University of Mississippi

eGrove

Accounting Trends and Techniques

American Institute of Certified Public Accountants (AICPA) Historical Collection

2011

IFRS accounting trends and techniques

American Institute of Certified Public Accountants (AICPA)

Follow this and additional works at: https://egrove.olemiss.edu/aicpa_att

Part of the Accounting Commons, and the Taxation Commons

IFRS Accounting Trends & Techniques

U.S. Edition

ISBN 978-0-87051-992-5

0099111

AICPA American Institute of CPAs®

aicpa.org | cpa2biz.com

IFRS Accounting Trends & Techniques

U.S. Edition

2011

U.S. Edition

IFRS Accounting Trends & Techniques

Today's International Financial Reporting Practices

AICPA®

2011

2011

U.S. Edition

IFRS Accounting Trends & Techniques

Today's International Financial Reporting Practices

10820-341

AICPA®

Third Ed.

Copyright © 2012 by the American Institute of Certified Public Accountants, Inc.
New York, NY 10036-8775

All rights reserved. For information about the procedure for requesting permission to make copies of any part of this work, please email copyright@aicpa.org with your request. Otherwise, send your written request to Permissions Department, AICPA, 220 Leigh Farm Road,
Durham, NC 27707-8110.

1 2 3 4 5 6 7 8 9 0 AAP 1 9 8 7 6 5 4 3 2 1

ISSN 1531-4340

ISBN 978-0-87051-992-5

Notice to readers: This book does not represent an official position of the American Institute of Certified Public Accountants, and it is distributed with the understanding that the authors and publisher are not rendering legal, accounting, or other professional services via this publication.

Publisher: Amy Plent
Director, Accounting & Auditing Publications: Amy Eubanks
Senior Technical Manager: Doug Bowman
Developmental Editor: David Cohen
Project Manager: M. Donovan Scott
Content Editor: Dan Streckert

RECOGNITION

Author

Patricia Doran Walters, PhD, CFA
Associate Professor of Professional Practice, Texas Christian University
President, Disclosure Analytics, Inc.

AICPA Staff

Dave Arman, CPA
Senior Technical Manager
Accounting and Auditing Publications

Teresa Brenan, CPA
Technical Manager
Accounting and Auditing Publications

Anjali Patel, CPA
Technical Manager
Accounting and Auditing Publications

David Cohen
Developmental Editor
Professional Product Development

PREFACE

ABOUT THIS EDITION OF *IFRS ACCOUNTING TRENDS & TECHNIQUES*

The new edition of *IFRS Accounting Trends & Techniques* (*IFRS ATT*) continues to add strength to the series of *Accounting Trends & Techniques* publications. These AICPA bestsellers are the tools of choice for financial reporting and have an unmatched legacy of innovation and practical application.

Similar to the other titles in the series, IFRS ATT includes helpful reporting guidance, compiles annual reporting and disclosure data, and presents illustrative reporting examples from an extensive analysis of annual reports of entities across the globe and across numerous industries. The financial statements of those entities selected for this edition include a required statement of compliance confirming that the financial statements were prepared in conformity with International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB). This edition also includes survey entities for which the national standards applicable to their jurisdiction are essentially equivalent to IFRSs, as issued by the IASB (for example, Australia). All but one entity, which is a farm-owned cooperative, are publicly traded.

To be included in the survey sample, entities domiciled in jurisdictions in which the required accounting standards may not be in full conformity with IFRSs, such as the European Union, were required to include either the phrase "as issued by the IASB" in the statement of compliance or a separate sentence that confirms that the standards applied in the financial statements are not different from those issued by the IASB. Entities domiciled in jurisdictions where the national standards are essentially equivalent to IFRSs, as issued by the IASB, were not required to include this additional confirmation of compliance with IFRSs, as issued by the IASB. Survey entities that are also Securities and Exchange Commission (SEC) registrants are required by the SEC to add the phrase "as issued by the IASB" to their statement of compliance.

IFRS ATT provides preparers, auditors, and other financial professionals with an invaluable resource for incorporating new and existing accounting and reporting guidance into financial statements using presentation techniques adopted by some of the most recognized entities in the world. *IFRS ATT* can also be used internally by an entity's management and externally by investors, analysts, and academics to build their base of understanding and awareness of financial statement presentation under IFRSs and the accounting policies prevalent across different industries around the world reporting under IFRSs.

ORGANIZATION AND CONTENT

This 2011 edition of *IFRS ATT* incorporates information from the annual reports of 170 carefully selected entities generally having annual fiscal periods ending between January and December 2010.

The content of *IFRS ATT* addresses many of the common requirements most likely to be encountered when reporting on the general purpose financial statements, including consolidated financial statements of commercial, industrial, and business reporting entities, as defined in the *Conceptual Framework for Financial Reporting* (IFRS *Conceptual Framework*) within the IASB's *IFRS 2011* bound volume. The IFRS *Conceptual Framework* sets forth the concepts that underlie the preparation and presentation of financial statements for external users and contains definitions of the elements of financial statements (that is, assets, liabilities, equity, income, and expenses).

Among other purposes, the IFRS *Conceptual Framework* assists preparers of financial statements in applying IFRSs and in dealing with topics that have yet to form the subject of a specific standard or interpretation. Although the framework is not a standard, the requirements of International Accounting Standard (IAS) 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, essentially establish the IFRS *Conceptual Framework* as part of the IFRSs hierarchy of accounting and reporting requirements.

To provide you with the most useful and comprehensive look at current financial reporting techniques and methods, *IFRS ATT* is topically organized using familiar financial statement terminology and offers the following:

- Descriptive guidance that includes comparisons of the current reporting requirements under IFRSs and U.S. generally accepted accounting principles (GAAP). U.S. GAAP is generally considered to be the requirements of the Financial Accounting Standards Board (FASB) *Accounting Standards Codification*™ (ASC) and regulations of the SEC for those foreign private issuers that are SEC registrants.
- Statistical tables that track reporting trends.
- Illustrative examples from the surveyed annual reports showing reporting techniques.
- Detailed indexes.

Different terms for the same underlying concepts within IFRSs and U.S. GAAP are identified to enhance relevance and understanding.

Reporting Guidance

IFRS ATT offers discerning, plain English guidance covering the significant IFRSs and U.S. GAAP accounting and financial statement reporting requirements in a narrative presentation consistently applied throughout all the sections. You'll find a strategic use of common headings (overview, recognition and measurement, presentation, and disclosure) throughout all sections; under those common headings appear subheadings for IFRSs and U.S. GAAP. Although not a substitute for the authoritative accounting and reporting standards, the reporting guidance boils down the complex requirements, with a focus on the reader's clear understanding of the content. The related authoritative sources for each requirement are cited within the narratives (for example, IFRS 3, *Business Combinations*; FASB ASC 310, *Receivables*; or Regulation S-K).

In 2011, the IASB issued two editions of the 2011 bound volume of IFRSs. One edition, *IFRS—Consolidated without early application* (referred to as the blue book) includes the latest consolidated version of the entire authoritative body of IFRSs as of December 31, 2010, that are required for annual reporting periods beginning on January 1, 2011. The other edition, *IFRS* (referred to as the red book) includes newly issued or amended standards and interpretations as of December 31, 2010, with full early application. The latter edition, for example, includes IFRS 9, *Financial Instruments*, which is effective for annual reporting periods beginning on or after January 1, 2013. The IFRSs narratives and comparisons to U.S. GAAP only refer to standards in the blue edition. Author's notes provide information about standards and interpretations included in the red edition, when applicable (for example, to accompany an excerpt illustrating early application of IFRS 9).

Annually, FASB and the IASB either separately or jointly issue proposals for changes to existing standards or for standards to address new issues. If finalized, these proposals would change recognition, measurement, presentation, and disclosure requirements, some significantly. For example, in 2010, the IASB issued exposure drafts proposing changes to IAS 17, *Leases*, and 18, *Revenue*. At the same time, FASB issued comparable Accounting Standards Update exposure drafts: *Leases (Topic 840)* and *Revenue Recognition (Topic 605): Revenue from Contracts with Customers*. In 2011, the IASB issued an exposure draft on accounting for investments by investment entities. Brief summaries about proposed changes are provided in author's notes, when relevant.

For easy reference and to avoid potential confusion, comparisons of IFRSs to U.S. GAAP are confined within the U.S. GAAP components of the narratives.

Reporting Trends

Statistical trends tables are easily identified by a shaded background, which distinguishes them from content excerpted from a survey entity's financial statements. These tables show reporting trends across the available choices in recognition, measurement, and presentation in such diverse reporting matters as financial statement format and terminology and the treatment of transactions and events reflected in the financial statements. Additional trends of this nature will be added in future editions.

Illustrative Reporting Examples

IFRS ATT presents carefully selected reporting examples excerpted from the audited annual reports of the survey entities to illustrate current reporting techniques and various presentation practices. Each edition of *IFRS ATT* includes completely new reporting examples found to be particularly relevant and useful to financial statement preparers and other users in illustrating current reporting practices.

Indexes

Indexes in this edition include the "Company Index," which alphabetically lists each of the 170 survey entities included in the current edition and identifies where in the text excerpts from their annual reports can be found. The "Pronouncements Index" provides for easy cross-referencing of the IFRSs framework, standards, and interpretations (collectively, IFRSs) to the applicable descriptive narratives. A detailed "Subject Index" directs the reader to all significant topics included throughout the narratives.

AUTHORITATIVE SOURCES

Unless otherwise indicated, references to IFRSs throughout this 2011 edition of *IFRS ATT* refer to the version of those standards and interpretations included in *IFRS 2011* bound volume (the blue book) that are effective for annual reporting periods beginning on or after January 1, 2011. When necessary, author's notes provide information about newly issued standards and interpretations that are effective for annual periods beginning on or after a later date.

Unless otherwise indicated, references to U.S. GAAP throughout this 2011 edition of *IFRS ATT* refer to FASB ASC as of December 31, 2010.

Note that the AICPA Code of Professional Conduct has been revised to recognize the IASB in London as an accounting body for purposes of establishing IFRSs, thus granting AICPA members the option to use IFRSs as an alternative to U.S. GAAP.

Also note that the effective dates of recently released guidance affect the timing of its inclusion in the financial statements of the survey entities, thereby affecting the availability of illustrative excerpts for potential inclusion in each edition of *IFRS ATT*.

IFRSs

What Is IFRSs?

IFRSs are a set of accounting standards and interpretations developed and issued by the IASB, the London-based independent accounting standard-setting body currently consisting of 15 full-time members, which will be expanded to 16 members by 2012. Important elements of member selection include technical competence; recent practical experience; and diversity, including diversity in terms of work experience, such as one's background as a financial statement preparer, auditor, and external user, and in terms of a member's country of origin.

The IASB began operations in 2001, when it succeeded the International Accounting Standards Committee (IASC). The IASC was formed in 1973, soon after the formation of FASB. In 2001, when the IASB replaced the IASC, a new, independent oversight body, the IASC Foundation, was created to appoint the members of the IASB and oversee its due process. The IASC Foundation's oversight role is very similar to that of the Financial Accounting Foundation in its capacity as the oversight body of FASB.

The term *IFRSs* has both a narrow and broad meaning. Narrowly, IFRSs refer to the new numbered series of pronouncements issued by the IASB, as differentiated from IASs issued by its predecessor, the IASC. More broadly, however, IFRSs refer to the entire body of authoritative IASB pronouncements, including those issued by the IASC and their respective interpretive bodies. Therefore, the authoritative IFRSs literature, in its broadest sense and as applied in *IFRS ATT*, includes the following:

- Standards, whether labeled IFRSs or IASs
- Interpretations, whether labeled International Financial Reporting Interpretations Committee (IFRIC), the current interpretive body of the IASC Foundation, or Standing Interpretations Committee, the predecessor to IFRIC and former interpretive body of the IASC
- IFRS *Conceptual Framework*

The preface to the *IFRS 2011* bound volume states that IFRSs are designed to apply to the general purpose financial statements and other financial reporting of all profit-oriented entities, including commercial, industrial, and financial entities, regardless of legal form or organization. Included within the scope of profit-oriented entities are mutual insurance companies and other mutual cooperative entities that provide dividends or other economic benefits to their owners, members, or participants. IFRSs are not designed to apply to not-for-profit entities or those in the public sector, but these entities may find IFRSs appropriate in accounting for their activities. In contrast, U.S. GAAP is designed to apply to all nongovernmental entities, including not-for-profit entities, and includes specific guidance for not-for-profit entities, development stage entities, limited liability entities, and personal financial statements.

The IASB's approach to establishing standards and interpretations differs to some degree from that of FASB. In developing an IFRS, the IASB strikes a different balance than FASB in developing U.S. GAAP by expecting preparers to rely on core principles and more limited application guidance, with

fewer prescriptive rules than found in U.S. GAAP. In contrast, FASB has traditionally leaned more toward providing extensive prescriptive guidance and detailed rules.

The difference in the amount of industry-specific guidance is an example of the different approaches. Currently, IFRSs include only three standards (for example, IAS 41, *Agriculture*)[1] that might be regarded as primarily industry-specific guidance. However, the scope of these standards includes all entities to which the scope of IFRSs applies. In contrast, U.S. GAAP has considerable guidance for entities within specific industries. For example, on liability recognition and measurement alone, U.S. GAAP contains specific guidance for entities in the following industries:

- Agriculture
- Health care
- Contractors and construction
- Contractors and the federal government
- Entertainment, with separate guidance for casinos, films, and music
- Financial services, with separate guidance for brokers and dealers, depository and lending, insurance, and investment companies

For nonmonetary transactions, U.S. GAAP provides specific guidance for the airline, software, and entertainment industries. U.S. GAAP also addresses some specific transactions not currently addressed in IFRSs, such as accounting for reorganizations, including quasireorganizations, troubled debt restructuring, spinoffs, and reverse spinoffs.

Convergence of U.S. GAAP and IFRSs

Converging the standards of FASB and the IASB was the primary focus of both organizations' boards during 2010–11. The commitment for global convergence gained momentum in 2002 when FASB and the IASB signed what is known as the Norwalk Agreement. At that meeting, FASB and the IASB pledged to use their best efforts to (*a*) make their existing financial reporting standards fully compatible as soon as practicable and (*b*) coordinate their future work programs to ensure that, once achieved, compatibility is maintained. That agreement was reaffirmed in a February 2006 Memorandum of Understanding (MoU), which was based on the following three principles:

- Convergence of accounting standards can best be achieved through the development of high quality, common standards over time.
- Trying to eliminate differences between two standards that are in need of significant improvement is not the best use of FASB's and the IASB's resources; instead, a new common standard should be developed that improves the financial information reported to investors.
- Serving the needs of investors means that FASB and the IASB should seek convergence by replacing standards in need of improvement with jointly developed new standards.

At their joint meeting in April 2008, FASB and the IASB again affirmed their commitment to developing common, high quality standards and agreed on a path to completing the MoU projects, including projected completion dates. In September 2008 and again in April 2011, the two boards jointly published an update of their 2006 MoU to report the progress that they have made since 2006. During 2011, the boards regularly updated project completion dates as difficulties in completing projects arose. Some projects (for example, Income Taxes) were removed from the convergence schedules when the boards agreed that convergence was unlikely to be achieved in the short time available, but other projects have reached the exposure draft milestone. Each board believes that these standards, when completed, would improve the quality, consistency, and comparability of financial information for investors and capital markets around the world.

In February 2010, the SEC staff published a work plan that, together with FASB's and the IASB's convergence projects, would position the SEC regarding incorporating IFRSs into the financial reporting system for U.S. issuers. This work plan contained the following keys areas and factors relevant to determining "whether, when, and how [the U.S.] financial reporting system for U.S. issuers should be transitioned to a system that incorporates [IFRSs]:"[2]

- Development and application of IFRSs
- Independence of standard setting
- Investor understanding and education regarding IFRSs

[1] In addition to International Accounting Standards 41, *Agriculture*, the other International Financial Reporting Standards (IFRSs) that address issues specific to certain industries are IFRS 4, *Insurance Contracts*, and 6, *Exploration for and Evaluation of Mineral Resources*.

[2] Securities and Exchange Commission Release Nos. 33-9109; 34-61578, *Commission Statement in Support of Convergence and Global Accounting Standards* and the appendix of the *Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers*.

- Examination of the U.S. regulatory environment that would be affected by a change in accounting standards
- Impact on both large and small issuer
- Human capital considerations

In October 2010, the SEC staff issued a progress report on its work plan that addresses each of these issues and describes how the staff is evaluating each of them. For example, with respect to the development and application of IFRSs, the staff is monitoring the development of MoU and IFRSs projects that are outside the scope of the MoU. The SEC staff is also seeking constituent perspectives and researching the experiences of regulators in other jurisdictions, as well as reviewing the financial statements of both SEC and non-SEC registrants to evaluate the application of IFRSs in practice.

In May 2011, the SEC staff published a staff paper, *Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers: Exploring a Possible Method of Incorporation*, that confirmed that the SEC had not yet made a decision about whether or how to incorporate IFRSs into the U.S. financial reporting system. In this paper, the staff proposed a “condorsement” approach, whereby FASB would endorse new IFRSs one at a time as part of a continuing convergence process, rather than a “big bang” approach that would specify a mandatory, certain date for adoption of IFRSs. Subsequent to issuing this paper, the SEC staff held a roundtable where invited constituents would discuss the proposal. Many of the roundtable participants favored this “condorsement” approach.

Both FASB and the IASB provide extensive information about convergence and other projects on their respective websites, often with links to the relevant page on the opposite partner’s site. The SEC also has a section on its website, “Spotlight on Work Plan for Global Accounting Standards,” where the previously cited documents can be found, as well as comments from constituents on its proposals.

OTHER AICPA PUBLICATIONS

For the same reasons that you’ll find *IFRS ATT* to be the premier resource for financial reporting under IFRSs, the other publications in the *Accounting Trends & Techniques* series are just as robust and deserving to be your tool of choice for their respective types of financial reporting. A similar publication in this series that focuses exclusively on U.S. GAAP is *Accounting Trends & Techniques* (product code 0099011). Now in its 65th edition, this AICPA bestseller is filled with all new examples of current reporting techniques and methods used by 500 of the top publicly traded U.S. companies across all major industries. See www.cpa2biz.com for ordering information.

Further, launched in 2011, eXacct: Financial Reporting Tools & Techniques, is a powerful new Web-based tool that holistically addresses accounting, financial reporting, and enhanced business reporting. Built on the framework of the best-selling *Accounting Trends & Techniques*, it shows statistical reporting trends and actual reporting examples from the AICPA’s survey of annual reports from 500 of the country’s top public companies. Going beyond the print edition, the added XBRL functionality of the online version empowers XBRL filers with the analytical tools to inform their own reporting by providing all available XBRL filings from all 500 survey companies and providing full tag information, highlighting company extensions with the click of a button. A subscription to this robust online tool allows you to search, browse, filter, download, and use the data exactly as you need it and is available at www.cpa2biz.com.

NOTICE

IFRS ATT is a nonauthoritative practice aid and is not designed to provide a comprehensive understanding of all the requirements contained in U.S. GAAP and IFRSs and does not identify all possible differences between those aforementioned bases of accounting. *IFRS ATT* does not include reporting requirements relating to other matters, such as internal control or agreed-upon procedures.

Authoritative guidance on accounting treatments in accordance with IFRSs can only be made by reference to the IFRSs themselves, which are copyright of the IASC Foundation and can be acquired directly from the IASB.

IFRS ATT has not been reviewed, approved, disapproved, or otherwise acted on by any senior technical committee of the AICPA and does not represent official positions or pronouncements of the AICPA.

The use of this publication requires the exercise of individual professional judgment. It is not a substitute for the original authoritative pronouncements. Users are urged to refer directly to applicable authoritative pronouncements, when appropriate. As an additional resource, users may call the AICPA Technical Hotline at 1-877-242-7212.

FEEDBACK

We hope that you find this third edition of *IFRS ATT* to be informative and useful. Please let us know! What features do you like? What do you think can be improved or added? We encourage you to give us your comments and questions about all aspects of *IFRS ATT*. Please direct your feedback to Anjali Patel using the following contact information. All feedback is greatly appreciated and kept strictly confidential.

Anjali Patel—Accounting & Auditing Publications
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
220 Leigh Farm Road
Durham, NC 27707-8110
Telephone: 919-402-4580
Email: apatel@aicpa.org

You can also contact the Accounting and Auditing Publications team of the AICPA directly via e-mail at A&Apublications@aicpa.org.

