAP to total comprehensive income under IFRSs in the comparative interim period, on a current and year-to-date basis.

In addition to the above reconciliations, the first interim IFRS financial statements includes the following reconciliations and supporting disclosures required in the first annual IFRS financial statements, or a cross-reference to another published document that includes these disclosures:

- a reconciliation of its equity reported under its previous GAAP to its equity under IFRSs at:
 - the date of transition (1 January 2009 in these illustrative condensed consolidated interim financial statements) to IFRSs;
 - the end of the latest period presented in the entity's most recent annual financial statements (31 December 2009) under previous GAAP; and
- a reconciliation of total comprehensive income reported under its previous GAAP for the latest period in the entity's most recent annual financial statements (31 December 2009) to its total comprehensive income reported under IFRSs. The appropriate starting point for this reconciliation should be total comprehensive income under its previous GAAP for the same period; however if the entity did not report such an amount, then the starting point should be profit or loss under its previous GAAP.

IFRS 1.25 IFRS 1 does not specify the format of the required reconciliations; rather the reconciliations should disclose the material adjustments made to amounts reported under previous GAAP in order to determine the corresponding amounts presented under IFRSs, together with sufficient explanations of the reconciling items.

In our view, if there is no relevant previous GAAP consolidated financial statements from which the entity is transitioning, then no reconciliations in the IFRS consolidated financial statements to the previous GAAP separate financial statements are required. This issue is discussed in our publication *Insights into IFRS* (6.1.1650.90).

Reference Notes to the condensed consolidated interim financial statements

IFRS 1.23-28 **23. Explanation of transition to IFRSs¹**

As stated in note 2(a), these are the Group's first consolidated interim financial statements prepared in accordance with IFRSs.

The accounting policies set out in note 3 have been applied in preparing the interim financial statements for the six months ended 30 June 2010, the comparative information presented in these interim financial statements for both the six months ended 30 June 2009 and year ended 31 December 2009 and in the preparation of an opening IFRS statement of financial position at 1 January 2009 (the Group's date of transition).

IFRS 1.32

In preparing its opening IFRS statement of financial position, the Group has adjusted amounts reported previously in financial statements prepared in accordance with [country] GAAP (its previous GAAP). An explanation of how the transition from previous GAAP to IFRSs has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

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Reconciliation of equity

31 December 2009

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23. Explanation of transition to IFRSs (continued)

Reconciliation of equity (continued)

		Effect of transition to IFRSs		Effect of transition to IFRSs		Effect of transition to IFRSs	
	Note	Previous GAAP	1 January 2009	Previous GAAP	30 June 2009	Previous GAAP	31 December 2009
<i>In thousands of euro</i>							
Equity							
Share capital		14,550	-	14,550	-	14,550	-
Share premium		3,500	-	3,500	-	3,500	-
Reserves	d, k, t	880	(558)	322	(508)	944	(495)
Retained earnings		9,004	1,596	10,600	240	13,821	185
Changes in accounting policies	w	1,609			253		198
Prior year restatements	x	(13)			(13)		(13)
Equity attributable to owners of the Company		27,934	1,038	28,972	(268)	32,815	(310)
Non-controlling interests		601	-	601	-	842	-
Total equity		28,535	1,038	29,573	(268)	33,657	(310)
							33,347
Liabilities							
Loans and borrowings	h, m	19,419	2,059	21,478	1,068	18,540	666
Derivatives		-	-	-	-	5	-
Employee benefits	s	2,174	30	2,204	205	461	380
Deferred income/revenue	p	-	-	-	1,610	-	1,462
Provisions	q	50	632	682	166	-	400
Deferred tax liabilities		797	639	1,436	520	1,102	465
Changes in accounting policies	v	646			527		472
Prior year restatements	x	(7)			(7)		(7)
Non-current liabilities		22,440	3,360	25,800	3,569	20,108	3,373
Bank overdraft		303	-	303	-	282	-
Current tax liabilities		25	-	25	-	-	-
Loans and borrowings		2,017	-	2,017	-	4,386	-
Trade payables		30,618	-	30,618	-	24,363	-
Other payables		9	-	9	-	7	-
Deferred income/revenue	p	46	110	156	-	-	168
Provisions	r	1,205	195	1,400	798	500	700
Current liabilities		34,223	305	34,528	798	29,538	868
Total liabilities		56,663	3,665	60,328	4,367	49,646	4,241
Total liabilities and equity		85,198	4,703	89,901	4,099	83,303	3,931
							87,234

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Reference

Notes to the condensed consolidated interim financial statements

23. Explanation of transition to IFRSs (continued)

Reconciliation of comprehensive income for the six months ended 30 June 2009

<i>In thousands of euro</i>	<i>Note</i>	Previous GAAP	Effect of transition to IFRSs	IFRSs
Continuing operations				
Revenue	<i>p</i>	53,093	(1,500)	51,593
Cost of sales	<i>a, b, e, h, i, l, n, o, q</i>	(32,063)	143	(31,920)
Gross profit		21,030	(1,357)	19,673
Other income	<i>g, j, u</i>	388	(198)	190
Distribution expenses	<i>h, n, o</i>	(7,550)	52	(7,498)
Administrative expenses	<i>h, n, o, q, s</i>	(8,161)	(197)	(8,358)
Research and development expenses	<i>f</i>	(310)	(39)	(349)
Results from operating activities		5,397	(1,739)	3,658
Finance income	<i>l</i>	335	10	345
Finance costs	<i>c, h, m, q, r</i>	(941)	(63)	(1,004)
Net finance costs		(606)	(53)	(659)
Share of profit of equity-accounted investees (net of income tax)	<i>u</i>	-	278	278
Profit before income tax		4,791	(1,514)	3,277
Income tax expense	<i>v</i>	(913)	169	(744)
Profit from continuing operation		3,878	(1,345)	2,533
Discontinued operation				
Loss from discontinued operation (net of income tax)		(422)	-	(422)
Profit for the period		3,456	(1,345)	2,111
Other comprehensive income				
Foreign currency translation differences – foreign operations		330	-	330
Net loss on hedge of net investment in foreign operation		(8)	-	(8)
Effective portion of changes in fair value of cash flow hedges		97	-	97
Net change in fair value of cash flow hedges reclassified to profit or loss		(11)	-	(11)
Net change in fair value of available-for-sale financial assets	<i>k</i>	-	74	74
Defined benefit plan actuarial gains (losses)	<i>o</i>	-	(15)	(15)
Income tax on other comprehensive income	<i>v</i>	(29)	(19)	(48)
Other comprehensive income for the period, net of income tax		379	40	419
Total comprehensive income for the period		3,835	(1,305)	2,530

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Reference

Notes to the condensed consolidated interim financial statements

23. Explanation of transition to IFRSs (continued)

Reconciliation of comprehensive income for the six months ended 30 June 2009 (continued)

<i>In thousands of euro</i>	Previous GAAP	Effect of transition to IFRSs	IFRSs
Profit attributable to:			
Owners of the Company	3,368	(1,345)	2,023
Non-controlling interests	88	-	88
Profit for the period	<u>3,456</u>	<u>(1,345)</u>	<u>2,111</u>
Total comprehensive income attributable to:			
Owners of the Company	3,701	(1,305)	2,396
Non-controlling interests	134	-	134
Total comprehensive income for the period	<u>3,835</u>	<u>(1,305)</u>	<u>2,530</u>
Earnings per share			
Basic earnings per share (euro)	<u>0.96</u>	<u>(0.44)</u>	<u>0.52</u>
Diluted earnings per share (euro)	<u>0.94</u>	<u>(0.43)</u>	<u>0.51</u>
Continuing operations			
Basic earnings per share (euro)	<u>1.10</u>	<u>(0.44)</u>	<u>0.66</u>
Diluted earnings per share (euro)	<u>1.08</u>	<u>(0.43)</u>	<u>0.65</u>

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Reference

Notes to the condensed consolidated interim financial statements

23. Explanation of transition to IFRSs (continued)

Reconciliation of comprehensive income for the year ended 31 December 2009

<i>In thousands of euro</i>	<i>Note</i>	Previous GAAP	Effect of transition to IFRSs	IFRSs
Continuing operations				
Revenue	<i>p</i>	98,156	(1,520)	96,636
Cost of sales	<i>a, b, e, h, i, l, n, o, q</i>	(56,412)	226	(56,186)
Gross profit		41,744	(1,294)	40,450
Other income	<i>g, j, u</i>	752	(437)	315
Distribution expenses	<i>h, n, o</i>	(18,106)	94	(18,012)
Administrative expenses	<i>h, n, o, q, s</i>	(14,872)	(397)	(15,269)
Research and development expenses	<i>f</i>	(515)	(182)	(697)
Other expenses		(30)	-	(30)
Results from operating activities		8,973	(2,216)	6,757
Finance income	<i>l</i>	460	20	480
Finance costs	<i>c, h, m, q, r</i>	(1,533)	(113)	(1,646)
Net finance costs		(1,073)	(93)	(1,166)
Share of profit of equity-accounted investees (net of income tax)	<i>u</i>	-	587	587
Profit before income tax		7,900	(1,722)	6,178
Income tax expense	<i>v</i>	(2,122)	322	(1,800)
Profit from continuing operation		5,778	(1,400)	4,378
Discontinued operation				
Loss from discontinued operation (net of income tax)		(422)	-	(422)
Profit for the period		5,356	(1,400)	3,956
Other comprehensive income				
Foreign currency translation differences – foreign operations		330	-	330
Net loss on hedge of net investment in foreign operation		(8)	-	(8)
Effective portion of changes in fair value of cash flow hedges		77	-	77
Net change in fair value of cash flow hedges reclassified to profit or loss		(11)	-	(11)
Net change in fair value of available-for-sale financial assets	<i>k</i>	-	94	94
Defined benefit plan actuarial gains (losses)	<i>o</i>	-	(15)	(15)
Income tax on other comprehensive income	<i>v</i>	(22)	(26)	(48)
Other comprehensive income for the period, net of income tax		366	53	419
Total comprehensive income for the period		5,722	(1,347)	4,375

