



Illustrative financial statements

International Financial Reporting Standards
August 2010

About this publication

These illustrative financial statements 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 financial statements in accordance with International Financial Reporting Standards (IFRSs). It illustrates one possible format for financial statements based on a fictitious multinational corporation; the corporation is not a first-time adopter of IFRSs (see *Technical guide*).

This publication reflects IFRSs in issue at 1 August 2010 that are required to be applied by an entity with an annual period beginning on 1 January 2010 ("currently effective" requirements). Except as noted under the heading below *What's new in the 2010 illustrative financial statements*, IFRSs that are effective for annual periods beginning after 1 January 2010 ("forthcoming" requirements) have not been adopted early in preparing these illustrative financial statements. However, example disclosures for the early adoption of certain new standards are included in the appendices to these illustrative financial statements.

When preparing financial statements in accordance with IFRSs, an entity should have regard to its local legal and regulatory requirements. This publication does not consider any requirements of a particular jurisdiction. For example, IFRSs do not require the presentation of separate financial statements for the parent entity, and this publication includes only consolidated financial statements. However, in some jurisdictions parent entity financial information also may be required.

This publication does not illustrate the requirements of IFRS 4 *Insurance Contracts*, IFRS 6 *Exploration for and Evaluation of Mineral Resources*, IAS 26 *Accounting and Reporting by Retirement Benefit Plans* or IAS 34 *Interim Financial Reporting*. IAS 34 requirements are illustrated in our publication *Illustrative condensed interim financial statements*.

This publication illustrates only the financial statements component of a financial report. However, typically a financial 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 (see *Technical guide*).

IFRSs and their interpretation change over time. Accordingly, these illustrative financial statements should not be used as a substitute for referring to the standards and interpretations themselves.

References

The illustrative financial statements are contained on the odd-numbered pages of this publication. The even-numbered pages contain explanatory comments and notes on the disclosure requirements of IFRSs. 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. For an overview of all disclosure requirements that are applicable under IFRSs, see our publication *Disclosure checklist*.

To the left of each item disclosed, a reference to the relevant standard is provided; generally the references relate only to disclosure requirements, except that note 3 highlights key accounting requirements in relation to significant accounting policies. The illustrative financial statements also include references to our upcoming publication *Insights into IFRS* (7th Edition).

What's new in the 2010 illustrative financial statements

Major changes from the July 2009 edition of *Illustrative financial statements* are highlighted by a double line border running down the left margin of the text within this document. The major changes from the July 2009 edition include the following:

- an example of a voluntary change in accounting policy;
- sensitivity analysis disclosures in relation to impairment testing assumptions;
- fair value disclosures for financial assets for Level 3 of the fair value hierarchy;
- expanded change in accounting policy note in relation to accounting for business combinations;
- an example of the early adoption of amendments to IAS 1 *Presentation of Financial Statements* resulting from *Improvements to IFRSs 2010*;
- an appendix illustrating example disclosures for the early adoption of IFRS 9 *Financial Instruments*;
- an appendix illustrating example disclosures for going concern assumptions; and
- examples of disclosures resulting from the application of IFRIC 17 *Distributions of Non-cash Assets to Owners*.

Other ways KPMG member firm 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 banks and investment funds
- 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
- IFRS Practice Issues publications, which discuss specific requirements of pronouncements
- First Impressions publications, which discuss new pronouncements
- Newsletters, which highlight recent developments
- Disclosure checklist.

KPMG's *Briefing Sheet – Issue 191* provides an overview of newly effective IFRSs and other considerations, which are intended to be a reminder of recently issued accounting guidance that may affect financial statements during the interim and annual periods ending 30 June 2010. This Briefing Sheet may serve as a useful reminder for entities with an annual period ending 31 December 2010 as well.

IFRS-related technical information, including the above Briefing Sheet, also is available at www.kpmg.com/ifrs.

For access to an extensive range of accounting, auditing and financial reporting guidance and literature, visit KPMG's Accounting Research Online. This web-based subscription service can be a valuable tool for anyone who wants to stay informed in today's dynamic environment. For a free 15-day trial, go to www.aro.kpmg.com and register today.

Technical guide

Form and content of financial statements

IAS 1 sets out the overall requirements for the presentation of financial statements, including their content and structure. Other standards and interpretations deal with the recognition, measurement and disclosure requirements related to specific transactions and events. IFRSs are not limited to a particular legal framework. Therefore, financial statements prepared under IFRSs often contain supplementary information required by local statute or listing requirements, such as directors' reports (see below).

Choice of accounting policies

The accounting policies disclosed in these illustrative financial statements reflect the facts and circumstances of the fictitious corporation on which these financial statements are based. They should not be relied upon for a complete understanding of the requirements of IFRSs and should not be used as a substitute for referring to the standards and interpretations themselves. The accounting policy disclosures appropriate for an entity depend on the facts and circumstances of that entity, including the accounting policy choices an entity makes, and may differ from the disclosures presented in these illustrative financial statements. The recognition and measurement requirements of IFRSs are discussed in our publication *Insights into IFRS*.

Reporting by directors

Generally local laws and regulations determine the extent of reporting by directors in addition to the presentation of financial statements. IAS 1 encourages, but does not require, entities to present, outside the financial statements, a financial review by management. The review describes and explains the main features of the entity's financial performance and financial position, and the principal uncertainties it faces. Such a report may include a review of:

- the main factors and influences determining financial performance, including changes in the environment in which the entity operates, the entity's response to those changes and their effect, and the entity's policy for investment to maintain and enhance financial performance, including its dividend policy;
- the entity's sources of funding and its targeted ratio of liabilities to equity; and
- the entity's resources not recognised in the statement of financial position in accordance with IFRSs.

In June 2009 the International Accounting Standards Board (IASB) published Exposure Draft (ED) *Management Commentary*, which proposes a framework for the preparation of management commentary that accompanies financial statements prepared in accordance with IFRSs. The proposals in the ED will not result in an IFRS, and therefore once finalised an entity will not be required to comply with the framework for the preparation and presentation of management commentary in order to assert compliance with IFRSs.

First-time adopters of IFRSs

These illustrative financial statements assume that the entity is not a first-time adopter of IFRSs. IFRS 1 *First-time Adoption of International Financial Reporting Standards* applies to an entity's first financial statements prepared in accordance with IFRSs. IFRS 1 requires extensive disclosures explaining how the transition from previous GAAP to IFRSs affects the reported financial position, financial performance and cash flows of an entity. These disclosures include reconciliations of equity and reported profit or loss at the date of transition to IFRSs and at the end of the comparative period presented in the entity's first IFRS financial statements, explaining material adjustments to the statements of financial position, changes in equity and comprehensive income, and identifying separately the correction of any errors made under previous GAAP. An entity that presented a statement of cash flows under previous GAAP also explains any material adjustments to its statement of cash flows. For more information see KPMG's *Illustrative financial statements for first-time adopters*, published in February 2010.

Note Reference **Explanatory note**

1. *IAS 1.10* In these illustrative financial statements, the titles of the statements are consistent with the titles used in IAS 1. However, these terms are not mandatory and different titles are permitted.

2. *IAS 1.10(b)* A complete set of financial statements comprises, as one of its statements, a statement of comprehensive income for the period.

IAS 1.81 Total comprehensive income is the changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners, which is presented either in:

- one statement (i.e. a statement of comprehensive income); or
- two statements (i.e. a separate income statement and a statement beginning with profit or loss and displaying components of other comprehensive income).

IAS 1.81(a) This analysis is based on a single statement of comprehensive income. The two-statement approach is illustrated in Appendix I.

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Reference

IAS 1.10, 49

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Note Reference **Explanatory note**

1. IAS 1.45 The presentation and classification of items in the financial statements is retained from one period to the next unless the changes are required by a new standard or interpretation, or it is apparent, following a significant change to an entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate. The entity also considers the criteria for the selection and application of accounting policies in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

2. IAS 1.55, 58 Additional line items, headings and subtotals are presented separately in the statement of financial position when such presentation is relevant to an understanding of the entity's financial position. The judgement used is based on an assessment of the nature and liquidity of the assets, the function of assets within the entity, as well as the amounts, nature and timing of liabilities. Additional line items may include, for example, "other assets" for the inclusion of prepayments.

IAS 1.57 IAS 1 does not prescribe the order or format in which an entity presents items. Additional line items are included when size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the entity's financial position and the descriptions used, and the ordering of items or aggregation of similar items may be amended according to the nature of the entity and its transactions to provide information that is relevant to an understanding of an entity's financial position.

3. IAS 1.10, 39 An additional statement of financial position and related notes are presented as at the beginning of the earliest comparative period following a change in accounting policy, the correction of an error, or the reclassification of items in the financial statements. The standard provides no further guidance in terms of how the above requirement should be interpreted. In our view, the requirement to present a third statement of financial position should be interpreted having regard to materiality based on the particular facts and circumstances. In our view, this requirement for *related notes* should be interpreted as requiring disclosure of those notes that are relevant to the reason why the third statement of financial position is presented, i.e. not all notes are required in every circumstance. This issue is discussed in our publication *Insights into IFRS* (2.1.35).

4. IAS 1.60, 61 In these illustrative financial statements we have presented current and non-current assets, and current and non-current liabilities as separate classifications in the statement of financial position. An entity may present its assets and liabilities broadly in order of liquidity if such presentation provides reliable and more relevant information. Whichever method of presentation is adopted, for each asset and liability line item that combines amounts expected to be recovered or settled within (1) no more than 12 months after the end of the reporting period, and (2) more than 12 months after the end of the reporting period, an entity discloses in the notes the amount expected to be recovered or settled after more than 12 months.

5. See explanatory note 2 on page 8.

6. See explanatory note 4 on page 8.

Reference Consolidated statement of financial position^{1, 2}

IAS 1.10(a), 113

In thousands of euro

	Note	31 December 2010	31 December 2009 Restated*	1 January 2009 ³ Restated*
Assets				
IAS 1.54(a)	16	16,936	31,049	34,937
IAS 1.54(c)	17	5,826	4,661	5,429
IAS 1.54(f)	18	7,014	8,716	8,070
IAS 1.54(h)	24	213	-	-
IAS 1.54(b)	19	2,070	1,050	950
IAS 1.54(e), 28.38	20	2,025	1,558	1,140
IAS 1.54(d)	21	3,631	3,525	3,212
IAS 1.54(o), 56	22	-	1,376	1,902
	29	635	731	587
IAS 1.60		Non-current assets⁴	38,350	52,666
IAS 1.54(g)	23	9,967	12,119	12,716
IAS 1.54(f)	18	245	140	402
IAS 1.54(d)	21	662	1,032	821
IAS 1.54(n)		-	228	-
IAS 1.54(h)	24	19,561	17,999	16,311
		Prepayments	330	895
IAS 1.54(i)	25	1,505	1,850	2,529
IFRS 5.38, 40, IAS 1.54(j)	8	14,410	-	-
IAS 1.60		Current assets⁴	46,680	33,674
	6	Total assets	85,030	89,901

* See note 2(e)(iii).

The notes on pages 23 to 211 are an integral part of these consolidated financial statements.

Note Reference **Explanatory note**

1. See explanatory note 2 on page 6.

2. *IAS 1.54(n),
12.71* An entity offsets current tax assets and current tax liabilities only if it has a legally enforceable right to set off the recognised amounts, and intends to realise the asset and settle the liability on a net basis or simultaneously. An entity treats deferred tax assets and deferred tax liabilities in the same manner.

3. See explanatory note 4 on page 6.

4. *IFRS 5.40,
IAS 1.66* Comparatives are not restated to reflect classification as held for sale or distribution at the end of the reporting period.

In our view, non-current assets, assets of disposal groups and liabilities of disposal groups classified as held for sale or distribution 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 or distribution. Consequently 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 or distribution continue to be included in non-current line items. This issue is discussed in our publication *Insights into IFRS* (5.4.110.30).

Reference Consolidated statement of financial position (continued)¹

IAS 1.10(a), 113

In thousands of euro

	Note	31 December 2010	31 December 2009 Restated*	1 January 2009 Restated*
Equity				
IAS 1.54(r), 78(e)		14,979	14,550	14,550
IAS 1.55, 78(e)		4,886	3,500	3,500
IAS 1.54(r), 78(e)		1,066	449	322
IAS 1.55, 78(e)		8,421	14,006	10,600
Equity attributable to owners of the Company		29,352	32,505	28,972
IAS 1.54(q), 27.27		1,582	842	601
Non-controlling interests				
Total equity		30,934	33,347	29,573
Liabilities				
IAS 1.54(m)	28	17,878	19,206	21,478
	34	20	5	-
	29	982	841	2,204
IAS 20.24	31	1,424	1,462	-
IAS 1.54(l)	32	810	400	682
IAS 1.54(o), 56	22	2,239	1,567	1,436
IAS 1.60		23,353	23,481	25,800
Non-current liabilities³				
	25	334	282	303
IAS 1.54(n)		762	-	25
IAS 1.54(m)	28	4,390	4,386	2,017
IAS 1.54(k)	33	19,731	24,363	30,618
IAS 1.54(k)	33	278	7	9
IAS 11.42(b)	31	178	168	156
IAS 1.54(l)	32	660	1,200	1,400
IFRS 5.38, 40, IAS 1.54(p)	8	4,410	-	-
IAS 1.60		30,743	30,406	34,528
Current liabilities³				
Total liabilities		54,096	53,887	60,328
Total equity and liabilities		85,030	87,234	89,901

* See note 2(e)(iii).

The notes on pages 23 to 211 are an integral part of these consolidated financial statements.

Note Reference **Explanatory note**

- | | |
|---------------------------|--|
| <p>1. IAS 1.99</p> | <p>An entity presents an analysis of expenses based on function or nature. In these illustrative financial statements, this analysis is based on functions within the entity. Individual material items are classified in accordance with their nature or function, consistent with the classification of items that are not material individually.</p> |
| <p>IAS 1.87</p> | <p>No items of income and expense may be presented as “extraordinary”. The nature and amounts of material items are disclosed as a separate line item in the statement of comprehensive income or in the notes. This issue is discussed in our publication <i>Insights into IFRS</i> (4.1.82 – 86).</p> |
| <p>2. IAS 1.85</p> | <p>An entity presents additional line items, headings and subtotals when this is relevant to an understanding of its financial performance.</p> |
| <p>3.</p> | <p>IFRSs do not specify whether revenue can be presented only as a single line item in the statement of comprehensive income, or whether an entity also may include the individual components of revenue in the statement of comprehensive income, with a subtotal for revenue from continuing operations. In these illustrative financial statements we have presented revenue as one line item; however, in our publication <i>Illustrative financial statements: banks</i>, various subtotals have been illustrated.</p> |
| <p>4. IAS 28.38</p> | <p>An entity presents separately its share of any discontinued operations of its associates.</p> |
| <p>5. IFRS 5.33(b)</p> | <p>An entity discloses revenue, expenses, and the pre-tax profit or loss from discontinued operations; income tax on the profit or loss from discontinued operations; the gain or loss on the disposal or measurement to fair value less costs to sell; and income tax on that gain or loss. In these illustrative financial statements we have illustrated this analysis in the notes. An entity also may present this analysis in the statement of comprehensive income, in a section identified as related to discontinued operations. For example, a columnar format presenting the results from continuing and discontinued operations in separate columns is acceptable.</p> |
| <p>6. IAS 1.82(g),(h)</p> | <p>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 the other comprehensive income of an equity-accounted investee is presented as a separate line item.</p> |
| <p>7. IAS 1.94</p> | <p>An entity may present reclassification adjustments directly in the statement of comprehensive income or in the notes. In these illustrative financial statements we have illustrated the presentation directly in the statement of comprehensive income.</p> |
| <p>8. IAS 1.91</p> | <p>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 financial statements we have illustrated the latter approach.</p> |

Reference Consolidated statement of comprehensive income^{1, 2}

IAS 1.10(b), 81(a)	For the year ended 31 December <i>In thousands of euro</i>	Note	2010	2009 Restated*
	Continuing operations			
IAS 1.82(a)	Revenue ³	10	100,160	96,636
IAS 1.99, 103, 2.36(d)	Cost of sales ¹		(55,708)	(56,186)
IAS 1.103	Gross profit		44,452	40,450
IFRIC 17.15	Gain on distribution to owners of the Company	26	2,556	-
	Other income	11	1,095	315
IAS 1.99, 103	Distribution expenses ¹		(17,984)	(18,012)
IAS 1.99, 103	Administrative expenses ¹		(17,142)	(15,269)
IAS 1.99, 103, 38.126	Research and development expenses ¹		(1,109)	(697)
IAS 1.99, 103	Other expenses ¹	12	(860)	(30)
IAS 1.85	Results from operating activities		11,008	6,757
	Finance income		1,161	480
IAS 1.82(b)	Finance costs		(1,707)	(1,646)
	Net finance costs	14	(546)	(1,166)
IAS 1.82(c), 28.38	Share of profit of equity-accounted investees (net of tax) ⁴	20	467	587
IAS 1.85	Profit before income tax		10,929	6,178
IAS 1.82(d), 12.77	Income tax expense	15	(3,371)	(1,800)
IAS 1.85	Profit from continuing operations		7,558	4,378
	Discontinued operation			
IFRS 5.33(a), IAS 1.82(e)	Profit (loss) from discontinued operation (net of income tax) ⁵	7	379	(422)
IAS 1.82(f)	Profit for the year		7,937	3,956
	Other comprehensive income⁶			
IAS 1.82(g), 21.52(b)	Foreign currency translation differences – foreign operations		480	330
IAS 28.39	Foreign currency translation differences – equity-accounted investees		21	-
AS 1.82(g)	Net loss on hedge of net investment in foreign operation	14	(3)	(8)
IAS 1.82(g)	Revaluation of property, plant and equipment	16	200	-
IFRS 7.23(c)	Effective portion of changes in fair value of cash flow hedges	14	(62)	77
IFRS 7.23(d), IAS 1.92	Net change in fair value of cash flow hedges reclassified to profit or loss ⁷	14	(31)	(11)
IFRS 7.20(a)(ii)	Net change in fair value of available-for-sale financial assets	14	199	94
IFRS 7.20(a)(iii), IAS 1.92	Net change in fair value of available-for-sale financial assets reclassified to profit or loss ⁷	14	(64)	-
IAS 1.82(g), 19.93B	Defined benefit plan actuarial gains (losses)	29	72	(15)
IAS 1.91(b)	Income tax on other comprehensive income ⁸	15	(104)	(48)
IAS 1.85	Other comprehensive income for the year, net of tax		708	419
IAS 1.82(i)	Total comprehensive income for the year		8,645	4,375

* See note 2(e)(iii) and note 7.

The notes on pages 23 to 211 are an integral part of these consolidated financial statements.

Note Reference **Explanatory note**

- 1.** *IAS 33.73* Earnings per share based on alternative measures of earnings also may be given if considered necessary, but should be presented in the notes to the financial statements only and not in the statement of comprehensive income. This issue is discussed in our publication *Insights into IFRS* (5.3.370.55).
- 2.** *IAS 33.67, 69* Basic and diluted earnings per share are presented even if the amounts are negative (a loss per share). Diluted earnings per share also is presented even if it equals basic earnings per share and this may be accomplished by the presentation of basic and diluted earnings per share in one line item. This issue is discussed in our publication *Insights into IFRS* (5.3.370.50).

Reference Consolidated statement of comprehensive income (continued)

For the year ended 31 December

In thousands of euro

	<i>Note</i>	2010	2009 Restated*
Profit attributable to:			
<i>IAS 1.83(a)(ii)</i>		7,413	3,737
<i>IAS 1.83(a)(i)</i>		524	219
Profit for the year		7,937	3,956
Total comprehensive income attributable to:			
<i>IAS 1.83(b)(ii)</i>		8,094	4,134
<i>IAS 1.83(b)(i)</i>		551	241
Total comprehensive income for the year		8,645	4,375
Earnings per share¹			
<i>IAS 33.66</i>	27	2.26	1.08
<i>IAS 33.66</i>	27	2.14	1.07
Earnings per share – continuing operations			
<i>IAS 33.66</i>	27	2.14	1.22
<i>IAS 33.66</i>	27	2.03	1.21

* See note 2(e)(iii) and note 7.

The notes on pages 23 to 211 are an integral part of these consolidated financial statements.

Note Reference **Explanatory note**

- 1.** In these illustrative financial statements we have early adopted the amendment to IAS 1 arising from the *Improvements to IFRSs 2010* that results in entities being allowed to show the disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income in either the statement of changes in equity or in the notes. In these illustrative financial statements we present this information in the notes. See Appendix III for an illustrative example in which this amendment is not adopted early.
- 2.** *IAS 1.80* An entity without share capital (e.g. a partnership) discloses information equivalent to that required for other entities, disclosing movements during the period in each category of equity interest, and the rights, preferences, and restrictions attaching to each category of equity interest.
- 3.** *IAS 1.106* When a change in accounting policy, either voluntarily or as a result of the initial application of a standard, has an effect on the current period or any prior period, an entity presents the effects of retrospective application or retrospective restatement recognised in accordance with IAS 8 in the statement of changes in equity. The illustrative examples to IAS 1 demonstrate this in relation to a change in accounting policy, as does our publication *Insights into IFRS* (2.8.40.90) in relation to an error.
- 4.** *IAS 32.33* An entity presents own shares purchased as a deduction from equity. Consideration received when own shares held are reissued is presented as a change in equity, and no gain or loss is recognised. IFRSs do not mandate a specific method of allocating the consideration or proceeds within equity. In these illustrative financial statements the surplus arising on the reissue of own shares is presented as share premium. However, before following this approach, an entity should check local legal requirements, which, amongst other things, may prescribe the allocation method. This issue is discussed, and certain possible presentation alternatives are explained, in our publication *Insights into IFRS* (3.11.310.10 – 340.10)
- 5.** 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 is presented in a separate component within equity or within retained earnings. In our view, either approach would be allowed under IFRSs. In these illustrative 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).

When equity instruments of a subsidiary have been granted to a counterparty in a share-based payment arrangement, the credit entry in equity in the consolidated financial statements of the parent is allocated to non-controlling interest. This is because the definition of non-controlling interest in IAS 27 *Consolidated and Separate Financial Statements* refers to “the equity in a subsidiary not attributable, directly or indirectly, to a parent.” This issue is discussed in our publication *Insights into IFRS* (4.5.1099.10).

Consolidated statement of changes in equity¹

Year ended 31 December 2009

Reference
IAS 1.108, 109

	Note	Attributable to owners of the Company								Total equity		
		Share capital ²	Share premium	Trans-lation reserve	Hedging reserve	Fair value reserve	Revalua-tion reserve	Reserve for own shares	Retained earnings		Total controlling interests	
Balance at 1 January 2009		14,550	3,500	(129)	434	17	-	-	10,567	28,939	601	29,540
Impact of change in accounting policy ³	2(e)/(iii)	-	-	-	-	-	-	-	33	33	-	33
Restated balance at 1 January 2009		14,550	3,500	(129)	434	17	-	-	10,600	28,972	601	29,573
Total comprehensive income for the year												
Profit		-	-	-	-	-	-	-	3,737	3,737	219	3,956
Total other comprehensive income ¹	26	-	-	300	44	63	-	-	(10)	397	22	419
Total comprehensive income for the year		-	-	300	44	63	-	-	3,727	4,134	241	4,375
Transactions with owners of the Company, recognised directly in equity												
Contributions by and distributions to owners of the Company												
Own shares acquired ⁴	26	-	-	-	-	-	-	(280)	-	(280)	-	(280)
Dividends to owners of the Company	26	-	-	-	-	-	-	-	(571)	(571)	-	(571)
Share-based payment transactions ⁵	30	-	-	-	-	-	-	-	250	250	-	250
Total contributions by and distributions to owners of the Company		-	-	-	-	-	-	(280)	(321)	(601)	-	(601)
Restated balance at 31 December 2009		14,550	3,500	171	478	80	-	(280)	14,006	32,505	842	33,347

The notes on pages 23 to 211 are an integral part of these consolidated financial statements.

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Consolidated statement of changes in equity (continued)

Year ended 31 December 2010

Reference IAS 1.108, 109	Note	Attributable to owners of the Company										Total equity
		Share capital ²	Share premium	Trans-lation reserve	Hedging reserve	Fair value reserve	Revalua-tion reserve	Reserve for own shares	Retained earnings	Total	Non-controlling interests	
		14,550	3,500	171	478	80	-	(280)	14,006	32,505	842	33,347
		-	-	-	-	-	-	-	7,413	7,413	524	7,937
IAS 1.106(d)(i)	26	-	-	471	(62)	90	134	-	48	681	27	708
IAS 1.106(a)		-	-	471	(62)	90	134	-	7,461	8,094	551	8,645
		Transactions with owners of the Company, recognised directly in equity										
		Contributions by and distributions to owners of the Company										
IAS 1.106(d)(iii)	9	24	63	-	-	-	-	-	-	87	-	87
IAS 1.106(d)(iii)	26	390	1,160	-	-	-	-	-	-	1,550	-	1,550
IAS 1.106(d)(iii)	28	-	109	-	-	-	-	-	-	109	-	109
IAS 1.106(d)(iii)	26	-	19	-	-	-	-	11	-	30	-	30
IAS 1.106(d)(iii)	26	-	-	-	-	-	-	-	(1,243)	(1,243)	-	(1,243)
IAS 1.106(d)(iii)	26	-	-	-	-	-	(27)	-	(12,473)	(12,500)	-	(12,500)
IAS 1.106(d)(iii)	30	-	-	-	-	-	-	-	755	755	-	755
IAS 1.106(d)(iii)	26	15	35	-	-	-	-	-	-	50	-	50
		429	1,386	-	-	-	(27)	11	(12,961)	(11,162)	-	(11,162)
		Changes in ownership interests in subsidiaries										
IAS 1.106(d)(iii)	9	-	-	-	-	-	-	-	(85)	(85)	(115)	(200)
IAS 1.106(d)(iii)	9	-	-	-	-	-	-	-	-	-	304	304
IAS 1.106(d)(iii)		429	1,386	-	-	-	(27)	11	(13,046)	(11,247)	189	(11,058)
		14,979	4,886	642	416	170	107	(269)	8,421	29,352	1,582	30,934

The notes on pages 23 to 211 are an integral part of these consolidated financial statements.

Note Reference **Explanatory note**

1. IAS 7.18 In these illustrative 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.

An example statement of cash flows presenting operating cash flows using the direct method is included in Appendix II.

2. IAS 7.50(b), (c) An entity is encouraged, but not required, to disclose:

- the aggregate amounts of the cash flows from each of operating, investing and financing activities related to interests in joint ventures reported using proportionate consolidation; and
- the aggregate amount of cash flows that represent increases in operating capacity separately from those cash flows that are required to maintain operating capacity.

3. IAS 7.22 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.

4. IAS 7.18, 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 (i.e. the final figure in the statement of comprehensive income) or can a different figure, such as profit before income tax, be used? The standard itself refers to profit or loss, but the example provided in the appendix to the standard starts with a different figure (i.e. profit before taxation). We prefer to follow the standard since the appendix is illustrative only and therefore does not have the same status as the standard. This issue is discussed in our publication *Insights into IFRS* (2.3.30.20).

5. IAS 7.31 IFRSs do not specify the classification of cash flows from interest and dividends received and paid, and an entity is required to choose its own 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 is selected to present these cash flows in a manner that is most appropriate for the business or industry, if applicable, and the method selected is applied consistently. This issue is discussed in our publication *Insights into IFRS* (2.3.50).

6. In our view, to the extent that borrowing costs are capitalised in respect of qualifying assets, the cost of acquiring those assets should be split 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 *Insights into IFRS* (2.3.50.40).

7. IAS 7.35 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 *Insights into IFRS* (2.3.50.20).

Reference

Consolidated statement of cash flows^{1, 2, 3}

IAS 1.10(d), 113

For the year ended 31 December*In thousands of euro*

	Note	2010	2009 Restated*
Cash flows from operating activities			
Profit for the year ⁴		7,937	3,956
Adjustments for:			
Gain on distribution to owners of the Company	26	(2,556)	-
Depreciation	16	5,001	5,122
Amortisation of intangible assets	17	785	795
(Reversal of) impairment losses on property, plant and equipment	16	(393)	1,123
Impairment losses on intangible assets	17	116	285
Reversal of impairment losses on intangible assets	17	(100)	-
Impairment loss on remeasurement of disposal group	8	25	-
Change in fair value of biological assets	18	(650)	(50)
Net change in biological assets due to births	18	(11)	(15)
Change in fair value of investment property	19	(20)	(60)
Impairment loss on trade receivables	12	150	30
Net finance costs	14	546	1,166
Share of profit of equity-accounted investees	20	(467)	(587)
Gain on sale of property, plant and equipment	11	(26)	(100)
Gain on sale of discontinued operation, net of tax	7	(516)	-
Gain on curtailment	29	(100)	-
Equity-settled share-based payment transactions	30	755	250
Income tax expense	15	3,346	1,756
		13,822	13,671
Changes in:			
– inventories		(352)	2,305
– current biological assets due to sales	18	127	63
– intangible assets – service concession arrangement	17, 40	(95)	-
– trade and other receivables		(12,545)	(1,318)
– prepayments		870	(800)
– trade and other payables		5,259	(2,470)
– provisions and employee benefits – excluding gain on curtailment		152	320
– deferred income/revenue, including government grant	31	(28)	-
Cash generated from operating activities		7,210	11,771
Interest paid ^{5, 6}		(1,604)	(1,521)
Income tax paid ⁷		(400)	(1,400)
Net cash from operating activities		5,206	8,850

IAS 7.31, 32

IAS 7.35

IAS 7.10

* See note 2(e)(iii).

The notes on pages 23 to 211 are an integral part of these consolidated financial statements.

Note Reference **Explanatory note**

1. See explanatory note 5 on page 18.

2. 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 that is entered into as an economic hedge, then we prefer that the gains and losses on the derivative instrument not be presented as an adjustment to revenues, cost of sales or other line items related to the hedged item. However, in our view derivative gains and 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. In our view, the possibilities for the presentation in the statement of comprehensive income also apply to the presentation in the consolidated statement of cash flows. These issues are discussed in our publication *Insights into IFRS* (5.6.220.110 – 120).

Reference

Consolidated statement of cash flows (continued)

IAS 1.10(d), 113

For the year ended 31 December*In thousands of euro*

	Note	2010	2009 Restated*
Cash flows from investing activities			
IAS 7.31		211	155
IAS 7.31		369	330
IAS 7.16(a)		1,177	481
IAS 7.21		987	849
IAS 7.39	7	10,890	-
IAS 7.39	9	(2,125)	-
IAS 7.39	20	(600)	-
IAS 7.16(a)		(15,657)	(2,228)
IAS 7.16(a)	19	(300)	(40)
IAS 7.21		(305)	(437)
IAS 7.16(a)		(319)	(2,411)
IAS 24.18		21	-
IAS 7.21		(1,235)	(503)
IAS 7.10		(6,886)	(3,804)
Cash flows from financing activities			
IAS 7.17(a)	26	1,550	-
IAS 7.17(c)	28	5,000	-
IAS 7.17(c)	28	2,000	-
IAS 7.21	26	30	-
IAS 7.21	26	50	-
IAS 7.16(h)		5	11
IAS 7.21	28	(311)	-
IAS 7.42A	9	(200)	-
IAS 7.17(b)	26	-	(280)
IAS 7.17(d)		(5,132)	(4,445)
IAS 7.17(e)		(454)	(394)
IAS 7.31	26	(1,243)	(571)
IAS 7.10		1,295	(5,679)
Net decrease in cash and cash equivalents			
		(385)	(633)
		1,568	2,226
IAS 7.28		(12)	(25)
	25	1,171	1,568

* See note 2(e)(iii).

The notes on pages 23 to 211 are an integral part of these consolidated financial statements.

Note *Reference* **Explanatory note**

- | | |
|--------------------------|--|
| 1. <i>IAS 1.7</i> | The notes to the financial statements include narrative descriptions or break-downs of amounts disclosed in the primary statements. They also include information about items that do not qualify for recognition in the financial statements. |
|--------------------------|--|

Notes to the consolidated financial statements¹

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Note Reference **Explanatory note**

- 1.** *IAS 1.36* When the entity's changes its end of reporting period and annual consolidated financial statements are presented for a period longer or shorter than one year, an entity discloses the reason for the change and the fact that comparative amounts presented are not entirely comparable.

In this and other cases an entity may wish to present *pro forma* information that is not required by IFRSs, for example *pro forma* comparative consolidated financial statements prepared as if the change in the end of the reporting period were effective for all periods presented. The presentation of *pro forma* information is discussed in our publication *Insights into IFRS* (2.1.80).

- 2.** If financial statements are prepared on the basis of national accounting standards that are modified or adapted from IFRSs, and made publicly available by publicly traded companies, then the International Organization of Securities Commissions (IOSCO) has recommended including the following minimum disclosures:

- a clear and unambiguous statement of the reporting framework on which the accounting policies are based;
- a clear statement of the entity's accounting policies in all material accounting areas;
- an explanation of where the respective accounting standards can be found;
- a statement explaining that the financial statements are in compliance with IFRSs as issued by the IASB, if this is the case; and
- a statement explaining in what regard the standards and the reporting framework used differ from IFRSs as issued by the IASB, if this is the case.

- 3.** *IAS 1.19, 20, 23* In the extremely rare circumstances in which management concludes that compliance with a requirement of a standard or an interpretation would be so misleading that it would conflict with the objective of financial statements set out in the *Framework for the Preparation and Presentation of Financial Statements*, an entity may depart from the requirement if the relevant regulatory framework requires or otherwise does not prohibit such a departure. Extensive disclosures are required in these circumstances.

- 4.** *IAS 10.17* An entity discloses the date that the financial report was authorised for issue and who gave that authorisation. If the entity's owners or others have the power to amend the financial statements after their issue, then an entity discloses that fact.

- 5.** *IAS 1.25, 10.16(b)* Taking account of specific requirements in its jurisdiction, an entity discloses any material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, whether they arise during the period or after the end of the reporting period. An entity may wish to explain other uncertainties, as illustrated. See Appendix V for example disclosures for entities that have going concern issues.

- 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 fact, its functional currency, and the reason for using a different presentation currency.

IAS 29.39 If the consolidated financial statements are presented in a hyperinflationary functional currency, then an entity discloses:

- the fact that the consolidated financial statements have been restated for changes in the general purchasing power of the functional currency, and as a result are stated in terms of the measuring unit current at the end of the reporting period;
- whether the consolidated financial statements are based on a historical cost approach or a current cost approach; and
- the identity and level of the price index at the end of the reporting period, and the movement in the index during the current and the previous reporting period.

IAS 21.54 If there is a change in the functional currency of either the entity or a significant foreign operation, then the entity discloses that fact together with the reason for the change.

Reference Notes to the consolidated financial statements*IAS 1.10(e)* **1. Reporting entity***IAS 1.138(a), (b)**IAS 1.51(a)-(c)*

[Name] (the "Company") is a company domiciled in [country]. The address of the Company's registered office is [address]. The consolidated financial statements of the Company as at and for the year ended 31 December 2010¹ comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest 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 6).

*IAS 1.112(a)***2. Basis of preparation²****(a) Statement of compliance***IAS 1.16*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).³

IAS 10.17

The consolidated financial statements were authorised for issue by the Board of Directors on [date].⁴

(b) Basis of measurement

The consolidated 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;
- financial instruments at fair value through profit or loss 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.

IFRS 7.18

As explained in note 28, management has been in a process of negotiation with a bank since the Group exceeded its maximum leverage threshold in the third quarter of 2010 resulting in the waiver of the breach of covenant being issued in October 2010. Subsequent to the reporting date, the bank revised the debt covenant ratio (debt to quarterly revenue from continuing operations) from 2.5 to 3.5 times. On the basis of the new covenant and management forecasts, management believes that the risk of the new covenant being breached is low and therefore that the Company will continue as a going concern for the foreseeable future.⁵

(c) Functional and presentation currency⁶*IAS 1.51(d), (e)*

These consolidated 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. *IAS 1.122* An entity discloses the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. The examples that are provided in paragraphs 123 and 124 of IAS 1 indicate that such disclosure is based on qualitative data.

IAS 1.125 An entity discloses the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The examples that are provided in paragraph 129 of IAS 1 indicate that such disclosure is based on quantitative data (e.g. appropriate discount rates).

2. When a change in accounting policy is the result of the adoption of a new, revised or amended IFRS an entity applies the specific transitional requirements in that IFRS. However, in our view an entity nonetheless should comply with the disclosure requirements of IAS 8 to the extent that the transitional requirements do not include disclosure requirements. Even though it could be argued that the disclosures are not required because they are set out in the IAS 8 requirements for *voluntary* changes in accounting policy, we believe that they are necessary in order to give a fair presentation. This issue is discussed in our publication *Insights into IFRS* (2.8.20).

3. *IAS 1.10(f)* When a change in accounting policy, either voluntarily or as a result of the initial application of a standard, has an effect on the current period or any prior period, an entity discloses, among other things, the amount of the adjustment for each financial statement line item affected.
8.28, 29

IAS 8.49 If any prior period errors are corrected in the current year's financial statements, then an entity discloses:

- the nature of the prior period error;
- to the extent practicable, the amount of the correction for each financial statement line item affected, and basic and diluted earnings per share for each prior period presented;
- the amount of the correction at the beginning of the earliest prior period presented; and
- if retrospective restatement is impracticable for a particular prior period, then the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

4. An entity also may consider a *de facto* control model for the basis of consolidating a subsidiary, in which the ability in practice to control another entity exists and no other party has the power to govern. In our view, whether an entity includes or excludes *de facto* control aspects in its analysis of control is an accounting policy choice, to be applied consistently, that should be disclosed in its significant accounting policies. This issue is discussed in our publication *Insights into IFRS* (2.5.30.40).

Reference

Notes to the consolidated financial statements

2. Basis of preparation (continued)**(d) Use of estimates and judgements¹**

The preparation of the consolidated 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

IAS 1.122, 125,
129, 130

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 10 – commission revenue
- Note 19 – classification of investment property
- Note 28 – accounting for an arrangement containing a lease
- Note 35 – lease classification.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 17 – key assumptions used in discounted cash flow projections
- Note 17 – recoverability of development costs
- Note 22 – utilisation of tax losses
- Note 29 – measurement of defined benefit obligations
- Notes 32 and 37 – provisions and contingencies.

(e) Changes in accounting policies^{2,3}**(i) Accounting for business combinations**

IAS 8.28(f)

From 1 January 2010 the Group has applied IFRS 3 *Business Combinations* (2008) in accounting for business combinations. The change in accounting policy has been applied prospectively and has had no material impact on earnings per share.

IFRS 3.4

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.⁴

Acquisitions on or after 1 January 2010

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

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Reference

Notes to the consolidated financial statements

2. Basis of preparation (continued)**(e) Changes in accounting policies (continued)****(i) Accounting for business combinations (continued)**

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, 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.

IFRS 3.58

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

Acquisitions between 1 January 2004 and 1 January 2010

For acquisitions between 1 January 2004 and 1 January 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

Acquisitions prior to 1 January 2004 (date of transition to IFRSs)

As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after 1 January 2003. In respect of acquisitions prior to 1 January 2003, goodwill represents the amount recognised under the Group's previous accounting framework, [country GAAP].