LIST OF ABBREVIATIONS

AICPA	American Institute of Certified Public Accountants
ASC	*Accounting Standards Codification*™
EU	European Union
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
ICAEW	Institute of Chartered Accountants in England and Wales
IFRIC	International Financial Reporting Interpretations Committee
IFRSs	International Financial Reporting Standards
SEC	Securities and Exchange Commission
SIC	Standing Interpretations Committee

TABLE OF CONTENTS

Section		Paragraph
1	General Topics and Related Disclosures	.01-.235
	Statistical Profile Information on Survey Entities Used in This Edition	.01-.82
	The Conceptual Framework for Financial Reporting	.01-.82
	IAS 1, *Presentation of Financial Statements*	.01-.82
	IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*	.01-.82
	IFRSs Overview and Comparison to U.S. GAAP	.01-.69
	Recognition and Measurement	.07-.31
	Presentation	.32-.39
	Disclosure	.40-.69
	Presentation and Disclosure Excerpts	.70-.82
	Comprehensive IAS 1 and IAS 8 Disclosures	.70
	General Information, Regulatory Environment	.71
	Basis of Presentation, Statement of Compliance, Going Concern Assessment	.72
	Offsetting—Deferred Tax Assets and Liabilities	.73
	Offsetting—Pension Obligtations	.74
	Change in Presentation	.75
	Reclassifications and Restatements	.76
	Capital Disclosures	.77
	Capital Disclosures—Regulatory Capital	.78
	Dividends Declared and Not Recognized as a Liability	.79
	Change in Accounting Estimate	.80
	Correction of an Error	.81-.82
	IAS 27, *Consolidated and Separate Financial Statements*	.83-.114
	SIC-12, *Consolidation—Special Purpose Entities*	.83-.114
	IFRSs Overview and Comparison to U.S. GAAP	.83-.110
	Recognition and Measurement	.85-.103
	Disclosure	.104-.110
	Presentation and Disclosure Excerpts	.111-.114
	Change in Accounting Policy—Revaluation of Previously Held Interests	.111
	Restrictions on Dividend Payments to Shareholders by Subsidiaries	.112
	Additional Parent Company Information Disclosed in a Note to the Consolidated Financial Statements	.113
	Parent's Separate Financial Statements Presented Side-by-Side With Related Parent Company's Consolidated Financial Statements	.114
	IAS 10, *Events After the Reporting Period*	.115-.145
	IFRSs Overview and Comparison to U.S. GAAP	.115-.132
	Recognition and Measurement	.116-.124
	Presentation	.125-.126
	Disclosure	.127-.132
	Presentation and Disclosure Excerpts	.133-.145
	Cash Dividend Declaration and Distribution	.133
	Binding Offer to Acquire Another Company and Extension of Credit Lines	.134
	Initial Public Offering and Private Placement	.135

Section **Paragraph**

1 General Topics and Related Disclosures—continued
Tender Offer .136
Financial Statements Subject to Approval of Shareholders .137
Issue of Court Opinion in Litigation and Agreement to Acquire Credit Card Assets .138
Business Combinations .139
Property Sales and Capital Contribution by Swiss Federal Tax Authorities .140
Withdrawal of Tax Reduction by Hungarian Government .141
Early Repayment of Bonds and Declaration of Taxable Bonus Share Issue to Shareholders .142
Divestiture of Controlling Interest in Subsidiary, Announcement of Share Buy Back Program, Received Binding Offer to Buy Talc Business .143
Announcement of Quarterly Dividend and Bond Issue .144
Increase in Shareholding in Associate, Sale and Leaseback, and Sale of Building .145
IAS 21, *The Effects of Changes in Foreign Exchange Rates* .146-.178
IFRSs Overview and Comparison to U.S. GAAP .146-.175
Recognition and Measurement .149-.168
Disclosure .169-.175
Presentation and Disclosure Excerpts .176-.178
Accounting Policy Disclosure .176
Change in Functional Currency .177
IAS 21 Disclosures With Convenience Translation .178
IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* .179-.203
IFRSs Overview and Comparison to U.S. GAAP .179-.199
Recognition and Measurement .181-.191
Presentation .192-.196
Disclosure .197-.199
Presentation and Disclosure Excerpts .200-.203
Initial Recognition at Nominal Amount .200
Initial Recognition as Reduction of Carrying Value of Depreciable Assets .201
Initial Recognition at Fair Value, Change in Accounting Policy for Government Grants .202
Government Grant Contingencies .203
IAS 24, *Related Party Disclosures* .204-.222
IFRSs Overview and Comparison to U.S. GAAP .204-.220
Recognition and Measurement .205-.207
Presentation .208-.209
Disclosure .210-.220
Presentation and Disclosure Excerpts .221-.222
Disaggregation by Category of Related Party .221
Management Compensation .222
IFRIC 13, *Customer Loyalty Programmes* .223-.235
IFRSs Overview and Comparison to U.S. GAAP .223-.234
Recognition and Measurement .226-.230
Presentation .231-.232
Disclosure .233-.234

Section		Paragraph
1	General Topics and Related Disclosures—continued	
	Presentation and Disclosure Excerpts	.235
	Frequent Flyer Program	.235
2	Statement of Financial Position and Related Disclosures	.01-.398
	IAS 1, *Presentation of Financial Statements*	.01-.32
	IAS 27, *Consolidated and Separate Financial Statements*	.01-.32
	The Conceptual Framework for Financial Reporting	.01-.32
	IFRS Overview and Comparison to U.S. GAAP	.01-.16
	Presentation	.05-.12
	Disclosure	.13-.16
	Presentation and Disclosure Excerpts	.17-.32
	Classified Presentation—Decreasing Liquidity	.17
	Classified Presentation—Increasing Liquidity	.18
	Liquidity Order Presentation—Decreasing Liquidity	.19
	Liquidity Presentation—Increasing Liquidity	.20
	One Class of Share Capital	.21
	Multiple Classes of Common Share Capital	.22
	Capital Structure—Equalization Agreement	.23
	Convertible Redeemable Preference Shares, Suppliers' Investment Shares, Members' Shares, New Ordinary Shares	.24
	Multiple Classes of Preference Shares, Treasury Shares, Minority Interest	.25
	Ordinary and Deferred Shares	.26
	Current Assets—Prepaid Expenses	.27
	Current Assets—Advances and Progress Payments	.28
	Current and Non-Current Assets—Prepaid Expenses and Prepaid Lease Payments	.29
	Current Liabilities—Premiums and Discounts to Suppliers, Sales Commisions, Deferred Revenue and Advances From Customers	.30
	Current and Non-Current Liabilities—Deferred Income	.31
	Liabilities in Liquidity Order—Insurance Liabilities, Unallocated Divisible Surplus	.32
	IAS 2, *Inventories*	.33-.53
	IFRS Overview and Comparison to U.S. GAAP	.33-.49
	Recognition and Measurement	.34-.45
	Presentation	.46-.47
	Disclosure	.48-.49
	Presentation and Disclosure Excerpts	.50-.53
	First-In, First-Out	.50
	Weighted Average Cost and Specific Identification	.51
	Fair Value Less Cost to Sell—Broker Trader Exemption From IAS 2	.52
	Specific Identification—Properties Under Development for Resale	.53
	IAS 16	.54-.75
	IFRSs Overview and Comparison to U.S. GAAP	.54-.72
	Recognition and Measurement	.55-.64
	Presentation	.65-.66
	Disclosure	.67-.72

Section		Paragraph
2	Statement of Financial Position and Related Disclosures—continued	
	Presentation and Disclosure Excerpts	.73-.75
	Cost Model—Buildings and Structures, Production and Other Equipment	.73
	Revaluation Model—All Property, Plant and Equipment	.74
	Revaluation Model—Real Estate Properties and Ducts Infrastructure	.75
	IAS 38, *Intangible Assets*	.76-.117
	IFRS 3, *Business Combinations*	.76-.117
	IFRS Overview and Comparison to U.S. GAAP	.76-.110
	Recognition and Measurement	.79-.97
	Presentation	.98-.99
	Disclosure	.100-.110
	Presentation and Disclosure Excerpts	.111-.117
	Goodwill	.111
	Brand Names and Customer Lists	.112
	Software Development Costs (Internal and External) and Software	.113
	Acquired R&D, Trademarks, Technology, and Brand Name	.114
	Core Deposit Intangibles, Other Acquired Intangibles, and Computer Software	.115
	Development Costs	.116
	Domains, Brands, Water Rights, Easement Rights, IT Programs	.117
	IAS 40	.118-.138
	IFRSs Overview and Comparison to U.S. GAAP	.118-.135
	Recognition and Measurement	.121-.130
	Presentation	.131
	Disclosure	.132-.135
	Presentation and Disclosure Excerpts	.136-.138
	Investment Property Carried at Cost	.136
	Investment Property Carried at Fair Value	.137-.138
	IAS 28, *Investments In Associates*	.139-.168
	IFRSs Overview and Comparison to U.S. GAAP	.139-.166
	Recognition and Measurement	.141-.156
	Presentation	.157-.160
	Disclosure	.161-.166
	Presentation and Disclosure Excerpts	.167-.168
	Significant Influence—Less Than 50% Voting Power	.167
	Significant Influence—Between 20% and 50% Voting Power, Contingent Liabilities	.168
	IAS 31, *Interests in Joint Ventures*	.169-.191
	IFRSs Overview and Comparison to U.S. GAAP	.169-.188
	Recognition and Measurement	.172-.183
	Presentation	.184-.185
	Disclosure	.186-.188
	Presentation and Disclosure Excerpts	.189-.191
	Jointly Controlled Entities—Proportionate Consolidation	.189
	Jointly Controlled Entities—Equity Method, Jointly Controlled Operations	.190
	Jointly Controlled Assets	.191

Section		Paragraph
2	Statement of Financial Position and Related Disclosures—continued	
	IAS 41	.192-.214
	IFRSs Overview and Comparison to U.S. GAAP	.192-.210
	Recognition and Measurement	.193-.202
	Presentation	.203-.204
	Disclosure	.205-.210
	Presentation and Disclosure Excerpts	.211-.214
	Current and Non-current Assets—Growing Crops, Sugarcane, Coffee, Growing Herd, and Cattle Held for Sale	.211
	Current Assets—Biological Assets, No Reliable Fair Value, Pledged as Guarantee	.212
	Non-Current Assets—Crops and Nurseries	.213
	Non-Current Assets—Timber	.214
	IAS 17, *Leases*	.215-.260
	IFRSs Overview and Comparison to U.S. GAAP	.215-.258
	Recognition and Measurement	.218-.241
	Presentation	.242-.244
	Disclosure	.245-.258
	Presentation and Disclosure Excerpts	.259-.260
	Lessee—Operating and Finance Leases	.259
	Lessee and Lessor—Operating and Finance Leases, Lease Commitments	.260
	IAS 37	.261-.307
	IFRSs Overview and Comparison to U.S. GAAP	.261-.301
	Recognition and Measurement	.267-.289
	Presentation	.290-.293
	Disclosure	.294-.301
	Presentation and Disclosure Excerpts	.302-.307
	Warranty, Restructuring, Product Infringement, Project Loss and Tax Provisions	.302
	Onerous Contracts, Store Closings, and Insurance Provisions	.303
	Environmental Rehabilitation and Decommissioning Provisions	.304
	Environmental and Litigation Provisions	.305
	Disclosure—Contingent Liability and Contingent Asset	.306
	Reimbursement Asset for Environmental Costs	.307
	IAS 19, *Employee Benefits*	.308-.354
	IFRIC 14, *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction*	.308-.354
	IFRSs Overview and Comparison to U.S. GAAP	.308-.350
	Recognition and Measurement	.311-.335
	Presentation	.336-.337
	Disclosure	.338-.350
	Presentation and Disclosure Excerpts	.351-.354
	Current Liabilities: Employee Entitlements	.351
	Defined Contribution Benefit Plans, Funded and Unfunded Defined Benefit Plans, Immediate Recognition of Actuarial Gains and Losses in Other Comprehensive Income, Recognition of Assets	.352

Section		Paragraph
2	Statement of Financial Position and Related Disclosures—continued	
	Defined Contribution Plans, Defined Benefit Plans, Recognition of Actuarial Gains and Losses Using the Corridor Approach, Curtailment and Settlement of a Defined Benefit Plan	.353
	Senior Management Remuneration and Employment Termination Benefits	.354
	IFRS 2, *Share-Based Payment*	.355-.366
	IFRSs Overview and Comparison to U.S. GAAP	.355-.364
	Recognition and Measurement	.358-.361
	Presentation	.362
	Disclosure	.363-.364
	Presentation and Disclosure Excerpts	.365-.366
	Cash-Settled Share Appreciation Rights	.365
	Cash-Settled Phantom Shares	.366
	IAS 12, *Income Taxes*	.367-.398
	SIC 21, *Income Taxes—Recovery of Revalued Non-Depreciable Assets*	.367-.398
	IFRSs Overview and Comparison to U.S. GAAP	.367-.396
	Recognition and Measurement	.369-.389
	Presentation	.390-.392
	Disclosure	.393-.396
	Presentation and Disclosure Excerpts	.397-.398
	Current and Non-current Tax Payables, Deferred Tax Liabilities, and Tax Loss Carryforwards	.397
	Current Tax Receivables and Payables, Deferred Tax Assets and Liabilities	.398
3	Statement of Comprehensive Income and Related Disclosures	.01-.389
	IAS 1, *Presentation of Financial Statements*	.01-.26
	IAS 27, *Consolidated and Separate Financial Statements*	.01-.26
	The Conceptual Framework for Financial Reporting	.01-.26
	IFRS Overview and Comparison to U.S. GAAP	.01-.23
	Presentation	.10-.21
	Disclosure	.22-.23
	Presentation and Disclosure Excerpts	.24-.26
	Single Statement—Statement of Comprehensive Income, Expenses by Nature	.24
	Two Statements—Income Statement and Statement of Other Comprehensive Income, Expenses by Function, Disaggregation of Expenses by Nature in Note Disclosure	.25
	Analysis of Expenses by Function, Disaggregation of Cost of Sales in Note Disclosure	.26
	IAS 18, *Revenue*	.27-.63
	SIC 31, *Revenue—Barter Transactions Involving Advertising Services*	.27-.63
	IFRS Overview and Comparison to U.S. GAAP	.27-.54
	Recognition and Measurement	.28-.47
	Presentation	.48-.50
	Disclosure	.51-.54

Section		Paragraph
3	Statement of Comprehensive Income and Related Disclosures—continued	
	Presentation and Disclosure Excerpts	.55-.63
	Revenue—Sales of Goods and Contracts to Provide Services	.55
	Revenue—Sales of Services and Barter Transactions	.56
	Revenue—Bill and Hold Transactions	.57
	Revenue—Software, Support, Subscription, Consulting Revenues and Multiple Element Arrangements	.58
	Revenue—Sale of Gold, Copper and Silver; Gold and Silver Bullion; and Interest Revenue	.59
	Revenue—Rental Revenue, Land and Home Sales	.60
	Royalty Income and Dividend Income	.61
	Interest Income, Fees and Commissions, Insurance Net Premium Income	.62
	Income—Emissions Rights	.63
	IAS 11, *Construction Contracts*	.64-.90
	IFRIC 15, *Agreements for the Construction of Real Estate*	.64-.90
	IFRS Overview and Comparison to U.S. GAAP	.64-.89
	Recognition and Measurement	.66-.83
	Presentation	.84-.87
	Disclosure	.88-.89
	Presentation and Disclosure Excerpts	.90
	Construction Contracts	.90
	IAS 2, *Inventories*	.91-.111
	IFRS Overview and Comparison to U.S. GAAP	.91-.107
	Recognition and Measurement	.93-.100
	Presentation	.101-.103
	Disclosure	.104-.107
	Presentation and Disclosure Excerpts	.108-.111
	Analysis of Expenses by Function (Cost of Sales)—First-In, First-Out Cost Flow Assumption, Write-Downs and Reversal of Write-Downs of Inventory	.108
	Analysis of Expenses by Function (Cost of Sales)—Weighted Average Cost, Inventories Stated at Net Realizable Value	.109
	Analysis of Expenses by Function (Cost of Sales)—Multiple Cost Flow Assumptions, Provision for Inventory Obsolescence	.110
	Analysis of Expenses by Nature—Multiple Cost Flow Assumptions, Write-Down and Reversal of Write-Downs of Inventory	.111
	Depreciation and Amortization	.112-.142
	IFRS Overview and Comparison to U.S. GAAP	.112-.136
	Recognition and Measurement	.113-.130
	Presentation	.131-.132
	Disclosure	.133-.136
	Presentation and Disclosure Excerpts	.137-.142
	Property, Plant, and Equipment—Cost Model, Straight Line Method	.137
	Property, Plant, and Equipment—Cost Model, Declining Balance Method at Varying Rates	.138

Section		Paragraph
3	Statement of Comprehensive Income and Related Disclosures—continued	
	Property, Plant, and Equipment—Cost Model, Straight Line Method, Capitalization of Major Overhaul Expenditures	.139
	Property, Plant, and Equipment—Revaluation Model Applied to Multiple Asset Classes	.140
	Intangible Assets	.141
	Depreciation and Depletion	.142
	IAS 19, *Employee Benefits*	.143-.156
	IFRS Overview and Comparison to U.S. GAAP	.143-.152
	Recognition and Measurement	.144-.149
	Presentation	.150
	Disclosure	.151-.152
	Presentation and Disclosure Excerpts	.153-.156
	Short-Term Benefits	.153
	Postemployment Benefits—Actuarial Gains and Losses Recognized Immediately in Equity, Effect of the Asset Ceiling, Special Contributions	.154
	Postemployment Benefits—Change in Accounting Policy for Actuarial Gains and Losses, Termination Benefits	.155
	Postemployment Benefits—Corridor Method, Retirement Healthcare and Life Insurance Benefits	.156
	IFRS 2, *Share-Based Payment*	.157-.184
	IFRS Overview and Comparison to U.S. GAAP	.157-.183
	Recognition and Measurement	.160-.176
	Presentation	.177-.178
	Disclosure	.179-.183
	Presentation and Disclosure Excerpts	.184
	Stock Option Plan—Cash Settled and Equity Settled	.184
	IAS 23, *Borrowing Costs*	.185-.202
	IFRS Overview and Comparison to U.S. GAAP	.185-.200
	Recognition and Measurement	.186-.196
	Presentation	.197-.198
	Disclosure	.199-.200
	Presentation and Disclosure Excerpts	.201-.202
	Finance Costs	.201
	Capitalized Borrowing Costs	.202
	IAS 28, *Investments in Associates*	.203-.219
	IAS 31, *Interests in Joint Ventures*	.203-.219
	IFRS Overview and Comparison to U.S. GAAP	.203-.217
	Recognition and Measurement	.205-.212
	Presentation	.213-.215
	Disclosure	.216-.217
	Presentation and Disclosure Excerpts	.218-.219
	Share of Post-Tax Profit or Loss of Associates and Joint Ventures Included in Pre-Tax Operating Profit, Associates and Joint Ventures Designated at Fair Value Through Profit or Loss, Impairment Losses	.218

Section		Paragraph
3	Statement of Comprehensive Income and Related Disclosures—continued	
	Share of Income From Associates Not Included in Operating Profit and Share of Other Comprehensive Income of Associates	.219
	IAS 17, *Leases*	.220-.242
	IFRS Overview and Comparison to U.S. GAAP	.220-.239
	Recognition and Measurement	.221-.228
	Presentation	.229-.231
	Disclosure	.232-.239
	Presentation and Disclosure Excerpts	.240-.242
	Lessee—Finance and Operating Leases, Lessor—Operating Leases	.240-.241
	Lessor—Finance Leases	.242
	IAS 36, *Impairment of Assets*	.243-.292
	IFRS Overview and Comparison to U.S. GAAP	.243-.287
	Recognition and Measurement	.246-.274
	Presentation	.275-.276
	Disclosure	.277-.287
	Presentation and Disclosure Excerpts	.288-.292
	Impairment—Losses on Property, Plant, and Equipment, Goodwill and Other Intangible Assets	.288
	Impairment—Reversals of Losses on Property, Plant and Equipment Held at Revalued Amount	.289
	Impairment—Investment in Associate	.290
	Impairment—Investment in Jointly Controlled Entities	.291
	Impairment—Assets Classified as Held for Sale	.292
	Gains and Losses on Derecognition of Noncurrent Assets	.293-.307
	IFRS Overview and Comparison to U.S. GAAP	.293-.304
	Recognition and Measurement	.294-.300
	Presentation	.301-.302
	Disclosure	.303-.304
	Presentation and Disclosure Excerpts	.305-.307
	Gain on Sale of Property, Plant, and Equipment, Intangible Assets, and Assets Held for Sale	.305
	Gain (Loss) on Disposal of Hotels	.306
	Profit and Loss on Sales of Property, Plant and Equipment and Waste Products	.307
	Change in Fair Value of Nonfinancial Assets	.308-.321
	IFRS Overview and Comparison to U.S. GAAP	.308-.319
	Recognition and Measurement	.309-.313
	Presentation	.314-.315
	Disclosure	.316-.319
	Presentation and Disclosure Excerpts	.320-.321
	Changes in Fair Value of Biological Assets Recognized in Profit and Loss, Change in Revalued Amount Recognized in Other Comprehensive Income—Property, Plant and Equipment	.320