Note *Reference* **Explanatory note**

- | | | |
|-----------|------------------|---|
| 1. | <i>IFRS 1.25</i> | An entity that presented a statement of cash flows under previous GAAP also explains any material adjustments as compared to its IFRS statement of cash flow for the same period. |
|-----------|------------------|---|

Reference

Notes to the condensed consolidated interim financial statements

23. Explanation of transition to IFRSs (continued)

Reconciliation of comprehensive income for the year ended 31 December 2009 (continued)

<i>In thousands of euro</i>	Previous GAAP	Effect of transition to IFRSs	IFRSs
Profit attributable to:			
Owners of the Company	5,137	(1,400)	3,737
Non-controlling interests	219	-	219
Profit for the period	5,356	(1,400)	3,956
Total comprehensive income attributable to:			
Owners of the Company	5,481	(1,347)	4,134
Non-controlling interests	241	-	241
Total comprehensive income for the period	5,722	(1,347)	4,375
Earnings per share			
Basic earnings per share (euro)	1.54	(0.46)	1.08
Diluted earnings per share (euro)	1.53	(0.46)	1.07
Continuing operations			
Basic earnings per share (euro)	1.68	(0.46)	1.22
Diluted earnings per share (euro)	1.67	(0.46)	1.21

Material adjustments to the statement of cash flows¹

Bank overdrafts of €120 thousand (31 December 2009: €282 thousand and 1 January 2009: €303 thousand) that are repayable on demand and form an integral part of the Group's cash management were classified as financing cash flows under its previous GAAP. These overdrafts were reclassified as cash and cash equivalents under IFRSs. There are no other material differences between the statement of cash flows presented under IFRSs and the statement of cash flows presented under its previous GAAP.

IFRS 1.25

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Note Reference **Explanatory note**

1. *IFRS 1.C1* At the date of transition, an entity may elect not to restate business combinations that occurred before the date of transition. If the entity restates any business combinations that occurred before the date of transition, then it restates all later business combinations, and also applies IAS 27 *Consolidated and Separate Financial Statements* from that same date.

IFRS 1.C1 For business combinations that occurred before the date of transition, entities have the following options:

 - restate all business combinations;
 - restate all business combinations that occurred after a particular date of the entity's choosing but before the date of transition; or
 - do not restate any business combinations prior to the date of transition.

IFRS 1.C5 The business combinations exemption applies equally to acquisitions of investments in associates and interests in joint ventures that occurred prior to the date of transition. If an entity chooses to restate business combinations that occurred after a particular date prior to the date of transition, then that cut-off date applies equally to acquisitions of investments in associates and interests in joint ventures.

IFRS 1.C4g(iii) Goodwill acquired in an unrestated business combination is tested for impairment at the date of transition in accordance with IFRSs, with any resulting impairment loss recognised directly in retained earnings. This mandatory impairment testing is required regardless of whether there is any indication that the goodwill may be impaired.
2. In this publication we present mini-reconciliations of the adjustments for ease of reading. This is not a requirement of IFRS 1 and other methods of presentation are possible.
3. *IFRS 1.24(c)* If the entity recognises or reverses any impairment losses for the first time in preparing its opening IFRS statement of financial position, then it complies with the disclosure requirements of IAS 36 in respect of any impairment losses or reversals recognised.

IFRS 1.IG39 An entity applies IAS 36 in:

 - determining whether any impairment loss exists at the date of transition; and
 - measuring any impairment loss that exists at that date, and reversing any impairment loss that no longer exists at that date.

Reference

Notes to the condensed consolidated interim financial statements

23. Explanation of transition to IFRSs (continued)

Notes to the reconciliations

- (a) The Group elected to apply IFRSs retrospectively to all business combinations that occurred on or after 1 January 2008.¹ This required acquisition-related costs of €300 thousand incurred in those business combinations to be expensed; a contingent liability relating to legal claims to be recognised at fair value of €50 thousand; and previous amortisation of goodwill to be reversed (€25 thousand relating to the 2008 year and €25 thousand relating to the 2009 year of which €13 thousand relating to the first six months of the 2009 year). In addition, and as a condition under IFRS 1 for applying this exemption, goodwill relating to business combinations that occurred prior to 1 January 2008 was tested for impairment even though no impairment indicators were identified. No impairment existed at the date of transition.

The impact arising from the change is summarised as follows:²

	1 January 2009	30 June 2009	31 December 2009
<i>In thousands of euro</i>			

Consolidated statement of comprehensive income

Cost of sales:

Reversal of goodwill amortisation		(13)	(25)
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Adjustment before income tax		(13)	(25)
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Consolidated statement of financial position

Goodwill	(225)	(212)	(200)
Provisions (contingent liability)	(50)	(50)	(50)
Related tax effect	99	99	99
Adjustment to retained earnings	(176)	(163)	(151)

- (b) As described in note 13, an impairment test was triggered during the year ended 31 December 2009 and the Group recognised an impairment loss.³ Under its previous GAAP the recoverable amount was calculated on an undiscounted basis. Under IFRSs the recoverable amount of the CGU (the production line that produces the product) was estimated based on its value in use, which requires estimated future cash flows to be discounted. The effect was to decrease property, plant and equipment by €25 thousand and development costs by €10 thousand at 31 December 2009 and to increase the impairment loss (cost of sales) by €35 thousand for the year ended 31 December 2009.

The impact arising from the change is summarised as follows:

	1 January 2009	30 June 2009	31 December 2009
<i>In thousands of euro</i>			

Consolidated statement of comprehensive income

Cost of sales:

Recognised impairment loss		-	35
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Adjustment before income tax		-	35
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Consolidated statement of financial position

Property, plant and equipment	-	-	(25)
Intangible assets:			
Development costs	-	-	(10)
Related tax effect	-	-	12
Adjustment to retained earnings	-	-	(23)

Note *Reference* **Explanatory note**

- | | |
|----|---|
| 1. | <i>IFRS 1.D23</i> An entity may apply the transitional requirements of IAS 23. This allows the entity to capitalise borrowing costs in respect of qualifying assets for which the commencement date for capitalisation is on or after the later of 1 January 2009 and the date of transition; or an earlier date chosen by the entity. |
| 2. | <div style="margin-bottom: 10px;"> <i>IFRS 1.D5</i> An entity may elect to measure an item of property, plant and equipment at the date of transition at its fair value and use that fair value as its deemed cost at that date. </div> <div style="margin-bottom: 10px;"> <i>IFRS 1.D6</i> An entity may elect to use a previous GAAP revaluation of an item of property, plant and equipment at or before the date of transition as deemed cost at the date of the revaluation, provided the revaluation was, at the date of the revaluation, broadly comparable to: <ul style="list-style-type: none"> ● fair value; or ● cost or depreciated cost under IFRSs adjusted to reflect, for example, changes in a general or specific price index. </div> <div> <i>IFRS 1.D8</i> An entity also may use an event-driven fair value as a deemed cost when, under its previous GAAP, some or all of its assets and liabilities have been fair valued at one particular date because of an event such as a privatisation or initial public offering. This exemption is not restricted to determining a deemed cost for all items of property, plant and equipment but may be applied to all individual assets and liabilities that were part of the remeasurement event. </div> |
| 3. | <div style="margin-bottom: 10px;"> <i>IFRS 1.30</i> If an entity uses fair value in its opening IFRS statement of financial position as deemed cost for an item of property, plant and equipment, then the entity's first IFRS financial statements discloses, for each line item in the opening IFRS statement of financial position: <ul style="list-style-type: none"> ● the aggregate of those fair values; and ● the aggregate adjustment to the carrying amounts reported under its previous GAAP. </div> |

Reference

Notes to the condensed consolidated interim financial statements

23. Explanation of transition to IFRSs (continued)

Notes to the reconciliations (continued)

- (c) Under its previous GAAP the Group expensed borrowing costs as incurred. At the date of transition, the Group elected to capitalise borrowing costs only in respect of qualifying assets for which the commencement date for capitalisation was on or after the date of transition.¹

The impact arising from the change is summarised as follows:

	1 January 2009	30 June 2009	31 December 2009
<i>In thousands of euro</i>			
Consolidated statement of comprehensive income			
Finance costs		(10)	(20)
Adjustment before income tax		(10)	(20)

Consolidated statement of financial position

Intangible assets:			
Development cost	-	10	20
Related tax effect	-	(3)	(7)
Adjustment to retained earnings	-	7	13

- (d) At 31 December 2007 the Group revalued land under its previous GAAP. On transition to IFRSs the Group elected to apply the optional exemption to use that previous revaluation as deemed cost under IFRSs. The revaluation reserve of €275 thousand at 1 January 2009, 30 June 2009 and 31 December 2009 was reclassified to retained earnings.² Except for the reclassification this had no impact on the financial statements.

The aggregate fair value of the land at 31 December 2007 was determined to be €1,200 thousand compared to the then carrying amount of €925 thousand under its previous GAAP.³

The impact arising from the change is summarised as follows:

	1 January 2009	30 June 2009	31 December 2009
<i>In thousands of euro</i>			
Consolidated statement of financial position			
Revaluation reserve	275	275	275
Adjustment to retained earnings	275	275	275

Note Reference **Explanatory note**

1. *IFRS 1.C4* The balance of goodwill at the date of transition, arising from an unrestated business combination, is adjusted only in respect of the following:
 - to recognise separately certain intangible assets that were subsumed within goodwill under previous GAAP, including any consequential effect on deferred tax and non-controlling interests;
 - to subsume within goodwill certain intangible assets that were recognised separately under previous GAAP, including any consequential effect on deferred tax and non-controlling interests;
 - to correct any errors discovered upon the transition to IFRSs; and
 - to recognise any impairment loss on goodwill at the date of transition.

2. *IFRS 1.IG44* An entity recognises in its opening IFRS statement of financial position all internally generated intangible assets that qualify for recognition under IAS 38; similarly, it derecognises internally generated intangible assets that do not qualify for recognition.