(ii) Accounting for acquisitions of non-controlling interests

IAS 8.28(f)

From 1 January 2010 the Group has applied IAS 27 *Consolidated and Separate Financial Statements* (2008) in accounting for acquisitions of non-controlling interests. The change in accounting policy has been applied prospectively and has had no impact on earnings per share.

Under the new accounting policy, acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

Previously, goodwill was recognised on the acquisition of non-controlling interests in a subsidiary, which represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction.

Note *Reference* **Explanatory note**

- | | |
|----------------------------------|---|
| <p>1. <i>IAS 8.16</i></p> | <p>Neither the application of an accounting policy for transactions or events that did not occur previously, nor the application of an accounting policy to previously immaterial items, is a change in accounting policy. In these illustrative financial statements distributions of non-cash assets to owners is an example of a new transaction or event for which an accounting policy was not previously required. Consequently the application of the relevant IFRS has not been disclosed as a change in accounting policy.</p> |
|----------------------------------|---|

Reference Notes to the consolidated financial statements

2. Basis of preparation (continued)
(e) Changes in accounting policies (continued)
(iii) Accounting for investment property

IAS 8.29

On 1 January 2010 the Group changed its accounting policy with respect to the subsequent measurement of investment property from the cost model to the fair value model, with changes in fair value recognised in profit or loss. The Group believes that subsequent measurement using the fair value model provides more relevant information about the financial performance of these assets, assists users to better understand the risks associated with these assets and is consistent with industry practice in relation to these types of assets.

This change in accounting policy was applied retrospectively and had an insignificant impact (less than €0.01) on earnings per share (2009: positive impact of €0.02). The following table summarises the transitional adjustments made to the statement of financial position upon implementation of the new accounting policy:

<i>In thousands of euro</i>	Investment property	Deferred tax liabilities	Retained earnings/ profit or loss
Balance as reported at 1 January 2009	900	(1,377)	10,567
Effect of revaluation on 1 January 2009	50	(17)	33
Restated balance at 1 January 2009	<u>950</u>	<u>(1,394)</u>	<u>10,600</u>
Balance as reported at 31 December 2009	930	(1,527)	13,926
Effect of revaluation on 1 January 2009	50	(17)	33
Effect on profit or loss	70	(23)	47
Restated balance at 31 December 2009	<u>1,050</u>	<u>(1,567)</u>	<u>14,006</u>

IAS 8.28(f)

The effect on the statement of comprehensive income was as follows:

<i>In thousands of euro</i>	Note	2010	2009
Change in fair value of investment property	11	20	60
Depreciation		-	10
Income tax expense		(7)	(23)
Effect on profit or loss		<u>13</u>	<u>47</u>

(f) Accounting policies for new transactions and events¹

Distributions of non-cash assets to owners of the Company

From 1 January 2010 the Group has applied IFRIC 17 *Distributions of Non-cash Assets to Owners* in accounting for distributions of non-cash assets to owners of the Company. The new accounting policy has been applied prospectively.

The Group measures a liability to distribute non-cash assets as a dividend to the owners of the Company at the fair value of the assets to be distributed. The carrying amount of the dividend is remeasured at each reporting date and at the settlement date, with any changes recognised directly in equity as adjustments to the amount of the distribution. 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 1.117(b)* The accounting policies describe each specific accounting policy that is relevant to an understanding of the financial statements.

IAS 8.5 Accounting policies are the specific principles, bases, conventions, rules and practices that an entity applies in preparing and presenting financial statements.

2. The accounting policies disclosed in these illustrative financial statements reflect the facts and circumstances of the fictitious corporation on which these financial statements are based. They should not be relied upon for a complete understanding of IFRSs and should not be used as a substitute for referring to the standards and interpretations themselves. The accounting policy disclosures appropriate for an entity depend on the facts and circumstances of that entity, including the accounting policy choices an entity makes, and may differ from the disclosures illustrated in these illustrative financial statements. The recognition and measurement requirements of IFRSs are discussed in our publication *Insights into IFRS*.

3. *IAS 27.41(c)* If the end of the reporting period of the financial statements of a subsidiary used to prepare consolidated financial statements is different from that of the parent, then an entity discloses that end of the reporting period and the reason for using it.

4. The accounting for common control transactions in the absence of specific guidance in IFRSs is discussed in our publication *Insights into IFRS* (5.13). This publication illustrates one possible method to account for common control transactions.

Reference Notes to the consolidated financial statements

- IAS 1.112(a), 117(a)* **3. Significant accounting policies^{1,2}**
The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in note 2(e), which addresses changes in accounting policies.
- IAS 1.41* Certain comparative amounts have been reclassified to conform with the current year's presentation (see note 16). In addition, the comparative statement of comprehensive income has been re-presented as if an operation discontinued during the current year had been discontinued from the start of the comparative year (see note 7).
- (a) Basis of consolidation**
- (i) Business combinations**
The Group has changed its accounting policy with respect to accounting for business combinations. See note 2(e)(i) for further details.
- (ii) Subsidiaries³**
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* The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. 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.
- (iii) Special purpose entities**
SIC-12.10 The Group has established 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.
- (iv) Acquisitions from entities under common control⁴**
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 year 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 gain/loss arising is recognised directly in equity.
- (v) Loss of control**
IAS 27.35 Upon the 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.

Note Reference **Explanatory note**

- 1.** An associate may have accounting policies for items that are not applicable to the investor, for example when the investor's financial statement do not include line items in respect of an associate's financial statement items. If disclosure of the accounting policies of an associate is considered necessary for an understanding of income from associates, or the carrying amount of investments in associates in the statement of financial position, then in our view this information should be included in the accounting policy note regarding investments in associates. This issue is discussed in our publication *Insights into IFRS* (3.5.530.10).
- 2.** IFRSs do not specify whether the elimination of unrealised gains and losses resulting from transactions with equity-accounted investees is presented as a reduction of the investment in the associate or as a reduction in the underlying asset, e.g. inventory. In our view, either approach is acceptable. This issue is discussed in our publication *Insights into IFRS* (3.5.430.80).

Reference Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(vi) 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, 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.

(vii) 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.

(viii) 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.

(b) Foreign currency

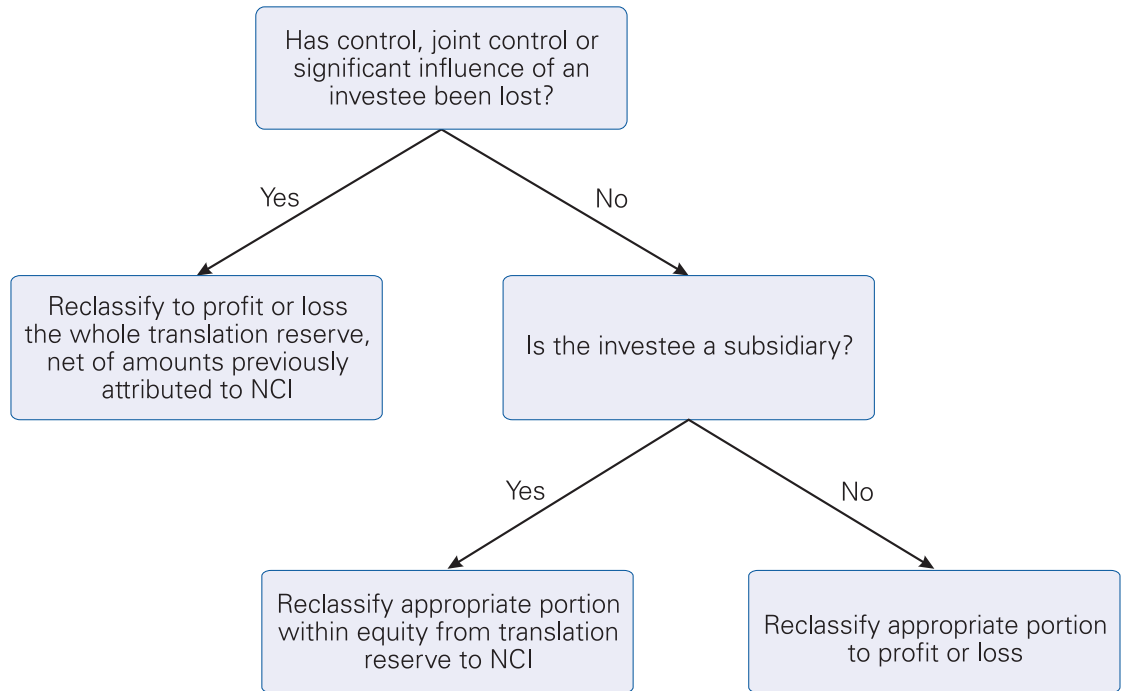
(i) Foreign currency transactions

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 year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Note Reference **Explanatory note**

1.

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 consolidated financial statements

3. Significant accounting policies (continued)

(b) Foreign currency (continued)

(i) Foreign currency transactions (continued)

IAS 21.23

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 that is effective (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 year 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

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) 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 gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the 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.¹

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 transferred to profit or loss as part of the profit or loss on disposal.

Note *Reference* **Explanatory note**

- 1.** *IFRIC 12.24* A financial asset recognised in a service concession arrangement is accounted for in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* as a loan or receivable, an available-for-sale financial asset or, if so designated upon initial recognition (and conditions for that classification are met), a financial asset at fair value through profit or loss.

Reference Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(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, which is the date that 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. 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 equity securities that otherwise would have been classified as available for sale.
- 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 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 cash and cash equivalents, and trade and other receivables, including service concession receivables.¹

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Reference Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(i) Non-derivative financial assets (continued)

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 is accounted for separately and is recognised initially at the fair value of the consideration (see also note 3(e)(iii)).

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 above categories of 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 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, which is the date that 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, cancelled or expire.

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.

Note Reference **Explanatory note**

1. Issues related to the classification of preference share capital as debt or equity are discussed in our publication *Insights into IFRS* (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. In these illustrative financial statements 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 consolidated financial statements

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

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.

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. 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 gains and losses related 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.

IAS 39.11

(v) Derivative financial instruments, including hedge accounting²

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.

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Reference Notes to the consolidated 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 hedges

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. If the determination of cost of property, plant and equipment at 1 January 2004, the Group's date of transition, is relevant to an understanding of the financial statements, then an entity might include in its accounting policies, that "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 2004 was determined by reference to its fair value at that date."

Reference Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(d) Property, plant and equipment

IAS 16.73(a) **(i) Recognition and measurement¹**

IAS 16.30

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

IAS 16.16

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 capitalised borrowing costs. 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/other 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 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.

(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, 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.

Note Reference **Explanatory note**

1. Certain jurisdictions operate a “cap and trade” scheme in which an entity must deliver emissions certificates to a government agency to be able to emit legally pollutants. Non-monetary government grants can be recognised either at fair value or at a nominal amount. The liability arising from producing pollutants may be measured based on the carrying amount of the allowances held to the extent that the entity holds sufficient allowances to satisfy its current obligations. In our view, determining the carrying amount of an allowance for the purposes of calculating a gain or loss on disposal should be made by analogy to determining the cost of inventories and a reasonable cost allocation method should be applied (e.g. specific identification, average cost, first-in first-out). An entity should disclose the method applied in its significant accounting policies. This issue is discussed in our publication *Insights into IFRS* (3.3.170.60).

Reference Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

(iv) Depreciation (continued)

IAS 16.73(c) The estimated useful lives for the current and comparative years 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 reporting date and adjusted if appropriate. Estimates in respect of certain items of plant and equipment were revised in 2010 (see note 16).

(e) Intangible assets¹

(i) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see note 2(e)(i).

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.

(ii) Research and development

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 capitalised borrowing costs. 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.

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.

Reference Notes to the consolidated financial statements

3. Significant accounting policies (continued)**(e) Intangible assets (continued)****(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 years 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.

(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.

Note Reference **Explanatory note**

1. *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.

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 consolidated financial statements

3. Significant accounting policies (continued)

(h) Leased assets¹

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.

(j) Construction contracts in progress

Construction contracts in progress represents 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)(iv)) 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/revenue in the statement of financial position.

(k) Impairment

(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.

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Reference Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(k) Impairment (continued)

(i) Non-derivative financial assets (continued)

Loans and receivables and held-to-maturity investment securities

IAS 39.63

The Group considers evidence of impairment for loans and 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 loans and 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.

Available-for-sale financial assets

IAS 39.67-70

Impairment losses on available-for-sale financial assets are recognised by reclassifying the 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, investment property, inventories 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 year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

Note Reference **Explanatory note**

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 *Insights into IFRS* (3.10.430.20).

Reference Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(k) Impairment (continued)

(ii) Non-financial assets (continued)

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 CGU. 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.

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

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 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 *pro rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological 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 and 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.

Note Reference **Explanatory note**

- 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 *Insights into IFRS* (4.4.300.10).
- 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. An entity should choose an accounting policy, to be applied consistently, either to include the interest cost and expected return on plan assets with interest and other financial income respectively, or to show the net total as personnel expenses. However, regardless of the accounting policy chosen, disclosure is required of the line items in which the components of the post-employment cost are recognised. This issue is discussed in our publication *Insights into IFRS* (4.4.1130.10).

Reference Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(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. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(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

IAS 19.64

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 related 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)

The Group recognises all actuarial gains and losses arising from defined benefit plans in other comprehensive income and all expenses related to defined benefit plans in personnel expenses in profit or loss.²

IAS 19.109

The Group recognises gains and 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 and losses and past service cost that had not previously been recognised.

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 choose an accounting policy to be applied consistently. This issue is discussed in our publication *Insights into IFRS* (4.5.630.30).

Reference Notes to the consolidated financial statements**3. Significant accounting policies (continued)****(m) Employee benefits (continued)****(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 and that are denominated in the same currency in which the benefits are expected to be paid. 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.

(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. 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.

IFRS 2.32

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

Note Reference **Explanatory note**

- 1.** 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 might 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).
- 2.** 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).
- 3.** 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 *Insights into IFRS* (4.2).

Reference Notes to the consolidated financial statements

3. Significant accounting policies (continued)

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.

(i) Warranties

IAS 37.39

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.

(ii) Restructuring

IAS 37.72(a)

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.

(iii) Site restoration¹

IAS 37.21

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.

(iv) Onerous contracts

IAS 37.66

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 cost² 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.

(o) Revenue³

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 transfer 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.

Note *Reference* **Explanatory note**

- | | |
|-----------|---|
| 1. | The accounting for multiple-deliverable contracts is discussed in our publication <i>Insights into IFRS</i> (4.2.40). |
|-----------|---|

Reference Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(o) Revenue (continued)

(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 revenue 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.¹

(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) Commissions

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.

Note Reference **Explanatory note**

- 1.** *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 record 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).

- 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 *Insights into IFRS* (5.1.390.30).

Reference Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(o) Revenue (continued)

(vii) Service concession arrangements

IFRIC 12.13

Revenue related 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.

IAS 20.39

(p) Government grants

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.¹ 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.

(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.

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 lease

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.

Note Reference **Explanatory note**

- 1.** *IAS 1.35* 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. payables arising on the purchase 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 *Insights into IFRS* (4.6.230.20).

Reference Notes to the consolidated financial statements

3. Significant accounting policies (continued)

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 and contingent consideration, 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.

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 year, 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.

Note Reference **Explanatory note**

1. It is not clear whether a business that will be disposed of by distribution to owners could be classified as a discontinued operation prior to its disposal. Although IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* was amended to extend the requirements in respect of non-current assets or disposal groups held for sale to such items held for distribution to owners, the cross-referencing in the amendments does not extend to discontinued operations. In our view, although the definition of a discontinued operation has not been extended explicitly, classification of non-current assets or disposal groups held for distribution to owners as a discontinued operation is appropriate if the remaining criteria of IFRS 5 are met. This issue is discussed in our publication *Insights into IFRS* (5.4.130.40).

2. The following standards, interpretations and amendments have been issued with effective dates after 31 December 2010:

- In October 2009 the IASB issued *Classification of Rights Issues – Amendment to IAS 32 Financial Instruments: Presentation* with an effective date of 1 February 2010.
- In November 2009 the IASB revised IAS 24 *Related Party Disclosures* with an effective date of 1 January 2011.
- In November 2009 the IASB issued *Prepayments of a Minimum Funding Requirement – Amendments to IFRIC 14: IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* with an effective date of 1 January 2011.
- In November 2009 the IASB issued IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*, with an effective date of 1 July 2010.
- In May 2010 the IASB issued *Improvements to IFRSs 2010*, which comprises 11 amendments to 7 standards. Effective dates, early application and transitional requirements are addressed on a standard-by-standard basis. The majority of the amendments will be effective 1 January 2011. The amendments have not been included in these illustrative financial statements under the new standards and interpretations not yet adopted, as the appropriate level of disclosures will depend on the circumstances of a particular entity.

3. *IAS 1.31* When new standards, amendments to standards and interpretations will have no, or no material, effect on the consolidated financial statements of the Group, it is not necessary to list them as such a disclosure would not be material.

4. See Appendix IV for an example of early adoption of IFRS 9.

Reference Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(s) Income tax (continued)

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.

(t) Discontinued operations¹

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 year.

(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 year, 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 year to acquire property, plant and equipment, and intangible assets other than goodwill.

IAS 8.30, 31

(w) New standards and interpretations not adopted^{2,3}

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2010, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for IFRS 9 *Financial Instruments*, which becomes mandatory for the Group's 2013 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.⁴

Note Reference **Explanatory note**

1. *IAS 40.32, 75(e)* An entity is encouraged, but not required, to determine fair value by reference to a valuation by an independent valuer who holds a recognised and relevant professional qualification, and who has recent experience in the location and category of the investment property being valued. An entity discloses the extent to which the fair value is based on a valuation by an appropriate independent valuer. If there has been no such valuation, then that fact is disclosed.

IAS 40.77 When a valuation obtained for investment property is adjusted significantly for the purpose of the financial statements, an entity discloses a reconciliation between the valuation obtained and the adjusted valuation included in the financial statements, showing separately the aggregate amount of any recognised lease obligations that have been added back and any other significant adjustments.

Reference Notes to the consolidated financial statements**4. Determination of fair values**

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is the estimated amount for which a property could be exchanged on the date of acquisition between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably. The fair value of items of plant, equipment, fixtures and fittings is based on the market approach and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate. Depreciated replacement cost estimates reflect adjustments for physical deterioration as well as functional and economic obsolescence.

(ii) Intangible assets

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

The fair value of intangible assets received as consideration for providing construction services in a service concession arrangement is estimated by reference to the fair value of the construction services provided. The fair value of the construction services provided is calculated as the estimated total cost plus a profit margin of 5 percent, which the Group considers a reasonable margin. When the Group receives an intangible asset and a financial asset as consideration for providing construction services in a service concession arrangement, the Group estimates the fair value of intangible assets as the difference between the fair value of the construction services provided and the contributory asset charge of the financial asset received (see (vii)).

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

*IAS 41.47***(iii) Biological assets**

The fair value of standing timber older than 25 years, being the age at which it becomes marketable, is based on the market price of the estimated recoverable wood volumes, net of harvesting and transportation costs. The fair value of younger standing timber is based on the present value of the net cash flows expected to be generated by the plantation at maturity, in its most relevant market, and includes the potential additional biological transformation and the related risks associated with the asset. The fair value of livestock held for sale is based on the market price of livestock of similar age, weight, breed and genetic make-up.

IAS 40.75(d),(e) **(iv) Investment property**

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property portfolio every six months.¹ The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably.

Note Reference **Explanatory note**

- 1.** In February 2010 the International Valuation Standards Council published Guidance Note 17: *The Valuation of Investment Property Under Construction* (GN 17). GN 17 identifies principles that may be applied in estimating the market value of investment property under construction.
- 2.** *IFRS 7.27* An entity discloses for each class of financial instruments the methods and, when a valuation technique is used, the significant assumptions applied in determining the fair values of financial assets and financial liabilities. If there has been a change in valuation technique, then the entity discloses both the change and the reasons for the change.

In October 2008 the IASB posted to its website the final report of its Expert Advisory Panel (the Panel) *Measuring and disclosing the fair value of financial instruments in markets that are no longer active* (the Panel Report), together with an IASB Staff Summary *Using judgement to measure the fair value of financial instruments when markets are no longer active* (the Staff Summary).

The Panel Report summarises the Panel's discussions and identifies practices that experts use for measuring the fair value of financial instruments when markets become inactive, and practices for fair value disclosures in such situations. The Panel Report and the accompanying Staff Summary are intended to respond to uncertainty about how to measure fair values when markets are inactive and about what disclosures may be appropriate in such circumstances. The Panel Report addresses issues such as determining whether a market is inactive and using transaction prices and internal models in measuring fair values. The Panel Report and the accompanying Staff Summary do not have the same authority as standards and interpretations; however, they do provide useful educational guidance on fair value measurement.
- 3.** *IFRS 7.29(a)* For financial instruments such as short-term trade receivables and payables, no disclosure of fair value is required when the carrying amount is a reasonable approximation of fair value.

Reference Notes to the consolidated financial statements**4. Determination of fair values (continued)****(iv) Investment property (continued)**

In the absence of current prices in an active market, the valuations are prepared by considering the estimated rental value of the property. A market yield is applied to the estimated rental value to arrive at the gross property valuation. When actual rents differ materially from the estimated rental value, adjustments are made to reflect actual rents.

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, the allocation of maintenance and insurance responsibilities between the Group and the lessee, and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices, and when appropriate counter-notices, have been served validly and within the appropriate time.

Investment property under construction is valued by estimating the fair value of the completed investment property and then deducting from that amount the estimated costs to complete construction, financing costs and a reasonable profit margin.¹

(v) Inventories*IAS 1.125*

The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(vi) Equity and debt securities²*IFRS 7.27*

The fair value of equity and debt securities is determined by reference to their quoted closing bid price at the reporting date, or if unquoted, determined using a valuation technique. Valuation techniques employed include market multiples and discounted cash flow analysis using expected future cash flows and a market-related discount rate. The fair value of held-to-maturity investments is determined for disclosure purposes only.

(vii) Trade and other receivables^{2,3}*IFRS 7.27*

The fair value of trade and other receivables, excluding construction work in progress, but including service concession receivables, is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes or when acquired in a business combination.

(viii) Derivatives²*IFRS 7.27*

The fair value of forward exchange contracts is based on their quoted price, if available. If a quoted price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

(ix) Non-derivative financial liabilities^{2,3}*IFRS 7.27*

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

Note Reference **Explanatory note**

1. *IFRS 2.47(b)* In transactions in which the fair value of goods and services received was determined based on the fair value of equity instruments other than share options, an entity discloses how it determined the fair value of such equity instruments. Such disclosure includes:
- if fair value was not measured on the basis of an observable market price, then how it was determined;
 - whether and how expected dividends were incorporated into the measurement of fair value; and
 - whether and how any other features of the equity instruments granted were incorporated into the measurement of fair value.

IFRS 2.47(c) An entity discloses how it determined the incremental fair value of any share-based payment arrangements that were modified during the period.

2. *IFRS 7.31, 32* An entity is required to disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period. Those risks typically include, but are not limited to, credit risk, liquidity risk and market risk.

IFRS 7.33 For each type of risk, an entity discloses:

- (1) the exposures to risk and how they arise;
- (2) its objectives, policies and processes for managing the risk and the methods used to measure the risk; and
- (3) any changes in (1) or (2) from the previous period.

IAS 1.134 An entity discloses information that enables users of its financial statements to evaluate the its objectives, policies and processes for managing capital.

3. *IFRS 7.3, 5* The disclosure requirements of *IFRS 7 Financial Instruments: Disclosures* 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 – 7 of IAS 39.

4. In these illustrative 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 in the financial statements.

5. In these illustrative 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 consolidated financial statements

4. Determination of fair values (continued)

(x) Deferred revenue

The amount allocated to the P-points, granted through a customer loyalty programme, is estimated by reference to the fair value of the discounted paper products for which they could be redeemed, since the fair value of the P-points themselves is not directly observable. The fair value of the right to purchase paper products at a discount for which the P-points can be redeemed takes into account the amount of the discount, adjusted to take into account the expected forfeiture rate.

(xi) Share-based payment transactions

IFRS 2.46,
47(a)(i)-(iii)

The fair value of the employee share purchase plan is measured using Monte Carlo Sampling. The fair value of the employee share options and the share appreciation rights is measured using the Black-Scholes formula.¹ Measurement inputs include the share price on the measurement date, the exercise price of the instrument, expected volatility (based on an evaluation of the company's historic volatility, particularly over the historic period commensurate with the expected term), expected term of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

(xii) Contingent consideration

The fair value of contingent consideration is calculated using the income approach based on the expected payment amounts and their associated probabilities (i.e. probability-weighted). Since the contingent consideration is long-term in nature, it is discounted to present value.

5. Financial risk management

Overview^{2, 3, 4}

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 consolidated financial statements.⁵

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.

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Reference

Notes to the consolidated financial statements

5. Financial risk management (continued)**Risk management framework (continued)**

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 (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.

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 2010, certain purchase limits have been redefined, particularly for customers operating in the Standard and Recycled Papers segments, since the Group's experience is that the economic recovery has had a greater impact in these segments than in the Group's other segments.

Note *Reference* **Explanatory note**

- 1.** *IFRS 7B11F* 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 consolidated financial statements**5. Financial risk management (continued)****Credit risk (continued)****Trade and other receivables (continued)***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 €1,505 thousand at 31 December 2010 (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, except as disclosed in note 34.

Guarantees

The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries. At 31 December 2010 no guarantees were outstanding (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 (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 (2009: Euribor plus 100 basis points).

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Reference Notes to the consolidated financial statements**5. Financial risk management (continued)***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.

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 pension 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.

Note Reference **Explanatory note**

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|-----------|--------------------------|---|
| 1. | <i>IAS 1.135</i> | 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. |
| | <i>IAS 1.135 (c)-(e)</i> | 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. |
| | <i>IAS 1.136</i> | 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. |
-
- | | | |
|-----------|-------------------------|---|
| 2. | <i>IAS 1.135(a)(ii)</i> | 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. |
|-----------|-------------------------|---|

Reference Notes to the consolidated financial statements

5. Financial risk management (continued)
Market risk (continued)

IFRS 7B5(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.

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)

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The Group's target is to achieve a return on capital of between 23 and 28 percent; in 2010 the return was 35.1 percent (2009: 24.8 percent). In comparison the weighted average interest expense on interest-bearing borrowings (excluding liabilities with imputed interest) was 6.2 percent (2009: 5.5 percent).

The Group's net debt to adjusted equity ratio at the reporting date was as follows:

IAS 1.135(b)

In thousands of euro

	2010	2009
Total liabilities	54,096	53,887
Less: cash and cash equivalents	1,505	1,850
Net debt	52,591	52,037
Total equity	30,934	33,347
Less: amounts accumulated in equity related to cash flow hedges	416	478
Adjusted equity	30,518	32,869
Net debt to adjusted equity ratio at 31 December	1.72	1.58

Note *Reference* **Explanatory note**

- 1.** *IFRS 8.23* Entities are required to disclose the following about each reportable segment if the specified amounts are included in the measure of profit or loss reviewed by the chief operating decision maker (CODM), or are otherwise provided regularly to the CODM, even if not included in that measure of segment profit or loss:
- revenues from external customers;
 - revenues from transactions with other operating segments of the same entity;
 - interest revenue;
 - interest expense;
 - depreciation and amortisation;
 - material items of income and expense disclosed in accordance with paragraph 97 of IAS 1;
 - the entity's interest in the profit or loss of associates and joint ventures accounted for by the equity method;
 - income tax expense or income; and
 - material non-cash items other than depreciation and amortisation.

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

Reference Notes to the consolidated financial statements

5. Financial risk management (continued)
Capital management (continued)

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 year.

6. Operating segments¹

IFRS 8.20-22, A The Group has six reportable segments, as described below, which are the Group's strategic divisions. The strategic divisions offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic divisions, the Group's CEO (the chief operating decision maker) reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- *Standard Papers*. Includes purchasing, manufacturing and distributing pulp and paper.
- *Recycled Papers*. Includes purchasing, recycling and distributing pulp and paper. Part of this segment was distributed to owners of the Company in June 2010 (see note 26).
- *Packaging*. Includes designing and manufacturing packaging materials; this segment was sold in May 2010 (see note 7).²
- *Forestry*. Includes cultivating and managing forest resources as well as related services.
- *Timber Products*. Includes manufacturing and distributing softwood lumber, plywood, veneer, composite panels, engineered lumber, raw materials and building materials.
- *Research and Development*. Includes research and development activities.

IAS 41.46(a)

IFRS 8.16,
IAS 41.46(a) Other operations include the cultivation and sale of farm animals (sheep and cattle), the construction of storage units and warehouses, rental of investment property, the manufacture of furniture and related parts, and the Group's service concession arrangement. None of these segments meets any of the quantitative thresholds for determining reportable segments in 2010 or 2009.

IFRS 8.27(a) There are varying levels of integration between the Forestry and Timber Products reportable segments, and the Standard Papers and Recycled Papers reportable segments. This integration includes transfers of raw materials and shared distribution services, respectively. Inter-segment pricing is determined on an arm's length basis.

IFRS 8.20 Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Group's CEO. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Note Reference **Explanatory note**

- 1.** *IFRS 8.IG5* Because the Group's reportable segments are based on different products and services, no additional disclosures of revenue information about products and services are required, i.e. the disclosures required by paragraph 32 of IFRS 8 *Operating Segments* with regard to revenue from external customers for each product or service, or each group of similar products and services, are provided already in the overall table of information about reportable segments.
- 2.** *IFRS 8.23* An entity presents interest revenue separately from interest expense for each reportable segment unless a majority of the segment's revenues are from interest, and the CODM relies primarily on net interest revenue to assess the performance of the segment and to make decisions about resources to be allocated to the segment. In that situation, an entity may report that segment's interest revenue net of interest expense, and disclose that it has done so.
- 3.** *IFRS 8.23* The *Improvements to IFRSs 2009* amended IFRS 8 so that a measure of segment assets is disclosed only if the amounts are regularly provided to the CODM, consistent with the equivalent requirement for the measure of segment liabilities.

Reference Notes to the consolidated financial statements

6. Operating segments (continued)
Information about reportable segments

	Standard Papers		Recycled Papers		Packaging (Discontinued)		Forestry		Timber Products		Research and Development		Other		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	<i>In thousands of euro</i>															
IFRS 8.23(a), 32	64,118	67,092	27,311	22,060	7,543	23,193	3,967	3,646	2,700	2,985	-	-	2,064	853	107,703	119,829
IFRS 8.23(b)	-	-	317	323	940	2,835	2,681	2,676	1,845	1,923	875	994	891	765	7,549	9,516
IFRS 8.23(c)	116	103	46	29	-	-	48	32	10	7	-	-	28	7	248	178
IFRS 8.23(d)	(594)	(586)	(402)	(362)	-	-	(353)	(308)	(76)	(63)	-	-	(75)	(19)	(1,500)	(1,338)
IFRS 8.23(e)	(1,949)	(2,130)	(1,487)	(1,276)	(623)	(1,250)	(1,069)	(696)	(233)	(201)	(189)	(165)	(231)	(199)	(5,781)	(5,917)
IFRS 8.21(b)	6,627	4,106	3,039	1,664	(162)	(466)	1,212	979	(263)	1,280	101	67	771	195	11,325	7,825
IFRS 8.23(g)	467	587	-	-	-	-	-	-	-	-	-	-	-	-	467	587
IFRS 8.23(i)	-	(1,408)	-	-	-	-	-	-	(116)	-	-	-	-	-	(116)	(1,408)
IFRS 8.21(b)	493	-	-	-	-	-	-	-	-	-	-	-	-	-	493	-
IFRS 8.24(a)	41,054	25,267	3,286	16,003	-	13,250	21,046	16,942	4,521	3,664	2,323	1,946	7,398	3,683	79,628	80,755
IFRS 8.24(b)	2,025	1,558	-	-	-	-	-	-	-	-	-	-	-	-	2,025	1,558
IFRS 8.21(b)	9,697	1,136	6,365	296	-	127	1,158	722	545	369	1,203	123	560	150	17,323	2,923
IFRS 8.21(b)	39,399	26,907	4,941	11,316	-	2,959	5,769	7,097	1,236	1,456	169	158	237	454	51,751	50,347

Note Reference **Explanatory note**

1. *IFRS 8.28* An entity can also meet the reconciliation requirements of IFRS 8 by inserting two extra columns in the table illustrated on page 89, referred to as “eliminations” and “total consolidated,” with material reconciliation items explained in a footnote to the table. In these illustrative financial statements, the reconciliations are illustrated in separate tables.
2. *IFRS 8.28(e)* An entity identifies and describes separately all material reconciling items.

Reference Notes to the consolidated financial statements

6. Operating segments (continued)**Reconciliations of reportable segment revenues, profit or loss, assets and liabilities, and other material items¹***In thousands of euro*

	2010	2009
<i>IFRS 8.28(a)</i>		
Revenues		
Total revenue for reportable segments	112,297	127,727
Other revenue	2,955	1,618
Elimination of inter-segment revenue	(7,549)	(9,516)
Elimination of discontinued operations	(7,543)	(23,193)
Consolidated revenue	100,160	96,636
<i>IFRS 8.28(b)</i>		
Profit or loss		
Total profit or loss for reportable segments	10,554	7,630
Other profit or loss	771	195
	11,325	7,825
Elimination of inter-segment profits	(1,695)	(1,175)
Elimination of discontinued operations	162	466
Unallocated amounts:		
Gain on distribution to owners of the Company	2,556	-
Other corporate expenses	(1,886)	(1,525)
Share of profit of equity-accounted investees	467	587
Consolidated profit from continuing operations before tax	10,929	6,178
<i>IFRS 8.28(c)</i>		
Assets		
Total assets for reportable segments	72,230	77,072
Other assets	7,398	3,683
Investments in equity-accounted investees	2,025	1,558
Other unallocated amounts	3,042	4,641
Consolidated total assets	84,695	86,954
<i>IFRS 8.28(d)</i>		
Liabilities		
Total liabilities for reportable segments	51,514	49,893
Other liabilities	237	454
Other unallocated amounts	2,345	3,540
Consolidated total liabilities	54,096	53,887

IFRS 8.28(e) **Other material items 2010***In thousands of euro*

	Reportable segment totals	Adjust- ments ²	Consolid- ated totals
Interest revenue	220	(12)	208
Interest expense	1,425	(12)	1,413
Capital expenditure	18,968	560	19,528
Depreciation and amortisation	5,550	236	5,786
Impairment losses on intangible assets	116	-	116
Reversal of impairment losses on property, plant and equipment and intangible assets	493	-	493

Note Reference **Explanatory note**

1. *IFRS 8.31* An entity presents entity-wide disclosures related to the following items regardless of whether the information is used by the CODM in assessing segment performance:

- products and services;
- geographic areas;
- non-current assets other than financial instruments;
- deferred tax assets;
- post-employment benefit assets; and
- risks arising from insurance contracts.

This information is provided by both: the entity's country of domicile; and by foreign individual country, if material. In our view, disclosing such information by region, e.g. Europe or Asia, does not meet the requirement to disclose information by individual foreign country, if material. Such information should be disclosed by the individual foreign country, e.g. France, the Netherlands, Singapore, when material. These disclosures apply to all entities subject to IFRS 8, including entities that have only one reportable segment. However, information required by the entity-wide disclosures need not be repeated if it is included already in the segment disclosures. This issue is discussed in our publication *Insights into IFRS* (5.2.230.10 – 13).

Reference Notes to the consolidated financial statements

6. Operating segments (continued)**Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items (continued)**

IFRS 8.28(e)

Other material items 2009

<i>In thousands of euro</i>	Reportable segment totals	Adjust- ments	Consolid- ated totals
Interest revenue	171	(20)	151
Interest expense	1,319	(20)	1,299
Capital expenditure	2,773	150	2,923
Depreciation and amortisation	5,718	199	5,917
Impairment on property, plant and equipment and intangible assets	1,408	-	1,408

Geographical information¹

IFRS 8.33(a), (b)

The Standard Papers, Recycled Papers and Forestry segments are managed on a worldwide basis, but operate manufacturing facilities and sales offices primarily in France, the Netherlands, Germany, the United Kingdom and the United States.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

Revenue*In thousands of euro*

	2010	2009
France	29,140	34,298
The Netherlands	22,654	25,641
Germany	23,556	25,877
United States	22,643	23,268
United Kingdom	4,001	5,300
Other countries	5,709	5,445
Investments in equity-accounted investees	-	-
Packaging (discontinued)	(7,543)	(23,193)
Consolidated revenue	100,160	96,636

Non-current assets⁽ⁱ⁾*In thousands of euro*

	2010	2009
France	6,338	11,435
The Netherlands	4,983	8,986
Germany	6,104	9,877
United States	7,691	7,807
United Kingdom	2,002	1,998
Other countries	2,703	3,815
Investments in equity-accounted investees	2,025	1,558
	31,846	45,476

(i) Non-current assets presented consist of property, plant and equipment, intangible assets, biological assets and investment properties.

Major customer

IFRS 8.34

Revenues from one customer of the Group's Standard Papers and Recycled Papers segments represents approximately €20,000 thousand (2009: €17,500 thousand) of the Group's total revenues.

Note Reference **Explanatory note**

- 1.** *IFRS 5.35* The nature and amount of any adjustments related to the disposal of discontinued operations in prior periods are classified and disclosed separately.
- 2.** In some cases there may be transactions between the continuing and discontinued operations, for example intra-segment sales and purchases. If the transactions between the continuing and discontinued operations are expected to continue after the operations are disposed of, then in our view the presentation of the discontinued operation should reflect the continuance of the relationship as such information enables users of the financial statements to evaluate the financial effects of the discontinued operations. This issue is discussed in our publication *Insights into IFRS* (5.4.220.12).
- 3.** *IFRS 5.33(b)* This information is not required to be presented for a newly acquired subsidiary that is classified as held for sale on acquisition.
- 4.** *IAS 33.9, 68* Basic and diluted earnings per share for discontinued operations instead may be disclosed in the statement of comprehensive income.
- 5.** *IFRS 5.33(c)* The net cash flow attributable to the operating, investing and financing activities of discontinued operations instead may be disclosed separately in the statement of cash flows.

IFRS 5.33(c) This information need not be presented for a newly acquired subsidiary that is classified as held for sale on acquisition.

Note Reference **Explanatory note**

1. *IFRS 5.42* If there are changes to a plan of sale or distribution and an asset or a disposal group no longer is classified as held for sale or distribution, then the entity discloses, in the period of change, a description of the facts and circumstances leading to the decision, and the effect of the decision on the results of operations for the period and any prior periods presented.

2. *IFRS 5.5B* The disclosure requirements of IFRS 5 apply to non-current assets or disposal groups classified as held for sale and to discontinued operations. Disclosures required by other IFRSs apply when it refers specifically to non-current assets or disposal groups classified as held for sale or to discontinued operations; for example the disclosure of earnings per share for a discontinued operation. Disclosures required by other IFRSs may also apply where they relate to assets and liabilities in a disposal group that are not within the measurement scope of IFRS 5. Additional disclosures may be necessary to comply with the general requirements of IAS 1, in particular for a fair presentation and in respect of sources of estimation uncertainty.

3. *IFRS 5.38, 39* The major classes of assets and liabilities classified as held for sale are disaggregated in the notes. This disclosure is not required if the disposal group is a newly acquired subsidiary that meets the criteria to be classified as held for sale on acquisition.