Section		Paragraph
3	Statement of Comprehensive Income and Related Disclosures—continued	
	Change in Fair Value Recognized in Profit and Loss—Investment Property and Timber, Change in Revalued Amount Recognized in Other Comprehensive Income—Property, Plant and Equipment, including Renewable Power Generation and Utilities, Transport, and Energy Assets	.321
	IAS 12, *Income Taxes*	.322-.347
	IFRS Overview and Comparison to U.S. GAAP	.322-.342
	Recognition and Measurement	.323-.328
	Presentation	.329-.333
	Disclosure	.334-.342
	Presentation and Disclosure Excerpts	.343-.347
	Effects of Change in Tax Rate, Disaggregation of Tax Effects of Items Recognized in Other Comprehensive Income	.343
	Tax Effects of Discontinued Operations, Items Recognized in Other Comprehensive Income Shown Net of Tax	.344
	Offsetting of Assets and Liabilities From the Same Tax Authority, Used and Unused Tax Loss Carryforwards, Items Recognized in Other Comprehensive Income Shown Net of Tax	.345
	Tax Expense Reconciliation Disclosure—Use of Single Domestic Statutory Tax Rate	.346
	Effective Tax Rate Reconciliation Disclosure—Use of Weighted Average Statutory Tax Rate	.347
	IAS 33, *Earnings Per Share*	.348-.389
	IFRS Overview and Comparison to U.S. GAAP	.348-.384
	Recognition and Measurement	.349-.372
	Presentation	.373-.380
	Disclosure	.381-.384
	Presentation and Disclosure Excerpts	.385-.389
	Basic and Diluted EPS Reported on One Line—No Dilutive Potential Shares	.385
	Basic and Diluted EPS—Two Classes of Ordinary Shares, Disclosure of EPS per American Depositary Receipt (ADS), Options and Warrants Anti-dilutive in Prior Year	.386
	Basic and Diluted EPS—Continuing Operations, Discontinued Operations	.387
	Basic and Diluted EPS—Accounting Policy Disclosure, Net Loss, All Potentially Dilutive Shares Anti-Dilutive	.388
	Basic and Diluted EPS—Net Loss Resulting in Outstanding Convertible Preference Shares, Convertible Debt, Share Options Anti-dilutive in Current Year, Dilutive in Prior Years	.389
4	Statement of Changes in Equity and Related Disclosures	.01-.20
	IAS 1, *Presentation of Financial Statements*	.01-.20
	IFRIC 17, *Distributions of Non-Cash Assets to Owners*	.01-.20
	IFRS Overview and Comparison to U.S. GAAP	.01-.13
	Presentation	.04-.09
	Disclosure	.10-.13

Section **Paragraph**

4 Statement of Changes in Equity and Related Disclosures—continued
Presentation and Disclosure Excerpts .... .14-.20
Issue of Common and Preferred Shares .... .14
Rights Issue, Scrip Dividend, Issue of Treasury Shares, Shares Issued in Lieu of Dividends, Issue of Treasury Shares .... .15
Dividends on Preference Shares (Classified as Equity), Dividends of Subsidiaries, Transfer of Revaluation Reserve to Retained Earnings on Depreciation and Disposal of Revalued Assets .... .16
Reduction in Par Value, Reclassification of Equity Component of Convertible Debt, Capital Contribution From Non-Controlling Interests .... .17
Fair Value of Net Assets Acquired in Reverse Acquisition, Shares Issued in Private Placement .... .18
Proposed Appropriation of Net Income, Equity Component of Convertible Bonds .... .19
Adjustment for Hyperinflation, Reduction in Share Capital .... .20

5 Statement of Cash Flows and Related Disclosures .01-.36
IAS 7, *Statement of Cash Flows* .... .01-.36
IFRSs Overview and Comparison to U.S. GAAP .... .01-.22
Presentation .... .02-.15
Disclosure .... .16-.22
Presentation and Disclosure Excerpts .... .23-.36
Presentation of Operating Activities Using the Direct Method—Interest Paid/Received Presented in Operating, Investing, and Financing Activities .... .23
Presentation of Operating Activities Using the Direct Method, Reconciliation of Profit (Loss) to Net Cash Flows From Operating Activities Provided in a Note Disclosure .... .24
Presentation of Operating Activities Using the Indirect Method—Adjustments to Income Before Tax, Adjustments for Accretion on Financial Liabilities, Dividends on Preferred Stock Subject to Mandatory Redemption .... .25
Operating Activities: Adjustments for Depreciation, Impairments, Inventory Writedowns, Labor Agreements, Litigation Provisions, Recycling of Deferred Hedging Gains .... .26
Operating Activities: Adjustment for Repurchase of Bonds and Change in Estimates Related to Debentures .... .27
Operating Activities: Note Disclosure of the Reconciliation of Profit Before Tax to Cash From Operating Activities, Adjustments for Fair Value Gains on Forestry Assets, Felling Costs, and Special Items, Change in Net Debt .... .28
Operating Activities: Adjustment for Provision for Doubtful Debts, Impairment of Guarantees, Fair Value Gain on Financial Assets Held for Trading .... .29
Investing Activities: Purchase and Sale of Non-Current Assets, Government Subsidies .... .30
Investing Activities: Collections and Payments of Forward Agreements, Collection and Payments of Bank Deposits, Capital Increases in Associates .... .31
Investing Activities: Interest and Dividends Received, Interest Paid and Capitalized, Purchase of Subsidiaries and Noncontrolling Interest, Decrease (Increase) in Advances and Refundable Deposits .... .32

Section		Paragraph
5	Statement of Cash Flows and Related Disclosures—continued	
	Financing Activities: Issue of Share Capital, Sales and Leaseback of Aircraft, Repayment of Finance Lease Obligations, Refunds of Deposits Pledged for Finance Leases, Receipt and Payment of Restricted Bank Deposits	.33
	Financing Activities: Capital Increase, Issue and Repayment of Subordinated Long-Term Debt, Issuances of Preferred Securities, Issues of Capital Shares Under Share-Based Compensation Agreements	.34
	Financing Activities: Issue of Securities, Expenditures Paid by Third Party, Exercise of Stock Options	.35
	Financing Activities: Commercial Property Debt Issue, Amortization and Repayment, Trust Unit and Class B Limited Partnership Distributions	.36
6	Non-Current Assets Held for Sale and Discontinued Operations	.01-.27
	IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations*	.01-.27
	IFRSs Overview and Comparison to U.S. GAAP	.01-.24
	Recognition and Measurement	.04-.15
	Presentation	.16-.20
	Disclosure	.21-.24
	Presentation and Disclosure Excerpts	.25-.27
	Noncurrent Assets Held for Sale	.25
	Discontinued Operations, Withdrawal of Business from Held for Sale and Reclassification as Continuing Operations	.26
	Spinoff, Discontinued Operations, Assets and Associated Liabilities Classified as Held for Sale	.27
7	Operating Segments	.01-.28
	IFRS 8, *Operating Segments*	.01-.28
	IFRSs Overview and Comparison to U.S. GAAP	.01-.24
	Recognition and Measurement	.04-.14
	Disclosure	.15-.24
	Presentation and Disclosure Excerpts	.25-.28
	Operating Segments Defined on the Basis of Business Activities	.25
	Operating Segments Defined on the Basis of Business Activities, Segment Information Provided in Separate Asset, Liability, Revenue and Expense Disclosures	.26
	Operating Segments Defined on the Basis of Geographic Areas, Revised Based on Change in Organizational Structure	.27
	Initial Application of IFRSs and IFRS 8, Reconciliation of Segment Information Presented Under Argentine GAAP and IFRSs	.28
8	Financial Instruments and Related Disclosures	.01-.62
	IFRS 7, *Financial Instruments: Disclosures*	.01-.62
	IAS 32, *Financial Instruments: Presentation*	.01-.62
	IAS 39, *Financial Instruments: Recognition and Measurement*	.01-.62
	IFRSs Overview and Comparison to U.S. GAAP	.01-.53
	Recognition and Measurement	.05-.27

Section		Paragraph
8	Financial Instruments and Related Disclosures—continued	
	Presentation	.28-.35
	Disclosure	.36-.53
	Presentation and Disclosure Excerpts	.54-.62
	Early Adoption of IFRS 9—First-time Adoption of IFRS	.54
	Financial Assets—Accounts Receivable and Accounts Receivable from Related Parties	.55
	Financial Assets—Held to Maturity	.56
	Financial Assets and Financial Liabilities—Held for Trading, Designated at FVTPL, Available for Sale, Reclassified to Loans and Receivables, Reclassified to Available for Sale	.57
	Financial Liabilities—Accounts Payable, Notes Payable, Warranty Liabilities, Non-current Financial Liabilities	.58
	Preference Shares—Redeemable Classified as Liabilities	.59
	Compound Financial Instruments—Perpetual Bonds Redeemable for Shares	.60
	Transfers of Financial Assets—Securitization of Receivables	.61
	Derivatives and Hedging	.62
9	Business Combinations	.01-.28
	IFRS 3, *Business Combinations*	.01-.28
	IFRSs Overview and Comparison to U.S. GAAP	.01-.25
	Recognition and Measurement	.05-.15
	Presentation	.16-.17
	Disclosure	.18-.25
	Presentation and Disclosure Excerpts	.26-.28
	Acquisition Financed Through Issue of Ordinary Shares and Options Over Ordinary Shares, Gain on Bargain Purchase	.26
	Prospective Application of IFRS 3 (2008), Non-Controlling Interest Measured at the Proportionate Share of the Net Identifiable Assets of the Acquiree	.27
	Prospective Application of IFRS 3 (2008), Revaluation of Previously Held Equity Interest	.28
10	Reporting in Hyperinflationary Economies	.01-.19
	IAS 29, *Financial Reporting in Hyperinflationary Economies*	.01-.19
	IFRSs Overview and Comparison to U.S. GAAP	.01-.16
	Recognition and Measurement	.05-.13
	Disclosure	.14-.16
	Presentation and Disclosure Excerpts	.17-.19
	Elimination of the Price-Level Adjustment for Subsidiaries on Transition to IFRSs	.17
	Deconsolidation of Foreign Operations in a Hyperinflationary Economy	.18
	Foreign Subsidiary Adjusted for Inflation Prior to Translation into Presentation Currency	.19
11	Service Concession Arrangements	.01-.23
	IFRIC 12, *Service Concession Arrangements*	.01-.23

Section **Paragraph**

11 Service Concession Arrangements—continued
SIC 29, *Service Concession Arrangements: Disclosures* .01-.23
IFRSs Overview and Comparison to U.S. GAAP .01-.22
Recognition and Measurement .05-.18
Disclosure .19-.22
Presentation and Disclosure Excerpts .23
Service Concession—Intangible Assets, Indemnities Receivable .23

12 First-Time Adoption of IFRSs .01-.17
IFRS 1, *First-Time Adoption of International Financial Reporting Standards* .01-.17
IFRSs Overview and Comparison to U.S. GAAP .01-.15
Recognition and Measurement .05-.08
Presentation .09-.10
Disclosure .11-.15
Presentation and Disclosure Excerpts .16-.17
Transition From Canadian GAAP to IFRSs—IFRS 1 Exemptions Elected .16
Transition From Argentine GAAP to IFRSs—IFRS 1 Exemptions Elected .17

Page

Company Index 733

Pronouncements Index 737

Subject Index 755

LIST OF TABLES

Table **Page**

Table 1-1 : General Information About Survey Entities 1-4
Table 1-2 : Classification of Survey Entities by Industry 5
Table 1-3 : Survey Entities' Country of Incorporation 5
Table 1-4 : Stock Exchanges on Which Survey Entities were Listed as of December 31, 2010 6
Table 1-5 : Survey Entities' Month of Fiscal Year End 6
Table 1-6 : Survey Entities' Audit Firms 6
Table 1-7 : Management Judgments and Critical Accounting Estimates 15
Table 1-8 : Commitments and Contingencies 45
Table 2-1 : Format of Statement of Financial Position 117
Table 2-2 : Capital Structure 122
Table 2-3 : Classes of Property, Plant & Equipment 154
Table 2-4 : Alternative Models for Subsequent Measurement of Property, Plant & Equipment 156
Table 2-5 : Goodwill and Classes of Intangible Assets 162
Table 2-6 : Alternative Models for Subsequent Measurement of Investment Property 185
Table 2-7 : Accounting Treatment for Jointly Controlled Entities 202
Table 3-1 : Analysis of Expenses Recognized in Profit and Loss 288

Table	Page
Table 3-2 : Items of Other Comprehensive Income	288
Table 3-3 : Inventory Cost Determination	315
Table 3-4 : Depreciation and Amortization Methods	321
Table 4-1 : Components of Shareholders' Equity	477
Table 4-2 : Types of Changes in Shareholders' Equity	477
Table 5-1 : Method of Reporting Cash Flows from Operating Activities	503
Table 5-2 : Classifications of Reported Income Tax, Interest, and Dividend Cash Flows	503
Table 6-1 : Noncurrent Assets Held for Sale	529
Table 6-2 : Discontinued Operations	529
Table 7-1 : Number of Business Segments	547
Table 7-2 : Number of Geographic Segments	548
Table 8-1 : Type of Financial Instruments	581

SECTION 1: GENERAL TOPICS AND RELATED DISCLOSURES*

STATISTICAL PROFILE INFORMATION ON SURVEY ENTITIES USED IN THIS EDITION

TABLE 1-1: GENERAL INFORMATION ABOUT SURVEY ENTITIES

Entity Name	Country of Incorporation	Ticker	Stock Exchange(1)	Fiscal Year End	Presentation Currency(2)
A.G. Barr plc	United Kingdom	BAG	LSE	January 29 2011	GBP
A/S Dampskibsselskabet TORM	Denmark	TRMD	NASDAQ	December 31 2010	USD
Absa Group Limited	South Africa	AMAGB	JSE	December 31 2010	ZAR
Abu Dhabi Aviation	United Arab Emirates	ADAVIATION	ADX	December 31 2010	AED
Abu Dhabi National Hotels PJSC	United Arab Emirates	ADNH	ADX	December 31 2010	AED
Abu Dhabi Ship Building PJSC	United Arab Emirates	ADSB	ADX	December 31 2010	AED
Adecoagro S.A.	Luxembourg	AGRO	NYSE	December 31 2010	USD
AEGON N.V.	The Netherlands	AEG	NYSE	December 31 2010	EUR
Aixtron SE (formally, Aixtron Aktiengesellschaft)	Germany	AIXG	NASDAQ	December 31 2010	EUR
Alcatel-Lucent	France	ALU	NYSE	December 31 2010	EUR(5)
Alesco Corporation Limited	Australia	ALS	ASX	May 31 2010	AUD
Allied Irish Bank plc	Ireland	AIB	NYSE	December 31 2010	EUR
Alumina Limited	Australia	AWC	NYSE	December 31 2010	AUD
Anooraq Resources Corporation	Canada	ARQ	TSX	December 31 2010	CAD
Aquarius Platinum Limited	Australia	AQP.1	LSE	June 30 2010	USD
ArcelorMittal	Luxembourg	MT	NYSE	December 31 2010	USD
ARM Holdings plc	United Kingdom	ARM	LSE	December 31 2010	GBP
ARYZTA AG	Switzerland	ARYB	SIX	July 31 2010	EUR
Ashtead Group plc	United Kingdom	AHT	LSE	April 30 2010	GBP
AstraZeneca plc	United Kingdom	AZN	NYSE	December 31 2010	USD
Autonomy Corporation plc	United Kingdom	AU	LSE	December 31 2010	USD
Aviva plc	United Kingdom	AV	LSE	December 31 2010	GBP
AXA SA	France	AXA	NYSE	December 31 2010	EUR
Barclays plc	United Kingdom	BCS	NYSE	December 31 2010	GBP
Barloworld Limited	South Africa	BAW	JSE	September 30 2010	ZAR
Barry Callebaut AG	Switzerland	BARN	SIX	August 31 2010	CHF
BBA Aviation plc	United Kingdom	BBA	LSE	December 31 2010	GBP
BHP Billiton plc and BHP Billiton Limited(3)	United Kingdom and Australia, respectively	BHP/BBL	NYSE	June 30 2010	USD
BP plc	United Kingdom	BP	NYSE	December 31 2010	USD
Brewin Dolphin Holdings plc	United Kingdom	BRW	LSE	September 26(4) 2010	GBP
British Sky Broadcasting Group plc	United Kingdom	BSY	LSE	June 30 2010	GBP
Brookfield Office Properties Canada	Canada	BOX.UN	TSX	December 31 2010	CAD
Brookfield Asset Management, Inc.	Canada	BAM	NYSE	December 31 2010	USD
BT Group plc	United Kingdom	BT	NYSE	March 31 2010	GBP
Cellcom Israel Ltd	Israel	CEL	NYSE	December 31 2010	ILS

(continued)

* Unless otherwise indicated, references to International Accounting Standards Board (IASB) standards and interpretations throughout this 2011 edition of *IFRS Accounting Trends & Techniques* refer to the version of those standards and interpretations included in the *IFRS 2011* bound volume, the official printed consolidated text of IASB standards and interpretations, including revisions, amendments, and supporting documents, issued as of 1 January 2011.

TABLE 1-1: GENERAL INFORMATION ABOUT SURVEY ENTITIES (*continued*)

Entity Name	Country of Incorporation	Ticker	Stock Exchange[1]	Fiscal Year End	Presentation Currency[2]
Centum Investment Company Ltd	Kenya	IIC	NSE	March 31 2010	KES
China Eastern Airlines Corporation Limited	China	CEA	NYSE	December 31 2010	CNY
China Gold International Resources Corp, Ltd. (formerly, Jinshan Gold Mines Inc.)	Canada	CGG	TSX	December 31, 2010	USD
China Mobile Limited	Hong Kong	CHL	NYSE	December 31 2010	CNY
China Southern Airlines Company Limited	China	ZNH	NYSE	December 31 2010	CNY
China Telecom Corporation Limited	China	CHA	NYSE	December 31 2010	CNY
China Xiniya Fashion Limited	China	XNY	NYSE	December 31 2010	CNY
China Yuchai International Limited	China	CYO	NYSE	December 31 2010	CNY
Chocoladefabriken Lindt & Sprüngli AG	Switzerland	LISN	SIX	December 31 2010	CHF
City Telecom (H.K.) Limited	Hong Kong	CTEL	NASDAQ	August 31 2010	HKD
Clariant Ltd.	Switzerland	CLN	SIX	December 31 2010	CHF
Clicks Group Limited	South Africa	CLS	JSE	August 31 2010	ZAR
CNOOC Limited	Hong Kong	CEO	NYSE	December 31 2010	CNY
Compagnie Financière Richemont SA	Switzerland	CFR	SIX	March 31 2010	EUR
Compagnie Générale de Géophysique-Veritas, S.A.	France	CGV	NYSE	December 31 2010	EUR
Companhia de Bebidas das Américas (American Beverage Company) – Ambev	Brazil	ABV	NYSE	December 31 2010	BRL
Companhia de Saneamento Basico do Estado de Sao Paolo - SABESP	Brazil	SBS	NYSE	December 31 2010	BRL
Compañia Cervecerías Unidas S.A.	Chile	CCU	NYSE	December 31 2010	CLP
Copa Holdings, S.A.	Panama	CPA	NYSE	December 31 2010	USD
Credicorp Ltd.	Bermuda	BAP	NYSE	December 31 2010	USD
CRH Public Limited Company	Ireland	CRH	NYSE	December 31 2010	EUR
CSR plc	United Kingdom	CSR	LSE	December 31[4] 2010	USD
Daimler AG	Germany	DAI	DAX	December 31 2010	EUR
Delhaize Brothers and Co “The Lion” (Delhaize Group) SA	Belgium	DEG	NYSE	December 31 2010	EUR
Deutsche Bank Aktiengesellschaft	Germany	DBK	NYSE	December 31 2010	EUR
Deutsche Telekom AG	Germany	DT	NYSE	December 31 2010	EUR
DHT Holdings, Inc.	Marshall Islands	DHT	NYSE	December 31 2010	USD
Diageo plc	United Kingdom	DGE	LSE	June 30 2010	DKK
Diploma Group Limited	Australia	DGX	ASX	June 30 2010	AUD
East Asiatic Company Ltd. A/S	Denmark	EAC	NASDAQ	December 31 2010	GBP
Eastern Platinum Limited	Canada	ELR.TO	TSX	December 31 2010	USD
Elbit Imaging Ltd.	Israel	EMIT	NASDAQ	December 31 2010	ILS
Embotelladora Andina S.A.	Chile	AKO.A	NYSE	December 31 2010	CLP
Empresa Nacional de Electricidad S.A.(Endesa-Chile)	Chile	EOC	NYSE	December 31 2010	CLP
Enersis S.A.	Chile	ENI	NYSE	December 31 2010	CHP
Eni S.p.A	Italy	E	NYSE	December 31 2010	EUR
Flughafen Zürich AG	Switzerland	FHZN	SIX	December 31 2010	CHF
France Telecom	France	FTE	NYSE	December 31 2010	EUR
Galenica Ltd.	Switzerland	GALN	SIX	December 31 2010	CHF
Gerdau S.A.	Brazil	GGB	NYSE	December 31 2010	BRL
Givaudan SA	Switzerland	GIVN	SIX	2010	CHF
GlaxoSmithKline plc	United Kingdom	GSK	NYSE	December 31 2010	GBP
Gol Linhas Aéreas Inteligentes S.A.	Brazil	GOL	BVMF	December 31 2010	BRL
GrainCorp Limited	Australia	GNC	ASX	September 30 2010	CHF
Guangshen Railway Company Limited	China	GSH	NYSE	December 31 2010	CNY
Harmony Gold Mining Company Limited	Canada	HMY	NASDAQ	June 30 2010	USD
Heatherdale Resources Ltd	Canada	HTR	TSX-V	October 31 2010	USD
Helical Bar plc	United Kingdom	HLCL	LSE	March 31 2010	GBP
HGL Limited	Australia	HNG	ASX	September 30 2010	AUD
Hikma Pharmaceuticals PLC	United Kingdom	HIK	LSE	December 31 2010	USD
Homburg Invest, Inc.	Canada	HII.A	TSX	December 31 2010	CAD