In accordance with IAS 38 expenditure is capitalised only from the date that the recognition criteria in the standard are met, i.e. prospectively; these criteria cannot be assessed using the benefit of hindsight. Therefore, in order to capitalise costs at the date of transition that were expensed under its previous GAAP, an entity is required to have met the criteria for capitalisation at the time that the costs were incurred, and a system was in place that measured such costs reliably. This issue is discussed in our publication *Insights into IFRS* (6.1.540.20).

Reference

Notes to the condensed consolidated interim financial statements

23. Explanation of transition to IFRSs (continued)

Notes to the reconciliations (continued)

- (e) As part of the purchase accounting applied under its previous GAAP for a transaction that occurred before 1 January 2008 (i.e. an unrestated past business combination), a separate intangible asset relating to the acquiree's "market share" was recognised. Market share is not recognised as a separate asset under IFRSs. Accordingly the carrying amount of the asset at date of transition has been adjusted against goodwill and amortisation for the comparative periods were reversed.¹

The impact arising from the change is summarised as follows:

	1 January 2009	30 June 2009	31 December 2009
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In thousands of euro

Consolidated statement of comprehensive income

Cost of sales		(10)	(20)
Adjustment before income tax		(10)	(20)

Consolidated statement of financial position

Goodwill	80	80	80
Intangible assets	(120)	(110)	(100)
Related tax effect	40	37	33
Adjustment to retained earnings	-	7	13

- (f) Development costs of €1,310 thousand at the date of transition and €495 thousand relating to the year ended 31 December 2009 (including €300 thousand relating to the six months ended 30 June 2009) that qualify for recognition as an intangible asset under IFRSs were expensed under its previous GAAP. These amounts are recognised under IFRSs at the date of transition and as additions in 2009, respectively.²

This also leads to an adjustment to the amortisation of development cost of €677 thousand (presented within research and development expenses) for the year ended 31 December 2009 (€339 thousand for the six months ended 30 June 2009).

The impact arising from the change is summarised as follows:

	1 January 2009	30 June 2009	31 December 2009
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In thousands of euro

Consolidated statement of comprehensive income

Research and development expenses:			
Capitalisation of development costs		(300)	(495)
Amortisation of development costs		339	677
Adjustment before income tax		39	182

Consolidated statement of financial position

Intangible assets:			
Development costs	1,310	1,271	1,128
Related tax effect	(432)	(419)	(372)
Adjustment to retained earnings	878	852	756

Note *Reference* **Explanatory note**

- | | |
|---|---|
| <p>1. <i>IFRS 1.D9</i></p> | <p>IFRS 1 includes an optional exemption that permits an entity to apply the transitional requirements in IFRIC 4. If the entity elects the optional exemption, then it assesses arrangements existing at the date of transition based on the facts and circumstances existing at that date.</p> |
| <p><i>IFRS 1.D9,</i>
<i>IG205</i></p> | <p>IFRS 1 includes a further optional exemption that if an entity made the same determination of whether an arrangement contains a lease under its previous GAAP as that required by IFRIC 4, but at a date other than that required by IFRIC 4, then the entity need not reassess that determination for such arrangements when it adopts IFRSs. For an entity to have made the same determination under previous GAAP as that under IFRSs, the determination is required to give the same outcome as applying IAS 17 and IFRIC 4.</p> |

Reference

Notes to the condensed consolidated interim financial statements

23. Explanation of transition to IFRSs (continued)

Notes to the reconciliations (continued)

- (g) Consistent with the Group's accounting policy, investment property has been recognised at fair value at the date of transition. Under its previous GAAP investment property was measured on a cost basis.

The impact arising from the change is summarised as follows:

	1 January 2009	30 June 2009	31 December 2009
<i>In thousands of euro</i>			

Consolidated statement of comprehensive income

Other income		(50)	(100)
Adjustment before income tax		<u>(50)</u>	<u>(100)</u>

Consolidated statement of financial position

Investment property	348	398	448
Related tax effect	(115)	(131)	(148)
Adjustment to retained earnings	<u>233</u>	<u>267</u>	<u>300</u>

- (h) Under its previous GAAP certain leases were classified as operating leases based on the fact that legal title did not pass by the end of the lease. Under IFRSs those leases are classified as finance leases and the related assets recognised in the statement of financial position of the Group.¹

The effects are to increase property, plant and equipment, loans and borrowings and the related depreciation charge (€240 thousand for the year ended 31 December 2009 including €120 thousand for the six months ended 30 June 2009) and finance costs, and to decrease lease expense (€504 thousand for the year ended 31 December 2009 including €252 thousand for the six months ended 30 June 2009).

The impact arising from the change is summarised as follows:

	1 January 2009	30 June 2009	31 December 2009
<i>In thousands of euro</i>			

Consolidated statement of comprehensive income

Cost of sales:			
Depreciation/lease expense		(106)	(212)
Distribution costs:			
Depreciation/lease expense		(42)	(84)
Administrative costs:			
Depreciation		16	32
Finance costs		60	111
Adjustment before income tax		<u>(72)</u>	<u>(153)</u>

Consolidated statement of financial position

Property, plant and equipment	1,278	1,158	1,038
Loans and borrowings	(1,059)	(867)	(666)
Related tax effect	(72)	(96)	(123)
Adjustment to retained earnings	<u>147</u>	<u>195</u>	<u>249</u>

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Reference

Notes to the condensed consolidated interim financial statements

23. Explanation of transition to IFRSs (continued)

Notes to the reconciliations (continued)

- (i) Under its previous GAAP the cost of certain inventories was measured using the last-in first-out (LIFO) formula. Under IFRSs the Group has adopted a policy that measures cost on the basis of first-in first-out (FIFO).

The impact arising from the change is summarised as follows:

	1 January 2009	30 June 2009	31 December 2009
<i>In thousands of euro</i>			

Consolidated statement of comprehensive income

Cost of sales		(10)	(21)
Adjustment before income tax		(10)	(21)

Consolidated statement of financial position

Inventories	103	113	124
Related tax effect	(34)	(37)	(41)
Adjustment to retained earnings	69	76	83

- (j) Under IFRSs biological assets are measured at fair value less costs to sell. Under its previous GAAP biological assets were measured at cost.

The impact arising from the change is summarised as follows:

	1 January 2009	30 June 2009	31 December 2009
<i>In thousands of euro</i>			

Consolidated statement of comprehensive income

Other income		(30)	(50)
Adjustment before income tax		(30)	(50)

Consolidated statement of financial position

Biological assets	321	351	371
Related tax effect	(106)	(115)	(122)
Adjustment to retained earnings	215	236	249

Note *Reference* **Explanatory note**

1. *IFRS 1.D19(a)* Financial assets, including non-marketable equity securities that do not fall into any of the other categories, are classified as available for sale. Also, an entity may designate, on an instrument-by-instrument basis, financial assets, other than those classified as held for trading, as available for sale at the date of transition, including a loan/receivable or a financial asset that the investor intends to hold to maturity.
IG56(e)
2. *IFRS 1.29* For any financial assets or financial liabilities designated as at fair value through profit or loss and for any financial assets designated as available-for-sale in accordance with paragraph D19 of IFRS 1, disclose:
 - the fair value of the financial assets or financial liabilities designated into each category at the date of designation; and
 - their classification and carrying amount in the previous financial statements.
3. *IFRS 1.B4(a)*, Consistent with the general requirement of IAS 39 all derivatives, including embedded
IG53, IG56(c) derivatives, are measured at fair value in the opening IFRS statement of financial position.

Reference

Notes to the condensed consolidated interim financial statements

23. Explanation of transition to IFRSs (continued)

Notes to the reconciliations (continued)

- (k) In accordance with IFRSs, financial assets designated as available for sale have been recognised at fair value. These assets were previously carried at cost.¹

At the date of transition, the fair value of the financial assets designated as available-for-sale financial assets is €790 thousand and their carrying amount under its previous GAAP was €764 thousand.²

The impact arising from the change is summarised as follows:

	1 January 2009	30 June 2009	31 December 2009
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In thousands of euro

Consolidated statement of comprehensive income

Net change in fair value of available-for-sale financial assets		(74)	(94)
Adjustment before income tax		(74)	(94)

Consolidated statement of financial position

Other investments, including derivatives:	26	100	120
Non-current assets			
Fair value reserve	(17)	(67)	(80)
Related tax effect	(9)	(33)	(40)
Adjustment to retained earnings	-	-	-

- (l) The Group's previous GAAP did not require separate identification and recognition of embedded derivatives. Under IFRSs derivatives embedded in other contracts are treated as separate assets and liabilities unless certain criteria are met. These assets and liabilities are measured at fair value and changes in fair value are recognised in profit or loss.³

The impact arising from the change is summarised as follows:

	1 January 2009	30 June 2009	31 December 2009
--	-------------------	-----------------	---------------------

In thousands of euro

Consolidated statement of comprehensive income

Cost of sales		3	5
Finance income		(10)	(20)
Adjustment before income tax		(7)	(15)

Consolidated statement of financial position

Other investments, including derivatives:			
Non-current assets	74	81	89
Related tax effect	(24)	(27)	(29)
Adjustment to retained earnings	50	54	60

Note *Reference* **Explanatory note**

1. *IFRS 1.B2, B3* An exception from applying the general requirements of IFRSs in respect of the derecognition of financial instruments at the date of transition applies to transactions that took place before 1 January 2004. Under a mandatory exception in IFRS 1, an entity applies the derecognition requirements of IFRSs prospectively to transactions occurring on or after 1 January 2004 in respect of all non-derivative financial assets and liabilities. Under this exception, the previous GAAP accounting for transfers of financial assets and liabilities before 1 January 2004 is not altered (e.g. previously derecognised assets and liabilities are not re-recognised unless a subsequent transaction requires such recognition) and therefore the opening IFRS statement of financial position is not adjusted in respect of such transactions.

Notwithstanding this mandatory exception, an entity may elect to apply the derecognition requirements of IFRSs retrospectively from any date prior to 1 January 2004, provided that the information required to do this was obtained at the time of initially accounting for those transactions. This issue is discussed in our publication *Insights into IFRS* (6.1.810.40).