IFRS 5.38 An entity presents separately any cumulative income or expense recognised in other comprehensive income related to a disposal group classified as held for sale.

4. *IFRS 3.B67(e)* For each material business combination, or in aggregate for individually immaterial business combinations that are material collectively, 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.

5. *IFRS 3.63* If the specific disclosures pursuant to the requirements of IFRS 3 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 related to business combinations effected in prior periods, then an entity discloses additional information.

6. *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 financial statements there were no acquisitions in the comparative period.

Reference Notes to the consolidated financial statements

8. Non-current assets held for sale^{1, 2}IFRS 5.41(a), (b),
(d)

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. At 31 December 2010 the disposal group comprised assets of €14,410 thousand less liabilities of €4,410 thousand.

IFRS 5.41(c)

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 (see note 12).

IFRS 5.38

Assets classified as held for sale³*In thousands of euro*

	Note	2010
Property, plant and equipment	16	8,164
Inventories		2,750
Trade and other receivables		3,496
		<u>14,410</u>

IFRS 5.38

Liabilities classified as held for sale³*In thousands of euro*

	Note	2010
Trade and other payables		4,270
Deferred tax liabilities	22	140
		<u>4,410</u>

9. Acquisitions of subsidiary and non-controlling interests^{4, 5}**Acquisition of subsidiary⁶**

IFRS 3.B64(a)-(d)

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 the 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 nine months to 31 December 2010 Papyrus contributed revenue of €13,678 thousand and profit of €320 thousand to the Group's results. If the acquisition had occurred on 1 January 2010, management estimates that consolidated revenue would have been €104,535 thousand, and consolidated profit for the year would have been €8,114 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:

Note Reference **Explanatory note**

- | |
|---|
| <p>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 the basis for determining the amount, and an estimate of the range of outcomes (undiscounted) or, if a range cannot be estimated, this fact and the reasons why a range cannot be estimated. If the maximum payment amount is unlimited, then an entity discloses this fact.</p> |
|---|

Reference Notes to the consolidated financial statements

9. Acquisitions of subsidiary and non-controlling interests (continued)
Acquisition of subsidiary (continued)IFRS 3.B64(f),
IAS 7.40(a)**Consideration transferred***In thousands of euro***Note**

IFRS 3.B64(f)	Cash		2,500
	Equity instruments issued (8,000 ordinary shares)	26	87
	Replacement share-based payment awards – value of past service		120
	Contingent consideration		250
	Settlement of pre-existing relationship		(326)
			<u>2,631</u>

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	<ul style="list-style-type: none"> • Grant date 1 April 2009 • Vesting date 31 March 2010 • Service condition 	<ul style="list-style-type: none"> • 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. For further details on the replacement awards, see note 30.

Contingent considerationIFRS 3.B64(g),
B67(b)(i)-(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 fiscal years exceeds €1,800 thousand. The Group has included €250 thousand as contingent consideration related to the additional consideration, which represents its fair value at the acquisition date, based on a discount rate of 11 percent. At 31 December 2010 the contingent consideration had increased to €270 thousand, reflecting the unwind of the discount since acquisition.¹

Note *Reference* **Explanatory note**

- 1.** *IFRS 3.23* At the acquisition date an entity recognises a contingent liability assumed in a business combination only if it represents a present obligation arising from a past event and its fair value can be reasonably estimated.

Contingent liabilities that are present obligations are recognised in the acquisition accounting because they meet the definition of a liability, even if it is not probable that an outflow of resources will be required to settle the obligation. A possible obligation is not recognised because it is not a liability.

Reference Notes to the consolidated financial statements

9. Acquisitions of subsidiary and non-controlling interests (continued)**Acquisition of subsidiary (continued)****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 (see note 12).

IFRS 3.B64(i),
IAS 7.40(a)-(d)**Identifiable assets acquired and liabilities assumed**

In thousands of euro

Note

IAS 7.40(c)

Property, plant and equipment	16	1,955
Intangible assets	17	250
Inventories		825
Trade receivables		848
Cash and cash equivalents		375
Loans and borrowings		(500)
Deferred tax liabilities	22	(79)
Contingent liabilities ¹	32	(20)
Site restoration provision	32	(150)
Trade and other payables		(260)
Total identifiable net assets		<u>3,244</u>

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 has conducted a preliminary assessment of 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(j),
B67(c), IAS 37.86

Note Reference **Explanatory note**

1. *IFRS 3.B64(h)* An entity discloses the fair value, gross contractual amounts receivable and the best estimate at the acquisition date of the contractual cash flows not expected to be collected for each major class of receivables acquired (e.g. loans, direct finance leases).

2. *IFRS 3.B64(o)* If an entity chooses to value non-controlling interests at fair value, the valuation techniques (ii) and key model inputs used for determining that value are disclosed.

3. *IFRS 3.B64(n)* If an acquirer in a business combination makes a bargain purchase, then the acquirer discloses the amount of the gain recognised, the line item in the statement of comprehensive income in which the gain is presented, and a description of the reasons why the transaction resulted in a gain.

4. When NCI were initially measured at their proportionate interest in the identifiable net assets of a subsidiary, because no goodwill was initially attributed to NCI, there are different approaches to the determination of the adjustment to NCI that are acceptable for purchases and sales of NCI when retaining control. In our view, each of the following approaches is acceptable:

- *Approach 1.* Attribute a proportionate amount of all the net assets of the subsidiary including recognised goodwill. This view interprets “interests in the subsidiary” in paragraph 31 of IAS 27 as related to all net assets, including goodwill, recognised in the parent’s consolidated financial statements. Under this approach, recognised goodwill is treated as any other asset.
- *Approach 2.* Attribute a proportionate amount of the net assets of the subsidiary; however, in doing so there are two separate asset pools: one asset pool is in respect of the parent’s interest (net assets including goodwill) and the other asset pool is in respect of the NCI (identifiable net assets but no goodwill). Under this approach, a purchase of equity interests from non-controlling shareholders results in adjusting NCI for the proportionate amount of the NCI asset pool because the parent is buying a portion of that pool of assets. Conversely, a sale of equity interests to the non-controlling shareholders results in adjusting NCI for a proportionate amount of the parent’s assets-plus-goodwill pool because the parent is selling a portion of that asset pool to the NCI.
- *Approach 3.* Attribute a proportionate amount of only the identifiable net assets of the subsidiary. This view interprets “interests in the subsidiary” in paragraph 31 of IAS 27 as related to identifiable assets only since NCI have been initially recognised only in respect of identifiable assets.

Other approaches also may be acceptable depending on the circumstances. An entity should choose an accounting policy, to be applied consistently, to both sales and purchases of equity interests in subsidiaries when control exists before and after the transaction when NCI are measured initially at their proportionate interest in the identifiable net assets of the acquiree. This issue is discussed in our publication *Insights into IFRS* (2.5.392.10 – 20).

Reference Notes to the consolidated financial statements

9. Acquisitions of subsidiary and non-controlling interests (continued)**Identifiable assets acquired and liabilities assumed (continued)**

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.¹

Goodwill

Goodwill was recognised as a result of the acquisition as follows:

In thousands of euro

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

IFRS 3.B64(p)

The remeasurement to fair value of the Group's existing 25 percent interest in the acquiree resulted in a gain of €250 thousand (€830 thousand less €600 thousand carrying value of equity-accounted investee at acquisition date plus €20 thousand of translation reserve transferred to profit or loss), which has been recognised in finance income in the statement of comprehensive income (see note 14).

IFRS 3.B64(e), (k)

The goodwill is attributable mainly to the skills and technical talent of Papyrus' work force, and the synergies expected to be achieved from integrating the company into the Group's existing recycled 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 related to external legal fees and due diligence costs. The legal fees and due diligence costs have been included in administrative expenses in the Group's consolidated statement of comprehensive income.

Acquisition of non-controlling interests⁴

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

	2010
Company's ownership interest at the beginning of the year	392
Effect of increase in Company's ownership interest	115
Share of comprehensive income	290
Company's ownership interest at the end of the year	797

Note Reference **Explanatory note**

- 1.** *IAS 18.35(c)* An entity discloses the amount of revenue arising from exchanges of goods or services included in each significant category of revenue.
- 2.** *IAS 1.60* In these illustrative financial statements it is assumed that there is no restriction on the ability to redeem points and as such deferred revenue in relation to this programme is presented as a current liability. In practice, there may be customer loyalty programmes with restrictions on the ability to redeem points that could give rise to a non-current presentation of the related deferred revenue.
- 3.** Issues related to identifying and accounting for agency relationships are discussed in our publication *Insights into IFRS* (4.2.660).
- 4.** In our view, whether changes in the fair value of biological assets should be presented as revenue in a separate line item in the statement of comprehensive income, or as part of other income, depends on the relative significance of agricultural activities. This issue is discussed in our publication *Insights into IFRS* (3.9.110).
- 5.** *IAS 20.39(c)* An entity discloses any unfulfilled conditions and other contingencies with respect to government assistance that has been recognised.

Reference Notes to the consolidated financial statements

10. Revenue¹

	Note	Continuing operations		Discontinued operation (see note 7)		Total	
		2010	2009	2010	2009	2010	2009
<i>In thousands of euro</i>							
IAS 18.35(b)(i)		84,770	80,690	7,543	23,193	92,313	103,883
IAS 18.35(b)(ii)		13,120	14,786	-	-	13,120	14,786
IAS 18.35(b)(iv)		451	307	-	-	451	307
IAS 40.75(f)(i)		810	212	-	-	810	212
IAS 11.39(a)		659	641	-	-	659	641
SIC-29.6A	40	350	-	-	-	350	-
		100,160	96,636	7,543	23,193	107,703	119,829

In September 2010 the Group introduced a customer loyalty programme to stimulate the sale of certain paper products used in the printing industry. The Group grants P-points when customers buy certain designated paper products. These P-points can be redeemed for discounts on paper products and on their redemption an appropriate amount of deferred revenue is released and included in sales of goods.

At 31 December 2010 the Group has deferred revenue of €50 thousand (2009: €38 thousand), which represents the fair value of that portion of the consideration received or receivable in respect of initial sales of paper products for which P-points have been granted, but not yet redeemed.²

IAS 1.122

Commission relates to the sale of products in which the Group acts as an agent in the transaction rather than as the principal.³ 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.

Construction contract revenue has been determined based on the percentage of completion method. The amount of revenue recognised results from the development of a number of storage units and warehouses for some of the Group's customers in the Timber Products segment. These storage units and warehouses are constructed based on a specifically negotiated contract with customers.

IAS 1.97

11. Other income

	Note	2010	2009
<i>In thousands of euro</i>			
IAS 41.40	18	650	50
	18	11	15
IAS 40.76(d)	19	20	60
	31	238	-
IAS 1.98(c)		26	100
	35	150	90
		1,095	315

Note Reference **Explanatory note**

- | | |
|---------------------|---|
| 1. IAS 1.87 | An entity shall not present any items of income and expense as extraordinary items, either in the statement of comprehensive income or in the notes. This issue is discussed in our publication <i>Insights into IFRS</i> (4.1.86). |
| 2. | IFRSs are silent about how impairment losses on trade receivables are presented. In these illustrative financial statements impairment losses on trade receivables are presented as part of other expenses, which is one possible choice of presentation. Other presentations, e.g. as finance costs, also are possible as long as the disclosure requirements of IFRS 7 are met. |
| 3. IAS 1.104 | An entity classifying expenses by function discloses employee benefits expense in total. The level of disclosure presented in these illustrative financial statements is optional. |

Reference Notes to the consolidated financial statements

IAS 1.97 **12. Other expenses¹***In thousands of euro*

	Note	2010	2009
		25	-
IFRS 7.20(e) Impairment loss on remeasurement of disposal group	8	25	-
Impairment loss on trade receivables ²	34	150	30
Settlement of pre-existing relationship with acquiree	9	326	-
Earthquake related expenses		359	-
		<u>860</u>	<u>30</u>

A wholly-owned subsidiary incurred expenses amounting to €359 thousand due to an earthquake. The expenses relate to the survey of facilities and the removal of damaged items.

IAS 1.104 **13. Personnel expenses³***In thousands of euro*

	Note	2010	2009
		18,635	16,659
Wages and salaries		18,635	16,659
Compulsory social security contributions		1,468	1,267
IAS 19.46 Contributions to defined contribution plans		455	419
Expenses related to defined benefit plans	29	425	500
Increase in liability for long-service leave		26	12
IFRS 2.51(a) Equity-settled share-based payment transactions	30	755	250
IFRS 2.51(a) Cash-settled share-based payment transactions	30	440	350
		<u>22,204</u>	<u>19,457</u>

Note Reference **Explanatory note**

- 1.** *IFRS 7.20* There is no guidance in IFRSs as to what is included in finance income and finance costs. An entity discloses as part of its accounting policies which items constitute finance income and finance costs; see accounting policy in note 3(r) of these illustrative financial statements. This issue is discussed in our publication *Insights into IFRS* (4.6.540.20).
- 2.** *IFRS 7.20(b)* An entity discloses total interest income for financial assets not at fair value through profit or loss. In these illustrative financial statements we illustrate interest income disaggregated by category of financial asset. While this level of disaggregation is optional, an entity is required to disclose separately any material items of income, expense and gains and losses resulting from financial assets and liabilities.
- 3.** The accounting for interest on available-for-sale debt securities is discussed in our publication *Insights into IFRS* (3.6.830.40).
- 4.** If applicable, an entity also discloses:

 - IFRS 7.20 (a)(iii)-(v)* ● net gains and losses on held-to-maturity investments, loans and receivables, and financial liabilities measured at amortised cost;
 - IFRS 7.20(c)* ● fee income and expense, other than amounts included in determining the effective interest rate;
 - IFRS 7.24(a)* ● for fair value hedges, gains and losses on the hedging instrument and on the hedged item attributable to the hedged risk; and
 - IFRS 7.24(c)* ● the ineffective portion of the change in fair value of a net investment hedge.
- 5.** *IAS 32.40* Dividends classified as an expense may be presented in the statement of comprehensive income either with interest on other liabilities or as a separate item. If there are differences between interest and dividends with respect to matters such as tax deductibility, then it is desirable to disclose them separately in the statement of comprehensive income.
- 6.** *IFRS 7.28* An entity discloses the following in respect of any day one gain or loss:

 - an accounting policy; and
 - the aggregate difference still to be recognised in profit or loss, and a reconciliation between the opening and closing balance thereof.
- 7.** *IAS 1.93* This amount is deducted from other comprehensive income in the period in which the realised gains are reclassified to profit or loss.

Note Reference **Explanatory note**

1. *IAS 12.80(h)* An entity discloses the amount of income tax expense (income) related to those changes in accounting policies and errors that are included in the determination of profit or loss in accordance with IAS 8 because they cannot be accounted for retrospectively.
2. In these illustrative financial statements total income tax expense includes income tax expense of the Group and income tax expense of equity-accounted investees. A different presentation that excludes the income tax expense of equity-accounted investees also is possible.

Reference Notes to the consolidated financial statements

15. Income tax expense*In thousands of euro*

	<i>Note</i>	2010	2009
Income tax recognised in profit or loss			
Current tax expense¹			
<i>IAS 12.80(a)</i>		963	1,181
<i>IAS 12.80(b)</i>		97	(34)
		1,060	1,147
Deferred tax expense¹			
<i>IAS 12.80(c)</i>		2,338	844
<i>IAS 12.80(d)</i>		(15)	-
<i>IAS 12.80(g)</i>		13	5
<i>IAS 12.80(f)</i>		(50)	(240)
		2,286	609
		3,346	1,756
		3,371	1,800
<i>IAS 12.81(h)(ii)</i>	7	(25)	(44)
		3,346	1,756
<i>IAS 12.81(h)(i)</i>	7	330	-
		251	316
		3,927	2,072

IAS 12.81(a) **Income tax recognised directly in equity***In thousands of euro*

	2010			2009		
	Before tax	Tax (expense) benefit	Net of tax	Before tax	Tax (expense) benefit	Net of tax
Convertible notes	163	(54)	109	-	-	-
	163	(54)	109	-	-	-

Note Reference **Explanatory note**

1. *IAS 1.90* An entity discloses the amount of income tax related to each component in other comprehensive income, either in the statement of comprehensive income, or in the notes. In these illustrative financial statements, income tax related to each component in other comprehensive income is presented in the notes.

2. *IAS 12.85* The reconciliation of the effective tax rate is based on an applicable tax rate that provides the most meaningful information to users. In these illustrative financial statements, the reconciliation is based on the entity's domestic tax rate, with a reconciling item in respect of tax rates applied by the Group entities in other jurisdictions. However, in some cases it might be more meaningful to aggregate separate reconciliations prepared using the domestic tax rate in each individual jurisdiction.

IAS 12.81(c) In these illustrative financial statements, both a numerical reconciliation between total income tax expense and the product of accounting profit multiplied by the applicable tax rates, and a numerical reconciliation between the average effective tax rate and the applicable tax rate is disclosed. An entity explains the relationship using either or both of such numerical reconciliations, and also discloses the basis on which the applicable tax rate is computed.

3. In these illustrative financial statements total income tax expense for the purpose of reconciliation of the effective tax rate includes income tax expense of the Group and income tax expense of equity-accounted investees. A different presentation of the reconciliation that excludes tax expense of equity-accounted investees also is possible.

Reference Notes to the consolidated financial statements

15. Income tax expense (continued)

IAS 12.81(ab)

Income tax recognised in other comprehensive income¹
For the year ended 31 December

		2010			2009		
		Before tax	Tax (expense) benefit	Net of tax	Before tax	Tax (expense) benefit	Net of tax
<i>In thousands of euro</i>							
IAS 1.90	Foreign currency translation differences for foreign operations	501	-	501	330	-	330
IAS 1.90	Net loss on hedge of net investment in foreign operation	(3)	-	(3)	(8)	-	(8)
IAS 1.90	Revaluation of property, plant and equipment	200	(66)	134	-	-	-
IAS 1.90	Cash flow hedges	(93)	31	(62)	66	(22)	44
IAS 1.90	Available-for-sale financial assets	135	(45)	90	94	(31)	63
IAS 1.90	Defined benefit plan actuarial gains (losses)	72	(24)	48	(15)	5	(10)
		812	(104)	708	467	(48)	419

IAS 12.81(c)

Reconciliation of effective tax rate²*In thousands of euro*

	2010	2010	2009	2009
Profit for the year		7,937		3,956
Total income tax expense ³		3,927		2,072
Profit excluding income tax		11,864		6,028
Income tax using the Company's domestic tax rate	33.00%	3,915	33.00%	1,989
Effect of tax rates in foreign jurisdictions*	(0.33%)	(39)	2.19%	132
Difference in effective tax rate of equity-accounted investees	0.12%	14	0.30%	18
Effect of higher tax rate on gain on sale of discontinued operation	0.43%	51	-	-
Reduction in tax rate	(0.13%)	(15)	-	-
Non-deductible expenses	1.26%	149	1.76%	106
Tax exempt income	(0.67%)	(79)	-	-
Tax incentives	(1.21%)	(144)	(0.51%)	(31)
Utilisation of tax losses	8.93%	1,060	19.03%	1,147
Recognition of previously unrecognised tax losses	(9.36%)	(1,110)	(23.01%)	(1,387)
Current year losses for which no deferred tax asset was recognised	0.13%	15	2.11%	127
Change in unrecognised temporary differences	0.11%	13	0.08%	5
Under (over) provided in prior years	0.82%	97	(0.56%)	(34)
	33.10%	3,927	34.39%	2,072

IAS 12.81(d)

* The subsidiary acquired in 2010 (see note 9) operates in a tax jurisdiction with lower tax rates.

Note Reference **Explanatory note**

- 1.** *IAS 16.73(d), (e)* An entity is required to present a reconciliation of the carrying amount of property, plant and equipment from the beginning to the end of the reporting period. The separate reconciliations of the gross carrying amount and accumulated depreciation illustrated in these illustrative financial statements are not required and a different format may be used. However, an entity is required to disclose the gross carrying amount and accumulated depreciation at the beginning and at the end of the reporting period.
- IAS 16.74(d)* An entity discloses the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in profit or loss.
- IAS 16.77* If an entity uses the revaluation model to account for property, plant and equipment, then it discloses:
- the effective date of the revaluation;
 - whether an independent valuer was involved;
 - the methods and significant assumptions applied in estimating the items' fair values;
 - the extent to which the items' fair values were determined directly by reference to observable prices in an active market, or recent market transactions on arm's length terms, or were estimated using other valuation techniques;
 - for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been measured under the cost model (i.e. not revalued); and
 - the revaluation surplus, indicating the change for the period, and any restrictions on the distribution of the balance to shareholders.

Reference Notes to the consolidated financial statements

16. Property, plant and equipment¹

IAS 16.73(d), (e)	In thousands of euro	Note	Land and buildings	Plant and equipment	Fixtures and fittings	Under construction	Total
Cost							
IAS 16.73(d)	Balance at 1 January 2009		7,328	29,509	5,289	-	42,126
IAS 16.73(e)(i)	Additions		193	1,540	675	-	2,408
IAS 16.73(e)(ii)	Disposals		-	(1,081)	-	-	(1,081)
IAS 16.73(e)(viii)	Effect of movements in exchange rates		-	316	171	-	487
IAS 16.73(d)	Balance at 31 December 2009		7,521	30,284	6,135	-	43,940
IAS 16.73(d)	Balance at 1 January 2010		7,521	30,284	6,135	-	43,940
IAS 16.73(e)(iii)	Acquisitions through business combinations	9	185	1,580	190	-	1,955
IAS 16.73(e)(i), 74(b)	Other additions		1,750	9,544	657	4,100	16,051
IAS 16.73(e)(ix)	Offset of accumulated depreciation on building transferred to investment property		(300)	-	-	-	(300)
IAS 16.73(e)(ix)	Revaluation of building reclassified to investment property		200	-	-	-	200
IAS 16.73(e)(ix)	Reclassification to investment property	19	(800)	-	-	-	(800)
IAS 16.73(e)(ix)	Distributed to owners of the Company	26	(3,900)	(7,243)	-	-	(11,143)
IAS 16.73(e)(ii)	Reclassification to assets held for sale	8	-	(9,222)	-	-	(9,222)
IAS 16.73(e)(ii)	Disposals		-	(11,972)	(2,100)	-	(14,072)
IAS 16.73(e)(viii)	Effect of movements in exchange rates		-	91	50	-	141
IAS 16.73(d)	Balance at 31 December 2010		4,656	13,062	4,932	4,100	26,750
Depreciation and impairment losses							
IAS 16.73(d)	Balance at 1 January 2009		693	5,557	939	-	7,189
IAS 16.73(e)(vii)	Depreciation for the year		123	4,240	759	-	5,122
IAS 16.73(e)(vi)	Impairment loss		-	1,123	-	-	1,123
IAS 16.73(e)(ii)	Disposals		-	(700)	-	-	(700)
IAS 16.73(e)(viii)	Effect of movements in exchange rates		-	98	59	-	157
IAS 16.73(d)	Balance at 31 December 2009		816	10,318	1,757	-	12,891
IAS 16.73(d)	Balance at 1 January 2010		816	10,318	1,757	-	12,891
IAS 16.73(e)(vii)	Depreciation for the year		120	4,140	741	-	5,001
IAS 16.73(e)(vi)	Reversal of impairment loss		-	(393)	-	-	(393)
IAS 16.73(e)(ix)	Offset of accumulated depreciation on building reclassified to investment property		(300)	-	-	-	(300)
IAS 16.73(e)(ix)	Distributed to owners of the Company	26	-	(1,493)	-	-	(1,493)
IAS 16.73(e)(ii)	Reclassification to assets held for sale	8	-	(1,058)	-	-	(1,058)
IAS 16.73(e)(ii)	Disposals		-	(3,808)	(1,127)	-	(4,935)
IAS 16.73(e)(viii)	Effect of movements in exchange rates		-	63	38	-	101
IAS 16.73(d)	Balance at 31 December 2010		636	7,769	1,409	-	9,814
Carrying amounts							
IAS 1.78(a)	At 1 January 2009		6,635	23,952	4,350	-	34,937
	At 31 December 2009		6,705	19,966	4,378	-	31,049
	At 31 December 2010		4,020	5,293	3,523	4,100	16,936

Note Reference **Explanatory note**

- | | |
|-----------------------------|--|
| 1. <i>IAS 36.131</i> | In respect of the aggregate amount of impairment losses or reversals that are not disclosed because they are not considered material, an entity discloses: <ul style="list-style-type: none">● 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. <i>IAS 8.40</i> | If the amount of the effect in subsequent periods is not disclosed because estimating it is impracticable, then the entity discloses that fact. |
| 3. <i>IAS 1.42</i> | If reclassifying comparative amounts is impracticable, then the entity discloses the reason for not reclassifying the amounts, and the nature of the adjustments that would have been made if the amounts had been reclassified. |

Reference Notes to the consolidated financial statements

16. Property, plant and equipment (continued)**Impairment loss and subsequent reversal¹**

During 2009, due to regulatory restrictions imposed on the manufacture of a new product in the Standard Papers segment, the Group tested the related product line for impairment and recognised an impairment loss of €1,123 thousand with respect to plant and equipment. In 2010 €393 thousand of the loss was reversed. See note 17 for further details of the impairment loss and subsequent reversal.

Leased plant and machinery

IAS 17.31(a), (e)

The Group leases production equipment under a number of finance lease agreements. Some leases provide the Group with the option to purchase the equipment at a beneficial price. One of the leases is an arrangement that is not in the legal form of a lease, but is accounted for as such based on its terms and conditions. The leased equipment secures lease obligations. At 31 December 2010 the net carrying amount of leased plant and equipment was €1,646 thousand (2009: €1,972 thousand). During the year, the Group acquired leased assets of €200 thousand (2009: €180 thousand) (see note 28).

IAS 7.43

Security

IAS 16.74(a)

At 31 December 2010 properties with a carrying amount of €5,000 thousand (2009: €4,700 thousand) are subject to a registered debenture to secure bank loans (see note 28).

Property, plant and equipment under construction

IAS 16.74(b)

During the year the Group acquired land with the intention of constructing a new factory on the site. The cost of acquisition was €3,100 thousand. The Group commenced construction of the new factory; costs incurred up to the reporting date totalled €1,000 thousand (2009: nil).

IAS 23.26

Capitalised borrowing costs related to the acquisition of the land and the construction of the new factory amounted to €194 thousand (2009: nil), with a capitalisation rate of 5.2 percent (2009: not applicable).

Change in estimates

During the year the Group conducted an operational efficiency review at one of its plants, which resulted in changes in the expected usage of certain items of property, plant and equipment. Certain dye equipment, which management previously intended to sell after five years of use, is now expected to remain in production for 12 years from the date of purchase. As a result, the expected useful lives of these assets increased and their estimated residual values decreased. The effect of these changes on depreciation expense, recognised in cost of sales, in current and future years is as follows:²

<i>In thousands of euro</i>	2010	2011	2012	2013	2014	Later
IAS 8.39, 16.76 (Decrease) increase in depreciation expense	(256)	(113)	150	150	130	170

Change in classification

IAS 1.41(a), (c)

During the current year the Group modified the statement of comprehensive income classification of depreciation expense on certain office space from administrative to distribution expenses to reflect more appropriately the way in which economic benefits are derived from the use of the office space. Comparative amounts were reclassified for consistency, which resulted in €120 thousand being reclassified from administrative to distribution expenses.³

IAS 1.41(b)

Note Reference **Explanatory note**

1. IAS 38.122 An entity discloses the following:

- for an intangible asset assessed as having an indefinite useful life, the carrying amount of that asset and the reasons supporting the assessment of an indefinite useful life. In giving these reasons, the entity describes the factor(s) that played a significant role in determining that the asset has an indefinite useful life;
- a description, the carrying amount and remaining amortisation period of any individual intangible asset that is material to the financial statements;
- for intangible assets acquired by way of a government grant and recognised initially at fair value:
 - the fair value recognised initially for these assets;
 - their carrying amount; and
 - whether they are measured after recognition under the cost model or the revaluation model;
- the existence and carrying amounts of intangible assets whose title is restricted, and the carrying amounts of intangible assets pledged as security for liabilities; and
- the amount of contractual commitments for the acquisition of intangible assets.

IFRS 3.61, B67(d)(iii)-(v), IAS 38.118 In presenting a reconciliation of the carrying amount of intangible assets and goodwill, an entity also discloses, if applicable:

- assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IFRS 5, and other disposals;
- decreases and increases in the carrying amount of intangible assets during the period resulting from impairment losses recognised or reversed in other comprehensive income; and
- adjustments to goodwill resulting from the recognition of deferred tax assets subsequent to a business combination.

IAS 38.124 If an entity uses the revaluation model to account for intangible assets, then it discloses:

- the effective date of the revaluation for each class of the intangible assets;
- the carrying amount of each class of revalued intangible assets;
- the carrying amount that would have been recognised had the revalued class of intangible assets been measured after recognition using the cost model;
- the amount of the revaluation surplus that relates to intangible assets at the beginning and end of the reporting period, indicating the changes during the period and any restrictions on the distribution of the balance to shareholders; and
- the methods and significant assumptions applied in estimating the assets' fair values.

2. IAS 28.23 In our view, it is not necessary to provide the disclosures for goodwill arising in a business combination in respect of goodwill on equity-accounted investees. This issue is discussed in our publication *Insights into IFRS* (3.5.520.10).

Reference Notes to the consolidated financial statements

17. Intangible assets¹

IFRS 3.61, IAS 38.118(c), (e)	In thousands of euro	Note	Goodwill ²	Patents and trade- marks	Develop- ment costs	Other	Total
Cost							
IFRS 3.B67(d)(i), IAS 38.118	Balance at 1 January 2009		3,545	1,264	4,111	-	8,920
IAS 38.118(e)(i)	Acquisitions – internally developed		-	-	515	-	515
IAS 38.118(e)(vii)	Effect of movements in exchange rates		-	(171)	(75)	-	(246)
IFRS 3.B67(d)(viii), IAS 38.118	Balance at 31 December 2009		3,545	1,093	4,551	-	9,189
IFRS 3.B67(d)(i), IAS 38.118	Balance at 1 January 2010		3,545	1,093	4,551	-	9,189
IFRS 3.B67(d)(ii), IAS 38.118(e)(i)	Acquisitions through business combinations	9	541	170	-	80	791
IAS 38.118(e)(i)	Service concession	40	-	-	-	95	95
IAS 38.118(e)(viii)	Distributed to owners of the Company	26	(400)	-	-	-	(400)
IAS 38.118(e)(i)	Other acquisitions – internally developed		-	-	1,272	-	1,272
IAS 38.118(e)(vii)	Effect of movements in exchange rates		-	186	100	-	286
IFRS 3.B67(d)(viii), IAS 38.118	Balance at 31 December 2010		3,686	1,449	5,923	175	11,233
Amortisation and impairment losses							
IFRS 3.B67(d)(i), IAS 38.118	Balance at 1 January 2009		138	552	2,801	-	3,491
IAS 38.118(e)(vi)	Amortisation for the year		-	118	677	-	795
IAS 38.118(e)(iv)	Impairment loss		-	-	285	-	285
IAS 38.118(e)(vii)	Effect of movements in exchange rates		-	(31)	(12)	-	(43)
IFRS 3.B67(d)(viii), IAS 38.118(c)	Balance at 31 December 2009		138	639	3,751	-	4,528
IFRS 3.B67(d)(i), IAS 38.118	Balance at 1 January 2010		138	639	3,751	-	4,528
IAS 38.118(e)(iv)	Amortisation for the year		-	129	641	15	785
IFRS 3.B67(d)(v)	Impairment loss		116	-	-	-	116
IAS 38.118(e)(v)	Reversal of impairment loss		-	-	(100)	-	(100)
IAS 38.118(e)(vii)	Effect of movements in exchange rates		-	61	17	-	78
IFRS 3.B67(d)(viii), IAS 38.118	Balance at 31 December 2010		254	829	4,309	15	5,407
Carrying amounts							
IAS 38.118(c)	At 1 January 2009		3,407	712	1,310	-	5,429
IAS 38.118(c)	At 31 December 2009		3,407	454	800	-	4,661
IAS 38.118(c)	At 31 December 2010		3,432	620	1,614	160	5,826
Amortisation and impairment charge							
IAS 38.118(d)	The amortisation of patents, trademarks and development costs is allocated to the cost of inventory and is recognised in cost of sales as inventory is sold; the amortisation of other intangible assets is included in cost of sales. The impairment loss is recognised in cost of sales in the statement of comprehensive income.						

Note Reference **Explanatory note**

1. *IAS 36.132* An entity is encouraged to disclose assumptions used to determine the recoverable amount of assets and cash-generating units, and this publication illustrates the disclosure of the discount rate and terminal growth rate. Paragraph 134 of IAS 36 *Impairment of Assets* only requires these disclosures for cash-generating units containing goodwill or indefinite life intangibles, which this cash-generating unit does not have.

2. *IAS 36.130(f)* If the recoverable amount of an individual asset, including goodwill, or a cash-generating unit is determined based on its *fair value less costs to sell*, and a material impairment loss is recognised or, in the case of intangible assets other than goodwill (a reversal is prohibited for goodwill impairments), is reversed during the period, then an entity discloses the basis used to determine fair value less costs to sell.

IAS 36.130(c) If a material impairment loss is recognised for an individual asset, then an entity discloses:

- the nature of the asset; and
- if the entity reports segment information in accordance with IFRS 8, then the reportable segment to which the asset belongs.

IAS 36.130 (d)(iii) If a material impairment loss is recognised for a cash-generating unit, and the aggregation of assets for identifying the cash-generating unit has changed since the previous estimate of recoverable amount, then an entity describes the current and former way of aggregating assets, and the reasons for changing the way in which the cash-generating unit is identified.

IAS 36.130(a) If an impairment loss or a reversal thereof is material, then an entity discloses the events and circumstances that led to the recognition or reversal of the impairment loss.

IAS 36.126(c), (d) If applicable, an entity discloses the amount of impairment losses or reversals of impairment losses on revalued assets recognised in other comprehensive income during the period.

3. *IAS 36.126* If an entity classifies expenses based on their function, then any 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 as a separate line item if significant (e.g. impairment of goodwill), with additional information given in a note. This issue is discussed in our publication *Insights into IFRS* (3.10.430.20).

In our view, an impairment loss that is recognised in published interim financial statements should be presented in the same line item in the annual financial statements, even if the asset subsequently is sold and the gain or loss on disposal is included in a line item different from impairment losses in the annual financial statements. This issue is discussed in our publication *Insights into IFRS* (3.10.430.20).

Reference Notes to the consolidated financial statements

17. Intangible assets (continued)**Recoverability of development costs¹**

IAS 36.132

The carrying amount of an intangible asset representing a development project for a new process in one of the Group's factories in the Standard Papers segment is €400 thousand. An impairment test was triggered during the year because the regulation that would allow this new process to be implemented was delayed, such that the benefit of the new process will not be realised as soon as previously expected. The recoverable amount of the CGU (the factory using the process) was estimated based on its value in use, assuming that the regulation would be passed by July 2011 and using a pre-tax discount rate of 12 percent and a growth rate of 2 percent from 2016. The recoverable amount was estimated to be higher than the carrying amount of the CGU, and no impairment was required. Should this regulation be delayed beyond July 2011, then an impairment might arise and this could have a significant effect in 2011 on the carrying amount of the factory.

IAS 1.125, 129

Management considers it reasonably possible that the new regulation will be delayed a further year to July 2012. Revenue from the unmodified process continues to decline and the effect of the further delay of a year would be an impairment of approximately €100 thousand in the carrying amount of the factory.

Impairment loss and subsequent reversal

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

During 2009, due to regulatory restrictions imposed on the manufacture of a new product in the Standard Papers segment the Group assessed the recoverable amount of the related product line. The product 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 will produce the product) was estimated based on its value in use,² assuming that the production line would go live in August 2012. Based on the assessment in 2009, the carrying amount of the product line was determined to be €1,408 thousand higher than its recoverable amount, and an impairment loss was recognised (see below). In 2010, following certain changes to the recovery plan, the Group reassessed its estimates and €493 thousand of the initially recognised impairment has been reversed.

IAS 36.130(g)

The estimate of value in use was determined using a pre-tax discount rate of 10.5 percent (2009: 9.8 percent).

IAS 36.126(a), (b),
130(b), (d)(ii)

The impairment loss and its subsequent reversal was allocated *pro rata* to the individual assets constituting the production line (part of the Standard Papers segment) as follows:

<i>In thousands of euro</i>	Original carrying amount	Loss in 2009	Reversal in 2010
Plant and equipment (see note 16)	1,987	1,123	(393)
Capitalised development costs	504	285	(100)
Total	2,491	1,408	(493)

IAS 36.126(a), (b)

The impairment loss and subsequent reversal were recognised in cost of sales.³

Note Reference **Explanatory note**

- 1.** *IAS 36.133* When goodwill allocated to a CGU arose in a business combination in the reporting period, then that goodwill is tested for impairment before the end of that reporting period. However, when the acquisition accounting can be determined only provisionally, it also may not be possible to complete the allocation of goodwill to CGUs before the end of the annual period in which the business combination occurred. In such cases an entity discloses the amount of unallocated goodwill, together with the reason for not allocating the goodwill to CGUs. However, the allocation of goodwill to CGUs should be completed before the end of the first annual reporting period beginning after the acquisition date. This issue is discussed in our publication *Insights into IFRS* (3.10.480.20).
- 2.** *IAS 36.99* Instead of calculating recoverable amount, an entity may use its most recent previous calculation of the recoverable amount of a cash-generating unit containing goodwill, if all of the following criteria are met:

 - there have been no significant changes in the assets and liabilities making up the unit since the calculation;
 - the calculation resulted in a recoverable amount that exceeded the carrying amount of the unit by a substantial margin; and
 - based on an analysis of the events and circumstances since the calculation, the likelihood that the current recoverable amount would be less than the current carrying amount of the unit is remote.
- 3.** *IAS 36.44(b)* The risk-free rate generally is obtained from the yield on government bonds that have the same or a similar time to maturity as the asset or cash generating unit, often leading to 10- or 20-year government bonds being considered as a proxy for the longest time horizon available. This issue is discussed in our publication *Insights into IFRS* (3.10.300.120).

Reference Notes to the consolidated financial statements

17. Intangible assets (continued)**Impairment testing for cash-generating units containing goodwill^{1,2}**

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions. The aggregate carrying amounts of goodwill allocated to each CGU are as follows:

<i>IAS 36.134(a)</i>	<i>In thousands of euro</i>	2010	2009
	European paper manufacturing and distribution	2,276	2,135
	Timber products	960	1,076
		<u>3,236</u>	<u>3,211</u>
<i>IAS 36.135</i>	Multiple units without significant goodwill	196	196
		<u>3,432</u>	<u>3,407</u>

IAS 36.134(c), (e) The European paper manufacturing and distribution CGU's impairment test was based on fair value less costs to sell in 2009. In the past year there have been minimal transactions between competing businesses in the same sector and/or generally similar size companies in the industry due to current credit conditions. As a result, management has determined that using an Enterprise to EBITDA ratio to value the business is no longer appropriate, and fair value less costs to sell has been estimated using discounted cash flow projections.