(continued)

TABLE 1-1: GENERAL INFORMATION ABOUT SURVEY ENTITIES (*continued*)

Entity Name	Country of Incorporation	Ticker	Stock Exchange[1]	Fiscal Year End	Presentation Currency[2]
HSBC Holdings plc	United Kingdom	HBC	NYSE	December 31 2010	USD
Huaneng Power International, Inc.	China	HNP	NYSE	December 31 2010	CNY
InterContinental Hotels Group plc	United Kingdom	IHG	NYSE	December 31 2010	USD
JSC BTA Bank	Kazakhstan	BTAS	KASE	December 31 2010	KZT
JSC Halyk Bank	Kazakhstan	HSBK	KASE	December 31 2010	KZT
Julius Baer Group Ltd.	Switzerland	BAER	SIX	December 31 2010	CHF
Koninklijke Philips Electronics NV	The Netherlands	PHG	NYSE	December 31 2010	EUR
Lan Airlines S.A.	Chile	LFL	NYSE	December 31 2010	USD
Luxottica Group S.p.A.	Italy	LUX	NYSE	December 31 2010	EUR
Magyar Telekom plc	Hungary	MTA	NYSE	December 31 2010	HUF
Millicom International Cellular S.A.	Luxembourg	MICC	NYSE	December 31 2010	USD
Mondi Limited and Mondi plc[3]	South Africa and United Kingdom, respectively	MNDI	LSE	December 31 2010	EUR
N Brown Group plc	United Kingdom	BWNG	LSE	February 27[4] 2010	GBP
National Grid plc	United Kingdom	NGG	NYSE	March 31 2010	GBP
National Westminster Bank Plc	United Kingdom	NW.C	NYSE	December 31 2010	GBP
Nestlé SA	Switzerland	NESN	SIX	December 31 2010	CHF
Newcrest Mining Limited	Australia	NCM	ASX	June 30 2010	AUD
Nobel Biocare Holding AG	Switzerland	NOBN	SIX	December 31 2010	EUR
Nokia Corporation	Finland	NOK	NYSE	December 31 2010	EUR
Nortel Inversora S.A.	Argentina	NTL	NYSE	December 31 2010	ARS
Northern Dynasty Minerals Ltd	Canada	NDM	TSX-V	December 31 2010	CAD
Novartis AG	Switzerland	NVS	NYSE	December 31 2010	USD
Novo Nordisk A/S	Denmark	NVO	NYSE	December 31 2010	DKK
OAO Gazprom	Russia	OGZPY	NASDAQ	December 31 2010	RUB
Panalpina World Transport (Holding) Ltd	Switzerland	PWTN	SIX	December 31 2010	CHF
Pargesa Holding AG	Switzerland	PARG	SIX	December 31 2010	CHF
Partner Communications Company Ltd.	Israel	PTNR	NASDAQ	December 31 2010	ILS
Pearson plc	United Kingdom	PSO	NYSE	December 31 2010	GBP
Philippine Long Distance Telephone Company	Philippines	PHI	NYSE	December 31 2010	PHP
Portugal Telecom, SGPS, S.A.	Portugal	PT	NYSE	December 31 2010	EUR
Prudential plc	United Kingdom	PUK	NYSE	December 31 2010	GBP
PSP Swiss Property Ltd	Switzerland	PSPN	SIX	December 31 2010	CHF
Randgold Resources Limited	United Kingdom	GOLD	NASDAQ	December 31 2010	USD
REA Vipingo Plantations Limited	Kenya	RPVL	NSE	September 30 2010	KES
Reckitt Benckiser Group plc	United Kingdom	RB	LSE	December 31 2010	GBP
Reed Elsevier NV and Reed Elsevier PLC[3]	The Netherlands and United Kingdom, respectively	ENL	NYSE	December 31 2010	GBP
Repsol YPF, S.A.	Spain	REP	NYSE	December 31 2010	EUR
Rio Tinto Limited and Rio Tinto plc[3]	Australia and United Kingdom, respectively	RTP	NYSE	December 31 2010	USD
Roche Holding Ltd	Switzerland	ROG	SIX	December 31 2010	CHF
The Royal Bank of Scotland Group plc	United Kingdom	RBS	NYSE	December 31 2010	GBP
Royal Dutch Shell plc	United Kingdom	RDSB	NYSE	December 31 2010	USD
Ryanair Holdings plc	Ireland	RYAAY	NASDAQ	March 31 2010	EUR
sanofi-aventis	France	SNY	NYSE	December 31 2010	EUR
SAP AG	Germany	SAP	NYSE	December 31 2010	EUR
Sappi Limited	South Africa	SPP	NYSE	September 30 2010	USD
Sasini Limited	Kenya	SNSI	NSE	September 30 2010	KES
Sasol Limited	South Africa	SSL	NYSE	June 30 2010	ZAR[5]
Seven Arts Pictures Plc	United Kingdom	SAPX	NASDAQ	June 30 2010	USD
Siemens Aktiengesellschaft	Germany	SI	NYSE	September 30 2010	EUR
Silver Fern Farms Limited	New Zealand	SFF	Unlisted	September 30 2010	NZD

(continued)

TABLE 1-1: GENERAL INFORMATION ABOUT SURVEY ENTITIES (*continued*)

Entity Name	Country of Incorporation	Ticker	Stock Exchange[1]	Fiscal Year End	Presentation Currency[2]
Sims Metal Management Limited	Australia	SMS	NYSE	June 30 2010	AUD
Smith & Nephew plc	United Kingdom	SNN	NYSE	December 31 2010	USD
SouthGobi Resources Ltd.	Canada	SGQ	TSX-V	December 31 2010	USD
Stagecoach Group plc	United Kingdom	SGC	NYSE	April 30 2010	GBP
Sterlite Industries (India) Limited	India	SLT	NYSE	March 31 2010	INR
Straumann Holding AG	Switzerland	STMN	SIX	December 31 2010	CHF
Subsea 7 S.A. (formerly, Acergy S.A.)	Luxembourg	ACGY	NASDAQ	November 30 2010	USD
Swiss Life Holding Ltd	Switzerland	SLHN	SIX	December 31 2010	CHF
Swisscom Ltd	Switzerland	SCMN	SIX	December 31 2010	CHF
Syngenta AG	Switzerland	SYT	NYSE	December 31 2010	USD
TAM S.A.	Brazil	TAM	NYSE	December 31 2010	BRL
Taylor Wimpey plc	United Kingdom	TW	LSE	December 31 2010	GBP
Technicolor SA	France	TCLRY	Euronext	December 31 2010	EUR
Telecom Corporation of New Zealand Limited	New Zealand	NZT	NYSE	June 30 2010	NZD
Telecom Italia S.p.A.	Italy	TI	NYSE	December 31 2010	EUR
Telefónica S.A.	Spain	TEF	NYSE	December 31 2010	EUR
Tenaris S.A.	Luxembourg	TS	NYSE	December 31 2010	USD
Ternium S.A.	Luxembourg	TX	NYSE	December 31 2010	USD
Thomson Reuters Corporation	Canada	TRI	NYSE	December 31 2010	USD
TOTAL S.A.	France	TOT	NYSE	December 31 2010	EUR
Tourism Holdings Limited	New Zealand	THL	NZX	June 30 2010	NZD
Travis Perkins plc	United Kingdom	TPK	LSE	December 31 2010	GBP
Trencor Limited	South Africa	TRE	JSE	December 31 2010	ZAR
Trinity Biotech plc	Ireland	TRIB	NASDAQ	December 31 2010	USD
Turkcell Iletisim Hizmetleri AS	Turkey	TKC	NYSE	December 31 2010	USD
U308 Corp.	Canada	UWE	TSX-V	December 31 2010	CAD
UBS AG	Switzerland	UBS	NYSE	December 31 2010	CHF
Ultra Electronics Holdings plc	United Kingdom	ULE	LSE	December 31 2010	GBP
Unilever N.V. and Unilever plc[3]	The Netherlands and United Kingdom, respectively	UN/UL	NYSE	December 31 2010	EUR
Veolia Environnement	France	VE	NYSE	December 31 2010	EUR
Vina Concha y Toro S.A.	Chile	VCO	NYSE	December 31 2010	CLP
Vodafone Group plc	United Kingdom	VOD	NASDAQ	March 31 2010	GBP
WPP plc	United Kingdom	WPPGY	NASDAQ	December 31 2010	GBP
Yanzhou Coal Mining Company Limited	China	YZC	NYSE	December 31 2010	CNY

(1) All but one (1) of the survey entities are listed on stock exchanges. Silver Fern Farms is a cooperative owned by livestock producers. For ease of use, this table uses a code to identify a stock exchange that is either the acronym used by that particular exchange on its website or the common acronym in the International Standards Organization (ISO) market identifier code list. The name of the stock exchange corresponding to the code in this table and the unique market identifier code assigned by the ISP is shown in Table 1-4.

(2) Currency codes used in this table are those established by the International Organization for Standardization:

AED: UAE Dirham
ARS: Argentine Peso
AUD: Australian Dollar
BRL: Brazilian Real
CAD: Canadian Dollar
CHF: Swiss Franc
CLP: Chilean Peso
CNY: Chinese Yuan Renminbi (may also be denoted as RMB)
DKK: Danish Krone
EUR: Euro
GBP: British Pound Sterling
HKD: Hong Kong Dollar
HUF: Hungarian Forint
ILS: New Israeli Sheqel (or Shekel) (may also be denoted as NIS)
INR: Indian Rupee
KES: Kenyan Shilling
KZT: Tenge
NZD: New Zealand Dollar
RUB: Russian Ruble
USD: US Dollar
ZAR: South African Rand
ZWL: Zimbabwe Dollar

(3) These entities are dual listed. A dual listed entity is a corporate structure in which two listed entities, each with its own shareholders, share one set of assets and liabilities, results of operations, management and other governance structure. The risks and rewards are shared in proportions laid out in an equalization agreement. These entities issued one set of financial statements applicable to shareholders of both listed entities. See Table 1-5 below.

(4) 52- or 53-week annual fiscal period.

(5) These survey entities provide convenience translations of their financial statements into U.S. dollars.

TABLE 1-2: CLASSIFICATION OF SURVEY ENTITIES BY INDUSTRY(1)

Industry	2010	2009	2008
Aerospace & Defense	1	1	3
Agriculture	5	3	0
Airline	7	6	3
Apparel & Accessories	1	0	0
Automotive	1	1	1
Banking	13	13	6
Beverage	6	4	2
Broadcasting & Cable TV	1	1	1
Building Products	3	3	2
Business Services	1	2	2
Candy	2	2	0
Chemicals	4	6	2
Construction	2	1	1
Consumer Electronics	2	2	1
Entertainment	1	1	0
Food	3	3	2
Forest Products	0	1	1
Holding Company	1	2	0
Household Cleaners	0	1	1
Industrial Machinery	6	4	2
Insurance	5	5	5
Medical Devices & Diagnostics	4	5	2
Metals	5	4	2
Mining	17	15	8
Oil & Gas	9	10	6
Online Services	1	1	1
Paper & Packaging	1	1	1
Pharmaceuticals	9	9	7
Portable Computers	1	1	1
Printing & Publishing	3	3	2
Professional & Management Services	0	1	0
Railways	0	1	1
Real Estate	5	4	2
Retailing – Non-Food	2	2	1
Securities	4	2	1
Semiconductors	1	2	2
Software	2	2	1
Supermarkets	0	1	1
Telecom Equipment	1	2	2
Telecommunications	20	18	17
Transportation	9	7	32
Travel & Leisure	4	2	2
Utilities	7	4	3
Total	**170**	**160**	**100**

(1) The industry classification of the survey entities is determined by the author based on a number of considerations, including a review of the entities' annual reports, regulatory filings and company profiles available on www.alacrastore.com and www.corporateinformation.com. AlacraStore.com is a service of Alacra, Inc., a leading global provider of business and financial information and proprietary solutions that enable clients to quickly find, analyze, package and present mission-critical business information. CorporateInformation.com is a premier provider of value-added corporate and industry information for competitive analysis and research, and is a service of Wright Investors' Service. Certain reclassifications have been made to the prior year's data for comparison purposes.

TABLE 1-3: SURVEY ENTITIES' COUNTRY OF INCORPORATION

	2010	2009	2008
Bermuda	3	1	0
Canada	12	8	0
Cayman Islands(1)	0	1	1
Commonwealth of Australia (Australia)	6	6	3
Federal Republic of Germany	6	6	6
Federative Republic of Brazil	5	4	0
French Republic (France)	8	8	8
Grand-Duchy of Luxembourg (Luxembourg)	6	5	4
Hong Kong, China	3	2	1
Independent State of Papua New Guinea (Papua New Guinea)	1	1	1
Italian Republic (Italy)	3	2	1
Kingdom of Belgium (Belgium)	1	1	1
Kingdom of Denmark (Denmark)	3	2	2
Kingdom of Spain (Spain)	2	2	2
New Zealand	3	3	1
Portuguese Republic (Portugal)	1	1	1
Republic of Argentina	1	0	0
Republic of Chile	6	2	0
Republic of Finland (Finland)	1	1	1
Republic of Hungary (Hungary)	1	1	1
Republic of India (India)	1	0	0
Republic of Ireland (Ireland)	4	4	3
Republic of Kazakhstan (Kazakhstan)	3	2	0
Republic of Kenya (Kenya)	3	1	0
Republic of South Africa (South Africa)	6	9	3
Republic of the Marshall Islands	1	1	0
Republic of Panama (Panama)	1	0	0
Republic of the Philippines	1	0	0
Republic of Turkey (Turkey)	1	1	1
Republic of Zimbabwe	0	1	0
Romania	0	1	0
Russian Federation (Russia)	1	1	1
State of Israel (Israel)	3	4	1
Swiss Confederation (Switzerland)	21	23	3
The Netherlands	2	3	6
The People's Republic of China (China)	7	6	2
United Arab Emirates	3	2	0
United Kingdom of Great Britain and Northern Ireland	36	39	42
Dual Listed Companies(2)	5	5	4
Total	**170**	**160**	**100**

(1) Cayman Islands is a non-self governing British overseas territory.

(2) The five (5) dual listed entities listings are as follows:

1. United Kingdom and Australia: BHP Billiton plc and BHP Billiton Limited
2. United Kingdom and South Africa: Mondi plc and Mondi Limited
3. United Kingdom and The Netherlands: Reed Elsevier plc and Reed Elsevier N.V.
4. United Kingdom and Australia: Rio Tinto plc and Rio Tinto Limited
5. United Kingdom and The Netherlands: Unilever plc and Unilever N.V.

TABLE 1-4: STOCK EXCHANGES ON WHICH SURVEY ENTITIES WERE LISTED AS OF DECEMBER 31, 2010

Exchange	ISO Market Identifier Code	Country	2010	2009	2008
Abu Dhabi Securities Market (ADX)	XASE	United Arab Emirates	3	2	0
Australian Securities Exchange (ASX)	XASX	Australia	5	4	1
BM&FBOVESPA S.A. - Bolsa De Valores, Mercadorias E Futuros (BVMF)	BVMF	Brazil	1	1	0
NYSE Euronext – Euronext: Paris, Paris	XPAR	France	1	1	0
Frankfurt Stock Exchange (DAX)	XFRA	Germany	2	0	0
JSE Securities Exchange Limited (JSE)	XJSE	South Africa	4	6	0
Kazakhstan Stock Exchange (KASE)	XKAZ	Kazakhstan	2	2	0
London Stock Exchange (LSE)	XLON	United Kingdom	20	19	23
Nairobi Stock Exchange (NSE)	XNAI	Kenya	3	1	0
NASDAQ Stock Market (NASDAQ)	XNMS	United States	16	15	9
New York Stock Exchange (NYSE)	XNYS	United States	84	78	67
New Zealand Exchange Limited (NZX)	XNZE	New Zealand	1	1	0
SIX Swiss Exchange (SIX)	XVTX	Switzerland	18	20	0
Toronto Stock Exchange (TSX)	XTSE	Canada	5	4	0
TSX Venture Exchange (TSX-V)	XTSX	Canada	4	3	0
Zimbabwe Stock Exchange (ZSE)	XZIM	Zimbabwe	0	1	0
Unlisted (See Table 1-1)			1	2	0
Total			**170**	**160**	**100**

TABLE 1-5: SURVEY ENTITIES' MONTH OF FISCAL YEAR END

	2010	2009	2008
January	1	1	1
February	0	0	0
March	8	9	6
April	2	1	1
May	1	2	1
June	11	9	5
July	1	1	0
August	4	5	0
September	5	3	2
October	0	0	0
November	1	1	0
December	133	124	79
52–53 week annual fiscal period	3	4	5
Total	**170**	**160**	**100**

TABLE 1-6: SURVEY ENTITIES' AUDIT FIRMS

	2010	2009	2008
KPMG	37	37	16
Deloitte	44	40	29
Ernst & Young	27	20	14
PricewaterhouseCoopers	44	44	27
Grant Thornton	3	3	3
BDO	1	1	0
Audited by two audit firms	8	11	9
Other audit firms	6	4	2
Total	**170**	**160**	**100**

THE CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING

IAS 1, *PRESENTATION OF FINANCIAL STATEMENTS*

IAS 8, *ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS*

Author's Note

The International Accounting Standards Board (IASB) is currently in the process of updating its conceptual framework in stages. As a chapter is finalized, revised paragraphs will replace the relevant paragraphs in the *Framework for the Preparation and Presentation of Financial Statements* (1989). In September 2010, the IASB issued *The Conceptual Framework for Financial Reporting* (IFRS *Conceptual Framework)*, which includes the first two chapters published as a result of phase 1 of this project:

- Chapter 1 *The Objective of Financial Reporting*
- Chapter 3 *Qualitative Characteristics of Useful Financial Information*

Chapter 2, which is not included the document published in 2010, will address the reporting entity concept and the IASB published an exposure draft on this topic in March 2010 with a comment period ending July 2010. Chapter 4 contains the remaining text of the old *Framework* (1989). However, references to the *Framework* (1989) in individual standards have not been revised except that footnotes are provided in individual standards identifying changes. For example, paragraph 25 in IAS 8 was superseded by Chapter 3 of the IFRS *Conceptual Framework.*

IFRSs Overview and Comparison to U.S. GAAP

1.01 In September 2010, the IASB issued the IFRS *Conceptual Framework*, which supersedes the *Framework for the Preparation and Presentation of Financial Statements.* The IFRS *Conceptual Framework* establishes the concepts that underlie the preparation and presentation of financial statements for external users. Together with the IFRS *Conceptual Framework*, International Accounting Standard (IAS) 1, *Presentation of Financial Statements*, and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, describe the guidance of International Financial Reporting Standards (IFRSs) with respect to the necessary characteristics and elements of financial statements; definitions of *assets*, *liabilities*, *equity*, *revenue and income*; *expenses*; and the general criteria for their recognition.