Reference

Notes to the condensed consolidated interim financial statements

23. Explanation of transition to IFRSs (continued)

Notes to the reconciliations (continued)

- (m) In 2008 the Group entered into a securitisation arrangement in respect of €1,005 thousand of receivables. Under its previous GAAP this transaction was considered a sale of the receivables to the third party and the receivables were derecognised. Under IFRSs, due to the Group retaining substantially all the credit risk relating to the receivables, the derecognition criteria in IAS 39 are not met and the receivables are not derecognised.¹

The impact arising from the change is summarised as follows:

	1 January 2009	30 June 2009	31 December 2009
--	-------------------	-----------------	---------------------

In thousands of euro

Consolidated statement of comprehensive income

Finance costs		4	5
Adjustment before income tax		<u>4</u>	<u>5</u>

Consolidated statement of financial position

Trade and other receivables	1,005	202	-
Loans and borrowings	(1,000)	(201)	-
Related tax effect	(2)	-	-
Adjustment to retained earnings	<u>3</u>	<u>1</u>	<u>-</u>

- (n) Under its previous GAAP the Group's obligation in respect of employees' post-employment medical benefits was calculated based on the Group's best estimate of the amount payable at each year end. Under IFRSs the obligation is determined using the projected unit credit method, and actuarial valuations are obtained at each year end.

The impact arising from the change is summarised as follows:

	1 January 2009	30 June 2009	31 December 2009
--	-------------------	-----------------	---------------------

In thousands of euro

Consolidated statement of comprehensive income

Cost of sales		15	30
Distribution expenses		5	10
Administrative expenses		5	10
Adjustment before income tax		<u>25</u>	<u>50</u>

Consolidated statement of financial position

Employee benefits	(150)	(175)	(200)
Related tax effect	50	58	66
Adjustment to retained earnings	<u>(100)</u>	<u>(117)</u>	<u>(134)</u>

Note *Reference* **Explanatory note**

1. *IFRS 1.D10*
IG18 IFRS 1 includes an optional exemption that allows a first-time adopter to choose to recognise all cumulative (and previously unrecognised) actuarial gains and losses in retained earnings at the date of transition, as long as the exemption is applied to all defined benefit plans, i.e. the exemption cannot be applied on a plan-by-plan basis. This avoids the need for an entity to split the cumulative actuarial gains and losses into a recognised portion and an unrecognised portion at each reporting date since the inception or acquisition of the plan. This exemption is not illustrated in this publication.
2. *IFRS 1.IG17* If an entity has received amounts that do not yet qualify for recognition as revenue in accordance with IAS 18 *Revenue* (e.g. the proceeds of a sale that does not qualify for revenue recognition), then the entity recognises the amounts received as a liability in its opening IFRS statement of financial position and measures that liability at the amount received.

Reference

Notes to the condensed consolidated interim financial statements

23. Explanation of transition to IFRSs (continued)

Notes to the reconciliations (continued)

- (o) Under IFRSs the Group's accounting policy is to recognise all actuarial gains and losses in other comprehensive income. Under its previous GAAP the Group recognised actuarial gains and losses in the profit or loss over the employees' remaining service period. At the date of transition, all previously unrecognised cumulative actuarial gains and losses were recognised in retained earnings and reversed in the previous year's statement of comprehensive income.¹

The impact arising from the change is summarised as follows:

	1 January 2009	30 June 2009	31 December 2009
<i>In thousands of euro</i>			
Consolidated statement of comprehensive income			
Cost of sales		(38)	(50)
Distribution expenses		(15)	(20)
Administrative expenses		(7)	(10)
Defined benefit plan actuarial losses		15	15
Adjustment before income tax		(45)	(65)

Consolidated statement of financial position

Employee benefits	(200)	(155)	(135)
Related tax effect	66	51	45
Adjustment to retained earnings	(134)	(104)	(90)

- (p) Under its previous GAAP customer advances for construction work in progress were recognised as revenue when they were received. Under IFRSs amounts billed in advance of the work being undertaken are recognised as deferred income.²

In 2009 the Group received a government grant of €1,500 thousand, which was conditional upon the construction of a factory on a specified site. Under its previous GAAP the government grant was recognised as revenue when it was received. Under IFRSs the grant is recognised as deferred income at the time of receipt, and is being amortised over the useful life of the building. The factory was not in operation during 2009 and is expected to become operational in late 2010.

The impact arising from the change is summarised as follows:

	1 January 2009	30 June 2009	31 December 2009
<i>In thousands of euro</i>			
Consolidated statement of comprehensive income			
Revenue:			
Customer advance for construction work in progress		-	20
Government grant		1,500	1,500
Adjustment before income tax		1,500	1,520

Consolidated statement of financial position

Deferred income	(110)	(1,610)	(1,630)
Related tax effect	36	36	43
Adjustment to retained earnings	(74)	(1,574)	(1,587)

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Reference

Notes to the condensed consolidated interim financial statements

23. Explanation of transition to IFRSs (continued)

Notes to the reconciliations (continued)

- (q) An obligation exists to restore certain sites for the effect of the Group's operations. Under its previous GAAP the cost of rectification was expensed as incurred. In accordance with IFRSs, the Group's published environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land, and the related cost, is recognised when the land is contaminated.

The impact arising from the change is summarised as follows:

	1 January 2009	30 June 2009	31 December 2009
--	-------------------	-----------------	---------------------

In thousands of euro

Consolidated statement of comprehensive income

Cost of sales		16	32
Administrative expenses		8	15
Finance costs		6	12
Adjustment before income tax		30	59

Consolidated statement of financial position

Property, plant and equipment	474	683	683
Provisions	(632)	(871)	(900)
Related tax effect	52	62	71
Adjustment to retained earnings	(106)	(126)	(146)

- (r) Under IFRSs provisions for loss-making executory contracts (onerous contracts) are recognised, resulting in an additional provision due to certain of the Group's distribution contracts. Such provisions were not recognised under its previous GAAP.

The impact arising from the change is summarised as follows:

	1 January 2009	30 June 2009	31 December 2009
--	-------------------	-----------------	---------------------

In thousands of euro

Consolidated statement of comprehensive income

Finance costs		3	5
Adjustment before income tax		3	5

Consolidated statement of financial position

Provisions	(145)	(148)	(150)
Related tax effect	48	49	50
Adjustment to retained earnings	(97)	(99)	(100)

Note *Reference* **Explanatory note**

- 1.** *IFRS 1.D2, D3, IG65* The requirements of IFRS 1 in respect of share-based payments match the transitional requirements that applied to existing users of IFRSs when IFRS 2 came into effect in 2005. An entity is required to apply IFRS 2 to:

- equity instruments that were granted after 7 November 2002 that will vest after the date of transition;
- liabilities arising from cash-settled share-based payment transactions that will be settled after the date of transition; and
- awards that are modified on or after the date of transition, even if the original grant of the award is not accounted for in accordance with IFRS 2.

IFRS 1.D2, D3, IG64 Additionally, an entity is encouraged, but not required, to apply IFRS 2 retrospectively to the following:

- equity instruments that were granted on or before 7 November 2002, or equity instruments that were granted after 7 November 2002 that vested before the date of transition; however, such application is allowed only if the entity had publicly disclosed the fair value of such awards at the “measurement date” in accordance with IFRS 2; and
- liabilities arising from cash-settled share-based payment transactions that were settled before the date of transition.

- 2.** *IFRS 1.D13* Generally IAS 21 requires an entity to classify certain translation differences as a separate component of equity. However, an entity may deem the cumulative translation differences for all foreign operations to be nil at the date of transition, and reclassify any such amounts determined in accordance with its previous GAAP at that date to retained earnings. When this is the case, the gain or loss on a subsequent disposal of any foreign operation excludes translation differences that arose before the date of transition.

Reference

Notes to the condensed consolidated interim financial statements

23. Explanation of transition to IFRSs (continued)

Notes to the reconciliations (continued)

- (s) The Group granted cash-settled share-based payments to certain employees. The Group accounted for these share-based payment arrangements by reference to their intrinsic value under its previous GAAP. Under IFRSs the related liability has been adjusted to reflect the fair value of the outstanding cash-settled share-based payments.¹

The impact arising from the change is summarised as follows:

	1 January 2009	30 June 2009	31 December 2009
<i>In thousands of euro</i>			

Consolidated statement of comprehensive income

Administrative expenses		175	350
Adjustment before income tax		<u>175</u>	<u>350</u>

Consolidated statement of financial position

Employee benefits	(30)	(205)	(380)
Related tax effect	10	68	125
Adjustment to retained earnings	<u>(20)</u>	<u>(137)</u>	<u>(255)</u>

- (t) In accordance with IFRS 1, the Group has elected to deem all foreign currency translation differences that arose prior to the date of transition in respect of all foreign operations to be nil at the date of transition.²

The impact arising from the change is summarised as follows:

	1 January 2009	30 June 2009	31 December 2009
<i>In thousands of euro</i>			

Consolidated statement of financial position

Translation reserve	300	300	300
Adjustment to retained earnings	<u>300</u>	<u>300</u>	<u>300</u>

- (u) Under IFRSs the Group's share of profit of equity-accounted investees is disclosed separately on the face of the statement of comprehensive income. Under its previous GAAP this income was disclosed as other income. This reclassification had no impact on comprehensive income for neither the six months ended 30 June 2009 or the year ended 31 December 2009 or on equity as at those dates.

Note *Reference* **Explanatory note**

- 1.** *IFRS 1.11, IG5* An entity should recognise deferred taxes on temporary differences between the carrying amount of the assets and liabilities in its opening IFRS statement of financial position and their tax bases. Generally, all adjustments to deferred tax at the date of transition are made to retained earnings, except in the following circumstances;
- If a business combination is restated, then the balance of deferred tax at the date of acquisition is determined as part of the reconstruction of the acquisition accounting. The corresponding entry is against goodwill at the date of acquisition.
 - If a business combination is not restated but an intangible asset related to the acquisition is either subsumed within goodwill or is recognised separately from goodwill at the date of transition, then any related adjustment to the deferred tax also is recognised against goodwill.