IAS 36.134(c), (d) *IAS 1.125, 36.134(f)* The recoverable amount of the Timber products CGU was based on its value in use and was determined by discounting the future cash flows to be generated from the continuing use of the CGU with the assistance of independent valuers. Value in use in 2010 was determined in a similar manner as in 2009. The carrying amount of the CGU was determined to be higher than its recoverable amount and an impairment loss of €116 thousand (2009: nil) was recognised. The impairment loss was allocated fully to goodwill, and is included in cost of sales.

Key assumptions used in discounted cash flow projections

IAS 36.134(d)(i), (iv), (v), 134(e)(i), (iv), (v) Key assumptions used in the calculation of recoverable amounts are discount rates, terminal value growth rates and EBITDA margins. These assumptions are as follows:

	Discount rate		Terminal value growth rate		Budgeted EBITDA growth	
	2010 %	2009 %	2010 %	2009 %	2010 %	2009 %
European paper manufacturing and distribution (fair value less costs to sell)	6.7	n/a	3.0	n/a	5.2	n/a
Timber products (value in use)	8.6	9.0	1.8	2.0	13.0	14.0

Discount rate

IAS 36.134(e)(ii) The European paper manufacturing and distribution discount rate is a post-tax measure estimated based on past experience, and industry average weighted average cost of capital, which is based on a possible range of debt leveraging of 40 percent at a market interest rate of 7 percent.

IAS 1.125 The Timber products discount rate is a pre-tax measure based on the risk-free rate for 10-year bonds³ issued by the government in the relevant market, adjusted for a risk premium to reflect both the increased risk of investing in equities and the systemic risk of the specific Group division.

Note *Reference* **Explanatory note**

1. *IAS 36.33, 35* The value in use calculation is based on reasonable and supportable assumptions concerning projections of cash flows approved by management (as part of the budget) and adjusted to the requirements of IFRSs. These cash flow forecasts should cover a maximum of five years unless a longer period can be justified. The cash flows after the forecast period are extrapolated into the future over the useful life of the asset or CGU using a steady or declining growth rate that is consistent with that of the product, industry or country, unless there is clear evidence to suggest another basis; these cash flows form the basis of what is referred to as the terminal value. This issue is discussed in our publication *Insights into IFRS* (3.10.230.10).

Reference Notes to the consolidated financial statements

17. Intangible assets (continued)**Key assumptions used in discounted cash flow projection calculations (continued)**IAS 36.134(d)(iii),
(iv)**Terminal value growth rate**

Both the European paper manufacturing and timber products divisions have five years of cash flows included in their discounted cash flow models.¹ A long-term growth rate into perpetuity has been determined as the lower of the nominal GDP rates for the country in which the division is based and the long-term compound annual growth rate in EBITDA estimated by management.

Budgeted EBITDA growth

Budgeted EBITDA is expressed as the compound annual growth rates in the initial five years of the plans used for impairment testing and has been based on past experience adjusted for the following:

- In the first year of the business plan revenue was projected using the same rate of growth experienced in 2010. The anticipated annual revenue growth included in the cash flow projections for the years 2012 to 2015 has been based on average growth levels experienced over the five years.
- Timber sales price growth was assumed to be a constant small margin above inflation for the next five years in line with information obtained from external brokers who publish a statistical analysis of long-term market price trends.
- Paper and pulp prices were assumed to increase in line with inflation for the next five years.
- Weighted probabilities of significant one-off environmental costs have been assumed factored into the budgeted EBITDA growth reflecting various potential regulatory developments in a number of European countries in which the CGU operates. Environmental costs are assumed to grow with inflation in other years.

Sensitivity to changes in assumptions

Following an impairment in the Group's timber products CGU, the recoverable amount is equal to the carrying amount. Therefore, any adverse movement in a key assumption would lead to a further impairment.

IAS 36.134(f)

The estimated recoverable amount of the European paper manufacturing and distribution division exceeds its carrying amount by approximately €300 thousand (2009: €250 thousand). Management has identified two key assumptions for which there could be a reasonably possible change that could cause the carrying amount to exceed the recoverable amount. The table below shows the amount that these two assumptions are required to change individually in order for the estimated recoverable amount to be equal to the carrying amount.

European paper manufacturing and distribution

<i>In percent</i>	Change required for carrying amount to equal the recoverable amount	
	2010	2009
Pre-tax discount rate	1.6	n/a
Budgeted EBITDA growth	(4.4)	n/a

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

Development costs

IAS 23.26(a), (b)

Included in capitalised development costs is an amount of €37 thousand (2009: €12 thousand), that represents borrowing costs capitalised during the year using a capitalisation rate of 5.1 percent (2009: 5.4 percent).

Note Reference **Explanatory note**

- 1.** *IAS 41.43* Entities are encouraged, but not required, to provide a quantified description of each group of biological assets, distinguishing between consumable and bearer biological assets or between mature and immature biological assets. The basis for making such distinctions is disclosed in that case.
- IAS 41.54 (a)-(f)* When fair value cannot be determined reliably, an entity discloses:
- a description of the biological assets;
 - an explanation of why fair value cannot be measured reliably;
 - the depreciation method and useful lives used;
 - if possible, the range of estimates within which fair value is highly likely to lie; and
 - the gross carrying amount and the accumulated depreciation, aggregated with accumulated impairment losses, at the beginning and end of the reporting period.
- IAS 41.55* When biological assets are measured at cost less accumulated depreciation and accumulated impairment losses, an entity discloses separately any gain or loss recognised on the disposal of such biological assets, and a reconciliation of changes in their carrying amount at the beginning and at the end of the reporting period, including impairment losses, reversals of impairment losses and depreciation.
- IAS 41.56* If the fair value of biological assets measured previously at cost less accumulated depreciation and accumulated impairment losses becomes reliably measurable, then an entity discloses:
- a description of the biological assets;
 - an explanation of why fair value has become reliably measurable; and
 - the effect of the change.
- IAS 41.49(a)* An entity discloses the existence and carrying amounts of biological assets whose title is restricted, and the carrying amount of biological assets pledged as security for liabilities.
- IAS 41.49(b)* An entity discloses the amount of commitments for the development or acquisition of biological assets.
- IAS 41.50(e)* An entity discloses increases in biological assets due to business combinations.
- IAS 41.53* If an agricultural activity is exposed to climatic, disease and other natural risks, and an event occurs that gives rise to a material item of income and expense, then an entity discloses the nature and amount of the item of income and expense.

Reference Notes to the consolidated financial statements

18. Biological assets¹

	<i>In thousands of euro</i>	Standing timber	Livestock	Total
	Balance at 1 January 2009	7,672	800	8,472
<i>IAS 41.50(b)</i>	Increase due to purchases	415	22	437
<i>IAS 41.50(c)</i>	Decrease due to sales	-	(63)	(63)
<i>IAS 41.50(g)</i>	Net increase due to births/deaths	-	15	15
<i>IAS 41.40, 50(a)</i>	Change in fair value less estimated costs to sell:			
<i>IAS 41.51</i>	Due to price changes	20	8	28
<i>IAS 41.51</i>	Due to physical changes	15	7	22
<i>IAS 41.50(d)</i>	Harvested timber transferred to inventories	(168)	-	(168)
<i>IAS 41.50(f)</i>	Effect of movements in exchange rates	68	45	113
<i>IAS 41.50</i>	Balance at 31 December 2009	<u>8,022</u>	<u>834</u>	<u>8,856</u>
	Non-current	7,987	729	8,716
	Current	35	105	140
		<u>8,022</u>	<u>834</u>	<u>8,856</u>
	Balance at 1 January 2010	8,022	834	8,856
<i>IAS 41.50(b)</i>	Increase due to purchases	294	11	305
<i>IAS 41.50(c)</i>	Decrease due to sales	-	(127)	(127)
<i>IAS 41.50(g)</i>	Net increase due to births/deaths	-	11	11
<i>IAS 41.40, 50(a)</i>	Change in fair value less estimated costs to sell:			
<i>IAS 41.51</i>	Due to price changes	66	18	84
<i>IAS 41.51</i>	Due to physical changes	415	151	566
<i>IAS 41.50(d)</i>	Harvested timber transferred to inventories	(2,480)	-	(2,480)
<i>IAS 41.50(f)</i>	Effect of movements in exchange rates	30	14	44
<i>IAS 41.50</i>	Balance at 31 December 2010	<u>6,347</u>	<u>912</u>	<u>7,259</u>
	Non-current	6,237	777	7,014
	Current	110	135	245
		<u>6,347</u>	<u>912</u>	<u>7,259</u>
<i>IAS 41.41, 43 46(b)(i), (ii)</i>	At 31 December 2010 standing timber comprised approximately 3,270 hectares of pine tree plantations (2009: 4,360 hectares), which range from newly established plantations to plantations that are 30 years old. €1,201 thousand of the standing timber is less than one year old and considered to be immature assets. During the year the Group harvested approximately 74,242 tonnes of wood (2009: 5,295 tonnes), which had a fair value less costs to sell of €2,480 thousand at the date of harvest (2009: €168 thousand).			
<i>IAS 41.48</i>				
<i>IAS 41.41, 43, 46(b)(i)</i>	At 31 December 2010 livestock comprised 1,875 cattle and 3,781 sheep (2009: 2,160 cattle and 4,010 sheep). €587 thousand of this livestock is less than one year old and considered to be immature assets. During the year the Group sold 279 cattle and 286 sheep (2009: 150 cattle and 175 sheep).			

Note Reference **Explanatory note**

- | | |
|--|---|
| <p>1. <i>IAS 40.78</i></p> <p><i>IAS 40.75 (f)(iv)</i></p> <p><i>IAS 40.76(b), (c), (e)</i></p> <p><i>IAS 40.78</i></p> <p><i>IAS 40.75(g), (h)</i></p> | <p>For items for which fair value cannot be determined reliably, an entity discloses:</p> <ul style="list-style-type: none">● a description of the investment property;● an explanation of why fair value cannot be measured reliably;● if possible, the range of estimates within which fair value is highly likely to lie; and● on disposal of investment property not carried at fair value, the fact that the entity has disposed of investment property not carried at fair value, the carrying amount at the time of sale, and the gain or loss recognised. <p>An entity discloses the cumulative change in fair value recognised in profit or loss on a sale of investment property from a pool of assets in which the cost model is used into a pool in which the fair value model is used.</p> <p>In presenting a reconciliation of carrying amounts from the beginning to the end of the reporting period, an entity discloses changes in the carrying amounts of investment property resulting from acquisitions through business combinations, amounts classified as held for sale, disposals and foreign currency differences. Items for which fair value cannot be measured reliably are presented separately in the reconciliation.</p> <p>An entity discloses the existence and amounts of restrictions on the realisability of investment property or the remittance of income and proceeds of disposal. An entity also discloses any material contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.</p> |
| <p>2.</p> | <p>Since IAS 40 <i>Investment Property</i> makes no reference to making disclosures on a class-by-class basis, it could be assumed that the minimum requirement is to make the disclosures on an aggregate basis for the whole investment property portfolio. When investment property represents a significant portion of the assets, we prefer entities to disclose additional analysis, for example portfolio by type of investment property. This issue is discussed in our publication <i>Insights into IFRS</i> (3.4.270.20).</p> |

Reference Notes to the consolidated financial statements

18. Biological assets (continued)

IAS 41.49(c)

The Group is exposed to a number of risks related to its pine tree plantations:

Regulatory and environmental risks

The Group is subject to laws and regulations in various countries in which it operates. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage those risks.

Supply and demand risk

The Group is exposed to risks arising from fluctuations in the price and sales volume of pine. When possible the Group manages this risk by aligning its harvest volume to market supply and demand. Management performs regular industry trend analyses to ensure that the Group's pricing structure is in line with the market and to ensure that projected harvest volumes are consistent with the expected demand.

Climate and other risks

The Group's pine plantations are exposed to the risk of damage from climatic changes, diseases, forest fires and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks, including regular forest health inspections and industry pest and disease surveys. The Group also insures itself against natural disasters such as floods and hurricanes.

19. Investment property^{1,2}

In thousands of euro

	<i>Note</i>	2010	2009 Restated*
Balance at 1 January		1,050	950
IAS 40.76(a) Acquisitions		300	40
IAS 40.76(c) Distributed to owners of the Company	26	(100)	-
IAS 40.76(f) Reclassification from property, plant and equipment	16	800	-
IAS 40.76(d) Change in fair value	11	20	60
IAS 40.76 Balance at 31 December		<u>2,070</u>	<u>1,050</u>

* See note 2(e)(iii).

IAS 17.56(c)

Investment property comprises a number of commercial properties that are leased to third parties. Each of the leases contains an initial non-cancellable period of 10 years, with annual rents indexed to consumer prices. Subsequent renewals are negotiated with the lessee and on average renewal periods are 4 years. No contingent rents are charged. See note 35 for further information. One property has been transferred from property, plant and equipment (see note 16) to investment property, since the building was no longer used by the Group and as such it was decided that the building would be leased to a third party.

IAS 40.75(d)

The range of yields applied to the net annual rentals to determine the fair value of property for which current prices in an active market are unavailable is as follows:

Offices	Yields
UK	5.1% – 7.9% (2009: 5.8% – 8.5%)
France	4.8% – 6.8% (2009: 5.2% – 7.5%)

IAS 1.122

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

Note Reference **Explanatory note**

1. *IAS 28.37(b)* An entity discloses summarised financial information of equity-accounted investees, including the aggregated amounts of assets, liabilities, revenues and profit or loss, not adjusted for the percentage of ownership held by the entity. In these illustrative financial statements we have presented financial information for *each* of the investees, as well as in total.

IAS 31.56 A venturer discloses a listing and description of interests in significant joint ventures and the proportion of ownership interest held. A venturer that uses equity accounting or the line-by-line reporting format for proportionate consolidation discloses the aggregate amounts of each of current assets, long-term assets, current liabilities, long-term liabilities, and income and expenses related to its interests in joint ventures. In these illustrative financial statements we have illustrated these disclosures together with the disclosures for associates, and have presented the financial information of joint ventures unadjusted for the percentage of ownership held by the Group. Other methods of presentation may be used.

IAS 28.37(d) If an entity has an interest of 20 percent or more in an investment but does not account for it as an investment in an associate, then the reasons for this are disclosed.

2. *IAS 28.37(e), (f)* Further disclosures are required if the entity has used financial statements of an equity-accounted investee with a different end of the reporting period to its own in preparing the consolidated financial statements, and/or there are restrictions over the ability of the investee to transfer funds to the entity.

3. *IAS 28.37(b), 31.56* Paragraph 37(b) of IAS 28 *Investments in Associates* does not require this information to be disclosed for associates. However, paragraph 56 of IAS 31 *Interests in Joint Ventures* requires it for joint ventures for which the entity uses equity accounting or the line-by-line reporting format for proportionate consolidation.

4. *IAS 28.37(b), 31.56* Paragraph 56 of IAS 31 does not require this information to be disclosed for joint ventures, but paragraph 37(b) of IAS 28 requires it to be disclosed for associates.

5. IAS 28 does not require reconciliations of the opening and closing carrying amount of equity-accounted investees. However an entity may choose to present such information to allow readers to understand the movement in the balance.

Reference Notes to the consolidated financial statements

20. Investments in equity-accounted investees¹

IAS 28.37(g)

The Group's share of profit in its equity-accounted investees for the year was €467 thousand (2009: €587 thousand). The Group has not recognised losses related to Cellulose S.A., totalling €15 thousand in 2010, since the Group has no obligation in respect of these losses.

IAS 24.18(d)

In 2010 the Group received dividends of €21 thousand from its investments in equity-accounted investees (2009: nil).

IAS 28.37(a)

None of the Group's equity-accounted investees are publicly listed entities and consequently do not have published price quotations, except for Cellulose S.A., which is listed on the Swiss Stock Exchange (SIX). Based on its closing price of €2.28 at the reporting date, the fair value of the Group's investment is €175 thousand.

IAS 28.37(c)

Whilst the Group has 20 percent ownership of Cellulose S.A., it has less than 20 percent of the voting rights of Cellulose S.A. However, the Group is considered to have significant influence over this entity due to the fact that it has Board representation.

IAS 28.37(b), 31.56

Summary financial information for equity-accounted investees, not adjusted for the percentage ownership held by the Group:

		Reporting date ²	Ownership ³	Current assets ³	Non-current asset ³	Total assets ⁴	Current liabilities ³	Non-current liabilities ³	Total liabilities ⁴	Income Expenses ³	Profit / (loss) ⁴
<i>In thousands of euro</i>											
2009											
	Papyrus Pty Ltd (associate)	31 December	25%	1,470	1,810	3,280	670	720	1,390	27,400	(26,850)
	Paletel AB (joint venture)	31 December	40%	1,310	3,259	4,569	1,130	1,320	2,450	21,405	(20,725)
	Cellulose S.A. (associate)	31 December	20%	4,220	7,030	11,250	3,250	6,810	10,060	16,600	(15,715)
				7,000	12,099	19,099	5,050	8,850	13,900	65,405	(63,290)
2010											
	Papyrus Pty Ltd (associate)	31 December	25%	-	-	-	-	-	-	4,375	(3,949)
	Paletel AB (joint venture)	31 December	40%	1,348	5,953	7,301	543	1,716	2,259	25,796	(22,821)
	Cellulose S.A. (associate)	31 December	20%	3,210	4,790	8,000	2,220	5,855	8,075	32,635	(33,900)
	Paper Web SARL (associate)	31 December	49%	3,460	7,592	11,052	2,850	8,185	11,035	-	(1,207)
				8,018	18,335	26,353	5,613	15,756	21,369	62,806	(61,877)
										929	

During the year the Group, together with other companies in the paper industry, established Paper Web SARL, a web-based marketing operation. The Group's contribution to set up the investment was €600 thousand and resulted in the Group obtaining a 49 percent investment in Paper Web SARL. This contribution represented start-up costs and as a result there is no goodwill included in the €600 thousand investment. The Group provides management services to the investee (see note 38).

Note Reference **Explanatory note**

1. *IFRS 7.30* If investments in unquoted equity instruments or derivatives linked to, and to be settled in, such equity instruments are measured at cost because their fair value cannot be measured reliably, then an entity discloses:

- that fact;
- a description of the financial instruments;
- their carrying amount;
- an explanation of why fair value cannot be measured reliably;
- information about whether and how the entity intends to dispose of the financial instruments;
- information about the market for the financial instruments; and
- when the financial assets are derecognised:
 - the fact that they have been derecognised;
 - their carrying amount at the time of sale; and
 - the gain or loss recognised.

IFRS 7.13 An entity may have either transferred a financial asset or transacted in such a way that the arrangement does not qualify for derecognition. If the entity either continues to recognise all of the asset, or continues to recognise the asset to the extent of the entity's continuing involvement, then it discloses:

- the nature of the assets;
- the nature of the risks and rewards of ownership retained;
- the carrying amount of the asset and associated liabilities, when the asset remains recognised in its entirety; and
- the carrying amount of the original asset and the amount that are recognised, when the asset remains recognised to the extent of continuing involvement.

IFRS 7.14 If an entity has pledged any financial asset as collateral, then it discloses:

- the carrying amount of financial assets pledged as collateral for liabilities or contingent liabilities; and
- the material terms and conditions related to assets pledged as collateral.

IFRS 7.15 If an entity has accepted collateral that it is permitted to sell or repledge in the absence of a default by the owner of the collateral, then it discloses:

- the fair value of collateral accepted (financial and non-financial assets);
- the fair value of any such collateral sold or repledged, and whether the entity has an obligation to return it; and
- the material terms and conditions associated with its use of this collateral.

IFRS 7.12 If an entity has reclassified a financial asset as one measured at cost or amortised cost rather than at fair value, then it discloses the amount of the reclassification and the reason for that reclassification.

2. In our view, derivative assets and liabilities should be presented in a separate line item in the statement of financial position if they are significant. If derivative instruments are not significant, then they may be included within other financial assets and other financial liabilities, respectively, with additional details disclosed in the notes to the financial statements. This issue is discussed in our publication *Insights into IFRS* (5.6.120.40).

3. See explanatory note 1 on page 134.

Reference Notes to the consolidated financial statements

21. Other investments¹*In thousands of euro*

	2010	2009
Non-current investments		
IFRS 7.8(b) Debentures	2,436	2,256
Debt securities	451	373
Equity securities	377	511
Financial assets designated at fair value through profit or loss	251	254
Interest rate swaps used for hedging ²	116	131
	3,631	3,525
Current investments		
Financial assets classified as held for trading	243	568
Forward exchange contracts used for hedging ²	297	375
Other forward exchange contracts	122	89
	662	1,032

IFRS 7.7 Interest-bearing available-for-sale financial assets with a carrying amount of €451 thousand at 31 December 2010 (2009: €373 thousand) have stated interest rates of 5.2 to 7.0 percent (2009: 6.5 to 8.0 percent) and mature in 1 to 2 years. Held-to-maturity investments have interest rates of 6.3 to 7.8 percent (2009: 7.5 to 8.3 percent) and mature in 2 to 5 years.

IFRS 7.B5(a)(i), (iii) The financial assets designated at fair value through profit or loss are equity securities that otherwise would have been classified as available for sale.

The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 34.

IFRS 7.40 **Sensitivity analysis – equity price risk³**

All of the Group's equity investments are listed on either the London Stock Exchange or the New York Stock Exchange. For such investments classified as available for sale, a 2 percent increase in the FTSE 100 plus a 3 percent increase in the Dow Jones Industrial Average at the reporting date would have increased equity by €98 thousand after tax (2009: an increase of €88 thousand); an equal change in the opposite direction would have decreased equity by €98 thousand after tax (2009: a decrease of €88 thousand). For such investments classified at fair value through profit or loss, the impact on profit or loss would have been an increase or decrease of €16 thousand after tax (2009: €18 thousand). The analysis is performed on the same basis for 2009 and assumes that all other variables remain the same.

Note Reference **Explanatory note**

1. *IFRS 7.40(a)* The sensitivity analysis is based on changes in the risk variable that were reasonably possible at the end of the reporting period.

IFRS 7.40(b), (c) An entity discloses the methods and assumptions used in preparing the sensitivity analysis, changes therein, and the reasons therefor compared to the comparative period.

IFRS 7.41 If an entity prepares a sensitivity analysis that reflects inter-dependencies between different risk variables, e.g. a value-at-risk model, then the disclosure may be based on that model instead of the type of disclosure illustrated in these illustrative financial statements. In that case, an entity discloses:

- an explanation of the method used, including the main parameters and assumptions; and
- an explanation of the objective of the method used, and of its limitations.

IFRS 7.42 When the sensitivity analysis required by IFRS 7 is not representative of the underlying risks, e.g. the end of the reporting period analysis is not representative of the position during the year, then an entity discloses that fact and the reasons for it. For example, if for whatever reason an entity's investment portfolio at the end of the reporting period is materially different from its usual mix of investments, then a sensitivity analysis based on the position at the end of the reporting period would not be representative.

IFRS 7.B17-B21, IG32-IG36 Guidance in respect of the sensitivity analysis is provided in appendix B to IFRS 7 and in the related implementation guidance.

Reference Notes to the consolidated financial statements

22. Deferred tax assets and liabilities**Unrecognised deferred tax liabilities**

IAS 12.81(f), 87

At 31 December 2010 a deferred tax liability of €150 thousand (2009: €86 thousand) for temporary differences of €500 thousand (2009: €287 thousand) related to an investment in a subsidiary was not recognised because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

IAS 12.82A

In some of the countries in which the Group operates, local tax laws provide that gains on the disposal of certain assets are tax exempt, provided that the gains are not distributed. At 31 December 2010 the total tax exempt reserves amounted to €600 thousand (2009: €540 thousand), which would result in a tax liability of €198 thousand (2009: €178 thousand) should the subsidiaries pay dividends from these reserves.

IAS 12.81(e)

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

In thousands of euro

	2010	2009
Deductible temporary differences	103	200
Tax losses	272	653
	375	853

The tax losses expire in 2012. The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

IAS 1.129

In 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 can 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 €50 thousand of previously unrecognised tax losses were recognised in 2010, following a further change in estimates of subsidiary's future results from operating activities. Management has assumed that the recoverability of the balance of losses of €200 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, then the remaining unrecognised deferred tax asset will be recognised, resulting in additional tax income of €80 thousand.

Note Reference **Explanatory note**

- 1.** *IAS 12.81(g)* An entity is required to disclose, in respect of each *type* of temporary difference, the amount of deferred tax assets and liabilities recognised in the statement of financial position. IFRSs are unclear as to what constitutes a type of a temporary difference. Disclosures presented in these illustrative financial statements are based on the statement of financial position captions related to the temporary differences. Another possible interpretation is to present disclosures based on the reason for the temporary difference, e.g. depreciation.

In our view, it is not appropriate to disclose gross deductible temporary differences with the related valuation allowance shown separately because, under IFRSs, it is *recognised* temporary differences that are required to be disclosed.

These issues are discussed in our publication *Insights into IFRS* (3.13.1000.40 – 50).

- 2.** *IAS 12.82* An entity discloses the nature of the evidence supporting the recognition of a deferred tax asset when:
- utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing temporary differences; and
 - the entity has suffered a loss in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates.

Reference Notes to the consolidated financial statements

22. Deferred tax assets and liabilities (continued)**Recognised deferred tax assets and liabilities¹**

IAS 12.81(g)(i)

Deferred tax assets and liabilities are attributable to the following:

<i>In thousands of euro</i>	Assets²		Liabilities		Net	
	2010	2009	2010	2009	2010	2009
Property, plant and equipment	(235)	(373)	2,182	843	1,947	470
Intangible assets	(61)	(94)	824	495	763	401
Biological assets	-	-	345	127	345	127
Investment property	-	-	188	148	188	148
Financial assets at fair value through profit or loss	-	-	167	73	167	73
Available-for-sale financial assets	-	-	160	115	160	115
Held-to-maturity investments	(7)	-	-	-	(7)	-
Derivatives	(9)	(4)	177	197	168	193
Inventories	(83)	(41)	-	-	(83)	(41)
Loans and borrowings	-	-	136	-	136	-
Employee benefits	-	-	99	149	99	149
Share-based payment transactions	(583)	(317)	-	-	(583)	(317)
Provisions	(557)	(528)	-	-	(557)	(528)
Other items	(68)	(213)	-	-	(68)	(213)
Tax loss carry-forwards	(436)	(386)	-	-	(436)	(386)
Tax (assets) liabilities	(2,039)	(1,956)	4,278	2,147	2,239	191
Set off of tax	2,039	580	(2,039)	(580)	-	-
Net tax (assets) liabilities	-	(1,376)	2,239	1,567	2,239	191

Note *Reference* **Explanatory note**

- | | |
|--|---|
| <p>1. <i>IAS 12.81</i>
<i>(g)(ii)</i></p> | <p>When the amount of deferred tax recognised in profit or loss in respect of each type of temporary difference is apparent from the changes in the amounts recognised in the statement of financial position, this disclosure is not required.</p> |
|--|---|

Reference Notes to the consolidated financial statements

22. Deferred tax assets and liabilities (continued)
Movement in temporary differences during the year¹

IAS 12.81(g)(ii)

In thousands of euro

	Balance 1 January 2009	Recognised in profit or loss 2009	Recognised in other comprehensive income 2009	Balance 31 December 2009	Recognised in profit or loss	Recognised directly in equity	Recognised in other comprehensive income	Acquired in business combinations	Other	Balance 31 December 2010
Property, plant and equipment	(320)	790	-	470	1,811	-	66	35	(435)	1,947
Intangible assets	98	303	-	401	324	-	-	38	-	763
Biological assets	106	21	-	127	218	-	-	-	-	345
Investment property	115	33	-	148	40	-	-	-	-	188
Financial assets at fair value through profit or loss	47	26	-	73	94	-	-	-	-	167
Available-for-sale financial assets	84	-	31	115	-	-	45	-	-	160
Held-to-maturity investments	-	-	-	-	(7)	-	-	-	-	(7)
Derivatives	163	8	22	193	6	-	(31)	-	-	168
Inventories	-	(41)	-	(41)	(5)	-	-	3	(40)	(83)
Loans and borrowings	-	-	-	-	73	54	-	9	-	136
Employee benefits	194	(40)	(5)	149	(74)	-	24	-	-	99
Share-based payment transactions	(211)	(106)	-	(317)	(266)	-	-	-	-	(583)
Provisions	(438)	(90)	-	(528)	(23)	-	-	(6)	-	(557)
Other items	(158)	(55)	-	(213)	145	-	-	-	-	(68)
Tax loss carry-forwards	(146)	(240)	-	(386)	(50)	-	-	-	-	(436)
	(466)	609	48	191	2,286	54	104	79	(475)	2,239

Note Reference **Explanatory note**

1. *IAS 2.39* When an entity presents an analysis of expenses using classification based on the nature of expenses in the statement of comprehensive income, it discloses the costs recognised as an expense for raw materials and consumables, labour and other costs, together with the amount of the net change in inventories for the period.

2. In our view, write-downs of inventory to net realisable value as well as any reversals of such write-downs should be presented in the same line item in the statement of comprehensive income as the cost of inventories sold. This issue is discussed in our publication *Insights into IFRS* (3.8.440.70).

3. *IFRS 7.9 (a)-(d)* When an entity has designated a loan or receivable (or group of loans or receivables) at fair value through profit or loss, it discloses:

- the amount by which any related credit derivative or similar instrument mitigates the maximum exposure to credit risk;
- the amount of change during the period and cumulatively in the fair value of the loan or receivable, or group of loans or receivables, that is attributable to changes in credit risk; determined either as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk, or using an alternative method that more faithfully represents the amount of change in its fair value that is attributable to changes in credit risk; and
- the amount of the change in the fair value of any related credit derivative or similar instrument that has occurred during the period and cumulatively since the loan or receivable was designated.

4. There is no guidance on the presentation of assets or liabilities related to construction contracts in progress. We prefer to present assets as trade receivables, or in the case of liabilities, as deferred revenue. This issue is discussed in our publication *Insights into IFRS* (4.2.260.40).

Reference Notes to the consolidated financial statements

23. Inventories¹*In thousands of euro*

		2010	2009
<i>IAS 1.78(c), 2.36(b)</i>	Raw materials and consumables	4,860	5,753
<i>IAS 1.78(c), 2.36(b)</i>	Work in progress	2,543	1,661
<i>IAS 1.78(c), 2.36(b)</i>	Finished goods	2,564	4,705
		<u>9,967</u>	<u>12,119</u>
<i>IAS 2.36(h)</i>	Carrying amount of inventories subject to retention of title clauses	1,650	2,090

IAS 1.104, 2.36(e), (f)
IAS 1.98(a)

In 2010 raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales amounted to €41,698 thousand (2009: €44,273 thousand). In 2010 the write-down of inventories to net realisable value amounted to €345 thousand (2009: €125 thousand). The reversal of write-downs amounted to €17 thousand as discussed below (2009: nil). The write-down and reversal are included in cost of sales.²

IAS 2.36(g)

During 2009, due to regulatory restrictions imposed on the manufacture of a new product in the Standard Papers segment, the Group tested the related product line for impairment and also wrote down the related inventories to their net realisable value, which resulted in a loss of €42 thousand. In 2010, following a change in estimates, €17 thousand of the write-down was reversed (see note 17). These amounts are included in the total amount of write-downs and reversals above.

24. Trade and other receivables³*In thousands of euro*

		<i>Note</i>	2010	2009
<i>IAS 1.78(b)</i>	Trade receivables due from related parties	38	1,236	642
	Loans to directors	38	78	32
<i>IAS 1.78(b)</i>	Other trade receivables		17,852	17,045
	Service concession receivables	40	260	-
<i>IFRS 7.8(c)</i>	Loans and receivables		19,426	17,719
<i>IAS 1.78(b), 11.40(a)</i>	Construction contracts in progress ⁴		348	280
			<u>19,774</u>	<u>17,999</u>
	Non-current		213	-
	Current		19,561	17,999
			<u>19,774</u>	<u>17,999</u>

IAS 11.40(a)

At 31 December 2010 aggregate costs incurred under open construction contracts and recognised profits, net of recognised losses, amounted to €570 thousand (2009: €530 thousand).

IAS 11.40(c)

At 31 December 2010 trade receivables include retentions of €200 thousand (2009: €180 thousand) related to construction contracts in progress.

The Group's exposure to credit and currency risks, and impairment losses related to trade and other receivables, excluding construction work in progress, is disclosed in note 34.

Note Reference **Explanatory note**

1. IAS 748 An entity discloses, together with a commentary from management, the amount of significant cash and cash equivalent balances not available for use by the entity.

2. Since the investments comprising cash equivalents must be readily convertible to known amounts of cash, in our view only debt securities and deposits can qualify for inclusion, subject to the other criteria being met. "Short-term" is not defined, but the standard encourages a cut-off of three months' maturity from the acquisition date. In our view, three months should be used as an absolute cut-off, and debt securities with a longer maturity should be regarded as part of investing activities. This issue is discussed in our publication *Insights Into IFRS* (2.3.10.30).

3. IAS 1.79(a)(iii) If shares have no par value, then an entity discloses that fact.

4. IAS 1.79(a)(ii) An entity discloses the number of shares issued but not fully paid.

IAS 1.79(a)(vii) An entity discloses details of shares reserved for issue under options and sales contracts, including the terms and amounts.

Reference Notes to the consolidated financial statements

IAS 7.45 **25. Cash and cash equivalents¹***In thousands of euro*

	2010	2009
Bank balances	51	988
Call deposits ²	1,454	862
Cash and cash equivalents	1,505	1,850
Bank overdrafts used for cash management purposes	(334)	(282)
Cash and cash equivalents in the statement of cash flows	1,171	1,568

26. Capital and reserves
Share capital and share premium

	Ordinary shares		Non-redeemable preference shares	
	2010	2009	2010	2009
IAS 1.79(a)(iv) <i>In thousands of shares</i>				
On issue at 1 January	3,100	3,100	1,750	1,750
Issued for cash	130	-	-	-
Exercise of share options	5	-	-	-
Issued in business combination	8	-	-	-
IAS 1.79(a)(ii) On issue at 31 December – fully paid	3,243	3,100	1,750	1,750
IAS 1.79(a)(i), (iii) Authorised – par value €3 ^{3,4}	10,000	10,000	2,000	2,000

Ordinary shares

All shares rank equally with regard to the Company's residual assets, except that preference shareholders participate only to the extent of the face value of the shares.

IAS 1.79(a)(v) The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. In respect of the Company's shares that are held by the Group, all rights are suspended until those shares are reissued.

Issue of ordinary shares

IAS 1.79(a) In October 2010 the general meeting of shareholders decided on the issue of 130 thousand ordinary shares at an exercise price of €11.92 per share (2009: nil).

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) (2009: nil).

Non-redeemable preference shares

Holders of non-redeemable preference shares receive a non-cumulative dividend of 25.03 cents per share at the Company's discretion, or whenever dividends to ordinary shareholders are declared. They do not have the right to participate in any additional dividends declared for ordinary shareholders. Non-redeemable preference shares do not carry the right to vote.

Translation reserve

IAS 1.79(b) The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations, as well as from the translation of liabilities that hedge the Company's net investment in a foreign operation.

Note Reference **Explanatory note**

- 1.** *IAS 16.77(f)* If items of property, plant and equipment are stated at revalued amounts, then the entity discloses the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.
- 2.** *IAS 1.79(a)(vi), 24.17, 32.34* An entity discloses separately the amount of treasury shares held, either on the face of the statement of financial position or in the notes. In these illustrative financial statements, we disclose this information in the notes.
- 3.** *IAS 32.34* If any of the shares are acquired from parties who are able to control or exercise significant influence over the Group, then an entity discloses details of the transaction.
- 4.** *IAS 1.137(b)* An entity discloses the amount of any cumulative preference dividends not recognised.
- 5.** *IAS 12.81(i), 87A* An entity discloses the amount of income tax consequences of dividends to shareholders that were proposed or declared before the financial statements were authorised for issue, but that are not recognised as a liability in the financial statements. An entity also discloses the important features of the income tax system(s) and the factors that will affect the amount of the potential income tax consequences of dividends.

Reference Notes to the consolidated financial statements

26. Capital and reserves (continued)

IAS 1.79(b)

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedges related to hedged transactions that have not yet occurred.

Fair value reserve

IAS 1.79(b)

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognised or impaired.

Revaluation reserve¹

IAS 1.79(b)

The revaluation reserve relates to the revaluation of property, plant and equipment immediately prior to its reclassification as investment property.

Reserve for own shares

IFRS 7.7,

IAS 1.79(a)(vi), (b)

The reserve for the Company's own shares comprises the cost of the Company's shares held by the Group. At 31 December 2010 the Group held 48 thousand of the Company's shares (2009: 50 thousand).^{2, 3}

Dividends

IAS 1.107

The following dividends were declared and paid by the Company:

For the year ended 31 December*In thousands of euro*

	2010	2009
25.25 cents per qualifying ordinary share (2009: 4.28 cents)	805	133
25.03 cents per non-redeemable preference share (2009: 25.03 cents)	438	438
	1,243	571

IAS 1.137(a),

10.13, 12.81(i)

After the respective reporting dates the following dividends were proposed by the directors. The dividends have not been provided for and there are no income tax consequences.^{4, 5}

In thousands of euro

	2010	2009
28.00 cents per qualifying ordinary share (2009: 26.39 cents)	892	805
25.03 cents per non-redeemable preference share (2009: 25.03 cents)	438	438
	1,330	1,243

Note Reference **Explanatory note**

- | | |
|---------------------|---|
| <p>1. IAS 36.86</p> | <p>If an entity disposes of an operation within a CGU or group of CGUs to which goodwill has been allocated, then a portion of the goodwill is included in the carrying amount of the operation when determining the gain or loss on disposal. The portion of the goodwill allocated is measured based on the relative values of the operation disposed of and the portion of the CGU retained at the date of partial disposal, unless the entity can demonstrate that another method better reflects the goodwill associated with the operation disposed of. This issue is discussed in our publication <i>Insights into IFRS</i> (3.10.490.10).</p> |
|---------------------|---|

Reference Notes to the consolidated financial statements

26. Capital and reserves (continued)

IFRIC 17.16(a)

Non-current assets and non-current liabilities distributed to owners of the Company

On 15 May 2010 the directors of the Company announced that the Group would distribute all 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 net assets to be distributed in connection with the announced distribution.

On 3 June 2010 the Group distributed its investment in 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) ¹	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
Dividend to shareholders	12,500
Carrying amount of net assets distributed	(9,944)
Gain on distribution to owners of the Company	2,556

The investment property distributed to 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 tax).