1.02 The IFRS *Conceptual Framework* establishes the following objective of general purpose financial reporting in accordance with IFRSs:

> To provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors (financial statement users) in making decisions about providing resources to the entity.

1.03 In making these decisions, such users need information to help them assess the entity's prospects for net cash inflows. This information includes information about the entity's resources, claims against the entity, and how efficiently and effectively the entity's management and governing board of the entity have discharged their responsibilities to use the entity's resources. The IFRS *Conceptual Framework* explains that general purpose financial statements are not designed to show the value of the entity, but to provide information that permits financial statement users to estimate the value of the entity. However, financial statement users would be expected to incorporate information from other sources into this process. Other parties, such as regulators and the general public, may find general purpose financial statements useful, but such statements are not primarily directed to these parties. The IFRS *Conceptual Framework* identifies the following types of information as providing useful information for decisions about providing resources to the entity:

- Economic resources and claims to help assess the entity's financial strengths and weaknesses
- Changes in economic resources and claims to help distinguish changes resulting from financial performance and those from other transactions and events
- Financial performance reflected by accrual accounting to provide a better basis for assessing an entity's past and future performance than only information about cash receipts and payments during the period
- Financial performance reflected by past cash flows to help assess the entity's ability to generate future net cash inflows
- Changes in economic resources and claims not resulting from financial performance to help in understanding the reasons for the change and implications for the entity's future financial performance

1.04 The IFRS *Conceptual Framework* distinguishes between fundamental and enhancing qualitative characteristics:

- The fundamental qualitative characteristics of useful financial information are relevance and faithful representation. Information must have both characteristics to be useful:
  - —*Relevance*. Relevant financial information is capable of making a difference in users' decisions. This capability is not dependent on whether users make use of the information or whether they were aware of the information from other sources. To make a difference in decisions, information should have predictive value, confirmatory value, or both. Financial information has predictive value if it can be used to predict future outcomes and has confirmatory value if it provides feedback about previous evaluation. The IFRS *Conceptual Framework* considers *materiality* to be a component of relevance and is defined as influencing decisions about a specific reporting entity if omitted or misstated. Therefore, an entity assesses materiality based on the nature of the information,

its magnitude, or both, in the context of the entity's financial report.
 — *Faithful representation*. Useful financial information not only represents relevant phenomena, but also faithfully represents the phenomena it purports to represent. A perfectly faithful representation would be complete, neutral, and free from error. Although the IFRS *Conceptual Framework* recognizes that perfection is rarely achieved, the objective is that an entity should maximize these qualities to the extent possible.
- The enhancing qualitative characteristics are comparability, verifiability, timeliness, and understandability:
 — *Comparability* helps users to identify and understand similarities and differences among items. Consistency in the use of the same methods for the same items, either in the same period entities or across periods for a single entity, although related to comparability, is not the same. Consistency helps an entity to provide comparable information.
 — *Verifiability* helps users assess whether information faithfully represents the economic phenomena it purports to represent. Verification can be direct (for example, through observation) or indirect (for example, checking inputs to a model). Disclosures that allow verification include underlying assumptions, methods of compiling information, and other factors and circumstances that support the information.
 — *Timeliness* means that the information is available in time to be capable of influencing users' decisions. Some information may continue to be timely after the end of a reporting period (for example, when it helps identify trends).
 — *Understandability* means that information is classified, characterized, and presented clearly and concisely. Although some economic phenomena may be complex and inherently difficult to understand, omitting information about these phenomena would make the financial report incomplete and, therefore, potentially misleading.

1.05 In discussing these characteristics, however, the IFRS *Conceptual Framework* recognizes a cost constraint on useful financial reporting. Therefore, in seeking information about whether the benefits of reporting particular information justify the costs incurred in providing and using it, the IASB considers costs and benefits generally and not just in relation to individual reporting entities.

1.06 The IFRS *Conceptual Framework* presumes that when an entity applies the aforementioned qualitative characteristics and the appropriate IFRSs, an entity's financial statements will convey a fair presentation, or true and fair view, of its financial position and performance. Therefore, although the IFRS *Conceptual Framework* is not an accounting standard and does not create recognition, measurement, or disclosure requirements or override the requirements of any standard, an entity cannot ignore it. IAS 8 requires entities to consider the IFRS *Conceptual Framework* when evaluating an accounting issue not specifically addressed in IFRSs.

Author's Note

See the discussion of IAS 8 under "Recognition and Measurement."

Recognition and Measurement

IFRSs

1.07 The IFRS *Conceptual Framework* defines the elements of financial position: assets, liabilities, and equity. An *asset* is a resource controlled by the entity as a result of past events from which future economic benefits are expected to flow to the entity. A *liability* is a present obligation as a result of past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. *Equity* is the residual interest in the assets of the entity after deducting all liabilities (net assets).

1.08 The IFRS *Conceptual Framework* defines the elements of performance: income and expenses. *Income* is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases in liabilities that result in increases in equity, other than those related to contributions by equity participants. *Expenses* are decreases in economic benefits during the accounting period in the form of outflows or depletion of assets or incurrence of liabilities that result in decreases in equity, other than those related to distributions to equity participants. An entity should only use the term *revenue* to refer to income from ordinary business activities. An entity may use the terms *income* and *expense* to refer to elements from both ordinary business activities and other activities of the entity.

1.09 The IFRS *Conceptual Framework* also describes general recognition criteria, which is frequently reiterated in IFRSs, that prescribe the accounting for particular financial statement elements. An entity should recognize an element of the financial statements if the following two criteria are met:
- It is probable (that is, more likely than not) that any future economic benefit associated with the element will flow to or from the entity (probability criteria).
- The cost or value of the item can be measured reliably (measurement reliability criteria).

Even if an element fails the recognition criteria, an entity may still need to disclose information about the element in the notes.

1.10 IAS 1 establishes the basis for presentation by an entity of general purpose financial statements to ensure comparability with those of other entities and with its own statements from period to period. IAS 1 requires an entity to include the following statements and supplemental information in a complete set of financial statements:
- Statement of financial position
- Statement of comprehensive income
- Statement of cash flows
- Statement of changes in equity
- Note disclosures

1.11 IAS 1 establishes acceptable formats for the financial statements and their minimum content and line items, the details of which are included among the various sections herein. IAS 1 also requires that each financial statement be presented with the same prominence in a complete set of financial statements.

1.12 An entity should make an explicit, unreserved statement of compliance with IFRSs. However, IAS 1 provides that in extremely rare circumstances, an entity can rebut the

presumption that compliance with every IFRS results in a fair presentation and can deviate from an IFRS requirement only when compliance would be so misleading that it would conflict with the objectives of financial statements in the IFRS *Conceptual Framework*. In these circumstances only, an entity should deviate from an IFRS requirement, unless prohibited by its regulatory authority. This deviation is generally referred to as the *true and fair view override*.

1.13 IAS 1 also requires management to assess whether the entity is a going concern, to prepare its financial statements on that basis, and to use the accrual basis of accounting, except for cash flow information.

1.14 IAS 8 establishes the criteria for selecting and changing an accounting policy and the treatment and disclosure of changes in policy (whether voluntary or mandatory), changes in accounting estimates, and corrections of errors in the financial statements of prior periods.

1.15 Among other definitions, IAS 8 includes the following:

Accounting policy. A specific principle, basis, convention, rule, or practice that an entity applies in its financial statements.

Change in accounting estimate. An adjustment of the carrying amount of an asset or liability or the amount of the periodic consumption of an asset that results from a current assessment about the present status or future economic benefits of an asset. Because this change results from new information, it is not an error.

Prior period errors. Omissions or misstatements in the entity's financial statements in one or more prior periods from misuse or failure to use reliable information that either was available or the entity could reasonably have been expected to obtain and taken into account in preparing the financial statements.

Material. Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of financial statements. An entity should judge materiality based on the nature and size of the omission or misstatement and surrounding circumstances, either alone or in combination.

Impracticable. When the entity cannot apply a requirement of a standard or interpretation even after making every reasonable attempt to do so. IAS 8 provides additional specific guidance for entities in determining whether retrospective application of a change in accounting policy is impracticable.

1.16 IAS 8 requires an entity to determine its accounting policy for a particular issue by applying all relevant IFRSs. In the absence of a relevant IFRS, an entity should use its judgment to develop and use an accounting policy that provides relevant and reliable information, as defined by the qualitative characteristics described in the IFRS *Conceptual Framework*. In making the judgment previously described, IAS 1 requires an entity to refer to and consider the following sources of guidance in IAS 8 in descending order:

- Requirements in IFRSs dealing with similar and related issues
- The definitions, recognition criteria, and measurement concepts for assets, income, and expenses in the IFRS *Conceptual Framework*

An entity may also consider the most recent pronouncements of other standard setters that have a similar conceptual framework, other accounting literature, and accepted industry practices, but only to the extent that these do not conflict with either IFRSs or the IFRS *Conceptual Framework*.

Author's Note

The requirement previously described is generally referred to as the *IFRS hierarchy*.

1.17 IAS 8 requires an entity to apply accounting policies consistently to similar events and circumstances unless a specific IFRS requires or permits categorization of items for which different policies would be appropriate. In the latter case, an entity should apply an accounting policy consistently to each category. IAS 8 permits an entity that is not adopting IFRSs for the first time to change its accounting policy only in one of the following two circumstances:

- IFRSs require a change in policy.
- The new policy provides reliable and more relevant information.

1.18 IAS 8 does not consider an entity's application of a different policy to be a change in accounting policy when the new policy is applied to transactions or events that are substantively different from those occurring before, that did not occur before, or that are immaterial.

1.19 When permitted or required to change an accounting policy, an entity should apply the new policy retrospectively or in accordance with any applicable transitional provisions of an IFRS, except to the extent that it is impracticable to determine the period-specific or cumulative effects of the change. Retrospective application requires the entity to restate its financial statements as if it had always applied the new policy. In addition to restating the relevant assets or liabilities, the entity should adjust the opening balance of each affected component of equity for the earliest period presented. When retrospective application is impracticable for period-specific effects, the entity should apply the new policy retrospectively to the earliest period practicable. When retrospective application is impracticable for the cumulative effect, the entity should apply the new policy prospectively from the earliest period practicable.

1.20 Except to the extent that a change in accounting estimate affects the carrying amounts of assets or liabilities, IAS 8 requires an entity to recognize a change in estimate prospectively by recognizing it in profit or loss in the period of change or future periods, to the extent the change relates to those periods respectively. When the change affects the carrying amount of an asset or liability, the entity should adjust the carrying amount in the period of change. For example, when an entity determines there is a change in the expected pattern of consumption of future benefits over an asset's useful life, it should change its depreciation method to reflect that pattern and treat the change as a change in accounting estimate. An entity will recognize the effects of this change in the amount of depreciation expense recognized both in the current period and in future periods.

1.21 IAS 8 considers a change in measurement basis to be a change in accounting policy, not a change in accounting estimate. However, IAS 8 requires an entity that initially applies a policy of revaluation to applicable assets, either in accordance with IAS 16, *Property, Plant and Equipment*, or IAS 38, *Intangible Assets*, to treat the change from cost to revalued amount as a revaluation in accordance with those

standards. When it is difficult to distinguish a change in policy from a change in estimate, an entity should account for the change as a change in estimate.

1.22 With respect to prior period errors, an entity should correct any material errors by retrospective restatement, unless impracticable, in the first set of financial statements authorized for issue after it detects the error by restating

- the comparative amounts for the prior periods affected, when the error occurred during the period covered by the statements or
- the opening affected balance sheet line items of the earliest period presented, when the error occurred prior to the period covered by the statements.

1.23 Retrospective restatement corrects the amounts of financial statement elements as if the error had not occurred. Similar to the impracticability exception for retrospective application, an impracticability exception can apply to an entity's ability to determine both period-specific and cumulative effects. When retrospective restatement is impracticable for period-specific effects, the entity should retrospectively restate in the earliest period for which restatement is practicable. For a cumulative effect, the entity should restate prospectively from the earliest possible date.

U.S. GAAP

1.24 Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 105-10-05 explains that if the necessary guidance for a transaction or event is not specified within a source of authoritative U.S. generally accepted accounting principles (GAAP), an entity should first consider accounting principles for similar transactions or events within a source of authoritative U.S. GAAP for that entity and then consider nonauthoritative guidance from other sources. When those accounting principles either prohibit the application of the accounting treatment to the particular transaction or event or indicate that the accounting treatment should not be applied by analogy, an entity should not follow those accounting principles. Unlike IFRSs, the concept statements are not considered authoritative sources of U.S. GAAP, and FASB ASC does not give preference to the concept statements over other nonauthoritative sources. FASB ASC does not state that consistency with the concept statements in connection with an entity's application of an accounting treatment is necessary. The following items are examples of sources of nonauthoritative accounting and financial reporting practices identified in FASB ASC:

- Practices that are widely recognized and prevalent either generally or in the industry
- FASB Concepts Statements
- AICPA issues papers
- IFRSs
- Pronouncements of professional associations or regulatory agencies
- Technical Information Service Inquiries and Replies included in AICPA *Technical Practice Aids*
- Accounting textbooks, handbooks, and articles (such as *IFRS Accounting Trends & Techniques*).

Author's Note

The AICPA *Code of Professional Conduct and Bylaws* has been revised to recognize the IASB in London as an accounting body for purposes of establishing IFRSs, thus granting AICPA members the option to use IFRSs, including *International Financial Reporting Standard for Small and Medium-sized Entities* (*IFRS for SMEs*), as an alternative to FASB ASC, as applicable. As defined in the standard, *SMEs* are entities that do not have public accountability and publish general purpose financial statements for external users. Therefore, *IFRS for SMEs* is not applicable to Securities and Exchange Commission (SEC) registrants.

1.25 As discussed in FASB ASC 105-10-05-1, unlike IFRSs, U.S. GAAP, as codified in FASB ASC, includes the rules and interpretive releases of the SEC as sources of authoritative GAAP as a convenience to SEC registrants. In addition to SEC rules and interpretive releases, the SEC staff issues Staff Accounting Bulletins that represent practices that the staff follows when administering SEC disclosure requirements. SEC staff announcements and observer comments made at meetings of the Emerging Issues Task Force publicly announce the staff's views on certain accounting issues for SEC registrants.

Author's Note

SEC rules and interpretative releases may expand, modify, or decrease accounting and disclosure requirements for foreign private issuers, regardless of whether they file their annual financial statements with the SEC in Form 10-K, Form 20-F, or Form 40-F (Canadian issuers). Therefore, it is critical to consider SEC requirements, as well as those of FASB ASC, when reviewing the financial statements of SEC registrants. A general reference to FASB ASC in this publication does not include the SEC materials. When requirements are taken from an SEC rule or regulation, that rule or regulation will be cited directly. A reference to U.S. GAAP should be read to include both FASB ASC and SEC requirements.

1.26 Like IFRSs, FASB ASC 250-10-45-1 includes the presumption that, once adopted, an entity should not change an accounting principle (policy) to account for events and transactions of a similar type. Like IFRSs, FASB ASC 250-10-45-2 permits an entity to change an accounting principle in certain circumstances, such as when required to do so by new authoritative accounting guidance that mandates the use of a new accounting principle, interprets an existing principle, expresses a preference for an accounting principle, or rejects a specific principle. Similar to IFRSs, this paragraph also permits an entity to change an accounting principle if it can justify the use of an allowable alternative accounting principle on the basis that it is preferable. However, unlike IFRSs, FASB ASC does not define a preferable policy and, therefore, does not constrain the choice to one that is more relevant to the users of the financial statements.

1.27 Like IFRSs, FASB ASC 250-10-45-1 does not consider the following to be changes in accounting principle:

- Initial adoption of an accounting principle for new events or transactions

- Initial adoption of an accounting principle for new events or transactions that previously were immaterial in their effect
- Adoption or modification of an accounting principle for substantively different transactions or events from those occurring previously

1.28 Like IFRSs, FASB ASC 250-10-45-5 requires an entity to apply a change in accounting principle retrospectively to all prior periods, unless it is impracticable to do so. Like IFRSs, retrospective application requires cumulative adjustments to the carrying amounts of assets and liabilities at the beginning of the earliest period presented; an adjustment, if any, to the opening balance of retained earnings or other relevant equity account; and adjusted financial statements for each individual prior period presented to reflect the period-specific effects of applying the new accounting principle. FASB ASC 250-10-45-7 provides similar guidance to that in IAS 8 when the impracticability exception applies to period-specific effects or to all periods. However, unlike IFRSs, FASB ASC 250-10-45-8 permits only direct effects of the change to be included in the retrospective adjustment and prohibits an entity from including indirect effects that would have been recognized if the newly adopted accounting principle had been followed in prior periods. An entity should only report indirect effects in the period in which the accounting change is made. In contrast, IFRSs require an entity to adjust the financial statements as if it had always applied the new policy and do not distinguish between the direct and indirect effects of the change.

1.29 Like IFRSs, FASB ASC 250-10-45-17 requires an entity to account for a change in accounting estimate prospectively in the period of change if the change affects that period only or in the period of change and future periods if the change affects both.

1.30 Like IFRSs, paragraphs 18–19 of FASB ASC 250-10-45 recognize that it may be difficult to distinguish between a change in an accounting principle and a change in an accounting estimate. Unlike IFRSs, FASB ASC 250-10-45-18 provides additional guidance for those circumstances when an entity's change in estimate is affected by a change in accounting principle, recognizing that the effect of a change in accounting principle or the method of applying it may be inseparable from the effect of the change in accounting estimate. An example of such change is a change in the method of depreciation, amortization, or depletion for long-lived nonfinancial assets. FASB ASC 250-10-45-19 permits an entity to apply this change prospectively as a change in accounting estimate. The paragraph further states that an entity should only make a change in accounting estimate affected by a change in accounting principle if the entity can justify the new accounting principle on the basis that it is preferable.

1.31 Like IFRSs, paragraphs 23–24 of FASB ASC 250-10-45 require an entity to correct any error in the financial statements of a prior period discovered after the financial statements are issued or available to be issued by restating the prior period financial statements. These paragraphs in FASB ASC require such errors to be reported as an error correction by restating the prior-period financial statements retrospectively with adjustments to the financial statements similar to those required by IFRSs. Unlike IFRSs, FASB ASC 250-10-45 does not provide an impracticability exception related to a correction of an error as FASB ASC 250-10-45-7 addresses with a change in accounting principle.

Presentation

IFRSs

1.32 IAS 1 requires an entity to include, at a minimum, a complete set of prior year comparative financial statements with the financial statements of the current year. When applying a change in an accounting policy retrospectively or making a retrospective restatement for an error correction, the entity should also provide a statement of financial position as of the beginning of the earliest period presented. Individual IFRSs may also require comparative note disclosures.

1.33 IAS 1 requires an entity to present fairly its financial position, financial performance, and cash flows and describes fair presentation in terms of faithful representation in accordance with the definitions and recognition criteria in the IFRS *Conceptual Framework*. An entity should presume that application of all requirements of IFRSs, with additional disclosure when necessary, provides a fair presentation.

1.34 IAS 1 requires an entity to separately present each material class of similar items and to separately present items that are dissimilar by nature or function, unless they are immaterial. An entity should not offset assets and liabilities or income and expense items, unless specifically required or permitted by an IFRS. However, when not material, IAS 1 permits an entity to display gains or losses from similar transactions on a net basis in the statement of comprehensive income.

1.35 IAS 1 requires an entity to present and classify financial statement items consistently, unless the entity finds it apparent that a different presentation or classification is more appropriate or IFRSs require a change in presentation.

U.S. GAAP

1.36 Unlike IFRSs, FASB ASC 205-10-45-2 states only that it is ordinarily desirable for an entity to present the statement of financial position; the income statement; and the statement of changes in equity for one or more preceding years, in addition to those of the current year.

1.37 Like IFRSs, however, Rule 3-01(a) of SEC Regulation S-X requires SEC registrants to present one-year comparative statements of financial position (that is, the current year and prior year). Unlike IFRSs, Rule 3-02(a) of SEC Regulation S-X requires an entity to present two-year comparative income statements and cash flow statements (that is, the current year and the two years immediately preceding the current year). Like IFRSs, paragraphs 3–4 of FASB ASC 205-10-45 require these statements to be comparable and include specific guidance for various changes (for example, changes in accounting principle). An entity is required to repeat, or at least refer to, any notes to financial statements, other explanations, or accountants' reports that contain qualifications for prior years that appeared in the comparative statements when originally issued, to the extent this information remains significant. Multiple rules set forth in SEC Regulation S-X provide guidance to SEC registrants on the form and ordering of financial statements, presentation of amounts, omission of certain items, and requirements for supplemental schedules.