In our experience, typically the adjustments for deferred tax are made after the carrying amounts of the other assets and liabilities in the opening statement of financial position have been determined.

Reference

Notes to the condensed consolidated interim financial statements

23. Explanation of transition to IFRSs (continued)

Notes to the reconciliations (continued)

- (v) The above changes decreased (increased) the deferred tax liabilities as follows based on a tax rate of 33 percent:¹

	Note	1 January 2009	30 June 2009	31 December 2009
Business combination	a	99	99	99
Impairment of property, plant and equipment	b	-	-	12
Borrowing cost	c	-	(3)	(7)
Intangible assets	e	40	37	33
Development costs	f	(432)	(419)	(372)
Investment property	g	(115)	(131)	(148)
Finance leases	h	(72)	(96)	(123)
Inventories	i	(34)	(37)	(41)
Biological assets	j	(106)	(115)	(122)
Available-for-sale financial assets	k	(9)	(33)	(40)
Embedded derivative	l	(24)	(27)	(29)
Derecognition	m	(2)	-	-
Employee benefits	n, o, s	126	177	236
Deferred income	p	36	36	43
Provision	q, r	100	111	121
Tax losses carry forward	v	146	303	386
Set off of tax	v	(399)	(429)	(520)
Increase in deferred tax liabilities		(646)	(527)	(472)

The effect on the statement of comprehensive income for the year ended 31 December 2009 and the six months ended 30 June 2009 was to decrease the previously reported tax charge for the period by €322 thousand and €169 thousand, respectively.

The adjustment in note 23(k) relating to the net change in fair value of available-for-sale financial assets and the adjustment in note 23(o) relating to the recognition of the actuarial loss in other comprehensive income, resulted in an increase in the deferred tax liabilities of €19 and €26 thousand (with the related tax charged to other comprehensive income) for the six months ended 30 June 2009 and the year ended 31 December 2009, respectively.

Under its previous GAAP the Group did not recognise a deferred tax asset for the carry forward of unused tax losses. In accordance with IFRSs such losses are recognised as deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The effect is to decrease deferred tax liabilities at 1 January 2009 by €146 thousand, 30 June 2009 by €303 thousand and 31 December 2009 by €386 thousand, and to decrease income tax expense by €160 thousand for the six months ended 30 June 2009 and by €240 thousand for the year ended 31 December 2009.

Unlike IFRSs, the previous GAAP applied by the Group required deferred tax assets and deferred tax liabilities to be offset regardless of whether they were related to income taxes levied by the same taxation authority. The effect of the change is to increase deferred tax assets and deferred tax liabilities by €399 thousand at 1 January 2009, €429 thousand at 30 June 2010 and €520 thousand at 31 December 2009.

Note *Reference* **Explanatory note**

- | | |
|----------------------------|--|
| 1. <i>IFRS 1.26</i> | If, as part of an entity's transition to IFRSs, an entity becomes aware of errors made under its previous GAAP, then the correction of such errors should be identified and disclosed separately in the reconciliations. |
|----------------------------|--|

Reference

Notes to the condensed consolidated interim financial statements

23. Explanation of transition to IFRSs (continued)

Notes to the reconciliations (continued)

(w) The above changes decreased (increased) retained earnings as follows:

	Note	1 January 2009	30 June 2009	31 December 2009
Business combination	a	176	163	151
Impairment of property, plant and equipment	b	-	-	23
Borrowing cost	c	-	(7)	(13)
Reclassification of revaluation reserves	d	(275)	(275)	(275)
Intangible assets	e	-	(7)	(13)
Development costs	f	(878)	(852)	(756)
Investment property	g	(233)	(267)	(300)
Finance leases	h	(147)	(195)	(249)
Inventories	i	(69)	(76)	(83)
Biological assets	j	(215)	(236)	(249)
Embedded derivative	l	(50)	(54)	(60)
Derecognition	m	(3)	(1)	-
Employee benefits	n, o, s	254	358	479
Deferred income	p	74	1,574	1,587
Provision	q, r	203	225	246
Reclassification of reserve	t	(300)	(300)	(300)
Deferred tax	v	(146)	(303)	(386)
Increase in retained earnings		(1,609)	(253)	(198)

(x) The Group under its previous GAAP, incorrectly capitalised certain costs relating to investments. This resulted in an adjustment to the carrying amount of investments of €20 thousand that is not the result of a change in accounting policy.¹

The impact arising from the change is summarised as follows:

	1 January 2009	30 June 2009	31 December 2009
<i>In thousands of euro</i>			
Consolidated statement of financial position			
Other investments, including derivatives	(20)	(20)	(20)
Related tax effect	7	7	7
Adjustment to retained earnings	(13)	(13)	(13)

Note *Reference* **Explanatory note**

- | | |
|-------------------------------------|---|
| <p>1. <i>IAS 1.81(b)</i></p> | <p>This illustration is based on two statements: an income statement presenting profit or loss and a second statement presenting the components of other comprehensive income.</p> |
| <p><i>IAS 1.12</i></p> | <p>When an entity elects to present two statements, the income statement is part of a complete set of financial statements and is presented immediately before the statement of comprehensive income.</p> |
-
- | | |
|------------------------------------|---|
| <p>2. <i>IAS 34.11A</i></p> | <p>If an entity presents the components of profit or loss in a separate income statement, then basic and diluted earnings per share are presented in that separate statement.</p> |
|------------------------------------|---|

Reference

Appendix I

IAS 1.10(b), 12,
81(b), 84

Condensed consolidated income statement¹

For the six months ended 30 June

In thousands of euro

	Note	2010	2009
Continuing operations			
Revenue		49,980	51,593
Cost of sales	11, 13, 14, 19	(31,460)	(31,920)
Gross profit		18,520	19,673
Gain on distribution to owners of the Company	15	2,556	-
Other income	13	620	190
Distribution expenses		(7,698)	(7,498)
Administrative expenses	9	(8,474)	(8,358)
Research and development expenses		(605)	(349)
Other expenses	8, 9, 10	(710)	-
Results from operating activities		4,209	3,658
Finance income	9	456	345
Finance costs		(880)	(1,004)
Net finance costs		(424)	(659)
Share of profit of equity-accounted investees (net of income tax)		233	278
Profit before income tax	5	4,018	3,277
Income tax expense	12	(1,147)	(744)
Profit from continuing operations		2,871	2,533
Discontinued operation			
Profit (loss) from discontinued operation (net of income tax)	7	379	(422)
Profit for the period		3,250	2,111
Attributable to:			
Owners of the Company		3,053	2,023
Non-controlling interests		197	88
Profit for the period		3,250	2,111
Earnings per share²			
Basic earnings per share (euro)		0.84	0.52
Diluted earnings per share (euro)		0.80	0.51
Continuing operations			
Basic earnings per share (euro)		0.72	0.66
Diluted earnings per share (euro)		0.69	0.65

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Reference

Condensed consolidated statement of comprehensive income

IAS 1.10(b), 12, 81(b) For the six months ended 30 June

In thousands of euro

Profit for the period

2010 **2009**

3,250 2,111

Other comprehensive income

Foreign currency translation differences – foreign operations

457 330

Foreign currency translation differences – equity-accounted investees

10 -

Net loss on hedge of net investment in foreign operation

(3) (8)

Revaluation of property, plant and equipment

200 -

Effective portion of changes in fair value of cash flow hedges

(93) 97

Net change in fair value of cash flow hedges reclassified to profit or loss

(17) (11)

Net change in fair value of available-for-sale financial assets

199 74

Net change in fair value of available-for-sale financial assets reclassified to profit or loss

(47) -

Defined benefit plan actuarial gains (losses)

72 (15)

Income tax on other comprehensive income

(104) (48)

Other comprehensive income for the period, net of income tax

674 419

Total comprehensive income for the period

3,924 2,530

Attributable to:

Owners of the Company

3,716 2,396

Non-controlling interests

208 134

Total comprehensive income for the period

3,924 2,530

Appendix II

Disclosure checklist – interim reporting for a first-time adopter

The purpose of this interim disclosure checklist is to assist in the preparation of interim financial statements for a first-time adopter in accordance with IAS 34 *Interim Financial Reporting*. The checklist lists the minimum disclosures required by IAS 34 and in limited circumstances, includes the requirements from other standards for ease of reference.

When preparing interim financial statements in accordance with IAS 34, an entity should have regard to the disclosure requirements of other IFRSs where necessary as well as its local legal and regulatory requirements. This interim disclosure checklist does not consider any requirements of a particular jurisdiction.

This interim disclosure checklist contains disclosures only. It does not specify the scope of the IFRSs referred to or their recognition and measurement requirements. It also does not explain the terms that are used in IFRSs and contained in this interim disclosure checklist.

The interim disclosure checklist reflects IFRSs in issue at 30 September 2010 that are required to be applied by an entity with an annual period beginning on 1 January 2010. It is possible that standards and interpretations could be amended after 30 September 2010, with the amendment applicable to financial statements for periods beginning on or after 1 January 2010. Any such changes and additional requirements will need to be considered when preparing interim financial statements in accordance with IAS 34.

This interim disclosure checklist should not be used as a substitute for referring to the IFRSs themselves.