IFRIC 17.16(b)

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

Note *Reference* **Explanatory note**

- | | |
|-----------|--|
| 1. | In these illustrative financial statements, we have early adopted the amendment to IAS 1 arising from the <i>Improvements to IFRSs 2010</i> that results in entities being allowed to show the disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income in either the statement of changes in equity or in the notes. In these illustrative financial statements, we present this information in the notes. See Appendix III for an illustrative example in which this amendment is not adopted early. |
|-----------|--|

26. Capital and reserves (continued)**Other comprehensive income¹**

IAS 1.106(d)(ii)

	Attributed to owners of the Company						Total other comprehensive income
	Trans-lation reserve	Hedging reserve	Fair value reserve	Revalua-tion reserve	Retained earnings	Total interests	
	494	-	-	-	-	494	521
	(3)	-	-	-	-	(3)	(3)
	(20)	-	-	-	-	(20)	(20)
	-	-	-	134	-	134	134
	-	(62)	-	-	-	(62)	(62)
	-	-	133	-	-	133	133
	-	-	(43)	-	-	(43)	(43)
	-	-	-	-	48	48	48
	471	(62)	90	134	48	681	708
	308	-	-	-	-	308	330
	(8)	-	-	-	-	(8)	(8)
	-	52	-	-	-	52	52
	-	(8)	-	-	-	(8)	(8)
	-	-	63	-	-	63	63
	-	-	-	-	(10)	(10)	(10)
	300	44	63	-	(10)	397	419

In thousands of euro

2010

IAS 1.82(g), 21.52(b)	Foreign currency translation differences for foreign operations
IAS 1.82(g)	Net loss on hedge of net investment in foreign operation
IAS 1.82(g)	Transfer of foreign currency translations differences on loss of significant influence
IAS 1.82(g)	Revaluation of property, plant and equipment, net of tax
IFRS 7.23(c), IAS 1.82(g)	Effective portion of changes in fair value of cash flow hedges, net of tax
IFRS 7.20(a)(ii), IAS 1.82(g)	Net change in fair value of available-for-sale financial assets, net of tax
IFRS 7.20(a)(iii), IAS 1.82(g)	Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of tax
IAS 19.93(b)	Defined benefit plan actuarial gains and losses net of tax
	Total other comprehensive income

2009

IAS 1.82(g), 21.52(b)	Foreign currency translation differences for foreign operations
IAS 1.82(g)	Net loss on hedge of net investment in foreign operation
IFRS 7.23(c), IAS 1.82(g)	Effective portion of changes in fair value of cash flow hedges, net of tax
IFRS 7.23(d), IAS 1.82(g)	Net change in fair value of cash flow hedges transferred to profit or loss, net of tax
IFRS 7.20(a)(iii), IAS 1.82(g)	Net change in fair value of available-for-sale financial assets, net of tax
IAS 19.93(b)	Defined benefit plan actuarial gains and losses net of tax
	Total other comprehensive income

Note Reference **Explanatory note**

- | | |
|--------------|---|
| 1. IAS 33.64 | When earnings per share calculations reflect changes in the number of shares due to events that happened after the end of the reporting period, an entity discloses that fact. |
| 2. IAS 33.73 | If an entity discloses, in addition to basic and diluted earnings per share, per share amounts using a reported component of profit other than profit or loss for the period attributable to ordinary shareholders, such amounts are calculated using the weighted average number of ordinary shares determined in accordance with IAS 33 <i>Earnings per Share</i> . |
| IAS 33.73 | If a component of profit is used that is not reported as a line item in the statement of comprehensive income, then an entity presents a reconciliation between the component used and a line item that is reported in the statement of comprehensive income. |

Reference Notes to the consolidated financial statements

27. Earnings per share**Basic earnings per share**

The calculation of basic earnings per share at 31 December 2010 was based on the profit attributable to ordinary shareholders of €6,975 thousand (2009: €3,299 thousand), and a weighted average number of ordinary shares outstanding of 3,083 thousand (2009: 3,060 thousand), calculated as follows:

IAS 33.70(a)

Profit attributable to ordinary shareholders

<i>In thousands of euro</i>	2010			2009		
	Continuing operations	Discontinued operation	Total	Continuing operations	Discontinued operation	Total
Profit (loss) for the year	7,034	379	7,413	4,159	(422)	3,737
Dividends on non-redeemable preference shares	(438)	-	(438)	(438)	-	(438)
Profit (loss) attributable to ordinary shareholders	6,596	379	6,975	3,721	(422)	3,299

IAS 33.70(b)

Weighted average number of ordinary shares¹*In thousands of shares*

	Note	2010	2009
Issued ordinary shares at 1 January	26	3,100	3,100
Effect of own shares held		(49)	(40)
Effect of share options exercised		3	-
Effect of shares issued related to a business combination	9	6	-
Effect of shares issued in October 2010		23	-
Weighted average number of ordinary shares at 31 December		3,083	3,060

Diluted earnings per share

The calculation of diluted earnings per share at 31 December 2010 was based on profit attributable to ordinary shareholders of €7,237 thousand (2009: €3,299 thousand), and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 3,380 thousand (2009: 3,078 thousand), calculated as follows:

IAS 33.70(a)

Profit attributable to ordinary shareholders (diluted)²

<i>In thousands of euro</i>	2010			2009		
	Continuing operations	Discontinued operation	Total	Continuing operations	Discontinued operation	Total
Profit (loss) attributable to ordinary shareholders (basic)	6,596	379	6,975	3,721	(422)	3,299
Interest expense on convertible notes, net of tax	262	-	262	-	-	-
Profit (loss) attributable to ordinary shareholders (diluted)	6,858	379	7,237	3,721	(422)	3,299

Note Reference **Explanatory note**

1. In our view, this reconciliation is not required if basic and diluted earnings per share are equal. This issue is discussed in our publication *Insights into IFRS* (5.3.370.50).

2. In our view, the method used to determine the average market value of the entity's shares for purposes of calculating the dilutive effect of outstanding share options should be disclosed, particularly with respect to unquoted equity instruments. This issue is discussed in our publication *Insights into IFRS* (5.3.170.60 – 70).

3. *IFRS 7.8(e)* An entity discloses the carrying amount of financial liabilities designated at fair value through profit or loss, and the carrying amount of financial liabilities held for trading; while this explanatory note is attached to the loans and borrowings disclosure, this is not meant to indicate that liabilities at fair value through profit or loss would be classified as loans and borrowings.

IFRS 7.10, 11 An entity discloses the following if a financial liability is designated at fair value through profit or loss:

- the change in fair value of the financial liability, during the period and cumulatively, that is attributable to changes in credit risk, and the method used to comply with this disclosure requirement; if the entity believes that this disclosure does not represent faithfully the change in fair value attributable to changes in credit risk, then it discloses the reasons therefore and the relevant factors; and
- the difference between the carrying amount of the financial liability and the amount that the entity is contractually required to pay at maturity.

4. *IFRS 7.18, 19* For loans payable recognised at the end of the reporting period, an entity discloses information about any defaults that occurred during the period, or any other breach of the terms of a loan.

IAS 1.74-76 When a breach of a loan agreement occurred during the period, and the breach has not been remedied or the terms of the loan payable have not been renegotiated by the end of the reporting period, the entity determines the effect of the breach on the current/non-current classification of the loan payable.

IFRS 7.18 For loans payable recognised at the end of the reporting period, an entity discloses:

- details of any defaults during the period of principal, interest, sinking fund, or redemption terms of those loans payable;
- the carrying amount of the loans payable in default at the end of the reporting period; and
- whether the default was remedied, or that the terms of the loans payable were renegotiated, before the financial statements were authorised for issue.

5. *IAS 1.71-73* An entity continues to classify its long-term interest-bearing liabilities as non-current, even if they are due to be settled within 12 months of the end of the reporting period, if an entity expects and is able, solely at its own discretion, to refinance or roll over an obligation for at least 12 months after the end of the reporting period under an existing loan facility. This issue is discussed in our publication *Insights into IFRS* (3.1.40.50).

Reference Notes to the consolidated financial statements

27. Earnings per share (continued)*IAS 33.70(b)* **Weighted average number of ordinary shares (diluted)¹***In thousands of shares*

	<i>Note</i>	2010	2009
Weighted average number of ordinary shares (basic)		3,083	3,060
Effect of conversion of convertible notes	28	250	-
Effect of share options on issue		47	18
Weighted average number of ordinary shares (diluted) at 31 December		3,380	3,078

IAS 33.70(c)

At 31 December 2010, 35 thousand options (2009: 44 thousand) were excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.²

28. Loans and borrowings^{3,4}*IFRS 7.7, 8*

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 34.

*In thousands of euro***Non-current liabilities⁵**

	2010	2009
Secured bank loans	3,512	7,093
Unsecured bond issues	6,136	9,200
Convertible notes	4,678	-
Redeemable preference shares	1,939	-
Finance lease liabilities	1,613	1,913
Loan from associate	-	1,000
	17,878	19,206

*IAS 1.77***Current liabilities**

Current portion of secured bank loans	3,500	4,000
Unsecured bank loans	524	117
Dividends on redeemable preference shares	51	-
Current portion of finance lease liabilities	315	269
	4,390	4,386

Note *Reference* **Explanatory note**

- | | |
|----------------------------|--|
| 1. <i>IFRS 7</i> | An entity discloses information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance. These illustrative financial statements illustrate one possible method of disclosing significant information related to loans and borrowings. An entity assesses the extent of information provided throughout the financial statements to determine if it has met the disclosure requirements of IFRS 7. |
| 2. <i>IFRS 7.17</i> | If an entity has issued an instrument that contains both a liability and an equity component and the instrument has multiple embedded derivative features, the values of which are interdependent (such as a callable convertible debt instrument), then an entity discloses the existence of those features. |

Reference Notes to the consolidated financial statements

28. Loans and borrowings (continued)

IFRS 7.7

Terms and debt repayment schedule¹

Terms and conditions of outstanding loans were as follows:

<i>In thousands of euro</i>	Currency	Nominal interest rate	Year of maturity	31 December 2010		31 December 2009	
				Face value	Carrying amount	Face value	Carrying amount
Secured bank loan	CHF	3.90%	2014	1,260	1,260	1,257	1,257
Secured bank loan	USD	4.70%	2012	500	447	500	521
Secured bank loan	euro	4.50%	2011-2015	4,460	4,460	4,460	4,460
Secured bank loan	GBP	LIBOR+1%	2011-2012	850	845	4,850	4,855
Unsecured bank loan	USD	3.80%	2011	554	524	-	-
Unsecured bank facility	euro	5.50%	2010	-	-	117	117
Unsecured bond issues	euro	LIBOR+1/2%	2014	1,023	1,023	1,023	1,023
Unsecured bond issues	euro	LIBOR+1%	2015	5,113	5,113	5,113	5,113
Unsecured bond issues	euro	LIBOR	2012	-	-	3,064	3,064
Loan from associate	euro	4.80%	2010	-	-	1,000	1,000
Convertible notes	euro	3.00%	2013	5,000	4,678	-	-
Redeemable preference shares	euro	4.40%	2016	2,000	1,939	-	-
Dividends on redeemable preference shares	euro	-	2011	51	51	-	-
Finance lease liabilities	euro	6.5-7.0%	2010-2025	2,663	1,928	3,186	2,182
Total interest-bearing liabilities				23,474	22,268	24,570	23,592

IFRS 7.7
IAS 16.74(a)

The bank loans are secured over land and buildings with a carrying amount of €5,000 thousand (2009: €4,700 thousand) (see note 16).

Breach of loan covenant

IFRS 7.19

The Group has a secured bank loan with a carrying amount of €4,460 thousand at 31 December 2010. According to the terms of the agreement, this loan is repayable in tranches over the next 5 years. However, the loan contains a debt covenant stating that at the end of each quarter the Group's debt (in the covenant defined as the Group's loans and borrowings and trade and other payables) cannot exceed 2.5 times the Group's quarterly revenue from continuing operations.

The Group has experienced an increase in leverage, in part due to the distribution of assets to owners of the Company during the year, and as such the Group exceeded its maximum leverage threshold in the third quarter of 2010. Management has been in a process of negotiation with the bank and obtained a waiver in October 2010, so that the bank loan is not payable upon demand at 31 December 2010.

IFRS 7.17

Convertible notes²*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	91
Carrying amount of liability at 31 December 2010	4,678

IFRS 7.17

The amount of the convertible notes classified as equity of €163 thousand is net of attributable transaction costs of €9 thousand.

Note Reference **Explanatory note**

- | |
|---|
| <p>1. <i>IFRIC 2.13</i> When a change in prohibition against redemption of a financial instrument leads to a transfer between financial liabilities and equity, the entity discloses separately the amount, timing and reason for the transfer.</p> |
| <p>2. <i>IAS 1731(d)</i> An entity discloses the total minimum lease payments expected to be received under non-cancellable subleases at the end of the reporting period.</p> <p><i>IAS 1731(e)(iii)</i> An entity discloses any restrictions imposed by lease arrangements, such as those concerning dividends, additional debt, and further leasing.</p> |

Reference Notes to the consolidated financial statements

28. Loans and borrowings (continued)**Convertible notes (continued)**

The notes are convertible into 250 thousand ordinary shares 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 (see note 5).

IFRS 7.17

Redeemable preference shares¹

In thousands of euro

Proceeds from issue of redeemable preference shares	2,000
Transaction costs	(61)
Carrying amount at 31 December 2010	1,939

During the year 1,000 thousand redeemable preference shares were issued with a par value of €2 per share (2009: nil). All issued shares are fully paid. Redeemable preference shares do not carry the right to vote and rank equally with other shares with regard to the Company's residual assets, except that holders of redeemable preference shares participate only to the extent of the face value of the shares.

The redeemable preference shares are mandatorily redeemable at par on 31 May 2016 and 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 upon maturity.

Finance lease liabilities

IAS 17.31(b)

Finance lease liabilities are payable as follows:²

	Future minimum lease payments		Present value of minimum lease payments		Future minimum lease payments		Present value of minimum lease payments	
	2010	2010	2010	2009	2009	2009	2009	
<i>In thousands of euro</i>								
Less than one year	535	220	315	731	262	469		
Between one and five years	1,128	343	785	924	385	539		
More than five years	1,000	172	828	1,531	357	1,174		
	2,663	735	1,928	3,186	1,004	2,182		

Note Reference **Explanatory note**

- | |
|--|
| <p>1. <i>IAS 19.118</i> Entities are not required to split post-employment benefit assets and liabilities into current and non-current classifications.</p> <p><i>IAS 19.122</i> When an entity has more than one defined benefit plan, the disclosures may be made in total, separately for each plan, or in such groupings as are considered to be the most useful; for example, the entity may distinguish groupings by criteria such as geographical location or the risks related to the plans. Criteria used to distinguish groupings may be the geographical locations of the plans or types of risk associated with the plans.</p> <p><i>IAS 19.30</i> For any multi-employer defined benefit plans for which sufficient information is not available to use defined benefit accounting, an entity discloses that fact and the reason why sufficient information is not available. To the extent that a surplus or deficit in the plan may affect the amount of future contributions, an entity discloses any available information about that surplus or deficit, the basis used to determine that surplus or deficit, and the implications, if any, for the entity.</p> |
| <p>2. <i>IAS 19.58(b)</i> An entity that has a defined benefit plan in surplus measures the resulting asset at the lower of the calculation performed under paragraph 54 of IAS 19 and the total of any cumulated unrecognised net actuarial losses and past service cost plus the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using discount rates by reference to market yields at the end of the reporting period on high quality corporate bonds, unless there is no deep market in such bonds in which case government bonds can be used.</p> |
| <p>3. <i>IAS 19.116</i> An entity is able to offset an asset related to one plan against a liability related to another plan when, and only when, an entity:</p> <ul style="list-style-type: none">● has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan; and● intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously. |

Reference Notes to the consolidated financial statements

28. Loans and borrowings (continued)

IAS 17.31(c), (e)(i), (ii) Certain leases provide for additional payments that are contingent upon changes in the market rental rate. Contingent rents recognised in profit or loss under finance leases amounted to €17 thousand (2009: €15 thousand).

IAS 1.122, 17.31(e) During 2009 the Group entered into an arrangement whereby a supplier built a set of 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 (see note 16). The imputed finance costs on the liability were determined based on the Group's incremental borrowing rate (4.85 percent).

29. Employee benefits¹

	Note	Plan A ²		Plan B ^{2,3}	
		2010	2009	2010	2009
<i>In thousands of euro</i>					
IAS 19.120A(d)	Fair value of plan assets	(2,330)	(2,490)	-	-
IAS 19.120A(d), (f)	Present value of obligations	1,695	1,759	335	280
IAS 19.120A(f)	(Surplus) deficit in the plan ³	(635)	(731)	335	280
	Liability for long-service leave			207	181
IFRS 2.51(b)(i)	Cash-settled share-based payment liability 30			440	380
	Total employee benefit liabilities			982	841

IAS 19.120A(b) The Group makes contributions to two non-contributory defined benefit plans that provide pension and medical benefits for employees upon retirement. The plan entitles a retired employee to receive an annual payment equal to 1/60 of final salary for each year of service that the employee provided, and to the reimbursement of certain medical costs.

IFRIC 14.10 The Group has determined that, in accordance with the terms and conditions of the defined benefit plans, and in accordance with statutory requirements (such as minimum funding requirements) of the plans of the respective jurisdictions, the present value of refunds or reductions in future contributions is not lower than the balance of the total fair value of the plan assets less the total present value of obligations. This determination is made on a plan-by-plan basis. As such, no decrease in the defined benefit asset is necessary at 31 December 2010 (31 December 2009: no decrease in defined benefit asset).

Note Reference **Explanatory note**

- 1.** IAS 19.120A If applicable, an entity discloses the following in the reconciliation of the opening and closing balances of the defined benefit obligations:

(c)(iii), (v),
(vii)-(x)

- past service cost;
- contributions by plan participants;
- business combinations;
- curtailments; and
- settlements.

- 2.** IAS 19.120A If applicable, an entity discloses the following in the reconciliation of defined benefit obligations and plan assets to the liability (asset) recognised in the statement of financial position:

(f)(i)-(iv)

- net actuarial gains and losses not recognised;
- past service cost not recognised;
- any amount not recognised as an asset because of the limit in paragraph 58(b) of IAS 19 *Employee Benefits*, which is the total of any cumulative unrecognised net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan; and
- the fair value at the end of the reporting period of any reimbursement right recognised as an asset, with a brief description of the link between the reimbursement right and the related obligation.

- 3.** IAS 19.120A If applicable, an entity discloses the following in the reconciliation of the opening and closing balances of plan assets:

(e)(iii), (v),
(vii), (viii)

- contributions by plan participants;
- business combinations; and
- settlements.

- 4.** IAS 19.120A If applicable, an entity discloses the following:

(g)(iv)

- expected return on any reimbursement right recognised as an asset;

(g)(v)

- actuarial gains and losses recognised in profit or loss;

(g)(vi)

- past service cost recognised in profit or loss;

(g)(vii)

- the effect of any curtailment or settlement on amounts recognised in profit or loss;

(g)(viii)

- the effect of the limit in paragraph 58(b) of IAS 19 on amounts recognised in profit or loss; and

(m)

- the actual return on any reimbursement right recognised as an asset.

Reference Notes to the consolidated financial statements

29. Employee benefits (continued)

IAS 19.120A(j)	Plan assets comprise: <i>In thousands of euro</i>		
		2010	2009
	Equity securities	990	1,167
	Government bonds	1,044	1,062
	Qualifying insurance policies	90	48
IAS 19.120A(k)(ii)	Property occupied by the Group	153	162
IAS 19.120A(k)(i)	Company's own ordinary shares	53	51
		2,330	2,490
IAS 19.120A(c)	Movement in the present value of the defined benefit obligations ^{1, 2} <i>In thousands of euro</i>		
		2010	2009
	Defined benefit obligations at 1 January	2,039	1,913
IAS 19.120A(c)(vi)	Benefits paid by the plan	(474)	(544)
IAS 19.120A(c)(i), (ii)	Current service costs and interest (see below)	673	652
IAS 19.120A(c)(ix)	Curtailment gain	(100)	-
IAS 19.120A(c)(iv)	Actuarial (gains) losses in other comprehensive income (see below)	(82)	18
IAS 19.120A(c)(v)	Effect of movement in exchange rates	(26)	-
	Defined benefit obligations at 31 December	2,030	2,039
IAS 19.120A(e)	Movement in the fair value of plan assets ^{2, 3} <i>In thousands of euro</i>		
		2010	2009
	Fair value of plan assets at 1 January	2,490	2,500
IAS 19.120A(e)(iv)	Contributions paid into the plan	299	379
IAS 19.120A(e)(vi)	Benefits paid by the plan	(474)	(544)
IAS 19.120A(e)(i)	Expected return on plan assets	148	152
IAS 19.120A(e)(ii)	Actuarial (losses) gains in other comprehensive income (see below)	(10)	3
IAS 19.120A(e)(iii)	Effect of movement in exchange rates	(123)	-
	Fair value of plan assets at 31 December	2,330	2,490
IAS 19.120A(g)	Expense recognised in profit or loss ⁴ <i>In thousands of euro</i>		
		2010	2009
IAS 19.120A(g)(i)	Current service costs	463	478
IAS 19.120A(g)(ii)	Interest on obligation	210	174
IAS 19.120A(g)(vii)	Curtailment gain	(100)	-
IAS 19.120A(g)(iii)	Expected return on plan assets	(148)	(152)
		425	500
	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 (31 December 2009: nil). A corresponding curtailment gain is included in the Group's statement of comprehensive income at 31 December 2010.		
IAS 19.120A(g)	The expense is recognised in the following line items in the statement of comprehensive income: <i>In thousands of euro</i>		
		2010	2009
	Cost of sales	216	297
	Distribution expenses	109	154
	Administrative expenses	100	49
		425	500
IAS 19.120A(m)	Actual return on plan assets	140	162

Note Reference **Explanatory note**

- | | |
|-----------------------------------|--|
| 1. IAS 19.120A
(n)(iii) | If applicable an entity discloses the expected rate of return for periods presented on any reimbursement right recognised as an asset. |
| 2. IAS 19.120A(n) | Principal actuarial assumptions are disclosed in absolute terms and not, for example, as a margin between different percentages or other variables. |
| 3. 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. |

Reference Notes to the consolidated financial statements

29. Employee benefits (continued)**Actuarial gains and losses recognised in other comprehensive income***In thousands of euro*

		2010	2009
IAS 19.120A(i)	Amount accumulated in retained earnings at 1 January	(103)	(88)
IAS 19.120A(h)(i)	Recognised during the year	72	(15)
IAS 19.120A(i)	Amount accumulated in retained earnings at 31 December	(31)	(103)

IAS 1.125 **Actuarial assumptions¹**IAS 19.120A(n) Principal actuarial assumptions at the reporting date (expressed as weighted averages):²

		2010	2009
IAS 19.120A(n)(i)	Discount rate at 31 December	5.1%	4.8%
IAS 19.120A(n)(ii)	Expected return on plan assets at 1 January	5.8%	5.9%
IAS 19.120A(n)(iv)	Future salary increases	2.5%	2.5%
IAS 19.120A(n)(v)	Medical cost trend rate	4.5%	4.0%
IAS 19.120A(n)(vi)	Future pension increases	3.0%	2.0%

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:³

	31 December 2010		
	Europe	America	Other regions
Longevity at age 65 for current pensioners			
Males	19.0	18.5	18.2
Females	22.0	21.0	19.0

	31 December 2010		
	Europe	America	Other regions
Longevity at age 65 for current members aged 45			
Males	19.7	19.2	19.0
Females	23.4	22.9	20.5

	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

	31 December 2009		
	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

Note Reference **Explanatory note**

- 1.** *IAS 19.122* When an entity has more than one defined benefit plan, the disclosures may be made in total, separately for each plan, or in such groupings as are considered to be the most useful; for example, the entity may distinguish groupings by criteria such as geographical location or the risks related to the plans. Criteria used to distinguish groupings may be the geographical locations of the plans or types of risk associated with the plans.
- 2.** *IFRS 2.52* An entity provides additional disclosures if the required disclosures in IFRS 2 are not sufficient to enable the user to understand the nature and extent of the share-based payment arrangements, how the fair value of services have been determined for the period, and the effect on profit or loss.

Reference Notes to the consolidated financial statements

29. Employee benefits (continued)**Actuarial assumptions (continued)**

IAS 1.129

The calculation of the defined benefit obligation is sensitive to the mortality assumptions set out above. As the actuarial estimates of mortality continue to be refined, an increase of one year in the lives shown above is considered reasonably possible in the next financial year. The effect of this change would be an increase in the employee benefit liability of €300 thousand.

IAS 19.120A(ii)

The overall expected long-term rate of return on assets is 5.8 percent. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

IAS 19.120A(o)

Assumed healthcare cost trend rates have a significant effect on the amounts recognised in profit or loss. A 1 percentage point change in assumed healthcare cost trend rates would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on the aggregate service and interest cost	20	(14)
Effect on defined benefit obligation	380	(250)

IAS 19.120A(p)

Historical information¹

In thousands of euro

	2010	2009	2008	2007	2006
IAS 19.120A(p)(i) Present value of the defined benefit obligation	2,030	2,039	1,913	2,101	2,040
IAS 19.120A(p)(i) Fair value of plan assets	2,330	2,490	2,500	2,483	2,475
IAS 19.120A(p)(i) (Surplus) deficit in the plan	(300)	(451)	(587)	(382)	(435)
IAS 19.120A(p)(ii)(A) Experience adjustments arising on plan liabilities	(110)	(50)	32	(10)	49
IAS 19.120A(p)(ii)(B) Experience adjustments arising on plan assets	(8)	10	(9)	(12)	(13)

IAS 19.120A(q)

The Group expects €350 thousand in contributions to be paid to its defined benefit plans in 2011.

30. Share-based payment arrangements²

IFRS 2.44

Description of the share-based payment arrangements

At 31 December 2010 the Group has the following share-based payment arrangements:

Share option programme (equity-settled)

IFRS 2.45(a)

On 1 January 2006 and 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 (except for exercise price) was offered to key management personnel and senior employees. In accordance with these programmes, holders of vested options are entitled to purchase shares at the market price of the shares at the date of grant.

Share appreciation rights (cash-settled)

IFRS 2.45(a)

On 1 January 2007 and 1 January 2010 the Group granted share appreciation rights (SARs) to other employees that entitle the employees to a cash payment. 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.

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Reference Notes to the consolidated financial statements

30. 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, up to a maximum of €300 per month, for a period of 36-months. Under the terms of the plan, at the end of the three-year period the employees are entitled to purchase shares using funds saved at a price 20 percent below the market price 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 do not save the required amount of their gross monthly salary in any month before the 36-month period expires, will be refunded their saved amounts.

Replacement awards (equity-settled)

The Group has granted 150 thousand replacement awards to employees of Papyrus in connection with a business combination. See note 9 for further details.

Terms and conditions of share option programme and SARs

The terms and conditions related to the grants of the share option programme and the share appreciation rights are as follows; all options are to be settled by physical delivery of shares, while SARs are settled in cash:

Grant date/employees entitled	Number of instruments in thousands	Vesting conditions	Contractual life of options
Option grant to key management on 1 January 2006	400	3 years' service and 5 percent increase in operating income in each of the 3 years	7 years
Option grant to key management 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 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
Total share options	800		
SARs granted to other employees on 1 January 2007	100	3 years' service	-
SARs granted to other employees on 1 January 2010	300	3 years' service	-
Total SARs	400		

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Reference Notes to the consolidated financial statements

30. Share-based payment (continued)**Disclosure of share option programme and replacement awards**

IFRS 2.45(b) The number and weighted average exercise prices of share options is as follows:

		Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	<i>In thousands of options</i>	2010	2010	2009	2009
IFRS 2.45(b)(i)	Outstanding at 1 January	€9.90	550	€9.50	400
IFRS 2.45(b)(iii)	Forfeited during the year	€9.50	(50)	€9.50	(50)
IFRS 2.45(b)(iv)	Exercised during the year	€10.00	(5)	-	-
IFRS 2.45(b)(v)	Expired during the year	-	-	-	-
IFRS 2.45(b)(ii)	Granted during the year	€10.61	350	€10.50	200
IFRS 2.45(b)(vi)	Outstanding at 31 December	€10.22	845	€9.86	550
IFRS 2.45(b)(vii)	Exercisable at 31 December	€10.00	295	€9.50	350

IFRS 2.45(d) The options outstanding at 31 December 2010 have an exercise price in the range of €9.50 to €10.88 (2009: €9.50 to €10.50) and a weighted average contractual life of 6.8 years (2009: 7.1 years).

IFRS 2.45(c) The weighted average share price at the date of exercise for share options exercised in 2010 was €10.50 (2009: no options exercised).

IFRS 2.47(b)(iii) **Incorporating non-vesting conditions into fair value of share purchase plan**

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. 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.

At 31 December 2010 a total amount of €223 thousand was invested by the participants to the share purchase plan (see note 38) and has been recognised as trade and other payables due to related parties (see note 33).

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Reference Notes to the consolidated financial statements

30. Share-based payment (continued)**Inputs for measurement of grant-date fair values**

The grant-date fair value of the rights granted through the employee share purchase plan was measured based on Monte Carlo sampling. The grant-date fair value of all other share-based payment plans was measured based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values at grant date of the share-based payment plans were as follows:¹

		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							
IFRS 2.52	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	€10.10	€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
IFRS 2.47(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%

Employee expenses

In thousands of euro

		Note	2010	2009
IFRS 2.51(a)	Share options granted in 2009	13	250	250
IFRS 2.51(a)	Share options granted in 2010	13	370	-
IFRS 2.51(a)	Employee share purchase plan granted in 2010	13	35	-
IFRS 2.51(a)	Replacement awards 2010	9, 13	100	-
IFRS 2.51(a), (b)	Expense arising from SARs granted in 2007	13	-	280
IFRS 2.51(a), (b)	Expense arising from SARs granted in 2010	13	300	-
IFRS 2.51(a), (b)	Effect of changes in the fair value of SARs	13	140	70
IFRS 2.51(a)	Total expense recognised as employee costs		1,195	600
IFRS 2.51(b)(i)	Total carrying amount of liabilities for cash-settled arrangements		440	380
IFRS 2.51(b)(ii)	Total intrinsic value of liabilities for vested benefits		-	380

The carrying amount of the liabilities at 31 December 2009 was settled during 2010.

Note Reference **Explanatory note**

- | | |
|-----------|--|
| 1. | Deferred income related to a government grant generally is classified as a non-current liability. The portion that will be recognised in profit or loss in the next year is shown as a current liability. This issue is discussed in our publication <i>Insights into IFRS</i> (4.3.130.60). |
| 2. | <i>IAS 20.39(c), 41.57(b), (c)</i> An entity discloses any unfulfilled condition and other contingencies attaching to government grants. For government grants related to agricultural activity, an entity also discloses significant decreases expected in the level of the grants. |
| 3. | <i>IAS 37.92</i> In extremely rare cases, disclosure of some or all of the information required in respect of provisions can be expected to seriously prejudice the position of the entity in a dispute with other parties. In such cases only the following is disclosed: <ul style="list-style-type: none">● the general nature of the dispute;● the fact that the required information has not been disclosed; and● the reason why. |
| 4. | <i>IAS 37.84</i> There is no requirement to disclose comparative information in the reconciliation of provisions. |
| 5. | In our view, the reversal of a provision should be presented in the same statement of comprehensive income line item as the original estimate. This issue is discussed in our publication <i>Insights into IFRS</i> (3.12.850).

<i>IAS 1.98(f), (g)</i> An entity discloses separately items of income and expense related to reversals of provisions and litigation settlements. |
| 6. | Provisions that will be utilised within one year are classified as current liabilities. This issue is discussed in our publication <i>Insights into IFRS</i> (3.12.770.10). |
| 7. | <i>IFRS 5.31-36A, IAS 37</i> <i>Provisions, Contingent Liabilities and Contingent Assets</i> applies to provisions for restructuring, including in the context of discontinued operations. When a restructuring meets the definition of a discontinued operation, additional disclosures may be required by IFRS 5.
<i>IAS 37.9</i> |

Reference Notes to the consolidated financial statements

31. Deferred income/revenue*In thousands of euro*

	Note	2010	2009
Government grants		1,462	1,462
IAS 11.40(b) Customer advances		72	117
IAS 11.41 Billing in advance of work completed		18	13
Customer loyalty claims	10	50	38
		1,602	1,630
Non-current ¹		1,424	1,462
Current		178	168
		1,602	1,630

IAS 20.39(b)

The Group has been awarded two government grants.² One of the grants, received in 2009, amounted to €1,500 thousand and was conditional upon the construction of a factory on a specified site. The factory has been in operation since late 2010 and the grant, recognised as deferred income, is being amortised over the useful life of the building. The second grant, received in 2010, was unconditional, amounted to €200 thousand and related to pine trees. It was recognised as other income when it became receivable.

32. Provisions^{3, 4}*In thousands of euro*

	Warranties	Restructuring	Site restoration	Onerous contracts	Legal	Total
IAS 3784(a) Balance at 1 January 2010	200	500	900	-	-	1,600
IFRS 3.23 Assumed in a business combination	-	-	150	-	20	170
IAS 3784(b) Provisions made during the year	280	400	600	160	-	1,440
IAS 3784(c) Provisions used during the year	(200)	(500)	(800)	-	-	(1,500)
Provisions disposed of through distribution	-	-	(200)	-	-	(200)
IAS 3784(d) Provisions reversed during the year ⁵	-	-	(100)	-	-	(100)
IAS 3784(e) Unwind of discount	-	-	60	-	-	60
IAS 3784(a) Balance at 31 December 2010	280	400	610	160	20	1,470
IAS 1.78(d) Non-current	100	-	610	100	-	810
IAS 1.78(d) Current ⁶	180	400	-	60	20	660
	280	400	610	160	20	1,470

Restructuring costs expensed as incurred amounted to €68 thousand in 2010 and were recognised in administrative expenses (2009: nil).⁷

Warranties

IAS 3785(a), (b)

The provision for warranties relates mainly to paper sold during the years ended 31 December 2009 and 2010. The provision is based on estimates made from historical warranty data associated with similar products and services. The Group expects to incur the majority of the liability over the next year. An expected reimbursement of warranty expense incurred of €25 thousand has been recognised in other trade receivables following a supplier accepting responsibility for the defective products.

Note Reference **Explanatory note**

- | | |
|-------------------------------------|--|
| 1. <i>IAS 37.9</i> | IAS 37 applies to provisions for restructuring, including in the context of discontinued operations. When a restructuring meets the definition of a discontinued operation, additional disclosures may be required by IFRS 5. |
| 2. <i>IFRIC 5.11</i> | An entity discloses its interest in and the nature of any decommissioning, restoration and environmental rehabilitation funds, as well as any restrictions on access to the funds' assets. |
| <i>IAS 37.85(c),
IFRIC 5.13</i> | If a right to receive reimbursement from the fund has been recognised as an asset, then an entity discloses the amounts of the asset and expected reimbursement. |
| <i>IAS 37.86,
IFRIC 5.12</i> | If an obligation to make contributions to the fund has not been recognised as a liability, then an entity discloses the estimated financial effect of the obligation, a description of uncertainties related to the amount or timing of contributions, and any possible reimbursement. |

Reference Notes to the consolidated financial statements**32. Provisions (continued)****Restructuring¹***IAS 1.98(b), 125,
3785(a), (b)*

During the previous year the Group committed to a plan to restructure one of the product lines in the American paper manufacturing and distribution division due to a decrease in demand as a result of deteriorated economic circumstances. Following the announcement of the plan, the Group recognised a provision of €500 thousand for expected restructuring costs, including contract termination costs, consulting fees and employee termination benefits. Estimated costs were based on the terms of the relevant contracts. An amount of €500 thousand was charged against the provision in 2010. The restructuring was completed in 2010.

During the year a provision of €400 thousand was made to cover the costs associated with restructuring part of a manufacturing facility within the Standard Papers segment that will be retained when the remainder of the facility is sold (see note 8). Estimated restructuring costs mainly include employee termination benefits and are based on a detailed plan agreed between management and employee representatives. The restructuring and the sale are expected to be complete by June 2011.

*IAS 1.125
IAS 3785(a)***Site restoration²**

A provision of €900 thousand was made during 2009 in respect of the Group's obligation to rectify environmental damage in France. The required work was completed during 2010 at a cost of €800 thousand. The unused provision of €100 thousand was reversed.

*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. During the year the Group provided €600 thousand 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 Group has been provided with a range of reasonably possible outcomes of the total cost, which range from €500 thousand to €700 thousand, reflecting different assumptions about pricing of the individual components of the cost. The provision has been calculated using a discount rate of 5.9 percent, which is the risk-free rate in the jurisdiction of the liability. The rehabilitation is expected to occur progressively over the next four years.

IAS 34.26

The provision has increased as compared to the amount of €300 thousand reported in the Company's interim report as at and for the six months ended 30 June 2010 due to a change in estimated costs. At the time of preparing the interim report the extent of restoration work required was uncertain, as the inspection report by the Romanian authorities had not yet been finalised. The estimates were revised subsequently based on the final report.

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

Onerous contracts*IAS 3785(a), (b)*

In 2009 the Group entered into a non-cancellable lease for office space which, due to changes in its activities, the Group had ceased to use by 31 December 2010. The lease expires in 2013. The facilities have been sublet for the remaining lease term, but changes in market conditions have meant that the rental income is lower than the rental expense. The obligation for the discounted future payments, net of expected rental income, has been provided for.

*IAS 1.125,
3785(a), (b)***Legal**

As a result of the acquisition of Papyrus Pty Limited (see note 9), the Group assumed a contingent liability of €20 thousand.

Note Reference **Explanatory note**

1. In our view, derivative assets and liabilities should be presented separately in the statement of financial position if they are significant. If derivative instruments are not significant, then they may be included within other financial assets and other financial liabilities, respectively, with additional details disclosed in the notes to the financial statements. This issue is discussed in our publication *Insights into IFRS* (5.6.120.40).

2. Accounting for financial instruments is complex, and appropriate disclosures will depend on the circumstances of the individual entity. In these illustrative financial statements the disclosures in respect of financial instruments have 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 exposure to risks from the use of financial instruments. Issues related to the accounting for financial instruments are discussed in our publication *Insights into IFRS* (3.6, 3.7).

3. *IFRS 7.34* IFRS 7 requires the disclosure of risk information based on the information provided internally to key management personnel of the entity, as defined in IAS 24, e.g. the entity's board of directors or chief executive.

IFRS 7.35, IG20 If the quantitative data at the end of the reporting period are not representative of an entity's risk exposure during the year, then an entity provides further information that is representative, e.g. the entity's average exposure to risk during the year. For example, if an entity's business is seasonal and the balance of loans and receivables fluctuates materially during the year, then a sensitivity analysis based solely on the position at the end of the reporting period would not be representative.

4. *IFRS 7.36(a)* An entity discloses information about the nature and extent of its exposure to credit risk. The disclosure of the maximum exposure to credit risk ignores any collateral held or other credit enhancement.

IFRS 7.B9, B10 The maximum credit risk exposure typically is the gross carrying amount of the financial asset, net of any amounts offset in accordance with IAS 32 *Financial Instruments: Presentation* and any impairment losses recognised in accordance with IAS 39.

IFRS 7.36, B1-B3 The disclosures in respect of credit risk apply to each "class" of financial asset, which is not defined in IFRS 7. Classes are distinct from the categories of financial instruments specified in IAS 39. In determining classes of financial instruments an entity at a minimum distinguishes instruments measured at amortised cost from those measured at fair value, and treats as a separate class or classes those financial instruments outside the scope of IFRS 7.

IFRS 7.IG 21-29 The IFRS 7 implementation guidance provides additional guidance on the disclosures without specifying a minimum standard disclosure.

Reference Notes to the consolidated financial statements

IFRS 7.8(f) **33. Trade and other payables****Trade payables***In thousands of euro*

	<i>Note</i>	2010	2009
Trade payables due to related parties	38	319	351
Other trade payables		19,100	23,525
Accrued expenses		312	487
		<u>19,731</u>	<u>24,363</u>

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 34.