1.38 Unlike IFRSs, FASB ASC 250-10 does not require an entity to present an opening balance sheet of the earliest period presented when an entity retrospectively applies a change in accounting policy or restates to correct an error. FASB ASC 205-10-50-1 only requires an entity to provide an explanation of changes due to reclassifications or for other reasons that affect the manner of, or basis for, presenting corresponding items for two or more periods.

1.39 Like IFRSs, FASB ASC 210-20 permits an entity to offset a liability with an asset only when certain conditions are met. These conditions are similar, but not identical, to those in IFRSs. See section 8, "Financial Instruments and Related Disclosures," for further discussion on offsetting arrangements.

Disclosure

IFRSs

1.40 When an entity applies the true and fair view override in IAS 1, it should disclose the following information:

- Management concludes that the financial statements provide a fair presentation of financial position, financial performance, and cash flows.
- Management has complied with all of the requirements of IFRSs, except for the relevant IFRSs from which it deviated to achieve fair presentation.

The entity should also disclose the title of the relevant IFRSs from which it deviated, the nature of the deviation, an explanation of why the financial statements would be so misleading as to conflict with the objectives in the IFRS *Conceptual Framework* if it complied with the IFRS requirement, and the treatment adopted. In addition, the entity should disclose the financial effect of the deviation on each affected financial statement line item that would have been reported if the entity had complied with the IFRS. When the entity invoked the true and fair view override in a prior period and the current period statements are affected, it should make the same disclosures as required in the period of the deviation.

1.41 When a regulatory authority prohibits an entity from invoking the true and fair view override, it should, to the extent possible, disclose the following information:

- The title of the IFRS in question, the nature of the requirement, and the reason why management concludes that applying the requirement is so misleading that the financial statements conflict with the objectives in the IFRS *Conceptual Framework*.
- For each period presented, the adjustments to each affected financial statement line item that would be necessary to achieve fair presentation.

1.42 When management is aware of material uncertainties that cast doubt on the entity's ability to continue as a going concern, it should disclose those uncertainties. If the entity has not prepared its financial statements on a going concern basis, it should disclose that fact, the basis on which the statements are prepared, and the reason it is not considered a going concern.

1.43 When an entity changes its reporting year and presents financial statements for a period longer or shorter than one year, it should disclose the reason for the longer or shorter period and the fact that the amounts in the financial statements are not entirely comparable.

1.44 With respect to comparative information, an entity should provide comparative note disclosures, unless IFRSs permit or require otherwise. An entity should also include comparative relevant narrative and descriptive information. When an entity changes the classification of financial statement line items, it should reclassify comparative amounts, unless impracticable. The entity should also disclose the nature of, amount of, and reason for each reclassification by item or class of items. When it is impracticable to reclassify comparative period amounts, it should disclose the reason it was impracticable and the nature of the necessary reclassification adjustments.

1.45 IAS 1 establishes a structure for the note disclosures and requires an entity to provide notes that present information about the basis for preparation of its financial statements and disclose information not presented elsewhere in the financial statements, either because the information is required by another IFRS or is relevant to an understanding of its financial statements. An entity should present the note disclosures in a systematic way and cross-reference each line item in the financial statements to its related note(s). IAS 1 suggests that a useful organization of the notes would be for the entity to start with the required statement of compliance and accounting policies, followed by notes related to financial statement line items, and ending with notes related to off-balance sheet information (such as commitments and contingencies) and any nonfinancial disclosures they provide.

1.46 IAS 1 permits an entity to disclose the basis of preparation and discuss its accounting policies in a section separate from the other note disclosures.

Author's Note

Several survey companies provide accounting policy disclosures in a separate unnumbered section, which are so noted when included in an excerpt.

1.47 In the accounting policy disclosure, IAS 1 requires an entity to disclose the measurement basis (or bases) it uses and any other policy relevant to an understanding of how transactions, events, and conditions are reflected in its financial statements. An entity should also disclose, either in its accounting policy or another note, information about its judgments and decisions that affected the financial statements. The required disclosures take two forms:

- Judgments, other than those involving estimation, that could significantly affect the amounts recognized in the financial statements (for example, classification of financial instruments or whether all risks and rewards have been transferred when financial or leased assets are transferred to another entity)
- Sources of estimation uncertainty that could significantly affect the carrying amounts of assets and liabilities and result in a material adjustment to those amounts within the next fiscal year (for example, fair values of financial instruments and estimated uncollectible receivables)

With respect to sources of estimation uncertainty, an entity should disclose the nature of the uncertainty and the carrying amount at the end of the reporting period of the related asset or liability.

1.48 IAS 1 requires an entity to disclose qualitative and summary quantitative information about its objectives, policies,

and processes for managing its capital. For example, an entity should disclose a description of what constitutes its capital, whether it is subject to externally imposed capital requirements, and how it is meeting its own and externally imposed objectives for managing capital.

1.49 If not disclosed elsewhere, an entity should also disclose similar information about puttable financial instruments that it classifies as equity, including summary quantitative information, its objectives and policies for managing the obligation to repurchase or redeem these instruments, the expected cash outflow on repurchase or redemption, and information about how it determined the expected cash outflow.

1.50 IAS 1 requires an entity to disclose any unrecognized dividends, in total and per share, proposed or declared before the financial statements were authorized for issuance and any unrecognized cumulative preference share dividends.

1.51 If not disclosed elsewhere in the document that includes the financial statements, IAS 1 requires an entity to disclose its domicile and legal form; country of incorporation; and the address of its registered office or principal places of business, if different. An entity should describe the nature of its operations and principal activities, the name of its parent and the ultimate parent of the group to which it belongs, and information about the length of its life if it is an entity with a limited life.

1.52 In the period of the change in accounting policy, IAS 8 requires the following disclosures for changes in accounting policy:

- The nature of the change in accounting policy
- To the extent practicable and for all periods presented, the amount of any adjustments to each affected financial statement line item and, when earnings per share are presented, the effect on basic and diluted earnings per share
- To the extent practicable, the amount of the adjustment related to periods prior to those presented
- If retrospective application was impracticable for a particular prior period or for periods prior to those presented, the circumstances leading to the impracticability and a description of how and when the entity applied the change in policy

1.53 When an IFRS requires an entity to change its accounting policy, the entity should also disclose the title of the relevant IFRS, a description of any available transitional provisions, whether the transitional provisions were applied, and whether there will be any effect from such provisions in future periods. When an entity changes an accounting policy voluntarily, it should also disclose the reasons why the change is reliable and more relevant than its previous policy.

1.54 When a new IFRS has been issued but is not yet effective, an entity should disclose this fact and include the title of the IFRS, the effective date, and the nature of the pending change in policy. An entity should also disclose the date it expects to apply the new IFRS and discuss any known or reasonably estimable information about the expected impact on its financial statements or provide a statement to the effect that the impact is unknown.

1.55 With respect to a change in accounting estimate, an entity should disclose the nature and amount of the change in the current period and, unless impracticable, an estimate of the effect of the change in future periods. In the latter case, an entity should disclose that it was impracticable to estimate the future effect.

1.56 With respect to a prior-period error correction, an entity should disclose the nature of the error and the amount of the correction in the earliest prior period presented. To the extent practicable, an entity should disclose the amount of the error attributable to each prior period presented for each affected financial statement line item and, if earnings per share is presented, the effect on basic and diluted earnings per share. When retrospective restatement is impracticable for particular prior periods or all periods prior to those presented, the entity should disclose the circumstances leading to impracticability and provide a description of how and when the entity corrected the error. IAS 8 does not require these disclosures to be included in subsequent financial statements.

U.S. GAAP

1.57 Unlike IFRSs, FASB ASC does not contain an exception to achieve fair presentation comparable to the true and fair view override in IAS 1.

1.58 Unlike IFRSs, FASB ASC does not currently contain disclosure requirements when there is uncertainty regarding whether the entity will continue as a going concern.

Author's Note

Based on the FASB technical plan as of January 2011, the Going Concern project has now been renamed Disclosures about Risks and Uncertainties and the Liquidation Basis of Accounting. FASB originally undertook this project to determine what analysis management should make and the required disclosures in financial statements about risks and uncertainties that cast doubt about an entity's ability to continue as a going concern. FASB decided to broaden the scope of this project to address (*a*) concerns about the ability of users of financial statements to understand such risks and uncertainties and (*b*) the ability of the entity to meet its obligations when they become due. In addition, FASB decided to provide guidance on the liquidation basis of accounting at the request of constituents.

FASB has not specified a timeline for the release of exposure documents.

1.59 Like IFRSs, FASB ASC 205-10-50-1 requires an entity to explain any changes in the manner or basis of presentation of financial statement items, whether because of reclassifications or for other reasons.

1.60 Like IFRSs, FASB ASC 235-10-05 requires disclosure of an entity's accounting policies. Unlike IFRSs, guidance on the specific nature of such disclosures is not contained in a specific standard but dispersed throughout FASB ASC.

Author's Note

Accounting policy disclosure requirements under IFRSs are similar to disclosure requirements of critical accounting estimates or policies disclosed by SEC registrants. However, unlike IFRSs, which requires entities to present such information in note disclosures within the financial statements, SEC registrants generally disclose such information outside the financial

statements within management's discussion and analysis (MD&A), in accordance with the SEC Interpretation *Commission Guidance Regarding Management's Discussion and Analysis of Financial Condition and Results of Operations* issued in 2003. This guidance was intended to elicit more meaningful disclosure in MD&A in a number of areas, including the overall presentation and focus of MD&A, with general emphasis on the discussion and analysis of known trends, demands, commitments, events and uncertainties, and specific guidance on disclosures about liquidity, capital resources, and critical accounting estimates.

1.61 Like IFRSs, FASB ASC 275-10-05-2 requires an entity to disclose information about the risks and uncertainties existing as of the date of its financial statements. These requirements are similar in some respects, but not identical, to those required by IAS 1. In accordance with FASB ASC 275-10-50-1, an entity should disclose risks and uncertainties existing as of the date of the financial statements related to the nature of operations, the use of estimates in the preparation of the financial statements, certain significant estimates, and current vulnerability due to certain concentrations. Although both FASB ASC and IFRSs require an entity to disclose risks and uncertainties related to an entity's nature of operations, FASB ASC 275-10-50 provides a more detailed discussion of the type of information that must be disclosed, including an explicit explanation that the preparation of financial statements in conformity with U.S. GAAP requires the use of management's estimates, and criteria for assessing vulnerability due to certain concentrations, as well as the types of concentrations requiring disclosure and their specific disclosure requirements. FASB ASC 275-10-50 also includes more implementation guidance and illustrations than IFRSs.

1.62 Unlike IFRSs, FASB ASC does not include a specific requirement to disclose cash dividends declared after the balance sheet date. Like IFRSs, FASB ASC 505-10-50-5 requires disclosure of the aggregate or per-share amounts at which preferred stock may be called or is subject to redemption through sinking-fund operations or otherwise and the aggregate and per-share amounts of arrearages in cumulative preferred dividends.

Author's Note

See the discussion of adjustments to earnings per share disclosures due to stock dividends and stock splits declared after the balance sheet date in paragraph 1.124.

1.63 Like IFRSs, FASB ASC 505-10-50-11 requires an entity that issues redeemable stock to disclose the amount of redemption requirements, separately by issue or combined, for all issues of capital stock that are redeemable at fixed or determinable prices on fixed or determinable dates in each of the five years following the date of the latest statement of financial position presented.

1.64 With respect to a change in accounting principle, FASB ASC 250-10-50-1 requires an entity to disclose similar information to that required by IFRSs, such as the nature of the change, the method of applying the change, and similar disclosure requirements when retrospective application is impractical. However, unlike IFRSs, FASB ASC does not make a distinction between mandated and voluntary changes in accounting policy. Like IFRSs, FASB ASC 250-10-50-1 does not require an entity to repeat disclosures related to a change in accounting principle in the financial statements of subsequent periods. However, unlike IFRSs, if the change has no material effect in the period of change but is reasonably certain to have a material effect in later periods, an entity should provide the required disclosures whenever the financial statements of the period of change are presented.

Author's Note

IFRSs only require an entity to explain why a voluntary change in accounting policy provides reliable and more relevant information, On the other hand, FASB ASC 250-10-50-1 requires the entity to provide an explanation of why a change in accounting policy is preferable, even when an Accounting Standards Update (ASU) mandates the change.

1.65 Because FASB ASC 250-10-50-1 requires an entity to account for indirect effects of a change in accounting principle differently than direct effects, when an entity recognizes such effects, it should disclose a description of the indirect effects, including the amounts that have been recognized in the current period and the related per share amounts, if applicable. Unless impracticable, the entity should also disclose the amount of the total recognized indirect effects and the related per share amounts, if applicable, that are attributable to each prior period presented. IFRSs make no such distinction between disclosures required for direct or indirect effects of a change in accounting policy.

1.66 Unlike IFRSs, FASB ASC does not require an entity to identify and discuss updates to the authoritative literature and the potential impact on the financial statements. However, SEC *Codification of Staff Accounting Bulletins* topic 11(M), "Miscellaneous Disclosure—Disclosure of the Impact That Recently Issued Accounting Standards Will Have on the Financial Statements of the Registrant When Adopted in a Future Period," states that registrants who have not yet adopted a newly issued accounting standard should discuss the potential effects of adoption in registration statements and reports filed with the SEC. The SEC staff believes that recently issued accounting standards may constitute material matters; therefore, disclosure in the financial statements should also be considered in situations in which the change to the new accounting standard will be accounted for in financial statements of future periods. This guidance does not require disclosure of the new standard if the entity does not expect the impact on the company's financial position and results of operations to be material. However, it is preferable for the entity to make a statement that the impact of the new standard is not material.

1.67 With respect to changes in accounting estimates and changes in accounting estimates affected by a change in accounting principle, FASB ASC 250-10-50-4 requires an entity to disclose the effect on income from continuing operations, net income (or other performance indicator), and any related per share amounts of the current period. However, unlike IFRSs, FASB ASC does not require this disclosure for estimates made each period in the ordinary course of accounting for items such as uncollectible accounts or inventory obsolescence, unless there has been a change in the estimate and the effect of the change is material. FASB ASC 250-10-50-5 also does not require disclosure of changes in an estimate resulting from a change in a valuation technique or

its application. IFRSs do not include comparable exemptions from disclosure.

1.68 Unlike IFRSs, FASB ASC 250-10-50 does not require disclosure of a future effect of a change in accounting estimate; hence, disclosure is not required when it is impracticable to estimate it.

1.69 With respect to error corrections, like IFRSs, paragraphs 7 and 10 of FASB ASC 250-10-50 require an entity to disclose the nature of the error, the fact that the financial statements have been restated, the effect of the correction on each financial statement line item and any per share amounts presented for each prior period presented, and the cumulative effect of the change on the opening balances of retained earnings or other equity accounts for the earliest period presented. Like IFRSs, FASB ASC does not require an entity to include this disclosure in the financial statements of subsequent periods. Unlike IFRSs, FASB ASC does not include an impracticability exemption from retrospective correction of an error.

TABLE 1-7: MANAGEMENT JUDGMENTS AND CRITICAL ACCOUNTING ESTIMATES

	2010	2009
Allowance for uncollectible receivables	49	42
Asset retirement obligations and other environmental liabilities	29	26
Biological assets	6	4
Business combinations	30	31
Capitalization of development costs	13	12
Classification of financial instruments	8	8
Consolidations, including special purpose entities	10	9
Derecognition of financial assets	3	2
Derivatives and hedging	23	25
Liability and equity components of hybrid financial instruments	3	3
Mineral and oil and gas resources and reserves	13	11
Functional currency	6	3
Going concern	6	5
Impairment of financial assets	2	40
Impairment of goodwill and other intangible assets	81	119
Impairment of property, plant and equipment	128	71
Income statement presentation	43	3
Insurance contracts and claims	14	14
Inventories	26	23
Operating segments	2	2
Post employment and other employee benefits	82	77
Provisions and contingent liabilities	70	67
Residual values and useful lives of property, plant and equipment, intangibles, and natural resources	67	58
Revaluation of property, plant and equipment	7	4
Revenue recognition	48	45
Share-based payments	33	33
Taxation	116	111
Valuation of financial instruments at fair value	39	35
Valuation of investment property at fair value	22	20
Survey companies with additional judgments or estimates	70	60
Total	**1049**	**963**

Presentation and Disclosure Excerpts

Author's Note

Some disclosure requirements of IAS 1 and IAS 8 only apply when an entity makes a change in the way it presents its financial statements or otherwise is not in compliance with the underlying principles of financial reporting established by IAS 1 and the IFRS *Conceptual Framework*. Generally, these requirements are not relevant for the survey companies. Therefore, this section does not include excerpts of all items requiring disclosure (for example, statements not prepared on a going concern basis.)

Comprehensive IAS 1 and IAS 8 Disclosures

1.70

Author's Note

The Thomson Reuters disclosure excerpt that follows includes examples of the following disclosures:

- General information about the entity (name, legal form)
- Statement of compliance with IFRSs
- Basis of preparation
- Measurement bases
- Principles of consolidation
- Accounting policies and any changes thereto
- Use of estimates and judgments, risks and uncertainties
- Discussion of issued but not yet effective IFRSs

Thomson Reuters Corporation (Dec 2010)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

(Unless otherwise stated, all amounts are in millions of U.S. dollars)

Note 1: Summary of Business and Significant Accounting Policies

General Business Description

Thomson Reuters Corporation (the "Company" or "Thomson Reuters") is an Ontario, Canada corporation with common shares listed on the Toronto Stock Exchange ("TSX") and the New York Stock Exchange ("NYSE") and Series II preference shares listed on the TSX. The Company provides intelligent information to businesses and professionals. Its offerings combine industry expertise with innovative technology to deliver critical information to decision makers.

These financial statements were approved by the Company's board of directors on March 2, 2011.

Basis of Preparation

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), on a going concern basis, under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through the income statement.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

Pronouncements Effective Prospectively From January 1, 2010

IAS 21, The Effects of Changes in Foreign Exchange Rates

Effective January 1, 2010, the Company adopted an amendment to International Accounting Standard ("IAS") 21, *The Effects of Changes in Foreign Exchange Rates* as a consequential amendment of IAS 27 (2008), *Consolidated and Separate Financial Statements*. The amendment requires that accumulated foreign exchange differences are reclassified from equity to the income statement upon loss of control, significant influence or joint control of an entity. Additionally, the amendment provides guidance on the reclassification of accumulated foreign exchange differences to the income statement when a partial disposal of an interest in a foreign entity occurs. As a result of this new guidance, the Company no longer reclassifies accumulated foreign exchange differences from equity to the income statement upon settlement of intercompany loan balances when there is no change in the Company's ownership interest in the subsidiary.

IFRS 3 (Revised), Business Combinations

Effective January 1, 2010, the Company adopted IFRS 3 (Revised), *Business Combinations*. Most significantly, the revised standard requires:

- directly attributable transaction costs be expensed rather than included in the acquisition purchase price;
- contingent consideration accounted for as a financial liability be measured at fair value on the acquisition date, with subsequent changes in the fair value recorded through the income statement; and
- that upon gaining control in a step acquisition, an entity re-measures its existing ownership interest to fair value through the income statement.

During 2010, the Company expensed $26 million of directly attributable transaction costs related to various acquisitions and recorded an $18 million gain in connection with gaining control in a step acquisition. See note 28 for details of the Tradeweb transaction.

Principles of Consolidation

The financial statements of the Company include the accounts of all of its subsidiaries.

Subsidiaries

Subsidiaries are entities over which the Company has control, where control is defined as the power to govern financial and operating policies. Generally, the Company has a shareholding of more than 50% of the voting rights in its subsidiaries. The effect of potential voting rights that are currently exercisable are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date control is transferred to the Company, and are de-consolidated from the date control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries as follows:

- cost is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, excluding transaction costs which are expensed as incurred;
- identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date;
- the excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill;
- if the acquisition cost is less than the fair value of the net assets acquired, the fair value of the net assets is re-assessed and any remaining difference is recognized directly in the income statement;
- contingent consideration is measured at fair value on the acquisition date, with subsequent changes in the fair value recorded through the income statement when the contingent consideration is a financial liability. Contingent consideration is not re-measured when it is an equity instrument. For acquisitions completed prior to January 1, 2010, subsequent changes in the fair value of contingent consideration are adjusted against goodwill; and
- upon gaining control in a step acquisition, the existing ownership interest is re-measured to fair value through the income statement.

Intercompany transactions between subsidiaries are eliminated in consolidation. Transactions with non-controlling interests are treated as transactions with equity owners of the Company. For purchases from non-controlling interests, the difference between the consideration paid and the share of the carrying value of net assets acquired is recorded in equity. Gains or losses on disposals to non-controlling interests are similarly computed and also recorded in equity.