Form and content

IAS 34.8

An interim financial report includes, at a minimum, the following components:

- (a) a condensed statement of financial position; _____
- (b) a condensed statement of comprehensive income, presented as either: _____
 - (i) a condensed single statement; or _____
 - (ii) a condensed separate income statement and a condensed statement of comprehensive income; _____
- (c) a condensed statement of changes in equity; _____
- (d) a condensed statement of cash flows; and _____
- (e) selected explanatory notes. _____

IAS 34.9, 7

If an entity publishes a complete set of financial statements in its interim financial report, then the form and content of those statements conforms to the requirements of IAS 1 *Presentation of Financial Statement* for a complete set of financial statements. The recognition and measurement guidance in IAS 34 applies also to complete financial statements for an interim period, and such statements would include all of the disclosures required by IAS 34 (particularly the selected note disclosures in paragraph 16) as well as those required by other IFRSs. _____

IAS 34.10

If an entity publishes a set of condensed financial statements in its interim financial report, then those condensed statements include, at a minimum, each of the headings and subtotals that were included in its most recent annual financial statements and the selected explanatory notes as required by IAS 34. _____

Additional line items or notes are included if their omission would make the condensed interim financial statements misleading. _____

IAS 34.14 An interim financial report is prepared on a consolidated basis if the entity's most recent annual financial statements were consolidated statements. If an entity's annual financial report included the parent's separate financial statements in addition to consolidated financial statements, then IAS 34 neither requires nor prohibits the inclusion of the parent's separate statements in the entity's interim financial report. _____

Statement of financial position

IAS 34.20(a) Interim financial statements include a statement of financial position as of the end of the current interim period and a comparative statement of financial position as of the end of the immediately preceding financial year. _____

Statement of comprehensive income

IAS 34.20(b) Interim financial statements include statements of comprehensive income for the current interim period and cumulatively for the current financial year to date, with comparative statements of comprehensive income for the comparable interim periods (current and year-to-date) of the immediately preceding financial year. As permitted by IAS 1, an interim report may present for each period either a single statement of comprehensive income, or a statement displaying components of profit or loss (separate income statement) and a second statement beginning with profit or loss and displaying components of other comprehensive income (statement of comprehensive income). _____

IAS 34.8A If an entity presents the components of profit or loss in a separate income statement as described in paragraph 81 of IAS 1, then it presents interim condensed information from that separate statement. _____

IAS 34.11 In the statement that presents the components of profit or loss for an interim period, an entity presents basic and diluted earnings per share for that period when the entity is within the scope of IAS 33 *Earnings per Share*. _____

IAS 34.11A If an entity presents the components of profit or loss in a separate income statement as described in paragraph 81 of IAS 1, then it presents basic and diluted earnings per share in that separate statement. _____

Statement of changes in equity

IAS 34.20(c) Interim financial statements include a statement of changes in equity cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year. _____

Statement of cash flows

IAS 34.20(d) Interim financial statements include a statement of cash flows cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year. _____

Notes to the interim financial statements

General requirements

IAS 34.16 An entity includes information as detailed in paragraph 16 of IAS 34, as a minimum, in the notes to its interim financial statements, if material and if not disclosed elsewhere in the interim financial report. The information is normally reported on a financial year-to-date basis, unless otherwise stated. However, the entity also discloses any events or transactions that are material to an understanding of the current interim period. _____

- IAS 34.17** Examples of the kinds of disclosures that are required by paragraph 16 are set out below. Individual IFRSs provide guidance regarding disclosures for many of these items:
- (a) the write-down of inventories to net realisable value and the reversal of such a write-down;
 - (b) recognition of a loss from the impairment of property, plant and equipment, intangible assets, or other assets, and the reversal of such an impairment loss;
 - (c) the reversal of any provisions for the costs of restructuring;
 - (d) acquisitions and disposals of items of property, plant and equipment;
 - (e) commitments for the purchase of property, plant and equipment;
 - (f) litigation settlements;
 - (g) corrections of prior period errors;
 - (h) any loan default or breach of a loan agreement that has not been remedied on or before the end of the reporting period; and
 - (i) related party transactions.

Statement of compliance

- IAS 34.19** If an entity's interim financial report is in compliance with IAS 34, then that fact is disclosed. An interim financial report is not described as complying with IFRSs unless it complies with all the requirements of IFRSs.

Accounting policies

- IAS 34.16(a)** A statement that the same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements or, if those policies or methods have been changed, then a description of the nature and effect of the change.

- IAS 34.43** A change in accounting policy, other than one for which the transition is specified by a new IFRS, is reflected by:
- (a) restating the financial statements of prior interim periods of the current financial year and the comparable interim periods of any prior financial years that will be restated in the annual financial statements in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; or
 - (b) when it is impracticable to determine the cumulative effect at the beginning of the financial year of applying a new accounting policy to all prior periods, adjusting the financial statements of prior interim periods of the current financial year, and comparable interim periods of prior financial years to apply the new accounting policy prospectively from the earliest date practicable.

Segment information

- IAS 34.16(g)** An entity within the scope of IFRS 8 *Operating Segments* discloses the following segment information in its interim financial statements:
- IAS 34.16(g)(i)** (a) revenues from external customers, if included in the measure of segment profit or loss reviewed by the chief operating decision maker or otherwise regularly provided to the chief operating decision maker;
 - IAS 34.16(g)(iii)** (b) intersegment revenues, if included in the measure of segment profit or loss reviewed by the chief operating decision maker or otherwise regularly provided to the chief operating decision maker;
 - IAS 34.16(g)(iii)** (c) a measure of segment profit or loss;
 - IAS 34.16(g)(iv)** (d) total assets for which there has been a material change from the amount disclosed in the last annual financial statements;
 - IAS 34.16(g)(v)** (e) a description of differences from the last annual financial statements in the basis of segmentation or in the basis of measurement of segment profit or loss;
 - IAS 34.16(g)(vi)** (f) a reconciliation of the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations. However, if an entity allocates to reportable segments

items such as tax expense (tax income), then the entity may reconcile the total of the segments' measures of profit or loss to profit or loss after those items. Material reconciling items are separately identified and described in that reconciliation.

IFRS 8.29 If an entity changes the structure of its internal organisation in a manner that causes the composition of its reportable segments to change, then the corresponding information for earlier periods, including interim periods, is restated unless the information is not available and the cost to develop it would be excessive. The determination of whether the information is not available and the cost to develop it would be excessive is made for each individual item of disclosure. Following a change in the composition of its reportable segments, an entity discloses whether it has restated the corresponding items of segment information for earlier periods.

IFRS 8.30 If an entity has changed the structure of its internal organisation in a manner that causes the composition of its reportable segments to change and if segment information for earlier periods, including interim periods, is not restated to reflect the change, then the entity discloses in the year in which the change occurs segment information for the current period on both the old basis and the new basis of segmentation, unless the necessary information is not available and the cost to develop it would be excessive.

Changes in composition of the entity

IAS 34.16(i) The effect of changes in the composition of the entity during the interim period, including business combinations, obtaining or losing control of subsidiaries and long-term investments, restructurings, and discontinued operations. In the case of business combinations, the entity discloses the information required by IFRS 3 *Business Combinations*. The required IFRS 3 disclosures are included below.

IFRS 3.63 If the specific disclosures below do not meet the objectives set out in paragraphs 59 and 61 of IFRS 3, then the entity discloses whatever additional information is necessary to meet those objectives.

Business combinations effected during the period

IFRS 3.59(a), 60, B64 An acquirer discloses information that enables users of its financial statements to evaluate the nature and financial effect of business combinations that were effected during the period. An acquirer discloses in particular the following information for each business combination that was effected during the period:

- IFRS 3.B64(a)** (a) the name and a description of the acquiree;
- IFRS 3.B64(b)** (b) the acquisition date;
- IFRS 3.B64(c)** (c) the percentage of voting equity interests acquired;
- IFRS 3.B64(d)** (d) the primary reasons for the business combination and a description of how the acquirer obtained control of the acquiree;
- IFRS 3.B64(e)** (e) a qualitative description of the factors that make up goodwill recognised, such as expected synergies from combining operations of the acquiree and the acquirer, intangible assets that do not qualify for separate recognition or other factors;
- IFRS 3.B64(f)** (f) the acquisition-date fair value of the total consideration transferred and the acquisition-date fair value of each major class of consideration, such as:
 - IFRS 3.B64(f)(i)** (i) cash;
 - IFRS 3.B64(f)(ii)** (ii) other tangible or intangible assets, including a business or subsidiary of the acquirer;
 - IFRS 3.B64(f)(iii)** (iii) liabilities incurred, e.g. a liability for contingent consideration; and
 - IFRS 3.B64(f)(iv)** (iv) equity interests of the acquirer, including the number of instruments or interests issued or issuable and the method of determining the fair value of those instruments or interests;

<i>IFRS 3.B64(g)</i>	(g) for contingent consideration arrangements and indemnification assets:	
<i>IFRS 3.B64(g)(i)</i>	(i) the amount recognised as of the acquisition date;	
<i>IFRS 3.B64(g)(ii)</i>	(ii) a description of the arrangement and the basis for determining the amount of the payment; and	
<i>IFRS 3.B64(g)(iii)</i>	(iii) an estimate of the range of outcomes (undiscounted) or, if a range cannot be estimated, then the acquirer discloses that fact and the reasons why a range cannot be estimated. If the maximum amount of the payment is unlimited, then the acquirer discloses that fact;	
<i>IFRS 3.B64(h)</i>	(h) for acquired receivables (and provided by each major class of receivable):	
<i>IFRS 3.B64(h)(i)</i>	(i) the fair value of the receivables;	
<i>IFRS 3.B64(h)(ii)</i>	(ii) the gross contractual amounts receivable; and	
<i>IFRS 3.B64(h)(iii)</i>	(iii) the best estimate at the acquisition date of the contractual cash flows not expected to be collected;	
<i>IFRS 3.B64(i)</i>	(i) the amounts recognised as of the acquisition date for each major class of assets acquired and liabilities assumed;	
<i>IFRS 3.B64(j)</i>	(j) for each contingent liability recognised in a business combination, the information required by paragraph 85 of IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i> being:	
<i>IAS 37.85(a)</i>	• a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits;	
<i>IAS 37.85(b)</i>	• an indication of the uncertainties about the amount or timing of those outflows. When necessary to provide adequate information, disclose the major assumptions made concerning future events; and	
<i>IAS 37.85(c)</i>	• the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement;	
<i>IFRS 3.B64(j)</i>	If a contingent liability is not recognised because its fair value cannot be measured reliably then the acquirer discloses:	
<i>IFRS 3.B64(j)(i)</i>	(i) the information required by paragraph 86 of IAS 37 being: – an estimate of its financial effect, measured under paragraphs 36 to 52 of IAS 37;	
<i>IFRS 3.B64(k)</i>	– an indication of the uncertainties relating to the amount or timing of any outflow; and – the possibility of reimbursement; and	
<i>IFRS 3.B64(j)(ii)</i>	(ii) the reasons why the liability cannot be measured reliably;	
<i>IFRS 3.B64(k)</i>	(k) the total amount of goodwill that is expected to be deductible for tax purposes;	
<i>IFRS 3.B64(l)</i>	(l) for transactions that are recognised separately from the acquisition of assets and assumption of liabilities in the business combination in accordance with paragraph 51 of IFRS 3:	
<i>IFRS 3.B64(l)(i)</i>	(i) a description of each transaction;	
<i>IFRS 3.B64(l)(ii)</i>	(ii) how the acquirer accounted for each transaction;	
<i>IFRS 3.B64(l)(iii)</i>	(iii) the amounts recognised for each transaction and the line item in the financial statements in which each amount is recognised; and	
<i>IFRS 3.B64(l)(iv)</i>	(iv) if the transaction is the effective settlement of a pre-existing relationship, then the acquirer discloses the method used to determine the settlement amount;	
<i>IFRS 3.B64(m)</i>	(m) the disclosure of separately recognised transactions required by paragraph 64(l) of IFRS 3 including: (i) the amount of acquisition-related costs; (ii) the amount of those acquisition-related costs recognised as an expense; (iii) the line item in the statement of comprehensive income in which those acquisition-related costs are recognised; (iv) the amount of any issue costs not recognised as an expense; and (v) how any issue costs not recognised as an expense have been recognised;	