Other payables*In thousands of euro*

	<i>Note</i>	2010	2009
Derivatives used for hedging ¹	34	8	7
Contingent consideration	9	270	-
		<u>278</u>	<u>7</u>

See note 34 for non-current derivatives used for hedging.

34. Financial instruments²**Credit risk³****Exposure to credit risk**

IFRS 7.36(a)

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:⁴

		Carrying amount	
<i>In thousands of euro</i>	<i>Note</i>	2010	2009
Debt securities	21	451	373
Equity securities	21	377	511
Debentures	21	2,436	2,256
Financial assets designated at fair value through profit or loss	21	251	254
Financial assets classified as held-for-trading	21	243	568
Loans and receivables	24	19,426	17,719
Cash and cash equivalents	25	1,505	1,850
Interest rate swaps used for hedging:			
Assets	21	116	131
Forward exchange contracts used for hedging:			
Assets	21	297	375
Other forward exchange contracts	21	122	89
		<u>25,224</u>	<u>24,126</u>

Note Reference **Explanatory note**

- 1.** *IFRS 7B8, IG18, 19* The identification of concentrations of risk requires judgement taking into account the circumstances of the entity. For example, concentrations of credit risk may arise from industry sectors, credit rating or other measures of credit quality, geographical distribution or a limited number of individual counterparties. Therefore, the disclosure of risk concentrations includes a description of the shared characteristics.
- 2.** *IFRS 737(a)* An entity discloses an ageing analysis of financial assets that are past due at the end of the reporting period, but not impaired. There are several ways in which this disclosure requirement can be met. This table discloses gross amounts of financial assets as well as the accumulated impaired amounts, so that the balance reflects financial assets that are not impaired. Such disclosure has been given for both financial assets that are past due and financial assets that are not past due. Disclosure of the latter is not required by IFRSs.

This disclosure is required for all classes of financial assets. However, for the purpose of these illustrative financial statements, only loans and receivables include amounts that are past due but not impaired. Therefore, this is the only class of financial asset in respect of which this disclosure requirements is relevant.
- 3.** *IFRS 737(c)* An entity discloses a description of the amounts past due but not impaired, and an analysis of financial assets that are individually determined to be impaired, including a description of collateral held by the entity as security and other credit enhancements and, unless impracticable, an estimate of their fair value.

Reference Notes to the consolidated financial statements

34. Financial instruments (continued)**Credit risk (continued)****Exposure to credit risk (continued)**

IFRS 7.34(a)

The maximum exposure to credit risk for loans and receivables at the reporting date by geographic region was:¹

<i>In thousands of euro</i>	Carrying amount	
	2010	2009
Domestic	5,918	4,332
Euro-zone countries	2,062	4,450
United Kingdom	3,029	2,590
Other European countries	431	367
United States	7,939	5,938
Other regions	47	42
	19,426	17,719

IFRS 7.34(a)

The maximum exposure to credit risk for loans and receivables at the reporting date by type of counterparty was:¹

<i>In thousands of euro</i>	Carrying amount	
	2010	2009
Wholesale customers	12,371	11,231
Retail customers	6,478	5,600
End-user customers	239	856
Other	338	32
	19,426	17,719

IFRS 7.34(a)

The Group's most significant customer, a European wholesaler, accounts for €8,034 thousand of the loans and receivables carrying amount at 31 December 2010 (2009: €4,986 thousand).

Impairment losses

IFRS 7.37(a)

The aging of loans and receivables at the reporting date was:^{2,3}

<i>In thousands of euro</i>	Gross		Impairment	
	2010	2010	2009	2009
Not past due	16,719	-	15,057	-
Past due 0 – 30 days	2,337	100	2,612	-
Past due 31 – 120 days	440	20	100	50
More than one year	130	80	-	-
	19,626	200	17,769	50

IFRS 7.16

The movement in the allowance for impairment in respect of loans and receivables during the year was as follows:

<i>In thousands of euro</i>	2010	2009
Balance at 1 January	50	20
Impairment loss recognised	150	30
Balance at 31 December	200	50

Note *Reference* **Explanatory note**

1. *IFRS 7.36(c)* An entity discloses information about the credit quality of financial assets that are neither past due nor impaired.

2. *IFRS 7.38* An entity discloses:

- the nature and carrying amount of any collateral or other credit enhancements obtained;
and
- its policy for disposing of collateral that is not readily convertible into cash.

Reference Notes to the consolidated financial statements

34. Financial instruments (continued)**Credit risk (continued)**

- IFRS 7.37(b), (c)* At 31 December 2010 an impairment loss of €60 thousand relates to a customer that was declared bankrupt during the year. Although the goods sold to the customer were subject to a retention of title clause, the Group has no indication that the customer is still in possession of the goods. At 31 December 2010 an impairment loss of €20 thousand relates to trade receivables acquired as part of the acquisition of Papyrus Pty Limited (see note 9). The remainder of the impairment loss at 31 December 2010 relates to several customers that have indicated that they are not expecting to be able to pay their outstanding balances, mainly due to economic circumstances. The Group believes that the unimpaired amounts that are past due by more than 30 days are still collectible, based on historic payment behaviour and extensive analyses of the underlying customers' credit ratings.
- IFRS 7.36(c)* Based on historic default rates, the Group believes that, apart from the above, no impairment allowance is necessary in respect of trade receivables not past due or past due by up to 30 days.
- IFRS 7.36(d)* During 2009 the Group renegotiated the terms of a trade receivable of €500 thousand due from a long-standing customer. If it had not been for this renegotiation, then the receivable would have been overdue by 60 days. No impairment loss was recognised (2009: no instances).¹
- IFRS 7.16* The movement in the allowance for impairment in respect of held-to-maturity investments during the year was as follows:
- | <i>In thousands of euro</i> | 2010 | 2009 |
|-----------------------------|-------------|-------------|
| Balance at 1 January | 20 | 20 |
| Impairment loss recognised | 60 | - |
| Balance at 31 December | 80 | 20 |
- IFRS 7.37(b), (c)* An impairment loss of €60 thousand in respect of held-to-maturity investments was recognised during the current year owing to significant financial difficulties being experienced by the issuer of some of these securities. The Group has no collateral in respect of this investment.²
- IFRS 7.B5(d), 16, IAS 39.64* The allowance accounts in respect of loans and receivables and held-to-maturity investments are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts are considered irrecoverable and are written off against the financial asset directly. At 31 December 2010 the Group does not have any collective impairments on its loans and receivables or its held-to-maturity investments (2009: nil).

Note Reference **Explanatory note**

- 1.** *IFRS 7.34(a), B10A* An entity discloses summary quantitative data about its exposure to liquidity risk, based on information that is provided internally to key management personnel. An entity explains how those data are determined.

IFRS 7.B11 In preparing the maturity analyses for financial liabilities, an entity uses its judgement to determine an appropriate number of time bands. This issue is further discussed in our publication *Insights into IFRS* (5.6.390.80).

IFRS 7.B11B An entity discloses a quantitative maturity analysis for derivative financial liabilities that shows remaining contractual maturities if the contractual maturities are essential for an understanding of the timing of the cash flows. This would, for example, be the case for all loan commitments, and for an interest rate swap with a remaining maturity of five years in a cash flow hedge of a variable rate financial asset or liability.

IFRS 7.B11D Contractual cash flows are undiscounted and therefore may not agree with the carrying amounts in the statement of financial position.

IFRS 7.B11E An entity discloses how it manages liquidity risk inherent in its maturity analyses for derivative and non-derivative financial liabilities. An entity also discloses a maturity analysis of financial assets that it holds for managing liquidity risk, if such information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk.
- 2.** IFRS 7 does not define contractual maturities. It therefore leaves open to interpretation the amounts that need to be included in the analysis for certain types of financial liabilities, such as derivatives and perpetual instruments. In our view, both the interest and principal cash flows should be included in the analysis, as this best represents the liquidity risk being faced by the entity. This issue is discussed in our publication *Insights into IFRS* (5.6.390.70).
- 3.** In these illustrative financial statements derivative assets are disclosed separately when the Group settles its derivative contracts on a gross basis; this is in order to show the contractual cash flows.

Reference Notes to the consolidated financial statements

34. Financial instruments (continued)**Liquidity risk**

IFRS 7.39(a)

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:^{1,2}

31 December 2010*In thousands of euro*IFRS 7.39(a),
B11A-B11D**Non-derivative financial liabilities**

	Carrying amount	Contractual cash flows	6 months or less	6 – 12 months	1 – 2 years	2 – 5 years	More than 5 years
Secured bank loans	7,012	(7,298)	(3,601)	(60)	(1,527)	(2,110)	-
Unsecured bond issues	6,136	(7,567)	(230)	(230)	(460)	(6,647)	-
Convertible notes	4,678	(5,375)	(75)	(75)	(150)	(5,075)	-
Redeemable preference shares	1,939	(2,528)	(44)	(44)	(88)	(264)	(2,088)
Dividend on redeemable preference shares	51	(51)	(51)	-	-	-	-
Finance lease liabilities	1,928	(2,663)	(267)	(268)	(450)	(678)	(1,000)
Unsecured bank loan	524	(547)	(547)	-	-	-	-
Trade and other payables*	20,001	(20,001)	(19,731)	-	-	(270)	-
Bank overdraft	334	(334)	(334)	-	-	-	-
	42,603	(46,364)	(24,880)	(677)	(2,675)	(15,044)	(3,088)

IFRS 7.39(b),
B11A-B11D**Derivative financial assets/(liabilities)³**

Interest rate swaps used for hedging	(20)	(21)	-	(21)	-	-	-
Forward exchange contracts used for hedging:							
Outflow	(8)	(10)	(3)	(7)	-	-	-
Inflow	297	326	150	176	-	-	-
Other forward exchange contracts:							
Outflow	-	(989)	-	-	(989)	-	-
Inflow	122	1,110	-	-	1,110	-	-
	391	416	147	148	121	-	-

* Excludes derivatives (shown separately).

IFRS 7.B10A

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

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Reference Notes to the consolidated financial statements

34. Financial instruments (continued)**Liquidity risk (continued)**

IFRS 7.39(a)

31 December 2009*In thousands of euro*

	Carrying amount	Contractual cash flows	6 months or less	6 – 12 months	1 – 2 years	2 – 5 years	More than 5 years
Non-derivative financial liabilities							
Secured bank loans	11,093	(12,133)	(4,305)	(140)	(3,780)	(3,908)	-
Unsecured bond issues	9,200	(12,420)	(230)	(230)	(460)	(4,444)	(7,056)
Finance lease liabilities	2,182	(3,186)	(265)	(266)	(458)	(666)	(1,531)
Loan from associate	1,000	(1,960)	(240)	(240)	(1,480)	-	-
Unsecured bank loan	117	(120)	(120)	-	-	-	-
Trade and other payables*	24,363	(24,363)	(24,363)	-	-	-	-
Bank overdraft	282	(290)	(290)	-	-	-	-
	48,237	(54,472)	(29,813)	(876)	(6,178)	(9,018)	(8,587)

IFRS 7.39(b)
7B11A-B11D**Derivative financial assets/(liabilities)**

Interest rate swaps used for hedging	(5)	(5)	-	(5)	-	-	-
Forward exchange contracts used for hedging:							
Outflow	(7)	(9)	(5)	(4)	-	-	-
Inflow	375	405	185	220	-	-	-
Other forward exchange contracts:							
Outflow	-	(861)	-	-	(861)	-	-
Inflow	89	950	-	-	950	-	-
	452	480	180	211	89	-	-

* Excludes derivatives (shown separately).

Note *Reference* **Explanatory note**

1. *IFRS 7.23(b)* An entity also describes any forecast transaction for which hedge accounting has been used previously, but which is no longer expected to occur.

34. Financial instruments (continued) Liquidity risk (continued)

IFRS 7.23(a)

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur and the fair value of the related hedging instruments.¹

	2010					2009								
	Fair value	Expected cash flows	6 months or less	6 – 12 months	1 – 2 years	2 – 5 years	More than 5 years	Carrying amount	Expected cash flows	6 months or less	6 – 12 months	1 – 2 years	2 – 5 years	More than 5 years
<i>In thousands of euro</i>														
Interest rate swaps														
Assets	116	140	12	36	27	54	11	131	155	15	24	33	59	24
Liabilities	(20)	(21)	-	(21)	-	-	-	(5)	(5)	-	(5)	-	-	-
Forward exchange contracts														
Assets	297	326	150	176	-	-	-	375	405	185	220	-	-	-
Liabilities	(8)	(10)	(3)	(7)	-	-	-	(7)	(9)	(5)	(4)	-	-	-
	385	435	159	184	27	54	11	494	546	195	235	33	59	24

The following table indicates the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to impact profit or loss and the fair value of the related hedging instruments.

	2010					2009								
	Fair value	Expected cash flows	6 months or less	6 – 12 months	1 – 2 years	2 – 5 years	More than 5 years	Carrying amount	Expected cash flows	6 months or less	6 – 12 months	1 – 2 years	2 – 5 years	More than 5 years
<i>In thousands of euro</i>														
Interest rate swaps														
Assets	116	140	12	36	27	54	11	131	155	15	24	33	59	24
Liabilities	(20)	(21)	-	(21)	-	-	-	(5)	(5)	-	(5)	-	-	-
Forward exchange contracts														
Assets	297	326	105	123	98	-	-	375	405	175	178	52	-	-
Liabilities	(8)	(10)	(4)	(3)	(3)	-	-	(7)	(9)	(5)	(3)	(1)	-	-
	385	435	113	135	122	54	11	494	546	185	194	84	59	24

Note Reference **Explanatory note**

1. *IFRS 7.34* IFRS 7 requires the disclosure of summary quantitative risk information to be based on the information provided internally to the entity's key management personnel, as defined in IAS 24, e.g. the entity's board of directors or chief executive.

IFRS 7.35, IG20 If the quantitative data at the end of the reporting period are not representative of an entity's risk exposure during the year, then an entity provides further information that is representative, e.g. the entity's average exposure to risk during the year. For example, the IFRS 7 implementation guidance indicates that if an entity typically has a large exposure to a particular currency but unwinds that position at the end of the reporting period, then it might present a graph that shows the currency exposure at various times during the period, or disclose the highest, lowest and average exposures.

IFRS 7 deals only with risks arising from financial instruments. Consequently, purchase and sale contracts for non-financial items that are to be settled in a foreign currency and some highly probable forecasted transactions are excluded from the scope of IFRS 7, even though they may give rise to financial risk for the entity. If an entity manages its financial risk based on its total exposure, i.e. including risk arising from those items not included within the scope of IFRS 7, and such exposures are included in reports to key management personnel, then in our view IFRS 7 does not prohibit an entity from providing additional disclosures about its total financial risk exposure rather than just the risk arising from financial instruments. However, all such additional disclosures are clearly separated from those required by IFRS 7. This issue is discussed in our publication *Insights into IFRS* (5.6.320.30).

2. This disclosure is not required by IFRS 7, since estimated forecast sales and purchases are not financial instruments. However, in these illustrative financial statements it is assumed that such information is relevant to an understanding of the Group's exposure to currency risk and that such information is provided internally to the Group's key management personnel.

3. This disclosure is not required by IFRSs but illustrates an example disclosure that may be significant for certain entities.

4. *IFRS 7.40(a)* An entity discloses how profit or loss and equity would have been affected by changes in a relevant risk variable that were reasonably possible at the end of the reporting period. Such a sensitivity analysis is disclosed for each type of market risk to which the entity is exposed at the end of the reporting period.

Reference Notes to the consolidated financial statements

34. Financial instruments (continued)**Currency risk¹**

IFRS 7.34(a)

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

<i>In thousands of</i>	euro				USD				GBP				CHF				
	31 December 2010								31 December 2009								
Trade receivables	1,977	8,365	2,367	-	3,099	6,250	1,780	-	-	-	-	-	-	-	-	-	-
Secured bank loans	-	(500)	(850)	(1,260)	-	(500)	(4,850)	(1,257)	-	-	-	-	-	-	-	-	-
Unsecured bank loan	-	(554)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Trade payables	(876)	(7,956)	(4,347)	-	(5,411)	(10,245)	(2,680)	-	-	-	-	-	-	-	-	-	-
Gross statement of financial position exposure	1,101	(645)	(2,830)	(1,260)	(2,312)	(4,495)	(5,750)	(1,257)	-	-	-	-	-	-	-	-	-
Next month's forecast sales ²	9,000	11,000	8,000	-	18,700	8,000	12,000	-	-	-	-	-	-	-	-	-	-
Next month's forecast purchases ²	(10,000)	(10,000)	(4,000)	-	(9,800)	(3,000)	(7,000)	-	-	-	-	-	-	-	-	-	-
Gross exposure	(1,000)	1,000	4,000	-	8,900	5,000	5,000	-	-	-	-	-	-	-	-	-	-
Forward exchange contracts	-	(950)	(946)	-	-	(1,042)	(870)	-	-	-	-	-	-	-	-	-	-
Net exposure	101	(595)	224	(1,260)	6,588	(537)	(1,620)	(1,257)	-	-	-	-	-	-	-	-	-

IFRS 7.31

The following significant exchange rates applied during the year:³

<i>euro</i>	Average rate		Reporting date spot rate	
	2010	2009	2010	2009
USD 1	0.760	0.679	0.711	0.710
GBP 1	1.113	1.256	1.108	1.027
CHF 1	0.674	0.631	0.664	0.672

IFRS 7.40

Sensitivity analysis⁴

A strengthening of the euro, as indicated below, against the USD, GBP and CHF at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecasted sales and purchases. The analysis is performed on the same basis for 2009, albeit that the reasonably possible foreign exchange rate variances were different, as indicated below.

<i>Effect in thousands of euros</i>	Strengthening		Weakening	
	Equity	Profit or loss	Equity	Profit or loss
31 December 2010				
USD (10 percent movement)	740	(25)	(673)	23
GBP (8 percent movement)	510	(17)	(472)	16
CHF (3 percent movement)	4	-	(4)	-
31 December 2009				
USD (12 percent movement)	880	(85)	(786)	76
GBP (10 percent movement)	670	(92)	(609)	84
CHF (5 percent movement)	3	-	(3)	-

Note *Reference* **Explanatory note**

1. *IFRS 7.40(a)* An entity discloses how profit or loss and equity would have been affected by changes in a relevant risk variable that were reasonably possible at the end of the reporting period. The estimation of a reasonably possible change in a relevant risk variable depends on an entity's circumstances.

2. In these illustrative financial statements, this sensitivity analysis relates to fixed rate instruments classified as available for sale (see note 21).

Reference Notes to the consolidated financial statements

34. Financial instruments (continued)**Interest rate risk**

IFRS 7.34(a)

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	Carrying amount	
	2010	2009
<i>In thousands of euro</i>		
Fixed rate instruments		
Financial assets	4,392	4,479
Financial liabilities	(15,621)	(9,819)
	(11,229)	(5,340)
Variable rate instruments		
Financial assets	535	595
Financial liabilities	(7,009)	(14,067)
	(6,474)	(13,472)

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

A change of 100 basis points¹ in interest rates would have increased or decreased equity by €15 thousand (2009: €6 thousand).²

IFRS 7.40(a)

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points¹ in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2009.

	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
<i>Effect in thousands of euros</i>				
31 December 2010				
Variable rate instruments	(100)	100	-	-
Interest rate swap	61	(61)	310	(302)
Cash flow sensitivity (net)	(39)	39	310	(302)
31 December 2009				
Variable rate instruments	(142)	142	-	-
Interest rate swap	61	(61)	280	(275)
Cash flow sensitivity (net)	(81)	81	280	(275)

Note Reference **Explanatory note**

- | | |
|--|---|
| <p>1. <i>IFRS 7.25,
B1-B3</i></p> | <p>The disclosures in respect of fair values apply to each “class” of financial asset, which is not defined in IFRS 7. Classes are distinct from the categories of financial instruments specified in IAS 39. In determining classes of financial instruments an entity at a minimum distinguishes instruments measured at amortised cost from those measured at fair value, and treats as a separate class or classes those financial instruments outside the scope of IFRS 7.</p> |
| <p>2. <i>IFRS 7.8(f),
B2(a)</i></p> | <p>An entity discloses the carrying amounts of financial liabilities measured at amortised cost either in the statement of financial position or in the notes. In this table, assets and liabilities carried at amortised cost have been presented separately from those carried at fair value, in order to meet the disclosure requirements of IFRS 7. Different presentation methods are possible, also depending on the information that is provided internally to key management personnel.</p> |

Reference Notes to the consolidated financial statements

34. Financial assets and liabilities (continued)**Accounting classifications and fair values^{1,2}****Fair values versus carrying amounts**

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

In millions of euro

	Note	Trading	Designated at fair value	Fair value	Held-to-maturity	Loans and receivables	Available-for-sale	Other financial liabilities	Total carrying amount	Fair value
31 December 2010										
Cash and cash equivalents	25	-	-	-	-	1,505	-	-	1,505	1,505
Loans and receivables	24	-	-	-	-	19,426	-	-	19,426	19,426
Interest rate swaps used for hedging	21	-	-	116	-	-	-	-	116	116
Forward exchange contracts used for hedging	21	-	-	297	-	-	-	-	297	297
Other forward exchange contracts	21	122	-	-	-	-	-	-	122	122
Investment securities:										
Debt securities	21	-	-	-	-	-	451	-	451	451
Equity securities	21	-	-	-	-	-	377	-	377	377
Financial assets designated at fair value through profit or loss	21	-	251	-	-	-	-	-	251	251
Financial assets classified as held for trading	21	243	-	-	-	-	-	-	243	243
Debentures	21	-	-	-	2,436	-	-	-	2,436	2,450
		365	251	413	2,436	20,931	828	-	25,224	25,238
Interest rate swaps used for hedging		-	-	(20)	-	-	-	-	(20)	(20)
Forward exchange contracts used for hedging	33	-	-	(8)	-	-	-	-	(8)	(8)
Secured bank loans	28	-	-	-	-	-	(7,012)	-	(7,012)	(7,239)
Unsecured bond issues	28	-	-	-	-	-	(6,136)	-	(6,136)	(5,675)
Convertible notes – liability component	28	-	-	-	-	-	(4,678)	-	(4,678)	(5,216)
Redeemable preference shares	28	-	-	-	-	-	(1,939)	-	(1,939)	(1,936)
Finance lease liabilities	28	-	-	-	-	-	(1,928)	-	(1,928)	(1,856)
Dividends on redeemable shares	28	-	-	-	-	-	(51)	-	(51)	(51)
Unsecured bank loan	28	-	-	-	-	-	(524)	-	(524)	(524)
Trade payables	33	-	-	-	-	-	(19,731)	-	(19,731)	(19,731)
Contingent consideration	33	-	(270)	-	-	-	-	-	(270)	(270)
Bank overdraft	25	-	(270)	(28)	-	-	-	(334)	(334)	(334)
		-	(270)	(28)	-	-	(42,333)	(42,631)	(42,860)	(42,860)

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34. Financial assets and liabilities (continued) Accounting classifications and fair values (continued)

IFRS 7.6, 8, 25

Fair values versus carrying amounts (continued)

In millions of euro

	Note	Trading	Designated at fair value instruments	Fair value – hedging instruments	Held-to- maturity receivables	Loans and receivables	Available- for-sale	Other financial liabilities	Total carrying amount	Fair value
31 December 2009										
Cash and cash equivalents	25	-	-	-	-	1,850	-	-	1,850	1,850
Loans and receivables	24	-	-	-	-	17,719	-	-	17,719	17,719
Interest rate swaps used for hedging	21	-	-	131	-	-	-	-	131	131
Forward exchange contracts used for hedging	21	-	-	375	-	-	-	-	375	375
Other forward exchange contracts	21	89	-	-	-	-	-	-	89	89
Investment securities:										
Debt securities	21	-	-	-	-	-	373	-	373	373
Equity securities	21	-	-	-	-	-	511	-	511	511
Financial assets designated at fair value through profit or loss	21	-	254	-	-	-	-	-	254	254
Financial assets classified as held for trading	21	568	-	-	-	-	-	-	568	568
Debentures	21	-	-	-	2,256	-	-	-	2,256	2,265
		657	254	506	2,256	19,569	884	-	24,126	24,135
Interest rate swaps used for hedging		-	-	(5)	-	-	-	-	(5)	(5)
Forward exchange contracts used for hedging		-	-	(7)	-	-	-	-	(7)	(7)
Secured bank loans	33	-	-	-	-	-	-	(11,093)	(11,093)	(10,984)
Unsecured bond issues	28	-	-	-	-	-	-	(9,200)	(9,200)	(9,346)
Loan from associate	28	-	-	-	-	-	-	(1,000)	(1,000)	(1,040)
Finance lease liabilities	28	-	-	-	-	-	-	(2,182)	(2,182)	(2,078)
Unsecured bank loan	28	-	-	-	-	-	-	(117)	(117)	(117)
Trade and other payables	33	-	-	-	-	-	-	(24,363)	(24,363)	(24,363)
Bank overdraft	25	-	-	-	-	-	-	(282)	(282)	(282)
		-	-	(12)	-	-	-	(48,237)	(48,249)	(48,222)

Note *Reference* **Explanatory note**

- 1.** *IFRS 7.27B* For fair value measurements recognised in the statement of financial position, an entity discloses the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety.

Reference

Notes to the consolidated financial statements

34. Financial instruments (continued)**Accounting classifications and fair values (continued)****Interest rates used for determining fair value**

The interest rates used to discount estimated cash flows, when applicable, are based on the government yield curve at the reporting date plus an adequate credit spread, and were as follows:

	2010	2009
Derivatives	2.5% – 4.5%	3.0% – 4.5%
Loans and borrowings	4.0% – 7.5%	4.0% – 7.0%
Leases	6.0% – 10.0%	5.5% – 9.0%
Service concession receivables	5.2%	-

IFRS 7.27A, B,
BC39C

Fair value hierarchy¹

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In thousands of euro

	Level 1	Level 2	Level 3	Total
31 December 2010				
Investment securities	879	200	243	1,322
Interest rate swaps used for hedging	-	116	-	116
Forward exchange contracts used for hedging	-	297	-	297
Other forward exchange contracts	-	122	-	122
	879	735	243	1,857
Forward exchange contracts used for hedging	-	(8)	-	(8)
Interest rate swaps used for hedging	-	(20)	-	(20)
Contingent consideration	-	-	(270)	(270)
	879	707	(27)	1,559
31 December 2009				
Investment securities	1,706	-	-	1,706
Interest rate swaps used for hedging	-	131	-	131
Forward exchange contracts used for hedging	-	375	-	375
Other forward exchange contracts	-	89	-	89
	1,706	595	-	2,301
Forward exchange contracts used for hedging	-	(7)	-	(7)
Interest rate swaps used for hedging	-	(5)	-	(5)
	1,706	583	-	2,289

IFRS 7.27B(b)

On 1 September 2010 available-for-sale financial assets with a carrying amount of €200 thousand were transferred from Level 1 to Level 2 because quoted prices in the market for such debt securities became no longer regularly available (2009: nil). In order to determine the fair value of such debt securities, management used a valuation technique in which all significant inputs were based on observable market data. There have been no transfers from Level 2 to Level 1 in 2010 (2009: no transfers in either direction).

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Reference Notes to the consolidated financial statements

34. Financial instruments (continued)**Accounting classifications and fair values (continued)****Fair value hierarchy (continued)**IFRS 7.27B(c),
IG13B

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

	Financial assets held for trading	Contingent considera- tion
<i>In thousands of euro</i>		
31 December 2010		
	-	-
	Balance at 1 January	
IFRS 7.27B(c)(i)	Total gains and losses recognised in profit or loss:	
	25	-
	Net gain from financial instruments at fair value through profit or loss	
	-	(20)
	Change in fair value of contingent consideration	
IFRS 7.27B(c)(iii)	-	(250)
	Arising from business combination	
IFRS 7.27B(c)(iii)	218	-
	Purchases	
	243	(270)
	Balance at 31 December	

IFRS 7.27

During the year, the Group acquired 2.5 percent of the common shares of ePaperTech Co, a newly incorporated company concentrating on business-to-business opportunities of paper related products and services through the Internet. The Group paid €218 thousand for its investment. As ePaperTech Co is not listed on any stock exchange, a quoted market price is not available.

See note 9 for information in relation to the contingent consideration liability arising from the business combination.

IFRS 7.27B(e)

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects:

	Effect on profit or loss Favourable (Unfavourable)	
<i>In thousands of euro</i>		
2010		
	43	(41)
	Investment securities	
	60	(60)
	Contingent consideration	

The favourable and unfavourable effects of using reasonably possible alternative assumptions have been calculated by recalibrating the model values using expected cash flows and risk-adjusted discount rates based on the probability weighted average of the Group's ranges of possible outcomes. Key inputs and assumptions used in the models at 31 December 2010 include:

Discount rate

The discount rate applied to the cash flows of ePaperTech's operations is based on the risk-free rate for the 10-year bonds issued by the government in the relevant market, adjusted for a risk premium to reflect both the increased risk of investing in equities, the systematic risk of ePaperTech Co and entity specific risk to the extent not already reflected in the cash flows. In markets where government bonds cannot be regarded as risk free, an adjustment is made to remove their default risk in estimating the risk-free rate.

Budgeted EBITDA

Budgeted EBITDA has been based on the forecasts provided by management based on the five-year business plan of ePaperTech Co.

Note Reference **Explanatory note**

- 1.** SIC-27.10 If an entity has any arrangement that is in the legal form of a lease but to which lease accounting is not applied because it does not, in substance, involve a lease, then it provides appropriate disclosures in order for users of the financial statements to understand the arrangement and the accounting treatment, including at least the following:
- the significant terms of the arrangement including its life, the underlying asset and any restrictions on its use, and the transactions that are linked together, including any options; and
 - the amount recognised as income in the period and the line item of the statement of comprehensive income in which it is included.

IFRIC 4.13, 15 In a case of an arrangement that is not in the legal form of a lease, but to which lease accounting is applied because it contains a lease, payments and other consideration required by such an arrangement are separated into those for the lease and those for other elements, on the basis of their relative fair values. If an entity concludes, in the case of an operating lease, that it is impracticable to separate the payments reliably, then it:

- treats all payments as future minimum lease payments for disclosure purposes;
- discloses those payments separately from the minimum lease payments of other arrangements that do not include payments for non-lease elements; and
- states that the disclosed payments also include payments for non-lease elements in the arrangement.

- 2.** IAS 17.35(d) (iii) An entity discloses any restrictions imposed by lease agreements, such as restrictions on dividends, additional debt and further leasing.

- 3.** IAS 17.15A || The *Improvements to IFRSs 2009* deleted guidance in paragraphs 14 and 15 of IAS 17 *Leases* 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 *Insights into IFRS* (5.1.230).

- 4.** IAS 17.47 If an entity is a lessor in a finance lease, then it discloses:
- a reconciliation between the total gross investment in the lease at the end of the reporting period, and the present value of minimum lease payments receivable at the end of the reporting period;
 - the total gross investment in the lease and the present value of minimum lease payments receivable at the end of the reporting period grouped as follows: not later than one year; later than one year but not later than five years; and later than five years;
 - unearned finance income;
 - the unguaranteed residual values accruing to the benefit of the lessor;
 - the accumulated allowance for uncollectible minimum lease payments receivable;
 - contingent rents recognised as income in the period; and
 - a general description of the entity's material leasing arrangements.

IAS 17.48 It also is useful to disclose the gross investment less unearned income in new business added during the reporting period, after deducting the relevant amounts for cancelled leases.

- 5.** IAS 17.56(b) An entity also discloses the amount of contingent rents recognised as income during the period.

Reference Notes to the consolidated financial statements

35. Operating leases¹**Leases as lessee**

IAS 17.35(a) Non-cancellable operating lease rentals are payable as follows:

In thousands of euro

	2010	2009
Less than one year	417	435
Between one and five years	419	486
More than five years	1,764	1,805
	2,600	2,726

IAS 17.35(d)(i), (ii) The Group leases a number of warehouse and factory facilities under operating leases.² The leases typically run for a period of 10 years, with an option to renew the lease after that date. Lease payments are increased every five years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in a local price index.

IAS 17.35(b) One of the leased properties has been sublet by the Group. The lease and sublease expire in 2013. Sublease payments of €50 thousand are expected to be received during 2011. The Group has recognised a provision of €160 thousand in respect of this lease (see note 32).

IAS 17.35(c) During the year an amount of €435 thousand was recognised as an expense in profit or loss in respect of operating leases (2009: €447 thousand). Contingent rent recognised as an expense amounted to €40 thousand (2009: €30 thousand). An amount of €150 thousand was recognised as other income in respect of subleases (2009: €90 thousand).

IFRS 7.15A, IAS 1.122 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. 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.³

Leases as lessor⁴

IAS 17.56(a) The Group leases out its investment property (see note 19). The future minimum lease payments under non-cancellable leases are as follows:

In thousands of euro

	2010	2009
Less than one year	740	170
Between one and five years	3,890	1,050
More than five years	3,550	951
	8,180	2,171

IAS 40.75(f)(i)-(ii) During the year €810 thousand was recognised as rental income in profit or loss (2009: €212 thousand).⁵ Repairs and maintenance expense, recognised in cost of sales, was as follows:

In thousands of euro

	2010	2009
Income-generating property	190	70
Vacant property	55	15
	245	85

Note Reference **Explanatory note**

- | | | |
|-----------|--|--|
| 1. | <i>IAS 38.122(e),
40.75(h),
41.49(b)</i> | An entity also discloses the amount of contractual commitments for the acquisition of intangible assets, development or acquisition of biological assets, and for the purchase, construction, development, repairs and maintenance of investment property. |
| 2. | <i>IAS 37.89</i> | In respect of a contingent asset, an entity discloses a brief description of its nature and, when practicable, an estimate of its financial effect. |
| | <i>IAS 37.91</i> | When it is not practicable to estimate the potential financial effect of a contingent liability or an asset, an entity discloses that fact. |
| | <i>IAS 37.92</i> | In extremely rare cases, disclosure of some or all of the information required in respect of contingencies can be expected to seriously prejudice the position of the entity in a dispute with other parties. In such cases only the following is disclosed: <ul style="list-style-type: none">● the general nature of the dispute;● the fact that the required information has not been disclosed; and● the reason why. |
| | <i>IAS 28.40</i> | An entity discloses its share of the contingent liabilities of an associate incurred jointly with other investors, and those contingent liabilities that arise because the investor is severally liable for all or part of the liabilities of the associate. |
| | <i>IAS 31.54
(a)-(c)</i> | An entity discloses: <ul style="list-style-type: none">● any contingencies that the entity has incurred in relation to its investments in joint ventures, and its share in each of the contingencies that have been incurred jointly with other venturers;● the entity's share of the contingencies of joint ventures for which it is contingently liable; and● those contingencies that arise because the venturer is contingently liable for the liabilities of the other venturers of a joint venture. |
| | <i>IAS 19.125,
141</i> | An entity may be required to disclose information about contingent liabilities arising from post-employment benefits plans, and about termination benefits when there is uncertainty over the number of employees who will accept the offer of termination benefits and the possibility of an outflow in settlement is not remote. |
| 3. | <i>IAS 1.138(c),
24.12, 15</i> | An entity discloses the name of its parent and ultimate controlling party if different. It also discloses the name of its ultimate parent if not disclosed elsewhere in information published with the financial statements. In our view, the <i>ultimate parent</i> and the <i>ultimate controlling party</i> are not necessarily synonymous. This is because the definition of parent refers to an entity. Accordingly, an entity may have an ultimate parent and an ultimate controlling party. Therefore if the ultimate controlling party in the entity is an individual or a group of individuals, then the identity of that individual or the group of individuals and that relationship should be disclosed. This issue is discussed in our publication <i>Insights into IFRS</i> (5.5.90.10). |
| 4. | <i>IAS 24.22</i> | Items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of the related party transactions on the financial statements of the entity. |

Reference Notes to the consolidated financial statements

36. Capital commitments¹

IAS 16.74(c) During the year the Group entered into a contract to purchase property, plant and equipment for €1,465 thousand (2009: nil).

IAS 31.55(a), (b) In respect of its interest in a joint venture (see note 20), the joint venture is committed to incur capital expenditure of €23 thousand (2009: €11 thousand), of which the Group's share of this commitment is €9 thousand (2009: €4 thousand). The Group is itself committed to incur capital expenditure of €150 thousand (2009: €45 thousand). These commitments are expected to be settled in 2011.

37. Contingencies²

IAS 1.125, 37.86(a)-(c) 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 notes 9 and 32).

38. Related parties

Parent and ultimate controlling party

IAS 1.138(c), 24.12 During the year 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.³

IAS 24.17 Transactions with key management personnel

Loans to directors

Unsecured loans to directors issued during the year amounted to €85 thousand (2009: €32 thousand). No interest is payable by the directors, and the loans are repayable in cash in full 12 months after the issue date. At 31 December 2010 the balance outstanding was €78 thousand (2009: €32 thousand) and is included in trade and other receivables (see note 24).⁴

Key management personnel compensation

IAS 19.124(b) In addition to their salaries, the Group also provides non-cash benefits to directors and executive officers, and contributes to a post-employment defined benefit plan on their behalf. In accordance with the terms of the plan, directors and executive officers retire at age 60 and are entitled to receive annual payments equivalent to 70 percent of their salary at the date of retirement until the age of 65, at which time their entitlement falls to 50 percent of their salary at the date of retirement.

Executive officers also participate in the Group's share option programme (see note 30). Furthermore, all employees of the holding company are entitled to participate in a share purchase programme (see note 30) if they meet the criteria of investing a percentage of each month's salary for a period of 36 months. Consequently, the Group has deducted €223 thousand from the salaries of all employees concerned (including an amount of €37 thousand that relates to key management personnel), to satisfy this criterion. The amounts withheld are included in trade and other payables due to related parties (see note 33).

Note Reference **Explanatory note**

- 1.** In our view, materiality considerations cannot be used to override the explicit requirements of IAS 24 for the disclosure of elements of key management personnel compensation. This issue is discussed in our publication *Insights into IFRS* (5.5.110.20).
- 2.** *IAS 19.124,* The entity is required to disclose the related party information about the transactions and *24.18* outstanding balances for each category of the related parties, as listed in IAS 24.18, including key management personnel and post-employment benefits. The level of disclosure illustrated by this publication is not required specifically by IAS 24. Disclosure about individual transactions could be combined without this level of detail.

Reference Notes to the consolidated financial statements

38. Related parties (continued)**Transactions with key management personnel (continued)****Key management personnel compensation (continued)**IAS 24.16(d),
17(a)-(d)

Certain executive officers are subject to a mutual term of notice of 12 months. Upon resignation at the Group's request, they are entitled to termination benefits of up to 24 months' gross salary, depending on the number of years completed as an executive officer.

IAS 24.16

Key management personnel compensation comprised:¹

In thousands of euro

	2010	2009
Short-term employee benefits	510	420
Post-employment benefits	475	450
Termination benefits	25	-
Other long-term benefits	420	430
Share-based payments	508	133
	1,938	1,433

Key management personnel and director transactions

Directors of the Company control 12 percent of the voting shares of the Company. A relative of a director of a subsidiary has a 10 percent share in the Group's joint venture (see note 20).