Equity Method Investees

Equity method investees are entities over which the Company has significant influence, but not control. Generally, the Company has a shareholding of between 20% and 50% of the voting rights in its equity method investees. Investments in equity method investees are accounted for using the equity method as follows:

- investments are initially recognized at cost;
- equity method investees include goodwill identified on acquisition, net of any accumulated impairment loss;
- the Company's share of post-acquisition profits or losses is recognized in the income statement and is adjusted against the carrying amount of the investments;
- when the Company's share of losses equals or exceeds its interest in the investee, including unsecured receivables, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the investee; and

- gains on transactions between the Company and its equity method investees are eliminated to the extent of the Company's interest in these entities, and losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Joint Ventures

Joint ventures are entities over which the Company has joint control with one or more unaffiliated entities. Joint ventures are accounted for using the proportionate consolidation method as follows:

- the statement of financial position includes the Company's share of the assets that it controls jointly and the liabilities for which it is jointly responsible;
- the income statement includes the Company's share of the income and expenses of the jointly controlled entity; and
- gains on transactions between the Company and its joint ventures are eliminated to the extent of the Company's interest in the joint ventures and losses are eliminated, unless the transaction provides evidence of an impairment of the asset transferred.

The accounting policies of subsidiaries, equity method investees and joint ventures were changed where necessary to ensure consistency with the policies adopted by the Company.

Operating Segments

The Company's operating segments are organized around the markets it serves and are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The Chief Executive Officer has authority for resource allocation and assessment of the Company's performance and is therefore the CODM.

Foreign Currency

The consolidated financial statements are presented in U.S. dollars, which is the Company's presentation currency.

The financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the "functional currency"). Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions as well as from the translation of monetary assets and liabilities not denominated in the functional currency of the subsidiary, are recognized in the income statement, except for qualifying cash flow hedges which are deferred in accumulated other comprehensive income in shareholders' equity.

Assets and liabilities of entities with functional currencies other than U.S. dollars are translated to U.S. dollars at the period end rates of exchange, and the results of their operations are translated at average rates of exchange for the period. The resulting translation adjustments are included in accumulated other comprehensive income in shareholders' equity. Additionally, foreign exchange gains and losses related to certain intercompany loans that are permanent in nature are included in accumulated other comprehensive income.

Foreign exchange gains and losses arising from the following are presented in the income statement within "finance costs, net":

- borrowings;
- cash and cash equivalents;
- intercompany loans that are not permanent in nature; and
- settlement of intercompany loans previously considered permanent in nature upon loss of control, significant influence or joint control of the applicable entity.

All other foreign exchange gains and losses are presented in the income statement within "Operating expenses."

References to "$" are to U.S. dollars, references to "C$" are to Canadian dollars, and references to "£" are to British pounds sterling.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable, net of estimated returns and discounts, and after eliminating intercompany sales. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from the rendering of services is recognized when the following criteria are met:

- the amount of revenue can be measured reliably;
- the stage of completion can be measured reliably;
- the receipt of economic benefits is probable; and
- costs incurred and to be incurred can be measured reliably.

Revenue from the sale of goods is recognized when the following criteria are met:

- the risks and rewards of ownership, including managerial involvement, have transferred to the buyer;
- the amount of revenue can be measured reliably;
- the receipt of economic benefits is probable; and
- costs incurred or to be incurred can be measured reliably.

In addition to the above general principles, the Company applies the following specific revenue recognition policies:

Subscription-Based Products, Including Software Term Licenses

Subscription revenues from sales of products and services that are delivered under a contract over a period of time are recognized on a straight-line basis over the term of the subscription. Where applicable, usage fees above a base period fee are recognized as services are delivered. Subscription revenue received or receivable in advance of the delivery of services or publications is included in deferred revenue.

Multiple Component Arrangements

When a single sales transaction requires the delivery of more than one product or service (multiple components), the revenue recognition criteria are applied to the separately identifiable components. A component is considered to be separately identifiable if the product or service delivered has stand-alone value to that customer and the fair value associated with the product or service can be measured reliably. The amount recognized as revenue for each component is the fair value of the element in relation to the fair value of the arrangement as a whole.

Installation or Implementation Services

Certain arrangements include installation or implementation services. Consulting revenues from these arrangements are accounted for separately from software or subscription revenue if the services have stand-alone value to that customer and the amount attributed to the services can be measured reliably. If the services do not qualify for separate accounting, they are recognized together with the related software or subscription revenue.

Sales Involving Third Parties

Revenue from sales of third party vendor products or services is recorded net of costs when the Company is acting as an agent between the customer and vendor and recorded gross when the Company is a principal to the transaction.

Other Service Contracts

For service or consulting arrangements, revenues are recognized as services are performed, generally based on hours incurred relative to total hours expected to be incurred.

Employee Future Benefits

For defined benefit pension plans and other post-employment benefits, the net periodic pension expense is actuarially determined on an annual basis by independent actuaries using the projected unit credit method. The determination of benefit expense requires assumptions such as the expected return on assets available to fund pension obligations, the discount rate to measure obligations, expected mortality, the expected rate of future compensation and the expected healthcare cost trend rate. For the purpose of calculating the expected return on plan assets, the assets are valued at fair value. Actual results will differ from results which are estimated based on assumptions. The vested portion of past service cost arising from plan amendments is recognized immediately in the income statement. The unvested portion is amortized on a straight-line basis over the average remaining period until the benefits become vested.

The asset or liability recognized in the statement of financial position is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past service costs. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. All actuarial gains and losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are recognized immediately in retained earnings and included in the statement of comprehensive income. For funded plans, surpluses are recognized only to the extent that the surplus is considered recoverable. Recoverability is primarily based on the extent to which the Company can unilaterally reduce future contributions to the plan.

Payments to defined contribution plans are expensed as incurred, which is as the related employee service is rendered.

Share-Based Compensation Plans

The Company operates a number of equity-settled and cash-settled share-based compensation plans under which it receives services from employees as consideration for equity instruments of the Company or cash payments.

For equity-settled share-based compensation, expense is based on the grant date fair value of the awards expected to vest over the vesting period. For cash-settled share-based compensation, the expense is determined based on the fair value of the liability at the end of the reporting period until the award is settled. The expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are satisfied. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period. At the end of each reporting period, the Company re-assesses its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions in the income statement.

In 2010, the Company revised its accounting for withholding taxes on share-based compensation plans, which the Company settles from its own cash. Previously, the entire value of share-based awards related to time-based restricted share units (TRSUs), performance restricted share units (PRSUs) and stock options was accounted for as an equity-settled award. Accordingly, compensation expense was recognized over the vesting period based on the grant date fair value. Under the revised accounting, the portion of the award relating to withholding tax is treated as cash-settled, which results in a liability which is marked to market through the income statement each period. The Company assessed the materiality of this change and concluded that the revision was not material to the current period nor to any prior annual or interim period.

The cumulative effect of this change on the Company's consolidated financial statements as at and for the year December 31, 2010 was as follows:

	Increase (Decrease)
Operating expenses	13[1]
Net earnings	(7)
Equity	(89)
Total liabilities	96

[1] Comprised of an $18 million increase for fair value changes during 2010 and a $5 million decrease for periods prior to 2010.

Termination Benefits

Termination benefits are generally payable when employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without realistic possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Profit Sharing and Bonus Plans

Liabilities for bonuses and profit-sharing are recognized based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Company recognizes a provision where contractually obliged or where there is a past practice that has

created a constructive obligation to make such compensation payments.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and investments with an original maturity at the date of purchase of three months or less.

Trade Receivables

Trade receivables are amounts due from customers from providing services or sale of goods in the ordinary course of business. Trade receivables are classified as current assets if payment is due within one year or less. Trade receivables are recognized initially at fair value and subsequently measured at amortized cost, less impairment.

The Company maintains an allowance for doubtful accounts and sales adjustments to provide for impairment of trade receivables. The expense relating to doubtful accounts is included within "Operating expenses" in the income statement. Revenues are recorded net of sales adjustments.

Computer Hardware and Other Property

Computer hardware and other property are recorded at cost and depreciated on a straight-line basis over their estimated useful lives as follows:

Computer hardware	3–5 years
Buildings and building improvements	5–40 years
Furniture, fixtures and equipment	3–10 years

Residual values and useful lives are reviewed at the end of each reporting period and adjusted if appropriate.

Intangible Assets

Computer Software

Certain costs incurred in connection with the development of software to be used internally or for providing services to customers are capitalized once a project has progressed beyond a conceptual, preliminary stage to that of application development. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognized as intangible assets when the following criteria are met:

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

Costs that qualify for capitalization include both internal and external costs, but are limited to those that are directly related to the specific project. The capitalized amounts, net of accumulated amortization, are included in "Computer software, net" in the statement of financial position. These costs are amortized over their expected useful lives, which range from 3 to 10 years. The amortization expense is included in "Amortization of computer software" in the income statement. Residual values and useful lives are reviewed at the end of each reporting period and adjusted if appropriate.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the identifiable net assets of the acquired subsidiary or equity method investee at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Other Identifiable Intangible Assets

Upon acquisition, identifiable intangible assets are recorded at fair value and are carried at cost less accumulated amortization.

Identifiable intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives as follows:

Trade names	2–27 years
Customer relationships	2–40 years
Databases and content	2–30 years
Other	2–30 years

Residual values and useful lives are reviewed at the end of each reporting period and adjusted if appropriate.

Impairment

Impairments are recorded when the recoverable amount of assets are less than their carrying amounts. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. Impairment losses, other than those relating to goodwill, are evaluated for potential reversals when events or changes in circumstances warrant such consideration.

Intangible Assets

The carrying values of all intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Additionally, the carrying values of identifiable intangible assets with indefinite lives and goodwill are tested annually for impairment. Specifically:

- Trade names with indefinite useful lives are subject to an annual impairment assessment. For purposes of impairment testing, the fair value of trade names is determined using an income approach, specifically the relief from royalties method.
- For the purpose of impairment testing, goodwill is allocated to cash-generating units ("CGU") based on the level at which management monitors it, which is not higher than an operating segment. Goodwill is allocated to those CGUs that are expected to benefit from the business combination in which the goodwill arose.

Non-Financial Assets

The carrying values of non-financial assets with finite lives, such as computer hardware and software, are assessed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. In addition, long-lived assets that are not amortized, such as equity investments, are subject to annual or more frequent impairment assessment. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Disposal of Long-Lived Assets and Discontinued Operations

Long-lived assets are classified as held for sale if the carrying amount will be recovered principally through a sale transaction rather than through continued use and such sale is considered highly probable. The criteria for classification as held for sale include a firm decision by management or the board of directors to dispose of a business or a group of selected assets and the expectation that such disposal will be completed within a 12 month period. Assets held for sale are measured at the lower of their carrying amounts or their fair value less costs to sell and are no longer depreciated. Assets held for sale are classified as discontinued operations if the operations and cash flows can be clearly distinguished, operationally and for financial reporting purposes from the rest of the Company and they:

- represent a separate major line of business or geographical area of operations;
- are part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- are a subsidiary acquired exclusively with a view to resale.

Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. Trade payables are recognized initially at fair value and subsequently measured at amortized cost, and are classified as current liabilities if payment is due within one year or less.

Provisions

Provisions represent liabilities to the Company for which the amount or timing is uncertain. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expected expenditures to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Indebtedness

Debt is recognized initially at fair value, net of transaction costs incurred. Debt is subsequently stated at amortized cost with any difference between the proceeds (net of transactions costs) and the redemption value recognized in the income statement over the term of the debt using the effective interest method. Where a debt instrument is in a fair value hedging relationship, a fair value adjustment is made to its carrying value to reflect hedged risk. Interest on indebtedness is expensed as incurred unless capitalized for qualifying assets in accordance with IAS 23, Borrowing Costs.

Debt is classified as a current liability unless the Company has an unconditional right to defer settlement for at least 12 months after the end of the reporting period.

Leases

Leases are classified as either operating or finance, based on the substance of the transaction at inception of the lease. Classification is re-assessed if the terms of the lease are changed.

Operating Lease

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

Finance Lease

Leases in which substantially all the risks and rewards of ownership are transferred to the Company are classified as finance leases. Assets meeting finance lease criteria are capitalized at the lower of the present value of the related lease payments or the fair value of the leased asset at the inception of the lease. Minimum lease payments are apportioned between the finance charge and the liability. The finance charge 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.

Financial Assets

Purchases and sales of financial assets are recognized on the settlement date, which is the date on which the asset is delivered to or by the Company. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or were transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets are classified in the following categories at the time of initial recognition based on the purpose for which the financial assets were acquired:

Financial Assets at Fair Value Through the Income Statement

- **Classification** Financial assets are classified as fair value through the income statement if acquired principally for the purpose of selling in the short-term, such as financial assets held for trading, or if so designated by management. Assets in this category principally include embedded derivatives and derivatives which do not qualify for hedge accounting.
- **Recognition and measurement** Financial assets carried at fair value through the income statement are initially recognized, and subsequently carried, at fair value, with changes recognized in the income statement. Transaction costs are expensed.

Loans and Receivables

- **Classification** Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. Assets in this category include "trade and other receivables" and "cash and cash equivalents" and are classified as current assets in the statement of financial position.
- **Recognition and measurement** Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method.

Available-for-Sale Financial Assets

- **Classification** Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in other non-current financial assets unless management intends to dispose of the investment within 12 months of the end of the reporting period. Included within this category are investments in entities over which the Company does not have control, joint control or significant influence.
- **Recognition and measurement** Investments are initially recognized at fair value plus transaction costs and are subsequently carried at fair value with changes recognized in other comprehensive income. Upon sale or impairment, the accumulated fair value adjustments recognized in other comprehensive income are included in the income statement.

Impairment of Financial Assets

At the end of each reporting period, the Company assesses whether there is objective evidence that a financial asset is impaired. Impairments are measured as the excess of the carrying amount over the fair value and are recognized in the income statement.

Derivative Financial Instruments and Hedging

Derivatives are initially recognized at fair value on the date a contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged.

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Non-performance risk, including the Company's own credit risk, is considered when determining the fair value of financial instruments.

The Company designates certain derivatives as either:

- **Fair value hedges** These are hedges of the fair value of recognized assets, liabilities or a firm commitment. Changes in the fair value of derivatives that are designated as fair value hedges are recorded in the income statement together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.
- **Cash flow hedges** These are hedges of highly probable forecast transactions. The effective portion of changes in the fair value of derivatives that are designated as a cash flow hedge is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the income statement. Additionally:
  —amounts accumulated in other comprehensive income are recycled to the income statement in the period when the hedged item will affect profit and loss (for instance, when the forecast sale that is hedged takes place);
  —when a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss in other comprehensive income remains in other comprehensive income and is recognized when the forecast transaction is ultimately recognized in the income statement; and
  —when a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately recognized in the income statement.

Derivatives That Do Not Qualify for Hedge Accounting

Certain derivative instruments, while providing effective economic hedges, are not designated as hedges for accounting purposes. Changes in the fair value of any derivatives that are not designated as hedges for accounting purposes are recognized within "Other finance costs" (see note 7) or "Operating expenses" (see note 5) in the income statement consistent with the underlying nature and purpose of the derivative instruments.

Embedded Derivatives

An embedded derivative is a feature within a contract, where the cash flows associated with that feature behave in a similar fashion to a stand-alone derivative. The Company has embedded foreign currency derivatives in certain revenue and purchase contracts where the currency of the contract is different from the functional or local currencies of the parties involved. These derivatives are accounted for as separate instruments and are measured at fair value at the end of the reporting period using forward exchange market rates. Changes in their fair values are recognized within "Operating expenses" in the income statement.

Taxation

Tax expense comprises current and deferred tax. Tax is recognized in the income statement except to the extent it relates to items recognized in other comprehensive income or directly in equity.

Current Tax

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting

period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred Tax

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the statement of financial position. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred Tax Liabilities:

- are generally recognized for all taxable temporary differences;
- are recognized for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future; and
- are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred Tax Assets:

- are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; and
- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination.

Note 2: Critical Accounting Estimates and Judgments

The preparation of financial statements requires management to make estimates and judgments about the future. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. The following discussion sets forth management's:

- most critical estimates and assumptions in determining the value of assets and liabilities; and
- most critical judgments in applying accounting policies.

Critical Accounting Estimates and Assumptions

Allowance for Doubtful Accounts and Sales Adjustments

The Company must make an assessment of whether accounts receivable are collectible from customers. Accordingly, management establishes an allowance for estimated losses arising from non-payment and other sales adjustments, taking into consideration customer creditworthiness, current economic trends and past experience. If future collections differ from estimates, future earnings would be affected. At December 31, 2010, the combined allowances were $134 million, or 7%, of the gross trade accounts receivable balance of approximately $1.9 billion. An increase to the reserve based on 1% of accounts receivable would have decreased pre-tax earnings by approximately $19 million for the year ended December 31, 2010.

Computer Software

Computer software represented approximately $1.6 billion of total assets on the consolidated statement of financial position at December 31, 2010. A significant portion of ongoing expenditures relate to software that is developed as part of electronic databases, delivery systems and internal infrastructures, and, to a lesser extent, software sold directly to customers. As part of the software development process, management must estimate the expected period of benefit over which capitalized costs should be amortized. The considerations which form the basis of the assumptions for these estimated useful lives include the timing of technological obsolescence and competitive pressures, as well as historical experience and internal business plans for the projected use of the software. Due to rapidly changing technology and the uncertainty of the software development process itself, future results could be affected if management's current assessment of its software projects differs from actual performance.

Other Identifiable Intangible Assets and Goodwill

Other identifiable intangible assets and goodwill represented approximately $27.6 billion of total assets on the consolidated statement of financial position at December 31, 2010. These assets arise out of business combinations. In 2010, the Company spent $612 million in net cash consideration on acquisitions. Additionally, acquisitions included an exchange of equity interests involving the Company's Tradeweb business (see note 28). These transactions were accounted for under the acquisition method of accounting, which involves the allocation of the cost of an acquisition to the underlying net assets acquired based on their respective estimated fair values. As part of this allocation process, the Company must identify and attribute values and estimated lives to the intangible assets acquired. These determinations involve significant estimates and assumptions regarding cash flow projections, economic risk and weighted cost of capital.

These estimates and assumptions determine the amount allocated to other identifiable intangible assets and goodwill, as well as the amortization period for identifiable intangible assets with finite lives. If future events or results differ adversely from these estimates and assumptions, the Company could record increased amortization or impairment charges in the future.

See note 18 for a discussion of the annual impairment testing of goodwill.

Employee Future Benefits

The Company sponsors defined benefit plans providing pension and other post-employment benefits to covered employees. The determination of expense and obligations associated with employee future benefits requires the use of assumptions such as the expected return on assets available to fund pension obligations, the discount rate to measure obligations, the expected mortality, the expected rate of future

compensation and the expected healthcare cost trend rate. Because the determination of the cost and obligations associated with employee future benefits requires the use of various assumptions, there is measurement uncertainty inherent in the actuarial valuation process. Actual results will differ from results which are estimated based on assumptions.

See note 26 for further details including an estimate of the impact on the financial statements from changes in the most critical assumptions.

Income Taxes

The Company computes an income tax provision in each of the jurisdictions in which it operates. However, actual amounts of income tax expense only become final upon filing and acceptance of the tax return by the relevant authorities, which occur subsequent to the issuance of the financial statements. Additionally, estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions before they expire against future taxable income. The assessment is based upon existing tax laws and estimates of future taxable income. To the extent estimates differ from the final tax return, earnings would be affected in a subsequent period.

In interim periods, the income tax provision is based on estimates of full-year earnings by jurisdiction. The average annual effective income tax rates are re-estimated at each interim reporting date. To the extent that forecasts differ from actual results, adjustments are recorded in subsequent periods.

The Company's 2010 effective tax rate was 13% of earnings from continuing operations before tax. A 1% increase in the effective tax rate would have increased 2010 income tax expense by approximately $11 million.

Critical Judgments in Applying Accounting Policies

Revenue Recognition

As described in note 1, the Company assesses the criteria for the recognition of revenue related to arrangements that have multiple components. These assessments require judgment by management to determine if there are separately identifiable components as well as how to allocate the total price among the components. Deliverables are accounted for as separately identifiable components if they can be understood without reference to the series of transactions as a whole. In concluding whether components are separately identifiable, management considers the transaction from the customer's perspective. Among other factors, management assesses whether the service or good is sold separately by the Company in the normal course of business or whether the customer could purchase the service or good separately. With respect to the allocation of price among components, management uses its judgment to assign a fair value to each component. As evidence of fair value, management looks to such items as the price for the component when sold separately, renewal rates for specific components and prices for a similar product sold separately.