<i>IFRS 3.B64(n)</i>	(n) in a bargain purchase:	
<i>IFRS 3.B64(n)(i)</i>	(i) the amount of any gain recognised in accordance with paragraph 34 of IFRS 3 and the line item in the statement of comprehensive income in which the gain is recognised; and	_____
<i>IFRS 3.B64(n)(ii)</i>	(ii) a description of the reasons why the transaction resulted in a gain;	_____
<i>IFRS 3.B64(o)</i>	(o) for each business combination in which the acquirer holds less than 100 percent of the equity interests in the acquiree at the acquisition date:	
<i>IFRS 3.B64(o)(i)</i>	(i) the amount of the non-controlling interests in the acquiree recognised at the acquisition date and the measurement basis for that amount; and	_____
<i>IFRS 3.B64(o)(ii)</i>	(ii) for each non-controlling interests in an acquiree measured at fair value, the valuation techniques and key model inputs used for determining that value;	_____
<i>IFRS 3.B64(p)</i>	(p) in a business combination achieved in stages:	
<i>IFRS 3.B64(p)(i)</i>	(i) the acquisition-date fair value of the equity interest in the acquiree held by the acquirer immediately before the acquisition date; and	_____
<i>IFRS 3.B64(p)(ii)</i>	(ii) the amount of any gain or loss recognised as a result of remeasuring to fair value the equity interest in the acquiree held by the acquirer before the business combination (see paragraph 42 of IFRS 3) and the line item in the statement of comprehensive income in which that gain or loss is recognised; and	_____
<i>IFRS 3.B64(q)</i>	(q) the following information:	
<i>IFRS 3.B64(q)(i)</i>	(i) the amounts of revenue and profit or loss of the acquiree since the acquisition date included in the consolidated statement of comprehensive income for the reporting period; and	_____
<i>IFRS 3.B64(q)(ii)</i>	(ii) the revenue and profit or loss of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period.	_____
<i>IFRS 3.B64(q)</i>	If disclosure of any of the information required by paragraph 64(q) of IFRS 3 is impracticable, then the acquirer discloses that fact and explains why the disclosure is impracticable. (IFRS 3 uses the term “impracticable” with the same meaning as IAS 8.)	_____
<i>IFRS 3.B65</i>	For individually immaterial business combinations occurring during the reporting period that are material collectively, the acquirer discloses in aggregate the information required by paragraphs 64(e) to (q) of IFRS 3.	_____
Business combinations effected after the end of the reporting period but before the financial statements are authorised for issue		
<i>IFRS 3.59(b), 60, B64, B66</i>	If the initial accounting for the business combination is incomplete at the time the financial statements are authorised for issue, then the acquirer describes which disclosures could not be made and the reasons why they cannot be made.	_____
	Otherwise, an acquirer discloses the following information that enables users of its financial statements to evaluate the nature and financial effect of business combinations that were effected after the end of the reporting period but before the financial statements are authorised for issue:	
<i>IFRS 3.B64(a)</i>	(a) the name and description of the acquiree;	_____
<i>IFRS 3.B64(b)</i>	(b) the acquisition date;	_____
<i>IFRS 3.B64(c)</i>	(c) the percentage of voting equity interests acquired;	_____
<i>IFRS 3.B64(d)</i>	(d) the primary reasons for the business combination and a description of how the acquirer obtained control of the acquiree;	_____
<i>IFRS 3.B64(e)</i>	(e) a qualitative description of the factors that make up goodwill recognised, such as expected synergies from combining operations of the acquiree and the acquirer, intangible assets that do not qualify for separate recognition or other factors;	_____

<i>IFRS 3.B64(f)</i>	(f) the acquisition-date fair value of the total consideration transferred and the acquisition-date fair value of each major class of consideration, such as:	
<i>IFRS 3.B64(f)(i)</i>	(i) cash;	
<i>IFRS 3.B64(f)(ii)</i>	(ii) other tangible or intangible assets, including a business or subsidiary of the acquirer;	
<i>IFRS 3.B64(f)(iii)</i>	(iii) liabilities incurred, e.g. a liability for contingent consideration; and	
<i>IFRS 3.B64(f)(iv)</i>	(iv) equity interests of the acquirer, including the number of instruments or interests issued or issuable and the method of determining the fair value of those instruments or interests;	
<i>IFRS 3.B64(g)</i>	(g) for contingent consideration arrangements and indemnification assets:	
<i>IFRS 3.B64(g)(i)</i>	(i) the amount recognised as of the acquisition date;	
<i>IFRS 3.B64(g)(ii)</i>	(ii) a description of the arrangement and the basis for determining the amount of the payment; and	
<i>IFRS 3.B64(g)(iii)</i>	(iii) an estimate of the range of outcomes (undiscounted) or, if a range cannot be estimated then the acquirer discloses, that fact and the reasons why a range cannot be estimated. If the maximum amount of the payment is unlimited, then the acquirer discloses that fact;	
<i>IFRS 3.B64(h)</i>	(h) for acquired receivables (and provided by each major class of receivable):	
<i>IFRS 3.B64(h)(i)</i>	(i) the fair value of the receivables;	
<i>IFRS 3.B64(h)(ii)</i>	(ii) the gross contractual amounts receivable; and	
<i>IFRS 3.B64(h)(iii)</i>	(iii) the best estimate at the acquisition date of the contractual cash flows not expected to be collected;	
<i>IFRS 3.B64(i)</i>	(i) the amounts recognised as of the acquisition date for each major class of assets acquired and liabilities assumed;	
<i>IFRS 3.B64(j)</i>	(j) for each contingent liability recognised in a business combination, the information required by paragraph 85 of IAS 37; being:	
<i>IAS 37.85(a)</i>	• a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits;	
<i>IAS 37.85(b)</i>	• an indication of the uncertainties about the amount or timing of those outflows. When necessary to provide adequate information, disclose the major assumptions made concerning future events; and	
<i>IAS 37.85(c)</i>	• the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement;	
<i>IFRS 3.B64(j)</i>	If a contingent liability is not recognised because its fair value cannot be measured reliably, then the acquirer discloses:	
<i>IFRS 3.B64(j)(i)</i>	(i) the information required by paragraph 86 of IAS 37 being: – an estimate of its financial effect, measured under paragraphs 36 to 52 of IAS 37; – an indication of the uncertainties relating to the amount or timing of any outflow; and – the possibility of reimbursement; and	
<i>IFRS 3.B64(j)(ii)</i>	(ii) the reasons why the liability cannot be measured reliably;	
<i>IFRS 3.B64(k)</i>	(k) the total amount of goodwill that is expected to be deductible for tax purposes;	
<i>IFRS 3.B64(l)</i>	(l) for transactions that are recognised separately from the acquisition of assets and assumption of liabilities in the business combination in accordance with paragraph 51 of IFRS 3:	
<i>IFRS 3.B64(l)(i)</i>	(i) a description of each transaction;	
<i>IFRS 3.B64(l)(ii)</i>	(ii) how the acquirer accounted for each transaction;	
<i>IFRS 3.B64(l)(iii)</i>	(iii) the amounts recognised for each transaction and the line item in the financial statements in which each amount is recognised; and	
<i>IFRS 3.B64(l)(iv)</i>	(iv) if the transaction is the effective settlement of a pre-existing relationship, then the acquirer discloses the method used to determine the settlement amount;	