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

IAS 24.17(b)(i)

A number of these entities transacted with the Group during the year. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

IAS 24.17(a), (b)(i)

The aggregate value of transactions and outstanding balances related to key management personnel and entities over which they have control or significant influence were as follows:²

			Transaction value for the year ended 31 December		Balance outstanding as at 31 December	
			2010	2009	2010	2009
<i>In thousands of euro</i>						
Director	Transaction	Note				
F D Adair	Legal fees	(i)	12	13	-	-
H W James	Repairs and maintenance	(ii)	176	-	45	-
B Q Barton I	Inventory purchases – paper	(iii)	66	-	-	-

IAS 24.17(b)(i)

- (i) The Group used the legal services of Mr F D Adair in relation to advice over the sale of certain non-current assets of the Company. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.
- (ii) The Group entered into a two-year contract with On Track Limited, a company controlled by Mr H W James, to provide repairs and maintenance services on production equipment. The total contract value is €370 thousand. The contract terms are based on market rates for these types of services, and amounts are payable on a quarterly basis for the duration of the contract.

Note Reference **Explanatory note**

1. Payments by an entity may relate to services provided by the recipients to third parties. If an entity acts as an agent and makes payments to an individual on behalf of another party, then in our view the entity is required to disclose only compensation paid as consideration for services rendered *to the entity*.

In our view, an entity is required to disclose the portions of transactions with joint ventures or associates that are not eliminated in the consolidated financial statements.

These issues are discussed in our publication *Insights into IFRS* (5.5.110.40 and 120.30).

2. *IAS 24.17(c), (d)* An entity also discloses provisions for doubtful debts and the expense recognised during the period in respect of bad or doubtful debts related to the amount of outstanding balances from related parties.

3. *IAS 24.21* Related party transactions are described as having been made on an arm's length basis only if such terms can be substantiated.

4. *IAS 24.17 (b)(ii)* An entity discloses details of any guarantees given or received in respect of outstanding balances with related parties.

Reference Notes to the consolidated financial statements

38. Related parties (continued)**Transactions with key management personnel (continued)****Key management personnel and director transactions (continued)**

(iii) The Group purchased various paper supplies from Alumfab Limited, a company that is significantly influenced by Mr B Q Barton. Amounts were billed based on normal market rates for such supplies and were due and payable under normal payment terms.

From time to time directors of the Group, or their related entities, may purchase goods from the Group. These purchases are on the same terms and conditions as those entered into by other Group employees or customers.

IAS 24.17

Other related party transactions¹

	Transaction value for the year ended 31 December		Balance outstanding as at 31 December	
	2010	2009	2010	2009
<i>In thousands of euro</i>				
Sale of goods and services²				
Parent of the Group – Cameron Paper Co	350	320	220	250
Associate	1,145	400	1,016	392
Other				
Associate – administrative services	623	678	96	339
Associate – interest expense	16	25	-	12

IAS 24.17(a), (b)

IAS 24.17(b)(i)

All outstanding balances with these related parties are priced on an arm's length basis and are to be settled in cash within six months of the reporting date.³ None of the balances is secured.⁴ During the year there were no transactions or outstanding balances with Brown Products Corporation, the previous parent entity of the Group.

In addition, during the year the Group repaid a loan of €1,000 thousand received from one of its associates (see note 28).

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 recognised an expense of €25 thousand during the year (2009: nil).

The joint venture makes the results of its research and development activities available to the Group as well as to one of the other joint venturers. No amount is paid by any of the venturers. From time to time, to support the activities of the joint venture, the venturers increase their investment in the joint venture.

Note Reference **Explanatory note**

- 1.** *IAS 24.12* IAS 24 requires a disclosure of the relationships between parents and subsidiaries irrespective of whether there have been transactions between those related parties.

In practice many entities include a list of significant subsidiaries in their consolidated financial statements, either to follow the requirements of a local law or regulator, or as a legacy of a previous GAAP. These illustrative financial statements include a list of significant subsidiaries to reflect this practice.
- 2.** *IAS 27.41(d)* An entity discloses the nature and extent of any significant restrictions, e.g. resulting from borrowing arrangements or regulatory requirements, on the ability of subsidiaries to transfer funds to the parent in the form of cash dividends or to repay loans or advances.
- 3.** *IAS 27.41(b)* An entity discloses the reasons why the ownership, directly or indirectly through subsidiaries, of more than half of the voting or potential voting power of an investee does not constitute control.
- 4.** *IFRIC 12.5(a), (b)* Accounting for service concession arrangements is complex, and appropriate disclosures will depend on the circumstances of the individual entity. Issues related to the accounting for service concession arrangements are discussed in our publication *Insights into IFRS* (5.12).
- 5.** *SIC-29.7* Disclosures about the nature and extent of service concession arrangements are provided individually for each service concession arrangement or in aggregate for each class of service concession arrangement. A class is a grouping of service concession arrangements involving services of a similar nature.

Reference Notes to the consolidated financial statements

39. Group entities

IAS 24.12

Significant subsidiaries^{1, 2}

	Note	Country of incorporation	Ownership interest	
			2010	2009
Baguette S.A.		France	100	100
Mermaid A / S		Denmark	100	100
Lei Sure Limited		Romania	100	100
Papier GmbH	8	Germany	-	100
Oy Kossu AG		Switzerland	90	90
Windmill N.V.	9	Netherlands	75	60
Papyrus Pty Limited	9	Australia	90	25
Maple-leaf Inc		Canada	48	48
Sloan Bio-Research Co		UK	-	-
MayCo		US	-	-

IAS 27.41(a)

Although the Company does not hold any ownership interests in Sloan Bio-Research Co and MayCo, it receives substantially all of the benefits related to their operations and net assets based on the terms of agreements under which these entities were established. Consequently, the Company consolidates these entities.

IAS 27.40(c)

Although the Group owns less than half of Maple-leaf Inc and consequentially has less than half of the voting power, it is able to govern the financial and operating policies of the company by virtue of an agreement with the other investors of Maple-leaf Inc. Consequently, the Group consolidates the company.³

40. Service concession arrangement^{4, 5}

SIC-29.6

On 1 February 2010 the Group entered into a service concession agreement with a local township (the grantor) to construct a toll road near one of the Group's forestry operations. The construction of the toll road commenced in February 2010 and was completed and available for use on 30 September 2010. Under the terms of the agreement, the Group will operate and make the toll road available to the public for a period of five years, starting from 1 October 2010. The Group will be responsible for any maintenance services required during the concession period. The Group does not expect major repairs to be necessary during the concession period.

SIC-29.6(c)(iv)

The grantor will provide the Group a guaranteed minimum annual payment for each year that the toll road is in operation. Additionally, the Group has received the right to charge users a fee for using the toll road, which the Group will collect and retain; however, this fee is capped to a maximum amount as stated in the service concession agreement. The usage fees collected and earned by the Group are over and above the guaranteed minimum annual payment to be received from the grantor. At the end of the concession period the toll road becomes the property of the grantor and the Group will have no further involvement in its operation or maintenance requirements.

SIC-29.6(c)(v)

The service concession agreement does not contain a renewal option. The standard rights of the grantor to terminate the agreement include poor performance by the Group and in the event of a material breach in the terms of the agreement. The standard rights of the Group to terminate the agreement include failure of the grantor to make payment under the agreement, a material breach in the terms of the agreement, and any changes in law that would render it impossible for the Group to fulfil its requirements under the agreement.

Note Reference **Explanatory note**

- 1.** *IAS 10.21(b)* If the financial effect of a material non-adjusting event after the end of the reporting period cannot be estimated, an entity discloses that fact.
- 2.** *IFRS 3.59(b), 5.41, IAS 10.21, 22, 33.70(d)* For each material category of non-adjusting event after the end of the reporting period, an entity discloses the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made. Paragraph 22 of IAS 10 *Events after the Reporting Period* provides examples of non-adjusting events that normally would require disclosure.
- 3.** *IFRS 3.59(b), B66* For each business combination effected after the end of the reporting period but before the financial statements are authorised for issue, an entity discloses the information pursuant to the requirements of IFRS 3 to enable users of its financial statements to evaluate the nature and financial effect of each business combination. The disclosure requirements are the same as those required for business combinations effected during the period. If disclosure of any information is impracticable, then an entity discloses this fact and the reasons for it.

Reference Notes to the consolidated financial statements**40. Service concession arrangement (continued)***SIC-29.6(e), 6A*

The Group has recognised revenue of €350 thousand, consisting of €320 thousand on construction and €30 thousand on operation of the toll road, which is the amount of tolls collected. The Group has recognised profit of €20 thousand, consisting of a profit of €25 thousand on construction and a loss of €5 thousand on operation of the toll road. The revenue recognised in relation to construction in 2010 represents the fair value of the construction services provided in constructing the toll road. The Group has recognised a service concession receivable, measured initially at the fair value of the construction services, of €260 thousand representing the present value of the guaranteed annual minimum payments to be received from the grantor, discounted at a rate of 5 percent, of which €11 thousand represents accrued interest. The Group has recognised an intangible asset of €95 thousand, of which €5 thousand has been amortised in 2010. The intangible asset represents the right to charge users a fee for usage of the toll road. Capitalised borrowing costs included in this intangible asset amount to €6 thousand, which was determined based on an estimation of the average interest costs on borrowings of 5.7 percent.

*IAS 23.26(a), (b),
IFRIC 12.22**IAS 10.21***41. Subsequent events^{1, 2, 3}****Restructuring**

At the end of January 2011 the Group announced its intention to implement a cost-reduction programme and to take further measures to reduce costs. Additionally, to enable the Group to adapt its size to current market conditions, it is intended to reduce the Group's workforce by 400 positions worldwide by the end of 2011, by means of non-replacement whenever possible. The Group expects the restructuring associated with the reduction in positions to cost €600 thousand to €850 thousand in 2011.

Other

Subsequent to 31 December 2010 one of the Group's major trade debtors went into liquidation following a natural disaster in February 2011 that damaged its operating plant. Of the €100 thousand owed by the debtor, the Group expects to recover less than €10 thousand. No allowance for impairment has been made in the consolidated financial statements.

As reported in the condensed interim financial statements, on 22 July 2010 the Group announced its intention to acquire all of the shares of ABC Company for €6,500 thousand. On 4 January 2011 the Group's shareholders approved the transaction and the Group is now awaiting approval from regulatory authorities before proceeding with the acquisition. Management anticipates that this approval will be received by April 2011.

Note *Reference* **Explanatory note**

1. The auditors' report illustrated in these financial statements is based on International Standard on Auditing (ISA) 700 *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements*.

If the audit is carried out under local laws and standards, then the form of the report will conform to those laws and standards.

Independent auditors' report¹

[Appropriate Addressee]
[Name of entity]

We have audited the accompanying consolidated financial statements of [name of entity] and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2010, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

[Name of firm signing]
[Date of report]
[Address]

Note *Reference* **Explanatory note**

- | | |
|----------------------------------|--|
| 1. <i>IAS 1.10, 81(b)</i> | This Appendix illustrates the two statements approach, consisting of a separate income statement displaying profit or loss, and a second statement displaying the components of other comprehensive income. |
| <i>IAS 1.12</i> | An entity may present the components of profit or loss either as part of a single statement of comprehensive income or in a separate income statement. When an entity elects to present two statements, the separate income statement is part of a complete set of financial statements and is presented immediately before the statement of comprehensive income. |

Appendix I

Consolidated income statement¹

For the year ended 31 December

In thousands of euro

	<i>Note</i>	2010	2009 Restated*
Continuing operations			
Revenue	10	100,160	96,636
Cost of sales		(55,708)	(56,186)
Gross profit		44,452	40,450
Gain on distribution to owners of the Company	26	2,556	-
Other income	11	1,095	315
Distribution expenses		(17,984)	(18,012)
Administrative expenses		(17,142)	(15,269)
Research and development expenses		(1,109)	(697)
Other expenses	12	(860)	(30)
Results from operating activities		11,008	6,757
Finance income		1,161	480
Finance costs		(1,707)	(1,646)
Net finance expense	14	(546)	(1,166)
Share of profit of equity-accounted investees (net of tax)	20	467	587
Profit before income tax		10,929	6,178
Income tax expense	15	(3,371)	(1,800)
Profit from continuing operations		7,558	4,378
Discontinued operation			
Profit (loss) from discontinued operation (net of tax)	7	379	(422)
Profit for the year		7,937	3,956
Profit attributable to:			
Owners of the Company		7,413	3,737
Non-controlling interests		524	219
Profit for the year		7,937	3,956
Earnings per share			
Basic earnings per share (euro)	27	2.26	1.08
Diluted earnings per share (euro)	27	2.14	1.07
Earnings per share – continuing operations			
Basic earnings per share (euro)	27	2.14	1.22
Diluted earnings per share (euro)	27	2.03	1.21

* See note 2(e)(iii) and note 7.

The notes on pages 23 to 211 are an integral part of these consolidated financial statements.

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Consolidated statement of comprehensive income

For the year ended 31 December

In thousands of euro

	<i>Note</i>	2010	2009 Restated*
Profit for the year		7,937	3,956
Other comprehensive income			
Foreign currency translation differences – foreign operations		480	330
Foreign currency translation differences – equity-accounted investees		21	-
Net loss on hedge of net investment in foreign operation	14	(3)	(8)
Revaluation of property, plant and equipment	16	200	-
Effective portion of changes in fair value of cash flow hedges	14	(62)	77
Net change in fair value of cash flow hedges reclassified to profit or loss	14	(31)	(11)
Net change in fair value of available-for-sale financial assets	14	199	94
Net change in fair value of available-for-sale financial assets reclassified to profit or loss	14	(64)	-
Defined benefit plan actuarial gains (losses)	29	72	(15)
Income tax on other comprehensive income	15	(104)	(48)
Other comprehensive income for the year, net of tax		708	419
Total comprehensive income for the year		8,645	4,375
Attributable to:			
Owners of the Company		8,094	4,134
Non-controlling interests		551	241
Total comprehensive income for the year		8,645	4,375

* See note 2(e)(iii) and note 7.

The notes on pages 23 to 211 are an integral part of these consolidated financial statements.

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Appendix II

Consolidated statement of cash flows (direct method)

For the year ended 31 December

In thousands of euro

	<i>Note</i>	2010	2009 Restated*
Cash flows from operating activities			
Cash receipts from customers		96,049	97,976
Cash paid to suppliers and employees		(88,839)	(86,225)
Cash generated from operating activities		7,210	11,751
Interest paid		(1,604)	(1,521)
Income tax paid		(400)	(1,400)
Net cash from operating activities		5,206	8,830
Cash flows from investing activities			
Interest received		211	155
Dividends received		369	330
Proceeds from sale of property, plant and equipment		1,177	481
Proceeds from sale of investments		987	849
Disposal of discontinued operation, net of cash disposed of	7	10,890	-
Acquisition of subsidiary, net of cash acquired	9	(2,125)	-
Acquisition of equity-accounted investees	20	(600)	-
Acquisition of property, plant and equipment		(15,657)	(2,228)
Acquisition of investment property	19	(300)	(20)
Plantations and acquisitions of non-current biological assets		(305)	(437)
Acquisition of other investments		(319)	(2,411)
Dividends from equity-accounted investee		21	-
Development expenditure		(1,235)	(503)
Net cash used in investing activities		(6,886)	(3,784)
Cash flows from financing activities			
Proceeds from issue of share capital	26	1,550	-
Proceeds from issue of convertible notes	28	5,000	-
Proceeds from issue of redeemable preference shares	28	2,000	-
Proceeds from sale of own shares	26	30	-
Proceeds from exercise of share options	26	50	-
Proceeds from settlement of derivatives		5	11
Payment of transaction costs related to loans and borrowings	28	(311)	-
Acquisition of non-controlling interests	9	(200)	-
Repurchase of own shares	26	-	(280)
Repayment of borrowings		(5,132)	(4,445)
Payment of finance lease liabilities		(454)	(394)
Dividends paid	26	(1,243)	(571)
Net cash from (used in) financing activities		1,295	(5,679)
Net decrease in cash and cash equivalents		(385)	(633)
Cash and cash equivalents at 1 January		1,568	2,226
Effect of exchange rate fluctuations on cash held		(12)	(25)
Cash and cash equivalents at 31 December	25	1,171	1,568

* See note 2(e)(iii).

The notes on pages 23 to 211 are an integral part of these consolidated financial statements.

Note *Reference* **Explanatory note**

1. The purpose of this Appendix is to assist in the preparation of disclosures in annual financial statements when the amendment to IAS 1 resulting from the *Improvements to IFRSs 2010* is not adopted early. It illustrates one possible format for the disclosures; other formats are possible.

2. *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 interest;
- for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with IAS 8; 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
 - transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners, and changes in ownership interests in subsidiaries that do not result in a loss of control.

Appendix III

Consolidated statement of changes in equity^{1,2}

Reference
IAS 1.108, 109

	Attributable to owners of the Company							Total equity			
	Share capital	Share premium	Trans-lation reserve	Hedging reserve	Fair value reserve	Revalua-tion reserve	Reserve for own shares		Retained earnings	Total controlling interests	Non-controlling interests
Balance at 1 January 2009	14,550	3,500	(129)	434	17	-	-	10,567	28,939	601	29,540
Impact of change in accounting policy	-	-	-	-	-	-	-	33	33	-	33
Restated balance at 1 January 2009	14,550	3,500	(129)	434	17	-	-	10,600	28,972	601	29,573
Total comprehensive income for the year											
Profit or loss	-	-	-	-	-	-	-	3,737	3,737	219	3,956
Other comprehensive income											
Foreign currency translation differences	-	-	308	-	-	-	-	-	308	22	330
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	-	-	-	52	-	-	-	-	52	-	52
Net change in fair value of cash flow hedges transferred to profit or loss, net of tax	-	-	-	(8)	-	-	-	-	(8)	-	(8)
Net change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	63	-	-	-	63	-	63
Defined benefit plan actuarial gains and losses, net of tax	-	-	-	-	-	-	-	(10)	(10)	-	(10)
Total other comprehensive income	-	-	300	44	63	-	-	(10)	397	22	419
Total comprehensive income for the year	-	-	300	44	63	-	-	3,727	4,134	241	4,375

The notes on pages 23 to 211 are an integral part of these consolidated financial statements.

Note Reference **Explanatory note**

- 1.** *IAS 1.80* An entity without share capital (e.g. a partnership) discloses information equivalent to that required for other entities, disclosing movements during the period in each category of equity interest, and the rights, preferences, and restrictions attaching to each category of equity interest.
- 2.** *IAS 32.33* An entity presents own shares purchased as a deduction from equity. Consideration received when own shares held are reissued is presented as a change in equity, and no gain or loss is recognised. IFRSs do not mandate a specific method of presenting treasury shares within equity. Laws may prescribe the allocation method. In these illustrative financial statements the surplus arising on the reissue of own shares is presented as share premium. However, before following this approach, an entity should check local legal requirements, which, amongst other things, may prescribe the allocation method. This issue is discussed, and certain possible presentation alternatives are explained, in our publication *Insights into IFRS* (3.11.310.10 – 340.10).
- 3.** IFRS 2 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 is 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 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).

Consolidated statement of changes in equity (continued)

Reference
IAS 1.108, 109

	Note	Attributable to owners of the Company							Total equity			
		Share capital ¹	Share premium	Trans-lation reserve	Hedging reserve	Fair value reserve	Revalua-tion reserve	Reserve for own shares		Retained earnings	Non-controlling interests	
Transactions with owners of the Company, recognised directly in equity												
Contributions by and distributions to owners of the Company												
Own shares acquired ²	26	-	-	-	-	-	(280)	-	(280)	-	(280)	
Dividends to owners of the Company	26	-	-	-	-	-	-	(571)	(571)	-	(571)	
Share-based payment transactions ³	30	-	-	-	-	-	-	250	250	-	250	
Share options exercised	30	-	-	-	-	-	-	-	-	-	-	
Total contributions by and distributions to owners of the Company		-	-	-	-	-	(280)	(321)	(601)	-	(601)	
Changes in ownership interests in subsidiaries that do not result in a loss of control												
Acquisition of non-controlling interests	9	-	-	-	-	-	-	-	-	-	-	
Total changes in ownership interests in subsidiaries		-	-	-	-	-	-	-	-	-	-	
Total transactions with owners of the Company		-	-	-	-	-	(280)	(321)	(601)	-	(601)	
Restated balance at 31 December 2009		14,550	3,500	171	478	80	-	(280)	14,006	32,505	842	33,347

The notes on pages 23 to 211 are an integral part of these consolidated financial statements.

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Consolidated statement of changes in equity (continued)

Reference
IAS 1.108, 109

	Attributable to owners of the Company							Total equity			
	Share capital	Share premium	Trans-lation reserve	Hedging reserve	Fair value reserve	Revalua-tion reserve	Reserve for own shares		Retained earnings	Total interests	Non-controlling interests
Balance at 31 December 2009	14,550	3,500	171	478	80	-	(280)	14,006	32,505	842	33,347
Total comprehensive income for the year	-	-	-	-	-	-	-	7,413	7,413	524	7,937
Profit or loss	-	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	494	-	-	-	-	-	494	27	521
Foreign currency translation differences	-	-	(3)	-	-	-	-	-	(3)	-	(3)
Net loss on hedge of net investment in foreign operation	-	-	(20)	-	-	-	-	-	(20)	-	(20)
Transfer of foreign currency translations differences on loss of significant influence	-	-	-	-	-	-	-	-	-	-	-
Revaluation of property, plant and equipment, net of tax	-	-	-	-	-	134	-	-	134	-	134
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	(62)	-	-	-	-	(62)	-	(62)
Net change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	133	-	-	-	133	-	133
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of tax	-	-	-	-	(43)	-	-	-	(43)	-	(43)
Defined benefit plan actuarial gains and losses, net of tax	-	-	-	-	-	-	-	48	48	-	48
Total other comprehensive income for the year	-	-	471	(62)	90	134	-	48	681	27	708
	-	-	471	(62)	90	134	-	7,461	8,094	551	8,645

The notes on pages 23 to 211 are an integral part of these consolidated financial statements.

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Consolidated statement of changes in equity (continued)

Reference
IAS 1.108, 109

	Note	Attributable to owners of the Company							Total equity			
		Share capital	Share premium	Trans-lation reserve	Hedging reserve	Fair value reserve	Revalua-tion reserve	Reserve for own shares		Retained earnings	Total controlling interests	Non-controlling interests
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 combination	9	24	63	-	-	-	-	-	-	87	-	87
Issue of ordinary shares	26	390	1,160	-	-	-	-	-	-	1,550	-	1,550
Issue of convertible notes, net of tax	28	-	109	-	-	-	-	-	-	109	-	109
Own shares sold	26	-	19	-	-	-	11	-	-	30	-	30
Dividends to owners of the Company	26	-	-	-	-	-	-	(1,243)	(1,243)	-	-	(1,243)
Non-cash distribution to owners of the Company	26	-	-	-	-	(27)	-	(12,473)	(12,500)	-	-	(12,500)
Share-based payment transactions	30	-	-	-	-	-	-	755	755	-	-	755
Share options exercised	26	15	35	-	-	-	-	-	50	-	-	50
Total contributions by and distributions to owners of the Company		429	1,386	-	-	(27)	11	(12,961)	(11,162)	-	-	(11,162)
Changes in ownership interests in subsidiaries												
Acquisition of non-controlling interests without a change in control	9	-	-	-	-	-	-	(85)	(85)	(115)	-	(200)
Acquisition of non-controlling interests with a change in control	9	-	-	-	-	-	-	-	-	304	-	304
Total transactions with of the Company		429	1,386	-	-	(27)	11	(13,046)	(11,247)	189	-	(11,058)
Balance at 31 December 2010		14,979	4,886	642	416	170	107	8,421	29,352	1,582	1,582	30,934

The notes on pages 23 to 211 are an integral part of these consolidated financial statements.

Note Reference **Explanatory note**

- 1.** The purpose of this appendix is to assist in the preparation of disclosures in annual financial statements for early adoption of IFRS 9. It illustrates one possible format for the disclosures; other formats are possible.
- 2.** *IFRS 9.8.2.12* If an entity adopts IFRS 9 for reporting periods beginning before 1 January 2012, then it can elect not to restate prior periods. In this Appendix, the Group has elected to apply the new standard from the start of an annual reporting period without restatement of comparatives. Given that different accounting policies will apply to financial assets pre- and post-adoption of the standard, both the pre- and post-adoption accounting policies for financial assets are disclosed.

IFRS 9.8.2.3 If an entity elects to apply the standard at a date that is not the beginning of an annual reporting period, then the entity discloses that fact and the reasons for applying the standard from that date.
- 3.** *IFRS 9.4.5* At initial recognition, entities have the option to designate a financial asset that meets the amortised cost criteria at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch. Many available-for-sale debt investments that currently are measured at fair value will qualify for amortised cost accounting, for example, simple debt instruments that are quoted in an active market (such as vanilla government and corporate bonds). However, those that do not qualify will be measured at fair value through profit or loss rather than through other comprehensive income.
- 4.** *IFRS 9.5.4.4* The election to present in other comprehensive income gains and losses on investments in equity instruments that are not held for trading is available on an instrument-by-instrument basis.

Appendix IV

Example disclosures for entities that early adopt IFRS 9 *Financial Instruments*¹

Basis of preparation

Change in accounting policy²

(X) Non-derivative financial assets

The Group has early adopted IFRS 9 *Financial Instruments* with a date of initial application of 1 January 2010. IFRS 9 requires that an entity classifies its financial assets as subsequently measured at either amortised cost or fair value depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. These changes in accounting policy are applied on a retrospective basis, except as described below, from 1 January 2010 without restatement of prior periods. The change in accounting policy had no impact on earnings per share for the year.

IAS 8.28

Policy applicable from 1 January 2010

IFRS 7.21

The Group initially recognises financial assets on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Financial assets are initially measured at fair value. If the financial asset is not subsequently measured at fair value through profit or loss, the initial measurement includes transaction costs that are directly attributable to the asset's acquisition or origination. The Group subsequently measures financial assets at either fair value or amortised cost.

IFRS 7.21

Financial assets measured at amortised cost

A financial asset is subsequently measured at amortised cost using the effective interest method and net of any impairment loss, if: the asset is held within a business model with an objective to hold assets in order to collect contractual cash flows; and the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest.³ The Group's policy on impairment is the same as that applied in its consolidated financial statements as at and for the year ended 31 December 2009 for loans and receivables and held-to-maturity investments (see note 3(k)).

IFRS 7.21

Financial assets measured at fair value

Financial assets other than those subsequently measured at amortised cost are subsequently measured at fair value with all changes in fair value recognised in profit or loss.

IFRS 7.21

However, for investments in equity instruments that are not held for trading, the Group may elect at initial recognition to present gains and losses in other comprehensive income.⁴ For instruments measured at fair value through other comprehensive income gains and losses are never reclassified to profit or loss and no impairments are recognised in profit or loss. Dividends earned from such investments are recognised in profit or loss unless the dividends clearly represent a recovery of part of the cost of the investment.

Policy applicable prior to 1 January 2010

The Group initially recognises financial assets on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group classifies non-derivative financial assets as: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables or available-for-sale financial assets.

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.

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Basis of preparation (continued)**Change in accounting policy (continued)****(X) Non-derivative financial assets (continued)***Policy applicable prior to 1 January 2010 (continued)*

IFRS 7.21, B5(a)

Financial assets at fair value through profit or loss

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

IFRS 7.21

Held-to-maturity financial assets

If the Group had the positive intent and ability to hold debt securities to maturity, then such financial assets were classified as held to maturity. Held-to-maturity financial assets were recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets were 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.

IFRS 7.21

Loans and receivables

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

IFRS 7.21(b)

Available-for-sale financial assets

Available-for-sale financial assets were non-derivative financial assets that were designated as available for sale and that were not classified in any of the previous categories. The Group's investments in equity securities and certain debt securities were classified as available-for-sale financial assets. Subsequent to initial recognition, they were measured at fair value and changes therein, other than foreign currency differences on available-for-sale debt instruments which were included in profit or loss and impairment losses, were recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment was derecognised, the cumulative gain or loss in other comprehensive income was transferred to profit or loss.

Impact of change in accounting policy

In accordance with the transitional provisions of IFRS 9, the classification of financial assets that the Group held at the date of initial application was based on the facts and circumstances of the business model in which the financial assets were held at that date. As a result, €20 thousand (€14 thousand net of tax of €6 thousand) was reclassified at 1 January 2010 from the fair value reserve to other investments, because certain debt securities were reclassified from available for sale to financial assets measured at amortised cost.

The adoption of IFRS 9 did not impact the Group's accounting policy for financial liabilities as disclosed in the Group's 31 December 2009 financial statements.

For further details see note x.

Note Reference **Explanatory note**

1. *IFRS 9.8.2.12* If an entity adopts IFRS 9 for reporting periods beginning before 1 January 2012, then it can elect not to restate prior periods. The Group has elected to apply the new standard from 1 January 2010 without restatement of comparatives. As a result, the difference between the previous carrying amount and the carrying amount applying the new standard at that date is recognised in opening retained earnings (or another component of equity as appropriate). This issue is discussed in our publication *Insights into IFRS* (3.6A.460.10).

Consolidated statement of changes in equity – excerpt

Reference
IAS 1.108, 109

In thousands of euro	Note	Attributable to owners of the Company								Total equity		
		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	
Restated balance at 31 December 2010		14,550	3,500	171	478	80	-	(280)	14,006	32,505	842	33,347
Impact of adopting IFRS 9 at 1 January 2010 ¹	X	-	-	-	-	(14)	-	-	-	(14)	-	(14)
Restated balance at 1 January 2010		14,550	3,500	171	478	66	-	(280)	14,006	32,491	842	33,333

[Other items as detailed on page 17 of this publication]

Note Reference **Explanatory note**

1. *IFRS 7.44* An entity that early adopts IFRS 9 is required to disclose the following.
(i), (j)

When an entity first applies IFRS 9, it discloses (in tabular format unless another format is more appropriate) for each class of financial assets at the date of initial application:

- the original measurement category and carrying amount determined in accordance with IAS 39;
- the new measurement category and carrying amount determined in accordance with IFRS 9; and
- the amount of any financial assets in the statement of financial position that were previously designated as measured at fair value through profit or loss but are no longer so designated, distinguishing between those that IFRS 9 requires an entity to reclassify and those that an entity elects to reclassify.

When an entity first applies IFRS 9, it discloses qualitative information to enable users to understand:

- how it applied the classification requirements in IFRS 9 to those financial assets whose classification has changed as a result of applying IFRS 9; and
- the reasons for any designation or de-designation of financial assets or financial liabilities as measured at fair value through profit or loss.

Reference

Notes to the consolidated financial statements

X. Classification of financial assets on the date of initial application of IFRS 9¹

IFRS 7.44I

The following table summarises the transitional classification and measurement adjustments to the Group's financial assets on 1 January 2010, the Group's date of initial application of IFRS 9:

<i>In thousands of euro</i>	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets at fair value through profit or loss	(a)	Fair value through profit or loss	Fair value through profit or loss	822	822
Forward exchange contracts not used for hedging		Fair value through profit or loss	Fair value through profit or loss	89	89
Debentures		Held-to-maturity investments	Amortised cost	2,256	2,256
Trade receivables due from related parties		Loans and receivables	Amortised cost	642	642
Other trade receivables		Loans and receivables	Amortised cost	17,045	17,045
Cash and cash equivalents		Loans and receivables	Amortised cost	1,850	1,850
Debt securities	(b)	Available for sale	Amortised cost	373	353
Equity securities	(c)	Available for sale	Fair value through other comprehensive income	441	441
Equity securities		Available for sale	Fair value through profit or loss	70	70
Interest rate swaps used for hedging		Hedging instrument	Hedging instrument	131	131
Forward exchange contracts used for hedging		Hedging instrument	Hedging instrument	375	375

IFRS 7.44I(c)

(a) Financial assets of €254 thousand were previously designated at fair value through profit or loss; these assets now meet the criteria for mandatory measurement at fair value through profit or loss as they are managed on a fair value basis.

IFRS 7.44J(a)

(b) These debt securities are held by the Group treasury unit in a separate portfolio to provide interest income but may be sold in order to meet unexpected liquidity shortfalls. The Group therefore considers that these securities are held within a portfolio whose objective is to hold assets to collect the contractual cash flows, which represent principal and interest. These assets have therefore been measured at amortised cost under IFRS 9.

IFRS 7.44I(c)

(c) These equity investments represent investment holdings that the Group intends to hold for the long-term for strategic purposes. Accordingly, the Group has elected to recognise these investments at fair value through other comprehensive income.

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Reference Notes to the consolidated financial statements

IAS 1.97 **14. Finance income and finance costs****Recognised in profit or loss***In thousands of euro*

	2010	2009
IFRS 7.20(b)	208	-
IFRS 7.20(b)	-	89
IFRS 7.20(b), (d)	-	6
IFRS 7.20(b)	-	27
IFRS 7.20(b)	-	29
IAS 18.35(b)(v)	26	32
	250	-
IFRS 7.23(d)	31	11
IFRS 7.20(a)(i)		
Net change in fair value of financial assets at fair value through profit or loss:		
Designated as such upon initial recognition	-	286
Mandatorily measured at fair value	646	-
Finance income	1,161	480
IFRS 7.20(b)	(1,413)	(1,299)
IAS 21.52(a)	(138)	(293)
IFRS 7.20(a)(i)		
Net change in fair value of financial assets:		
Held for trading	-	(19)
Designated at fair value through profit or loss	-	(22)
IFRS 7.20(v)	(20)	-
IAS 37.84(e)	(60)	-
IFRS 7.20(e)	(60)	-
IFRS 7.24(b)	(16)	(13)
Finance costs	(1,707)	(1,646)
Net finance costs recognised in profit or loss	(546)	(1,166)
The above finance income and finance costs include the following interest income and expense in respect of assets (liabilities) not at fair value through profit or loss:		
IFRS 7.20(b)	208	151
IFRS 7.20(b)	(1,413)	(1,299)

Recognised in other comprehensive income*In thousands of euro*

	2010	2009
IAS 1.7, 90	(3)	(8)
IFRS 7.23(c)	(62)	77
IFRS 7.23(d)	(31)	(11)
IFRS 7.20(a)(ii)	199	-
IFRS 7.20(a)(ii)	-	94
Income tax on finance income and finance costs recognised in other comprehensive income	(14)	(53)
Finance income recognised in other comprehensive income, net of tax	89	99

Note Reference **Explanatory note**

1. IFRS 7.11A(d), B If an entity derecognised investments in equity instruments measured at fair value through other comprehensive income during the reporting period, it discloses:

- the reasons for disposing of the investments;
- the fair value of the investments at the date of derecognition; and
- the cumulative gain or loss on disposal.

Additionally, dividends recognised during the period are presented separately for investments held at the end of the reporting period and those disposed of during the reporting period.

2. IFRS 7.12B An entity discloses if it has reclassified any financial assets:

- the date of reclassification;
- a detailed explanation of the change in business model and a qualitative description of its effect on the entity's financial statements; and
- the cumulative amount reclassified into and out of each category.

IFRS 7.12C For each reporting period following reclassification until derecognition, an entity discloses for assets reclassified so that they are measured at amortised cost:

- the effective interest rate determined on the date of reclassification; and
- the interest income or expense recognised.

IFRS 7.12D If an entity has reclassified financial assets so that they are measured at amortised cost since its last annual reporting date, it discloses:

- the fair value of the financial assets at the end of the reporting period; and
- the fair value gain or loss that would have been recognised in profit or loss during the reporting period if the financial assets had not been reclassified.

Reference Notes to the consolidated financial statements

34. Financial assets and liabilities (continued)

Financial assets at fair value through other comprehensive income

IFRS 7.11A(a), (b) At 1 January 2010 the Group designated certain of its investments in equity securities as at fair value through other comprehensive income as listed below.¹ These investments are designated as available for sale in the 2009 comparative information. This designation was chosen as the investments are expected to be held for the long-term for strategic purposes.

IFRS 7.11A(c), (d)	In thousands of euro	Fair value at 31 December		Dividend income recognised	
		2010	2009	2010	2009
	Investment in Tall Trees PLC	130	195	5	5
	Investment in Aussiepine Ltd	247	246	15	21
		377	441	20	26

IFRS 7.11A(e) There were no transfers of any cumulative gain or loss within equity during the year.

Reclassifications²

IFRS 7.12B There were no reclassifications of financial assets since the date of initial application of IFRS 9, being 1 January 2010.

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Reference Notes to the consolidated financial statements

34. Financial assets and liabilities (continued)**Accounting classifications and fair values****Fair values versus carrying amounts**

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	Note	Fair value through other comprehensive income	Fair value through profit or loss	Fair value – hedging instruments	Amortised cost	Total carrying amount	Fair value
<i>In millions of euro</i>							
31 December 2010							
Cash and cash equivalents	25	-	-	-	1,505	1,505	1,505
Loans and receivables	24	-	-	-	19,426	19,426	19,426
Interest rate swaps used for hedging	21	-	-	116	-	116	116
Forward exchange contracts used for hedging	21	-	-	297	-	297	297
Other forward exchange contracts	21	-	122	-	-	122	122
Investment securities:							
Equity securities	21	377	-	-	-	377	377
Debt securities	21	-	-	-	431	431	451
Financial assets measured at fair value through profit or loss	21	-	494	-	-	494	508
Debentures	21	-	-	-	2,436	2,436	2,436
		377	616	413	23,798	25,204	25,238
Interest rate swaps used for hedging		-	-	(20)	-	(20)	(20)
Forward exchange contracts used for hedging	33	-	-	(8)	-	(8)	(8)
Secured bank loans	28	-	-	-	(7,012)	(7,012)	(7,239)
Unsecured bond issues	28	-	-	-	(6,136)	(6,136)	(5,675)
Convertible notes – liability component	28	-	-	-	(4,678)	(4,678)	(5,216)
Redeemable preference shares	28	-	-	-	(1,939)	(1,939)	(1,936)
Finance lease liabilities	28	-	-	-	(1,928)	(1,928)	(1,856)
Dividends on redeemable shares	28	-	-	-	(75)	(75)	(75)
Unsecured bank loan	28	-	-	-	(500)	(500)	(500)
Trade and other payables	33	-	-	-	(19,731)	(19,731)	(19,731)
Contingent consideration	33	-	(270)	-	-	(270)	(270)
Bank overdraft	25	-	(270)	-	(334)	(334)	(334)
		-	(270)	(28)	(42,333)	(42,631)	(42,860)

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34. Financial assets and liabilities (continued) Accounting classifications and fair values (continued)

IFRS 7.6, 8, 25

Fair values versus carrying amounts (continued)

In millions of euro

	Note	Trading	Designated at fair value instruments	Fair value – hedging instruments	Held-to- maturity receivables	Loans and receivables	Available- for-sale	Other financial liabilities	Total carrying amount	Fair value
31 December 2009										
Cash and cash equivalents	25	-	-	-	-	1,850	-	-	1,850	1,850
Loans and receivables	24	-	-	-	-	17,719	-	-	17,719	17,719
Interest rate swaps used for hedging	21	-	-	131	-	-	-	-	131	131
Forward exchange contracts used for hedging	21	-	-	375	-	-	-	-	375	375
Other forward exchange contracts	21	89	-	-	-	-	-	-	89	89
Investment securities:										
Debt securities	21	-	-	-	-	-	373	-	373	373
Equity securities	21	-	-	-	-	-	511	-	511	511
Financial assets designated at fair value through profit or loss	21	-	254	-	-	-	-	-	254	254
Financial assets classified as held for trading	21	568	-	-	-	-	-	-	568	568
Debentures	21	-	-	-	2,256	-	-	-	2,256	2,265
		657	254	506	2,256	19,569	884	-	24,126	24,135
Interest rate swaps used for hedging		-	-	(5)	-	-	-	-	(5)	(5)
Forward exchange contracts used for hedging		-	-	(7)	-	-	-	-	(7)	(7)
Secured bank loans	33	-	-	-	-	-	-	(11,093)	(11,093)	(10,984)
Unsecured bond issues	28	-	-	-	-	-	-	(9,200)	(9,200)	(9,346)
Loan from associate	28	-	-	-	-	-	-	(1,000)	(1,000)	(1,040)
Finance lease liabilities	28	-	-	-	-	-	-	(2,182)	(2,182)	(2,078)
Unsecured bank loan	28	-	-	-	-	-	-	(117)	(117)	(117)
Trade and other payables	33	-	-	-	-	-	-	(24,363)	(24,363)	(24,363)
Bank overdraft	25	-	-	-	-	-	-	(282)	(282)	(282)
		-	-	(12)	-	-	-	(48,237)	(48,249)	(48,222)

Note Reference **Explanatory note**

- | | |
|-----------|---|
| 1. | The purpose of this appendix is to assist in the preparation of disclosures in annual financial statements for entities that have going concern issues. It illustrates one possible format for the disclosures; other formats are possible. |
| 2. | <i>IAS 1.25</i> Financial statements are prepared on a going concern basis, unless management intends or has no alternative other than to liquidate the entity or stop trading. If the going concern assumption is not appropriate, the IFRSs are applied appropriately, with particular attention paid to the requirements of IFRS 5, IAS 32, IAS 36 and IAS 37. This issue is discussed in our publication <i>Insights into IFRS</i> (2.4.15.10). |

Appendix V

Example disclosures for entities that require going concern disclosures¹

Basis of preparation

(X) Going concern basis of accounting²

IAS 1.25

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to meet the mandatory repayment terms of the banking facilities as disclosed in note 34.