<i>IFRS 3.B64(m)</i>	(m) the disclosure of separately recognised transactions required by paragraph B64(l) of IFRS 3 including:	
	(i) the amount of acquisition-related costs;	_____
	(ii) the amount of those acquisition-related costs recognised as an expense;	_____
	(iii) the line item in the statement of comprehensive income in which those acquisition-related costs are recognised;	_____
	(iv) the amount of any issue costs not recognised as an expense; and	_____
	(v) how any issue costs not recognised as an expense have been recognised;	_____
<i>IFRS 3.B64(n)</i>	(n) in a bargain purchase:	
<i>IFRS 3.B64(n)(i)</i>	(i) the amount of any gain recognised in accordance with paragraph 34 of IFRS 3 and the line item in the statement of comprehensive income in which the gain is recognised; and	_____
<i>IFRS 3.B64(n)(ii)</i>	(ii) a description of the reasons why the transaction resulted in a gain;	_____
<i>IFRS 3.B64(o)</i>	(o) for each business combination in which the acquirer holds less than 100 percent of the equity interests in the acquiree at the acquisition date:	
<i>IFRS 3.B64(o)(i)</i>	(i) the amount of the non-controlling interests in the acquiree recognised at the acquisition date and the measurement basis for that amount; and	_____
<i>IFRS 3.B64(o)(ii)</i>	(ii) for each non-controlling interests in an acquiree measured at fair value, the valuation techniques and key model inputs used for determining that value;	_____
<i>IFRS 3.B64(p)</i>	(p) in a business combination achieved in stages:	
<i>IFRS 3.B64(p)(i)</i>	(i) the acquisition-date fair value of the equity interest in the acquiree held by the acquirer immediately before the acquisition date; and	_____
<i>IFRS 3.B64(p)(ii)</i>	(ii) the amount of any gain or loss recognised as a result of remeasuring to fair value the equity interest in the acquiree held by the acquirer before the business combination (see paragraph 42 of IFRS 3) and the line item in the statement of comprehensive income in which that gain or loss is recognised; and	_____
<i>IFRS 3.B64(q)</i>	(q) the following information:	
<i>IFRS 3.B64(q)(i)</i>	(i) the amounts of revenue and profit or loss of the acquiree since the acquisition date included in the consolidated statement of comprehensive income for the reporting period; and	_____
<i>IFRS 3.B64(q)(ii)</i>	(ii) the revenue and profit or loss of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period.	_____
<i>IFRS 3.B64(q)</i>	If disclosure of any of the information required by paragraph B64(q) of IFRS 3 is impracticable, then the acquirer discloses that fact and explains why the disclosure is impracticable. (IFRS 3 uses the term “impracticable” with the same meaning as IAS 8).	_____

Adjustments recognised in the current reporting period relating to business combinations effected in the previous reporting periods

<i>IFRS 3.61, 62, B67</i>	An acquirer discloses information that enables users of its financial statements to evaluate the financial effects of adjustments recognised in the current reporting period that relate to business combinations that occurred in the period or previous reporting periods. An acquirer discloses in particular the following information for each material business combination or in the aggregate for individually immaterial business combinations that are material collectively:	
<i>IFRS 3.B67(a)</i>	(a) if the initial accounting for a business combination is incomplete (see paragraph 45 of IFRS 3) for particular assets, liabilities, non-controlling interests or items of consideration and the amounts recognised in the financial statements for the business combination, therefore, have been determined only provisionally then the acquirer discloses:	_____

<i>IFRS 3.B67(a)(i)</i>	(i) the reasons why the initial accounting for the business combination is incomplete;	_____
<i>IFRS 3.B67(a)(ii)</i>	(ii) the assets, liabilities, equity interests or items of consideration for which the initial accounting is incomplete; and	_____
<i>IFRS 3.B67(a)(iii)</i>	(iii) the nature and amount of any measurement period adjustments recognised during the reporting period in accordance with paragraph 49 of IFRS 3.	_____
<i>IFRS 3.B67(b)</i>	(b) for contingent consideration assets acquired and contingent consideration liabilities assumed in a business combination the acquirer discloses for each reporting period after the acquisition date until the entity collects, sells or otherwise loses the right to a contingent consideration asset, or until the entity settles a contingent consideration liability or the liability is cancelled or expires:	
<i>IFRS 3.B67(b)(i)</i>	(i) any changes in the recognised amounts, including any differences arising upon settlement;	_____
<i>IFRS 3.B67(b)(ii)</i>	(ii) any changes in the range of outcomes (undiscounted) and the reasons for those changes; and	_____
<i>IFRS 3.B67(b)(iii)</i>	(iii) the valuation techniques and key model inputs used to measure contingent consideration.	_____
<i>IFRS 3.B67(c)</i>	(c) for contingent liabilities recognised in a business combination the acquirer discloses the information required by paragraphs 84 and 85 of IAS 37 for each class of provision being:	
	(i) the carrying amount at the beginning of the period;	_____
	(ii) additional provisions made in the period, including increases to existing provisions;	_____
	(iii) amounts used (i.e. incurred and charged against the provision) during the period;	_____
	(iv) unused amounts reversed during the period;	_____
	(v) the increase during the period in the discontinued amount arising from the passage of time and the effect of any change in the discount rate;	_____
	(vi) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits;	_____
	(vii) an indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity discloses the major assumptions made concerning future events; and	_____
	(viii) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for the expected reimbursement.	_____
<i>IFRS 3.B67(d)</i>	(d) a reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period showing separately:	
<i>IFRS 3.B67(d)(i)</i>	(i) the gross amount and accumulated impairment losses at the beginning of the reporting period;	_____
<i>IFRS 3.B67(d)(ii)</i>	(ii) additional goodwill recognised during the reporting period, except goodwill included in a disposal group that, on acquisition, meets the criteria to be classified as held for sale in accordance with IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> ;	_____
<i>IFRS 3.B67(d)(iii)</i>	(iii) adjustments resulting from the subsequent recognition of deferred tax assets during the period in accordance with paragraph 67 of IFRS 3;	_____
	(iv) separately:	_____
<i>IFRS 3.B67(d)(iv)</i>	– goodwill included in a disposal group classified as held for sale in accordance with IFRS 5;	_____
<i>IFRS 3.B67(d)(iv)</i>	– goodwill derecognised during the reporting period without having previously been included in a disposal group classified as held for sale;	_____
<i>IFRS 3.B67(d)(v)</i>	(v) impairment losses recognised during the reporting period in accordance with IAS 36 <i>Impairment of Assets</i> ;	_____
<i>IFRS 3.B67(d)(vi)</i>	(vi) net exchange differences arising during the reporting period in accordance with IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i> ;	_____
<i>IFRS 3.B67(d)(vii)</i>	(vii) any other changes in the carrying amount during the reporting period; and	_____

<i>IFRS 3.B67(d) (viii)</i>	(viii) the gross amount and accumulated impairment losses at the end of the reporting period;	_____
<i>IFRS 3.B67(e)</i>	(e) the amount and an explanation of any gain or loss recognised in the current reporting period that both:	_____
<i>IFRS 3.B67(e)(i)</i>	(i) relates to the identifiable assets acquired or liabilities assumed in a business combination that was effected in the current or previous reporting periods; and	_____
<i>IFRS 3.B67(e)(ii)</i>	(ii) is of such a size, nature or incidence that disclosure is relevant to understanding the combined entity's financial statements.	_____

Seasonality

<i>IAS 34.16(b)</i>	Explanatory comments about the seasonality or cyclical nature of interim operations.	_____
<i>IAS 34.21</i>	For an entity whose business is highly seasonal, financial information for the 12-months up to the end of the interim period and comparative information for the prior 12-month period may be useful. Accordingly, entities whose business is highly seasonal are encouraged to consider reporting such information in addition to the statements of comprehensive income, changes in equity and cash flows for the interim period.	_____

Estimates

<i>IAS 34.16(d)</i>	Disclose the nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period.	_____
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Subsequent events

<i>IAS 34.16(h)</i>	Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.	_____
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Other disclosures

<i>IAS 34.16(c)</i>	Disclosure of the nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidence.	_____
<i>IAS 34.16(e)</i>	Disclose issuances, repurchases, and repayments of debt and equity securities.	_____
<i>IAS 34.16(f)</i>	Disclose dividends paid (aggregate or per share) separately for ordinary shares and other shares.	_____
<i>IAS 34.16(j)</i>	Changes in contingent liabilities or contingent assets since the end of the last annual reporting period.	_____

First-time adoption – IFRS 1 transition disclosures

<i>IFRS 1.32</i>	If a first-time adopter presents an interim financial report in accordance with IAS 34 for part of the period covered by its first IFRS financial statements, then, in addition to the requirements of IAS 34, the first-time adopter:	
<i>IFRS 1.32(a)</i>	(a) Includes in each such interim financial report, provided it presented an interim financial report for the comparable interim period of the immediately preceding financial year:	
	(i) a reconciliation of its equity in accordance with its previous GAAP at the end of that comparable interim period to its equity under IFRSs at that date; and	_____
	(ii) a reconciliation to its total comprehensive income in accordance with IFRSs for that comparable interim period (current and year to date). The starting point for that reconciliation is total comprehensive income in accordance	

with its previous GAAP for that period or, if a first-time adopter did not report such a total, then profit or loss in accordance with its previous GAAP. _____

IFRS 1.32(b) (b) Includes, in addition to the reconciliations required by (a), in its *first* interim financial report, the reconciliations described in paragraphs 24(a) and 24(b) of IFRS 1 (supplemented by the details required by paragraphs 25 and 26 of IFRS 1) or a cross-reference to another published document that includes these reconciliations. _____

IFRS 1.24-26 An entity's first IFRS financial statements include the following reconciliations. Reconciliations are to provide sufficient detail to enable users to understand the material adjustments to the statement of financial position and statement of comprehensive income, and should distinguish the correction of errors made under its previous GAAP from changes in accounting policies:

IFRS 1.24(a) (a) reconciliations of its equity reported under its previous GAAP to its equity under IFRSs for both of the following dates: _____

IFRS 1.24(a)(i) (i) the date of transition to IFRSs; and _____

IFRS 1.24(a)(ii) (ii) the end of the latest period presented in the entity's most recent annual financial statements under its previous GAAP; and _____

IFRS 1.24(b) (b) reconciliation to its total comprehensive income under IFRSs for the latest period in the entity's most recent annual financial statements. The starting point for that reconciliation is total comprehensive income under its previous GAAP for the same period, or if the entity did not report such a total, then profit or loss under its previous GAAP. _____

IFRS 1.25 If an entity presented a statement of cash flows under its previous GAAP, then it also should explain the material adjustments to the statement of cash flows. _____

IFRS 1.26 An entity distinguishes errors made under its previous GAAP from changes in accounting policies in the reconciliations required by paragraph 24(a) and (b) of IFRS 1 *First-time Adoption of International Financial Reporting Standards*. _____

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Cover design: Mytton Williams

Publication name: Illustrative condensed interim financial statements: First-time adopters

Publication no: 314408

Publication date: October 2010