The Group has recognised a net profit after tax of €7,937 thousand for the year ended 31 December 2010 and as at that date, current assets exceed current liabilities by €15,937 thousand. However, as described in note 17, significant one-off environmental costs are expected in 2011 reflecting various regulatory developments in a number of European countries.

In addition to the above, fully drawn banking facilities of €7,012 are subject to review by 30 June 2011. The lenders are expected to undertake a review, which will include (but is not limited to) an assessment of:

- the financial performance of the Group against budget;
- the progress of compliance with new regulatory requirements; and
- the progress of planned divestments and/or capital raisings to meet repayment requirements.

Management believe that the repayment of the facilities will occur as required and is confident that asset sales as disclosed in note 8 will be finalised prior to 30 June 2011 and that the proceeds will be sufficient to meet the repayment requirements at that date. Management anticipate that any additional repayments required will be met out of operating cash flows or from alternative forms of capital raising such as further asset sales, a rights or note issue or private placement. Management has access to underwriters and a plan for equity raising if required.

IAS 1.26

Management acknowledge that uncertainty remains over the ability of the Group to meet its funding requirements and to refinance or repay its banking facilities as they fall due. However, as described above, management has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. If for any reason the Group is unable to continue as a going concern, it could have an impact on the Group's ability to realise assets at their recognised values, in particular goodwill and other intangible assets and to extinguish liabilities in the normal course of business at the amounts stated in the consolidated financial statements.

Appendix VI

Currently effective requirements and future expected impacts

Below is a list of standards and interpretations, including the latest amendments to the standards and interpretations, in issue at 1 August 2010 that are effective for annual reporting periods beginning on 1 January 2010. In addition, forthcoming requirements in issue at 1 August 2010 that are effective for annual reporting periods beginning after 1 January 2010, as well as future expected impacts have been noted.

Standard	Latest effective amendment	Forthcoming requirements	Future developments
IFRS 1 – <i>First-time Adoption of International Financial Reporting Standards</i>	<i>Additional Exemptions for First-time Adopters</i> (Amendments to IFRS 1) <i>Issued:</i> July 2009 <i>Effective:</i> 1 January 2010	<i>Effective:</i> <ul style="list-style-type: none"> ● 1 July 2010 – refer (5) ● 1 January 2011 – refer (4) ● 1 January 2013 – refer (3) 	-
IFRS 2 – <i>Share-based Payments</i>	<i>Group Cash-settled Share-based Payment Transactions</i> (Amendments to IFRS 2) <i>Issued:</i> June 2009 <i>Effective:</i> 1 January 2010	-	-
IFRS 3 – <i>Business Combinations</i> <i>Issued:</i> January 2008 <i>Effective:</i> 1 July 2009	-	<i>Effective:</i> 1 July 2010 – refer (4)	-
IFRS 4 – <i>Insurance Contracts</i>	Not covered in these illustrative financial statements – refer (7)		
IFRS 5 – <i>Non-current Assets Held for Sale and Discontinued Operations</i>	<i>Improvements to IFRSs 2009</i> <i>Issued:</i> April 2009 <i>Effective:</i> 1 January 2010	-	Refer (9)
IFRS 6 – <i>Exploration for and Evaluation of Mineral Resources</i>	Not covered in these illustrative financial statements – refer (8)		
IFRS 7 – <i>Financial Instruments: Disclosures</i>	<i>Improving Disclosures about Financial Instruments</i> (Amendments to IFRS 7) <i>Issued:</i> March 2009 <i>Effective:</i> 1 January 2009	<i>Effective:</i> <ul style="list-style-type: none"> ● 1 July 2010 and 1 January 2011 – refer (4) ● 1 January 2013 – refer (3) 	Refer (17)

Standard	Latest effective amendment	Forthcoming requirements	Future developments
IFRS 8 – <i>Operating Segments</i>	<i>Improvements to IFRSs 2009</i> Issued: April 2009 Effective: 1 January 2010	Effective: 1 January 2011 – refer (1)	-
IAS 1 – <i>Presentation of Financial Statements</i>	<i>Improvements to IFRSs 2009</i> Issued: April 2009 Effective: 1 January 2010	Effective: <ul style="list-style-type: none"> ● 1 January 2011 – refer (4) ● 1 January 2013 – refer (3) 	Refer (9)
IAS 2 – <i>Inventories</i>	<i>Improvements to IFRSs 2008</i> Issued: May 2008 Effective: 1 January 2009	-	-
IAS 7 – <i>Statement of Cash Flows</i>	<i>Improvements to IFRSs 2009</i> Issued: April 2009 Effective: 1 January 2010	-	-
IAS 8 – <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	<i>Improvements to IFRSs 2008</i> Issued: May 2008 Effective: 1 January 2009	-	-
IAS 10 – <i>Events after the Reporting Period</i>	IFRIC 17 <i>Distributions of Non-cash Assets to Owners</i> Issued: November 2008 Effective: 1 July 2009	-	-
IAS 11 – <i>Construction Contracts</i>	IAS 1 <i>Presentation of Financial Statements</i> Issued: September 2007 Effective: 1 January 2009	-	Refer (12)
IAS 12 – <i>Income Taxes</i>	IFRS 3 <i>Business Combinations</i> Issued: January 2008 Effective: 1 July 2009	-	Refer (10)
IAS 16 – <i>Property, Plant and Equipment</i>	<i>Improvements to IFRSs 2008</i> Issued: May 2008 Effective: 1 January 2009	-	-

Standard	Latest effective amendment	Forthcoming requirements	Future developments
IAS 17 – <i>Leases</i>	<i>Improvements to IFRSs 2009</i> Issued: April 2009 Effective: 1 January 2010	-	Refer (11)
IAS 18 – <i>Revenue</i>	<i>Improvements to IFRSs 2009</i> Issued: April 2009 Effective: April 2009	-	Refer (12)
IAS 19 – <i>Employee Benefits</i>	<i>Improvements to IFRSs 2008</i> Issued: May 2008 Effective: 1 January 2009	-	Refer (13)
IAS 20 – <i>Accounting for Government Grants and Disclosure of Government Assistance</i>	<i>Improvements to IFRSs 2008</i> Issued: May 2008 Effective: 1 January 2009	-	Refer (14)
IAS 21 – <i>The Effects of Changes in Foreign Exchange Rates</i>	<i>Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i> (Amendments to IFRS 1 and IAS 27) Issued: May 2008 Effective: 1 July 2009	-	-
IAS 23 – <i>Borrowing Costs</i>	<i>Improvements to IFRSs 2008</i> Issued: May 2008 Effective: 1 January 2009	-	-
IAS 24 – <i>Related Party Disclosures</i>	IAS 1 <i>Presentation of Financial Statements</i> Issued: September 2007 Effective: 1 January 2009	Effective: 1 January 2011 – refer (1)	-
IAS 26 – <i>Accounting and Reporting by Retirement Benefit Plans</i>	Not covered in these illustrative financial statements		
IAS 27 – <i>Consolidated and Separate Financial Statements</i>	<i>Improvements to IFRSs 2008</i> Issued: May 2008 Effective: 1 January 2009		Refer (15)

Standard	Latest effective amendment	Forthcoming requirements	Future developments
IAS 28 – <i>Investments in Associates</i>	<i>Improvements to IFRSs 2008</i> Issued: May 2008 Effective: 1 January 2009	Effective: 1 July 2010 – refer (4)	-
IAS 29 – <i>Financial Reporting in Hyperinflationary Economies</i>	<i>Improvements to IFRSs 2008</i> Issued: May 2008 Effective: 1 January 2009	-	-
IAS 31 – <i>Interests in Joint Ventures</i>	<i>Improvements to IFRSs 2008</i> Issued: May 2008 Effective: 1 January 2009	Effective: 1 July 2010 – refer (4)	Refer (16)
IAS 32 – <i>Financial Instruments: Presentation</i>	<i>Improvements to IFRSs 2008</i> Issued: May 2008 Effective: 1 January 2009	Effective: ● 1 February 2010 – refer (6) ● 1 July 2011 – refer (4)	Refer (17)
IAS 33 – <i>Earnings per Share</i>	IFRS 3 <i>Business Combinations</i> and IAS 27 <i>Consolidated and Separate Financial Statements</i> Issued: January 2008 Effective: 1 July 2009	-	Refer (19)
IAS 34 – <i>Interim Financial Reporting</i>	Not covered in these illustrative financial statements		
IAS 36 – <i>Impairment of Assets</i>	<i>Improvements to IFRSs 2009</i> Issued: April 2009 Effective: 1 January 2010	-	-
IAS 37 – <i>Provisions, Contingent Liabilities and Contingent Assets</i>	IFRS 3 <i>Business Combinations</i> Issued: January 2008 Effective: 1 July 2009	-	Refer (20)
IAS 38 – <i>Intangible Assets</i>	<i>Improvements to IFRSs 2009</i> Issued: April 2009 Effective: 1 July 2009	-	-

Standard	Latest effective amendment	Forthcoming requirements	Future developments
IAS 39 – <i>Financial Instruments: Recognition and Measurement</i>	<i>Improvements to IFRSs 2009</i> Issued: April 2009 Effective: 1 January 2009 and 2010	Effective: <ul style="list-style-type: none"> ● 1 July 2010 – refer (4) ● 1 January 2013 – refer (3) 	Refer (17)
IAS 40 – <i>Investment Property</i>	<i>Improvements to IFRSs 2008</i> Issued: May 2008 Effective: 1 January 2009	-	-
IAS 41 – <i>Agriculture</i>	<i>Improvements to IFRSs 2008</i> Issued: May 2008 Effective: 1 January 2009	-	-
IFRIC 1 – <i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>	IAS 1 <i>Presentation of Financial Statements</i> Issued: September 2007 Effective: 1 January 2009	-	-
IFRIC 2 – <i>Members' Shares in Co-operative Entities and Similar Instruments</i>	<i>Puttable Financial Instruments and Obligations Arising on Liquidation</i> (Amendments to IAS 32 and IAS 1) Issued: February 2008 Effective: 1 January 2009	-	-
IFRIC 4 – <i>Determining whether an Arrangement contains a Lease</i>	IFRIC 12 <i>Service Concession Arrangements</i> Issued: November 2006 Effective: 1 January 2008	-	-
IFRIC 5 – <i>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>	IAS 1 <i>Presentation of Financial Statements</i> Issued: September 2007 Effective: 1 January 2009	-	-

Standard	Latest effective amendment	Forthcoming requirements	Future developments
IFRIC 6 – <i>Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment</i> Issued: September 2005 Effective: 1 December 2005	-	-	-
IFRIC 7 – <i>Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies</i>	IAS 1 <i>Presentation of Financial Statements</i> Issued: September 2007 Effective: 1 January 2009	-	-
IFRIC 9 – <i>Reassessment of Embedded Derivatives</i>	<i>Improvements to IFRSs 2009</i> Issued: April 2009 Effective: 1 July 2009	-	-
IFRIC 10 – <i>Interim Financial Reporting and Impairment</i>	IAS 1 <i>Presentation of Financial Statements</i> Issued: September 2007 Effective: 1 January 2009	-	-
IFRIC 12 – <i>Service Concession Arrangements</i>	IAS 1 <i>Presentation of Financial Statements</i> Issued: September 2007 Effective: 1 January 2009	-	-
IFRIC 13 – <i>Customer Loyalty Programmes</i>	-	Effective: 1 January 2011 – refer (4)	Refer (12)
IFRIC 14 – <i>The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>	IAS 1 <i>Presentation of Financial Statements</i> Issued: September 2007 Effective: 1 January 2009	Effective: 1 January 2011 – refer (2)	-
IFRIC 15 – <i>Agreements for the Construction of Real Estate</i> Issued: July 2008 Effective: 1 January 2009	-	-	Refer (12)
IFRIC 16 – <i>Hedges of a Net Investment in a Foreign Operation</i>	<i>Improvements to IFRSs 2009</i> Issued: April 2009 Effective: 1 July 2009	-	-

Standard	Latest effective amendment	Forthcoming requirements	Future developments
IFRIC 17 – <i>Distributions of Non-cash Assets to Owners</i> <i>Issued: November 2009</i> <i>Effective: 1 July 2009</i>	-	-	-
IFRIC 18 – <i>Transfers of Assets from Customers</i> <i>Issued: January 2009</i> <i>Effective: 1 July 2009</i>	-	-	Refer (12)
IFRIC 19 – <i>Extinguishing Financial Liabilities with Equity Instruments</i>	-	<i>Effective: 1 July 2010</i> – refer (5)	-
SIC-7 – <i>Introduction of the Euro</i>	IAS 27 <i>Consolidated and Separate Financial Statements</i> <i>Issued: January 2008</i> <i>Effective: 1 July 2009</i>	-	-
SIC-10 – <i>Government Assistance – No Specific Relation to Operating Activities</i>	IAS 1 <i>Presentation of Financial Statements</i> <i>Issued: September 2007</i> <i>Effective: 1 January 2009</i>	-	-
SIC-12 – <i>Consolidation – Special Purpose Entities</i>	IFRIC Amendment to SIC-12 <i>Scope of Consolidation – Special Purpose Entities</i> <i>Issued: November 2004</i> <i>Effective: 1 January 2005</i>	-	-
SIC-13 – <i>Jointly Controlled Entities – Non-Monetary Contributions by Venturers</i>	IAS 1 (2007) <i>Issued: September 2007</i> <i>Effective: 1 January 2009</i>	-	-
SIC-15 – <i>Operating Leases – Incentives</i>	IAS 1 <i>Presentation of Financial Statements</i> <i>Issued: September 2007</i> <i>Effective: 1 January 2009</i>	-	-

Standard	Latest effective amendment	Forthcoming requirements	Future developments
SIC-21 – <i>Income Taxes – Recovery of Revalued Non-Depreciable Assets</i>	IAS 1 <i>Presentation of Financial Statements</i> Issued: September 2007 Effective: 1 January 2009	-	-
SIC-25 – <i>Income Taxes – Changes in the Tax Status of an Entity or its Shareholders</i>	IAS 1 <i>Presentation of Financial Statements</i> Issued: September 2007 Effective: 1 January 2009	-	-
SIC-27 – <i>Evaluating the Substance of Transactions Involving the Legal Form of a Lease</i>	IAS 1 <i>Presentation of Financial Statements</i> Issued: September 2007 Effective: 1 January 2009	-	-
SIC-29 – <i>Service Concession Arrangements: Disclosures</i>	IAS 1 <i>Presentation of Financial Statements</i> Issued: September 2007 Effective: 1 January 2009	-	-
SIC-31 – <i>Revenue – Barter Transactions Involving Advertising Services</i>	IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> Issued: December 2003 Effective: 1 January 2005	-	Refer (12)
SIC-32 – <i>Intangible Assets – Web Site Costs</i>	IAS 1 <i>Presentation of Financial Statements</i> Issued: September 2007 Effective: 1 January 2009	-	-

Forthcoming requirements

(1) Related parties (see *Briefing Sheet – Issue 158*)

In November 2009 the IASB published the revised IAS 24. The revised standard provides an exemption to all government-related entities from providing disclosure about individual related party transactions with the government or other government-related entities regardless of whether those transactions were influenced by the related party relationship. Instead, government-related entities will be required to disclose the name and the nature of their relationship with the government, the types of individually or collectively significant transactions with the government and other government-related entities, and a qualitative or quantitative indication of the extent of such transactions. In addition, IAS 24 disclosure requirements still will apply to related

party transactions of government-related entities arising from any other related party relationship, e.g. key management personnel.

The standard also amends the definition of a related party as follows:

- Relationships now included in the definition of a related party:
 - In the individual and/or separate financial statements of a subsidiary, any associate of the controlling shareholder.
 - In the financial statements of an entity controlled or jointly controlled by an individual investor who is a member of another entity's key management personnel (KMP), any entity managed by that KMP.
 - In the financial statements of an entity jointly controlled or significantly influenced by a close family member of an individual investor, any entity jointly controlled by that individual investor.
 - In the financial statements of an entity controlled, jointly controlled or significantly influenced by an individual investor, another entity controlled or jointly controlled by the same person and vice versa.
- Relationships no longer meeting the definition of a related party:
 - Two entities, if one of them is under significant influence of a person and the other is under significant influence of that person's close family member.
 - Two entities, if one of them is under significant influence of a person and the other is managed by that person in his capacity as KMP.

(2) Employee benefits (see *Briefing Sheet – Issue 164*)

In November 2009 the IASB issued *Prepayments of a Minimum Funding Requirement – Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. The amendment removes unintended consequences arising from the treatment of prepayments in some circumstances when there is a minimum funding requirement.

(3) Financial instruments (see *Briefing Sheet – Issue 160*)

In November 2009 the IASB issued IFRS 9, which requires two primary measurement categories for financial assets and liabilities: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets, and on hedge accounting continues to apply.

The standard is effective for annual periods beginning on or after 1 January 2013 but may be applied earlier.

(4) Improvements to IFRS (2010) (see *Briefing Sheet – Issue 185*)

In May 2010 the IASB published *Improvements to IFRSs 2010*, which made 11 amendments to 7 standards. This is the result of the IASB's third annual improvements project. This project has involved the IASB accumulating throughout the year what it believes are non-urgent but necessary improvements to IFRSs and then processing these amendments collectively.

(5) Extinguishing financial liabilities with equity instruments (see *Briefing Sheet – Issue 163*)

In November 2009 the IASB issued IFRIC 19. The interpretation provides guidance on accounting for debt for equity swaps. Equity instruments issued to a creditor to extinguish all or a part of a financial liability would be "consideration paid" in accordance with paragraph 41 of IAS 39. The equity instruments would be measured initially at the fair value of those equity instruments unless that fair value cannot be reliably measured, in which case the equity instruments should be measured to reflect the fair value of the financial liability extinguished. Any difference between the carrying amount of the financial liability and the initial measurement of the equity instruments would be recognised as a gain or loss in profit or loss.

(6) Classification of rights issues (see *Briefing Sheet – Issue 157*)

In October 2009 the IASB issued *Amendment to IAS 32 Classification of Rights Issues*. The limited amendment to IAS 32 requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants *pro rata* to all of its existing owners of the same class of its own non-derivative equity instruments.

Future developments

(7) Insurance contracts (see *IFRS – Insurance Newsletter*)

In July 2010 the IASB issued ED/2010/8 *Insurance Contracts* as part of its joint project with the US Financial Accounting Standards Board (FASB) to develop a common, high-quality standard that will address recognition, measurement, presentation and disclosure requirements for insurance contracts. The key proposals in the ED include:

- scope that focuses on insurance contracts, financial guarantees and certain investment contracts with a discretionary participation feature;
- a fulfilment value-based net measurement approach for insurance and reinsurance contracts, which incorporates an estimate of future cash flows including incremental acquisition costs, the effect of the time value of money, an explicit risk adjustment and a residual margin;
- an unearned premium approach for short duration contracts which requires discounting if the effect is material;
- new unbundling criteria for non-derivative components;
- revised accounting guidance for business combinations and portfolio transfers; and
- insurance liabilities would not be permitted to be measured through other comprehensive income.

The ED does not address policyholder accounting other than in the context of reinsurance contracts.

Given the current divergent accounting practices relating to insurance contracts, any final standard resulting from this project will have a significant impact. The final standard is scheduled for the second quarter of 2011.

(8) Extractive activities (see *Briefing Sheet – Issue 179*)

In April 2010 the IASB published a DP *Extractive Activities*, which is based on the work of a group of national standard-setters. The proposals focus on upstream activities for minerals, oil and natural gas, addressing the following principal topics:

- definitions of reserves and resources for financial reporting
- asset recognition criteria for exploration assets
- unit of account selection for asset recognition
- asset measurement of exploration assets
- impairment testing requirements for exploration assets
- disclosure requirements
- “publish what you pay” disclosure proposals.

A decision whether to add this project to the IASB’s active agenda is expected no earlier than the first half of 2011.

(9) Financial statement presentation (see *Briefing Sheet – Issue 198*)

The overall objective of the comprehensive financial statement presentation project is to establish a global standard that prescribes the basis for presentation of financial statements of an entity that are consistent over time, and that promote comparability between entities. The financial statement presentation project is conducted in three phases:

- Phase A was completed in September 2007 with the release of a revised IAS 1;
- Phase B is in progress and addresses the more fundamental issues relating to financial statement presentation; and
- Phase C has not been initiated, but is expected to address issues relating to interim financial statements.

In July 2010 the IASB posted a staff draft of a proposed ED reflecting tentative decisions made to date in respect of phase B to obtain further stakeholder feedback. An ED is scheduled for the first quarter of 2011.

Statement of comprehensive income

In May 2010 the IASB published ED/2010/5 *Presentation of Items of Other Comprehensive Income – Proposed Amendments to IAS 1*, which with the final amendments scheduled for the fourth quarter of 2010. The ED proposes to:

- change the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income; however, an entity is still allowed to use other titles;
- present comprehensive income and its components in a single statement of profit or loss and other comprehensive income, with items of other comprehensive income presented in a separate section from profit or loss within that statement, thereby eliminating the alternative permitted by current IAS 1 to present a separate income statement; and
- present separately the items of other comprehensive income that would be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss.

The final amendments are scheduled for the fourth quarter of 2010.

Discontinued operations

In October 2008 the IASB issued an ED *Discontinued Operations – Proposed Amendments to IFRS 5* which contained a new definition of discontinued operations. In considering the responses to the ED, the IASB and FASB decided to adopt a common definition of a discontinued operation based on the current definition in IFRS 5, and decided to re-expose their proposals, including related disclosures, for public comment. In May 2010, the IASB and FASB decided to align the project timetable with the main financial statement presentation project. An ED is scheduled for the first quarter of 2011.

(10) Income tax (see *Briefing Sheet – Issue 133*)

In March 2009 the IASB published an ED/2009/2 *Income Tax*, in which it proposed to replace IAS 12 with a new IFRS. In light of responses to the ED, the IASB narrowed the scope of the project to focus on resolving problems in practice under IAS 12, without changing the fundamental approach under IAS 12 and preferably without increasing divergence with US GAAP. An ED is scheduled for the second half of 2010.

(11) Leases (see *Briefing Sheet – Issue 129*)

In July 2006 the IASB announced a project to reconsider the accounting requirement for leasing arrangements. The project is being conducted jointly with the FASB. In March 2009 the IASB and FASB published a DP *Leases – Preliminary Views*. The DP proposes, for lessees, to eliminate the requirement to classify a lease contract as an operating or finance lease, and to require a single accounting model to be applied to all leases. The DP proposes that a lessee recognise in its financial statements a “right-of-use” asset representing its right to use the leased asset, and a liability representing its obligation to pay lease rentals. The DP includes a high-level discussion of lessor accounting issues, but expresses no preliminary views on lessor accounting.

An ED is scheduled for the third quarter of 2010. Unlike the DP, the ED is expected to address both lessee and lessor accounting. The proposals for lessee accounting will reflect the “right-of-use” model described in the DP. The proposals for lessor accounting will feature a “hybrid” approach under which a lessor will account for leases using either the performance obligation model or the partial derecognition model, depending on the nature of the lease. Under the performance obligation model, the lessor will continue to recognise the leased asset and will also recognise an asset for its right to receive lease rentals and a liability for its obligation to allow the lessee to use the leased asset. Under the derecognition model, the lessor will derecognise the leased asset and recognise an asset for its right to receive lease rentals and a residual value asset representing its interest in the leased asset at the end of the lease term. The IASB proposed an exemption from these requirements for lessors of investment property measured at fair value.

(12) Revenue recognition (see *Briefing Sheet – Issue 192*)

The IASB and the FASB are working on a joint project, the objective of which is to develop a comprehensive set of principles for revenue recognition. In June 2010 the IASB published ED/2010/6 *Revenue from Contracts with Customers*, which would replace IAS 11, IAS 18 and a number of interpretations, including IFRIC 18 and SIC-31.

The ED proposes a single revenue recognition model in which an entity recognises revenue as it satisfies a performance obligation by transferring control of promised goods or services to a customer. The ED does not propose to retain current requirements that revenue is not recognised if the goods or services exchanged are of a similar nature and value. The model would be applied to all contracts with customers except leases, financial instruments, insurance contracts and non-monetary exchanges between entities in the same line of business to facilitate sales to customers other than the parties to the exchange. A final standard is scheduled for the second quarter of 2011.

(13) Employee benefits (see *Briefing Sheet – Issue 182*)

In July 2006 the IASB announced a project to revisit fundamentally the accounting for employee benefits under IAS 19. The project is divided into two phases, with the first phase focusing on improvements in defined benefit plan accounting.

In April 2010 the IASB published ED/2010/3 *Defined Benefit Plans – Proposed Amendments to IAS 19* as part of the first phase of the project. The ED proposes significant changes to the recognition, presentation and disclosure of defined benefit plans and also changes to their measurement. The proposals in the ED would apply equally to all long-term employee benefits and would require all changes in the value of the defined benefit obligation and in the value of plan assets to be recognised in the financial statements in the period in which they occur. The proposals would remove both the option of using the “corridor method” for recognising actuarial gains and losses and deferred recognition of non-vested past service costs.

The changes in the net defined benefit liability (asset) would be split into the following components:

- service costs – to be recognised in profit or loss;
- net interest income or expense – to be recognised in profit or loss as part of finance costs; and
- remeasurements of the defined benefit liability (asset) – to be recognised in other comprehensive income.

The finance costs component would comprise net interest on the net defined benefit liability (asset), determined by applying the discount rate that is used to discount the defined benefit obligation to the net defined benefit liability (asset) - any return on plan assets in excess or below that discount rate would be recognised as a remeasurement in other comprehensive income.

(14) Government grants

The IASB is considering amending IAS 20 in order to resolve inconsistencies between the standard’s recognition requirements and the Framework. Work on this project has been deferred pending the completion of work on other related projects such as revenue recognition and emissions trading schemes.

(15) Consolidation (see *Briefing Sheet – Issue 119*)

Comprehensive standard

The IASB has a consolidation project on its agenda, the objective of which is to develop a basis for consolidation that will apply to all entities, including “structured entities”. In December 2008 the IASB published ED 10 *Consolidated Financial Statements*, which proposed a single *de facto* control model for all entities, including structured entities. A final standard is scheduled for the fourth quarter of 2010.

Disclosures

As a result of its redeliberations following comments received on the ED, the IASB has decided to publish a separate comprehensive standard that is expected to require extensive disclosures in respect of an entity’s involvement with consolidated and unconsolidated entities, including structured entities. A final standard is scheduled for the fourth quarter of 2010.

Investment entity exemption

The IASB and the FASB have added a joint project in respect of investment entities to their agendas, the objective of which is to exempt investment companies (as defined) from the requirement to consolidate controlled entities. An ED is scheduled for the fourth quarter of 2010.

Common control transactions

The IASB's project on common control is expected to examine the definition of common control and the methods of accounting for business combinations amongst entities under common control. This project is intended to provide guidance in respect of the consolidated and separate financial statements of the acquiring entity. The project also will examine the accounting for de-mergers. Work on this project has been suspended while the Board completes its work on other projects.

(16) Joint ventures (see *Briefing Sheet – Issue 76*)

The IASB is working on a short-term convergence project with the FASB, partly to reduce the main differences between IAS 31 and US GAAP. In September 2007 the IASB published an ED *Joint Arrangements*, which proposes accounting for joint arrangements based on the contractual rights and obligations agreed to by the parties to joint arrangements; the legal form of the arrangement would no longer be the most significant consideration in determining the accounting for joint arrangements. The ED proposes that an entity recognise an interest in a joint venture, previously a "jointly controlled entity", using the equity method. Unlike IAS 31, proportionate consolidation would not be permitted. A final standard is expected in the second quarter of 2010.

(17) Financial instruments (see *Briefing Sheet – Issue 160 and 184*)

In March 2008 the IASB published a DP *Reducing Complexity in Reporting Financial Instruments*, seeking constituents' views on all the issues addressed in the DP. The objectives of the DP were to gather information to assist the IASB in its decision on how to proceed with developing a less complex and principles-based standard on the accounting for financial instruments, which is consistent with the IASB and FASB's long-term objective of measuring all financial instruments at fair value; and to simplify or eliminate the need for special hedge accounting requirements.

Following the comment period, and recommendations from various stakeholders, including the Financial Crisis Advisory Group (FCAG) and the Group of Twenty (G20), the IASB and the FASB subsequently added projects to replace the current financial instruments standards to their agendas.

The IASB's project to replace IAS 39 includes the following phases:

- classification and measurement;
- impairment; and
- hedging.

The IASB and FASB are also considering aspects of derecognition, balance sheet offsetting and financial instruments with characteristics of equity.

Classification and measurement of financial liabilities

In May 2010 the IASB published ED/2010/4 *Fair Value Option for Financial Liabilities*, which proposes to amend the fair value option so that changes in the fair value of financial liabilities due to own credit risk are not reflected in profit or loss. Except for this amendment the IASB has decided generally to retain the current requirements in IAS 39 in respect of the classification and measurement of financial liabilities. A final standard is scheduled for the second quarter of 2011.

Impairment

In November 2009 the IASB published ED/2009/12 *Financial Instruments: Amortised Cost and Impairment*, which proposes to replace the incurred loss method for impairment of financial assets with a method based on expected losses (i.e. expected cash flow or ECF approach) and to provide a more principles-based approach to measuring amortised cost. The proposals in the ED would apply to all financial instruments within the scope of IAS 39 that are measured at amortised cost.

Hedging

The IASB and FASB are working jointly on a project to replace the current accounting requirements for hedge accounting with the goal of substantially simplifying the existing requirements. An ED is scheduled for the third quarter of 2010.

Derecognition

In March 2009 the IASB published ED/2009/3 *Derecognition*. The proposals in the ED aimed to simplify the derecognition model for financial assets. In June 2010 the IASB decided that its near-term priority should be on increasing the transparency and comparability of its standards by improving and converging US GAAP and IFRS disclosure requirements for financial assets transferred to another entity. As a result, the IASB plans to finalise the disclosure requirements that were included in the ED. The final revised disclosure requirements are scheduled for the third quarter of 2010.

Balance sheet offsetting

In early 2010, in response to stakeholder concerns, the IASB and the FASB added a joint project to address differences between IFRSs and US GAAP for balance sheet offsetting of derivative contracts and other financial instruments that can result in material differences in financial reporting by financial institutions. This project is still in its preliminary stages and therefore no significant decisions have been made. An ED is scheduled for the fourth quarter of 2010.

Financial instruments with characteristics of equity

The objective of the IASB and FASB's joint project on the distinction between liabilities and equity is to have more relevant, understandable and comparable requirements for determining the classification of financial instruments that have the characteristics of liabilities, equity, or both. In February 2008 the IASB published a DP on *Financial Instruments with Characteristics of Equity*, seeking constituent's views on all the issues addressed in the DP. An ED of proposed new requirements for classifying financial instruments as equity or an asset/liability is expected to be published in the first quarter of 2011.

The final standard to replace IAS 39 as a whole is scheduled for the second quarter of 2011.

(18) Fair value measurement (see *Briefing Sheet – Issue 137*)

In May 2009 the IASB published ED/2009/5 *Fair Value Measurement* (the 2009 ED). The proposals in the 2009 ED are intended to replace the fair value measurement guidance contained in individual IFRSs with a single, unified definition of fair value, as well as provide further authoritative guidance on the application of fair value measurement in inactive markets. The 2009 ED proposes a framework for measuring fair value and disclosures about fair value measurements. The proposals in the 2009 ED explain how to measure fair value when it already is required or permitted by existing IFRSs; they do not introduce new fair value measurements, nor do they eliminate the practicability exceptions to fair value measurements that exist currently in certain standards.

In June 2010 the IASB published a limited re-exposure draft of proposed disclosure ED/2010/7 *Measurement Uncertainty Analysis Disclosure for Fair Value Measurements* (the 2010 ED). The 2010 ED expands on the proposal in the 2009 ED for an entity to disclose a measurement uncertainty analysis (or sensitivity analysis) for assets and liabilities measured at fair value categorised within Level 3 of the fair value hierarchy. The 2010 ED proposes that an entity consider the effect of correlation between unobservable inputs, if relevant.

A final standard on fair value measurement and disclosure, which is expected to be converged with a forthcoming amended standard under US GAAP, is scheduled for the first quarter of 2011.

(19) Earnings per share (see *Briefing Sheet – Issue 101*)

In August 2008 the IASB published an ED *Simplifying Earnings Per Share – Proposed Amendments to IAS 33*. The ED proposes to simplify the denominator for the earnings per share calculation. In addition, the IASB decided to propose the use of a fair value model to replace the treasury share method in certain circumstances, and to require the two-class method for computing basic earnings per share for mandatorily convertible

instruments with stated participation rights. The IASB does not expect to discuss this project until the second half of 2010.

(20) Liabilities (see *Briefing Sheet – Issue 168*)

In June 2005 the IASB published an ED of *Proposed Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IAS 19 Employee Benefits*. The proposed amendments would result in significant changes from current practice in accounting for provisions, contingent liabilities and contingent assets. As part of its redeliberations of the proposals in the 2005 ED, some of the main decisions that the IASB has reaffirmed are that:

- the existence of a present obligation distinguishes a liability from a business risk; and
- the term “stand ready obligation” would be used to describe situations when there is uncertainty about the outflow of economic benefits required to settle a present obligation, but not when there is an uncertainty about its existence.

The IASB also determined that its final conclusions about the probability recognition criterion (i.e. “more likely than not”) would depend on further redeliberations of the measurement requirements. However, the IASB indicated its intention to remove the recognition threshold by adopting a model in which probability would be factored into the measurement of a provision, not into whether or not it is recognised.

In January 2010 the IASB published ED/2010/1 *Measurement of Liabilities in IAS 37* (the 2010 ED) which is a limited re-exposure of the 2005 ED focused on:

- a high-level measurement objective for liabilities and certain aspects of application of that measurement objective; and
- the measurement of obligations involving services, e.g. decommissioning. The 2010 ED proposes that service-related obligations would be measured by reference to the price that a contractor would charge to undertake the service, i.e. including a profit margin. This would be irrespective of the entity’s intentions with regard to settling the obligation, i.e. irrespective of whether the entity intends that the work will be carried out by an in-house team or by external contractors.

A final standard is scheduled for the first half of 2011.

(21) Conceptual framework (see *Briefing Sheet – Issue 176*)

The IASB and the FASB are working on a joint project aimed at developing a common conceptual framework. One of the topics under consideration is the application of the standards to not-for-profit entities. The expected timing and initial type of document to be published for this phase of this project are yet to be determined by the IASB.

In April 2004 the IASB and the FASB agreed to add to their agendas a joint project for the development of a common conceptual framework. The framework will be built upon the IASB’s and the FASB’s existing conceptual frameworks and will provide a basis for developing future accounting standards.

The IASB and FASB have identified the following phases of this project:

- A. Objectives and qualitative characteristics;
- B. Elements and recognition;
- C. Measurement;
- D. Reporting entity;
- E. Presentation and disclosure;
- F. Purpose and status;
- G. Application to not-for-profit entities; and
- H. Remaining issues, if any.

Of the phases noted, only phases A – D are active projects.

In May 2008, as a result of phase A of the project, the IASB published an ED of *An improved Conceptual Framework for Financial Reporting Chapter 1: The Objective of Financial Reporting Chapter 2: Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information*. The ED includes proposed new guidance on the objective of general purpose financial reporting for business entities in the private sector and the qualitative characteristics and constraints of decision-useful information. The ED proposes that the objective of general purpose financial reporting is to provide financial information that is useful to all decisions to be made by present and potential capital providers. In this context capital providers consist of all parties who have a claim on the entity's resources such as equity investors and lenders. A final chapter as a result of phase A is expected in the third quarter of 2010.

The IASB and FASB have started deliberating issues in phase B of the project, including focusing on the working definitions for "asset" and "liability". The expected timing of this phase is yet to be determined by the IASB.

In December 2009, as a result of phase C of the project, the IASB and FASB considered a staff paper outlining the measurement concepts for possible inclusion in a DP. A DP on phase C is scheduled for the fourth quarter of 2010/first quarter of 2011.

In March 2010, as a result of phase D of the project, the IASB published ED/2010/2 *Conceptual Framework for Financial Reporting: The Reporting Entity*. The objective of the ED is to develop a reporting entity concept consistent with the objective of general purpose financial reporting for inclusion in the common conceptual framework. A final chapter as a result of phase D is scheduled for the fourth quarter of 2010.

(22) Rate-regulated activities (see *Briefing Sheet – Issue 146*)

In July 2009 the IASB issued ED/2009/8 *Rate-regulated Activities*, which proposes definitions of regulatory assets and regulatory liabilities, and that regulatory assets and regulatory liabilities are measured at the present value of expected future cash flows, both on initial recognition and for subsequent remeasurement.

In the ED, the IASB noted that an entity with an arrangement within the scope of IFRIC 12 would have to consider whether it has rate-regulated activities that are under the scope of the proposed standard. If it does, the entity would apply both the IFRIC 12 and the proposed standard on rate-regulated activities. The requirements of the proposed ED are applicable solely to the operational phase of the concession agreement in which rates charged by the operator will be regulated and may create additional assets/liabilities. There are no changes in the requirements of IFRIC 12 for the recognition of the revenues for the construction services. A final standard has been deferred pending further research and analysis to permit future deliberations by the IASB as time and resources permit.

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