Uncertain Tax Positions

The Company is subject to taxation in numerous jurisdictions. There are many transactions and calculations during the course of business for which the ultimate tax determination is uncertain. The Company maintains provisions for uncertain tax positions that it believes appropriately reflect its risk. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date, liabilities in excess of the Company's provisions could result from audits by, or litigation with, the IRS or other relevant taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Note 3: Recent Accounting Pronouncements

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning January 1, 2011 or later periods. The standards impacted that are applicable to the Company are as follows:

- IFRS 3—Business Combinations;
- IFRS 7—Financial Instruments: Disclosures;
- IAS 1—Presentation of Financial Statements;
- IAS 24—Related Party Disclosures;
- IAS 27—Consolidated and Separate Financial Statements; and
- IAS 34—Interim Financial Reporting.

The Company does not anticipate that any of these changes will have a material impact on its results of operations or financial position.

In addition to the above, the IASB has issued IFRS 9—*Financial Instruments (Classification and Measurement)*, which is mandatory for accounting periods beginning January 1, 2013. The Company is assessing the impact of IFRS 9 on its results of operations and financial position.

General Information, Regulatory Environment

1.71

Companhia de Saneamento Basico de Estado do Sao Paolo—SABESP (Dec 2010)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Amounts in thousands of reais, unless otherwise indicated.

1. Operations

Companhia de Saneamento Básico do Estado de São Paulo ("SABESP" or the "Company") is a mixed-capital company headquartered in São Paulo, controlled by the São Paulo State Government. The Company is engaged in the provision of basic and environmental sanitation services, supplies treated water on a wholesale basis and provides sewage treatment services to six other municipalities in the Greater São Paulo Metropolitan Area.

In addition to providing basic sanitation services in the State of São Paulo, SABESP may perform these activities in other states and countries, and can operate in drainage, urban cleaning, solid waste handling and energy markets.

The objective set in the new vision of SABESP is to be recognized as the company that ensured universal access to water and sewage services in its marketplace, focused on the customer, and in a sustainable and competitive manner, with excellence in environmental solutions.

On December 31, 2010, the company operates water and sewage services in 364 of municipalities of the State of São Paulo, having temporarily discontinued operations in five of these municipalities, Itapira, Araçoiaba da Serra, Iperó, Cajobi and Tarumã, due to judicial orders under ongoing lawsuits. Most of these municipalities operations are based on 30-year concession agreements. As of December 31, 2010, 119 concessions had expired and are being negotiated. From 2011 to 2030, 44 concessions will expire, and the remaining concessions operate on rollover basis. These concessions with indefinite terms and expired concessions under negotiation are amortized over the useful lives of the underlying assets. By December 31, 2010, 201 concession program contracts were signed (2009-174 concession program contracts). In February 2011 the Company restarted the operation in the municipality of Tarumã by judicial order.

Management believes that all concessions expired and not yet renewed will result in new contracts or contract extensions, disregarding the risk of discontinuity in the provision of municipal water supply and sewage services. As of December 31, 2010, the carrying amount of the underlying assets used in the 119 concessions of the municipalities under negotiation totaled R$ 5,465 million and the related revenue for the year then ended totaled R$ 2,591 million.

The Company's operations are concentrated in the municipality of São Paulo, which accounted for 54.66% of the gross revenues in 2010. On June 23, 2010, the State of São Paulo, the Municipality of São Paulo, the Company and the regulatory agency "Agência Reguladora de Saneamento e Energia—ARSESP" signed an agreement to share the responsibility for water supply and sewage services to the Municipality of São Paulo based on a 30-year concession agreement. This agreement is extendable for another 30 years. This agreement sets forth SABESP as the exclusive service provider and designates ARSESP as regulator, establishing prices, controlling and monitoring services.

Also, on June 23, 2010, the State of São Paulo, the city of São Paulo and SABESP signed the "Public service provision agreement of water supply and sewage services," a 30-year concession agreement which is extendable for another 30 years. This agreement involves the following activities:

(i) protection of the sources of water in collaboration with other agencies of the State and the City;
(ii) capture, transport and treatment of water;
(iii) collect, transport, treatment and final disposal of sanitary sewage; and
(iv) adoption of other actions of basic and environmental sanitation.

In the municipality of Santos, in the Baixada Santista region, which has a significant population, the Company operates under an authorization by public deed, a situation similar to other municipalities in that region and in the Ribeira valley, where the Company started to operate after the merger of the companies that formed it.

On January 5, 2007, Law 11,445 was enacted, establishing the basic sanitation regulatory framework, providing for the nationwide guidelines and basic principles for the provision of such services, such as social control, transparency, the integration authority of sanitation infrastructure, water resources management, and the articulation between industry policies and public policies for urban and regional development, housing, suppression of poverty, promotion of health and environmental protection, and other related issues.

The Company's shares have been listed in the *Novo Mercado* (New Market) segment of BM&FBOVESPA (the São Paulo Stock Exchange) since April 2002 and on the New York Stock Exchange (NYSE) as American Depositary Receipts ("ADRs") since May 2002.

These financial statements were approved by the Board of Directors on June 2, 2011.

Basis of Presentation, Statement of Compliance, Going Concern Assessment

1.72

Anooraq Resources Corporation (Dec 2010)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Nature of Operations

Anooraq Resources Corporation ("Company" or "Anooraq") is incorporated in the Province of British Columbia, Canada. The consolidated financial statements of the Company as at 31 December 2010 and 2009 and for the years ended 31 December 2010, 2009 and 2008 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates, special purpose entities and jointly controlled entities. Its principal business activity is the mining and exploration of Platinum Group Metals ("PGM") through its mineral property interests. The Company focuses on mineral property interests located in the Republic of South Africa in the Bushveld Complex. Anooraq operates in South Africa through its wholly-owned subsidiary Plateau Resources (Proprietary) Limited ("Plateau") which owns the Group's various mineral property interests and conducted the Group's business in South Africa.

2. Going Concern

The consolidated financial statements are prepared on the basis that the Group will continue as a going concern which contemplates the realisation of assets and settlement of liabilities in the normal course of operations as they become due.

As a result of the acquisition of the operating mine (refer note 34) in 2009, the Group secured various funding arrangements (refer note 19) in order to fund the purchase consideration and to fund its planned business objectives. The funding agreements included securing a long-term credit facility, the Operating Cash Flow Shortfall Facility ("OCSF"), with Rustenburg Platinum Mines Limited ("RPM") for an amount of $222 million (ZAR 1,470 million). The facility is used to fund operating cash and capital requirements for an initial period of three years. As at 31 December 2010, the Group utilised $112 million (ZAR 741.4 million) thereof to fund operating requirements from 1 July 2009 as the mining operations are not currently generating sufficient cash flows to fund operations and operational projects. The Group has no significant obligation to repay interest and capital on its outstanding loans and

borrowings during 2011 even though the Group did not meet certain loan covenants at 31 December 2010 (refer note 19).

As a result of securing the financial resources and long-term funding, management expects that cash flows from the mining operations and the OCSF will be sufficient to meet immediate ongoing operating and capital cash requirements of the Group.

The Group is currently pursuing various alternative funding structures to achieve a more affordable debt equity level as management believes that the Group would not be able to service the repayments on the loans and borrowings once it becomes due in the medium to long term.

3. Basis of Presentation

3.1 Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

3.2 Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis as set out in the accounting policies below. Certain items, including derivative financial instruments, are stated at fair value.

3.3 Use of Estimates and Judgements

The preparation of the consolidated financial statements in accordance with IFRS 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.

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 notes to the financial statements where applicable.

Offsetting—Deferred Tax Assets and Liabilities

1.73

National Grid plc (Mar 2010)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

H. Taxation (in part)

Deferred Tax and Investment Tax Credits

Deferred tax is provided for using the balance sheet liability method and is recognised on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised on all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of other assets and liabilities in a transaction (other than a business combination) that affects neither the accounting nor taxable profit or loss.

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries and jointly controlled entities, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In these cases the tax is also recognised in other comprehensive income or directly in equity, respectively.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company and its subsidiaries intend to settle their current tax assets and liabilities on a net basis.

Investment tax credits are amortised over the economic life of the assets that give rise to the credits.

Offsetting—Pension Obligtations

1.74

Givaudan SA (Dec 2010)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Summary of Significant Accounting Policies (in part)

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.8 Employee Benefit Costs (in part)

Wages, salaries, social security contributions, annual leave and paid sick leave, bonuses and non-monetary benefits are expensed in the year in which the associated services are rendered by the Group's employees.

Pension Obligations

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, principally dependent on an employee's years of service and remuneration at retirement. Plans are usually funded by payments from the Group and employees to financially independent trusts. The liability recognised in the statement of financial position is the aggregate of the present value of the defined benefits obligation at the statement of financial position date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains and losses, and past service costs not yet recognised. If the aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognised net actuarial losses and past service costs and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. The present value of the defined benefits obligation and the related current service cost are calculated annually by independent actuaries using the projected unit credit method. This reflects the discounted expected future payment required to settle the obligation resulting from employee service in the current and prior periods. The future cash outflows incorporate actuarial assumptions primarily regarding the projected rates of remuneration growth, long-term expected rates of return on plan assets, and long-term indexation rates. Discount rates, used to determine the present value of the defined benefit obligation, are based on the market yields of high-quality corporate bonds in the country concerned. A portion, representing 10% of the greater of the present value of the defined benefit obligation and the fair value of plan assets, of the differences between assumptions and actual experiences, as well as the effects of changes in actuarial assumptions are recognised over the estimated average remaining working lives of employees.

Where a plan is unfunded, a liability is recognised in the statement of financial position. A portion, representing 10% of the present value of the defined benefit obligation, of the differences between assumptions and actual experiences, as well as the effects of changes in actuarial assumptions are recognised over the estimated average remaining working lives of employees. Past service costs are amortised over the average period until the benefits become vested. Pension assets and liabilities in different defined benefit schemes are not offset unless the Group has a legally enforceable right to use the surplus in one plan to settle obligations in the other plan.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into publicly or privately administrated funds. The Group has no further payment obligations once the contributions have been made. The contributions are charged to the income statement in the year to which they relate.

Change in Presentation

1.75

Turkcell Iletisim Hizmetleri AS (Dec 2010)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

(Amounts expressed in thousands of US Dollars unless otherwise indicated except share amounts)

	Note	2010	2009	2008
Cash Flows From Operating Activities				
Profit for the year		1,126,961	1,104,804	1,755,062
Adjustments for:				
Depreciation and impairment of fixed assets	12	515,515	384,257	433,942
Amortization of intangible assets	13	241,839	206,421	245,985
Net finance (income)	10	(237,628)	(254,582)	(393,671)
Income tax expense	11	320,799	340,093	549,758
Share of profit of equity accounted investees		(154,457)	(115,240)	(151,629)
(Gain)/loss on sale of property, plant and equipment		101	25,150	(6,931)
Gain on sale of subsidiary		—	—	(4,727)
Unrealized foreign exchange gain and loss on operating assets		(5,847)	88,572	(228,033)
Impairment losses on goodwill		23,499	61,835	—
Provision for impairment of trade receivables	18	126,257	75,379	68,550
Deferred income		(77,854)	(2,966)	(3,293)
		1,879,185	1,913,723	2,265,013

(continued)

	Note	2010	2009	2008
Change in trade receivables	18	(204,403)	(269,360)	(214,220)
Change in due from related parties	33	28,752	(20,312)	2,124
Change in inventories		3,083	(8,662)	(267)
Change in other current assets	19	(29,389)	(37,099)	(27,208)
Change in other non-current assets	16	(29,011)	(21,272)	(10,704)
Change in due to related parties	33	(3,775)	(6,290)	(6,541)
Change in trade and other payables		32,541	180,469	66,690
Change in other current liabilities		(96,118)	(115,306)	206,537
Change in other non-current liabilities	23	(14,051)	(82,893)	52,452
Change in employee benefits	25	2,690	942	5,773
Change in provisions	27	(45,102)	123,644	29,704
		1,524,402	1,657,584	2,369,353
Interest paid		(38,829)	(29,497)	(25,050)
Income tax paid		(322,754)	(395,024)	(687,292)
Dividends received		99,759	83,543	89,235
Net cash generated by operating activities		1,262,578	1,316,606	1,746,246
Cash Flows from Investing Activities				
Acquisition of property, plant and equipment		(912,097)	(1,044,165)	(603,568)
Acquisition of intangible assets	12	(132,827)	(723,507)	(193,219)
Proceeds from sale of property, plant and equipment	13	8,506	4,471	16,693
Proceeds from currency option contracts		12,147	10,549	14,655
Payment of currency option contracts premium		(4,988)	(1,150)	(4,970)
Acquisition of available-for-sale securities		(16,762)	(83,951)	(47,549)
Proceeds from sale of available-for-sale securities		70,528	32,015	78,542
Acquisition of subsidiary, net of cash acquired		—	—	(309,967)
Interest received		270,602	320,697	354,211
Net cash used in investing activities		(704,891)	(1,485,041)	(695,172)
Cash Flows From Financing Activities				
Proceeds from issuance of loans and borrowings		1,071,777	1,692,866	601,000
Loan transaction costs		(12,100)	(14,357)	—
Repayment of borrowings		(772,892)	(944,133)	(487,999)
Change in non-controlling interest		89	—	72,199
Proceeds from capital contribution		—	4,570	18,202
Dividends paid		(590,541)	(744,380)	(556,973)
Net cash used in financing activities		(303,667)	(5,434)	(353,571)
Net decrease/(increase) in cash and cash equivalents		254,020	(173,869)	697,503
Cash and cash equivalents at 1 January		3,090,242	3,255,420	3,093,175
Effects of foreign exchange rate fluctuations on cash and cash equivalents	20	(47,995)	8,691	(535,258)
Cash and cash equivalents at 31 December	20	3,296,267	3,090,242	3,255,420

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Basis of Preparation (in part)

Comparative Information and Revision of Prior Period Financial Statements

The consolidated financial statements of the Group have been prepared with the prior periods on a comparable basis in order to give consistent information about the financial position and performance. If the presentation or classification of the financial statements is changed, in order to maintain consistency, the financial statements of the prior periods are also reclassified in line with the related changes.

The Company has for 2010 revised the manner in which it accounts for the impact of changes in foreign exchange rates in its statement of cash flows and has revised its presentation of prior periods, resulting in a change in the allocation of the impact of foreign exchange rate changes among "Operating activities," "Effects of foreign exchange on statement of financial position items" and "Effect of foreign exchange rate changes on cash" in the statement of cash flows. The change relates to the impact of re-translation of the underlying functional currency cash flows into the presentation currency, the US Dollar. The Company believes that changes to prior periods are immaterial. The change in the statement of cash flows will not impact the Company's previously reported statement of income, statement of comprehensive income, statement of financial positions or "Cash and cash equivalents" at the end

of any period. The effect of the change on the statement of cash flows is as follows:

	For the Year Ended 31 December 2009		
	As Previously Reported	Revisions	As Revised
Net cash from operating activities	1,294,935	21,671	1,316,606
Effects of foreign exchange on statement of financial position items	30,938	(30,938)	—
Effects of foreign exchange rate changes on cash	(576)	9,267	8,691
Cash and cash equivalents	3,090,242	—	3,090,242

	For the Year Ended 31 December 2008		
	As Previously Reported	Revisions	As Revised
Net cash from operating activities	1,674,385	71,861	1,746,246
Effects of foreign exchange on statement of financial position items	(418,945)	418,945	—
Effects of foreign exchange rate changes on cash	(44,452)	(490,806)	(535,258)
Cash and cash equivalents	3,255,420	—	3,255,420

Reclassifications and Restatements

1.76

JSC BTA Bank (Dec 2010)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (in part)

As at 31 December 2010
(Millions of tenge)

	Note	2010	2009
Assets			
Cash and cash equivalents	8	100,790	78,215
Obligatory reserves	9	40	145
Trading securities	10	82,257	115,784
Amounts due from credit institutions	11	25,177	31,444
Derivative financial assets	12	4,795	25,980
Investment securities:			
—available-for-sale	13	21,110	19,019
—held-to-maturity	13	7,321	—
Loans to customers	14	787,618	1,040,773
Bonds of NWF Samruk-Kazyna	15	142,017	175,907
Bonds of NWF Samruk-Kazyna pledged under repurchase agreement	15	388,946	336,339
Investments in associates	16	90,326	85,088
Property and equipment		10,664	9,911
Goodwill	17	3,786	1,841
Current corporate income tax asset	19	5,366	5,708
Deferred corporate income tax assets	19	159,735	5,267
Other assets		65,762	37,238
Total assets		1,895,710	1,968,659

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

3. Basis of Preparation (in part)

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

General

These financial statements are presented in millions of Kazakh tenge ("KZT" or "tenge"), except per share amounts and unless otherwise indicated. The KZT is utilized as the shareholders, the managers and the regulators measure the Group's performance in KZT. In addition, the KZT, being the national currency of the Republic of Kazakhstan, is the currency that reflects the economic substance of the underlying events and circumstances relevant to the Group. Significant foreign currency positions are maintained as they are necessary to meet customers' requirements, manage foreign currency risks and achieve a proper assets and liabilities structure of the Group. Transactions in other currencies are treated as transactions in foreign currencies.

The consolidated financial statements are prepared under the historical cost convention modified for the measurement at fair value of available-for-sale investment securities, trading securities and derivative contracts as required by IAS 39 "Financial Instruments: Recognition and Measurement."

Reclassifications:

Reclassification of the 2009 amounts to comply with presentation of 2010 was as follows:

31 December 2009	As Presented Earlier	Reclassification	As Reclassified	Comments
Statement of Financial Position				
Bonds of NWF Samruk-Kazyna	512,246	(336,339)	175,907	Reclassification from bonds of NWF Samruk-Kazyna to bonds of NWF Samruk-Kazyna pledged under repurchase agreement
Bonds of NWF Samruk-Kazyna pledged under repurchase agreement	—	336,339	336,339	

Capital Disclosures

1.77

SAP AG (Dec 2010)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF SAP GROUP (in part)

As at December 31,

		(Unaudited)		
Millions	**Note**	**2010[(1)] US$**	**2010 €**	**2009 €**
Issued capital		1,628	1,227	1,226
Share premium		447	337	317
Retained earnings		12,960	9,767	8,571
Other components of equity		(188)	(142)	(317)
Treasury shares		(1,834)	(1,382)	(1,320)
Equity attributable to owners of parent		**13,013**	**9,807**	**8,477**
Non-controlling interests		**23**	**17**	**14**
Total equity	**(21)**	**13,035**	**9,824**	**8,491**
Equity and liabilities		**27,654**	**20,841**	**13,374**

(1) The 2010 figures have been translated solely for the convenience of the reader at an exchange rate of US$1.3269 to €1.00, the Noon Buying Rate certified by the Federal Reserve Bank of New York on December 30, 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

(21) Total Equity

Issued Capital

As at December 31, 2010, SAP AG had issued 1,226,822,697 no-par shares (December 31, 2009: 1,226,039,608) with a calculated nominal value of €1 per share. All the shares issued are fully paid. The following table shows the changes in the number and the value of issued shares and treasury shares in millions.

	Number of Shares in Millions		Value in € Millions	
	Issued Capital	Treasury Shares	Issued Capital	Treasury Shares
January 1, 2008	1,246	-48	1,246	-1,734
Issuing shares under share-based payment programs	1	0	1	0
Purchase of treasury shares	0	-14	0	-487
Cancellation of treasury shares	-21	21	-21	744
Reissuance of treasury shares under share-based payment programs	0	3	0	115
December 31, 2008	1,226	-38	1,226	-1,362
Issuing shares under share-based payment programs	0	0	0	0
Reissuance of treasury shares under share-based payment programs	0	1	0	42
December 31, 2009	1,226	-37	1,226	-1,320
Issuing shares under share-based payment programs	1	0	1	0
Purchase of treasury shares	0	-6	0	-220
Reissuance of treasury shares under share-based payment programs	0	4	0	158
December 31, 2010	1,227	-39	1,227	-1,382

The line item "Shares issued to service convertible bonds and stock options exercised" relates to the exercise of awards granted to employees under certain share-based payment plans and the shares purchased by employees under the Share Matching Plan 2010 (see Note 28).

Authorized Shares

The Articles of Incorporation authorize the Executive Board of SAP AG (the Executive Board) to increase the issued capital:

- Up to a total amount of €250 million through the issuance of new common shares in return for contributions in cash until June 7, 2015 (Authorized Capital Ia). The issuance is subject to the statutory subscription rights of existing shareholders.
- Up to a total amount of €250 million through the issuance of new common shares in return for contributions in cash or in kind until June 7, 2015 (Authorized Capital IIa). Subject to certain preconditions and the consent of the Supervisory Board, the Executive Board is authorized to exclude the shareholders' statutory subscription rights.
- Up to a total amount of €30 million through the issuance of new common shares in return for contributions in cash or in kind until June 7, 2015 (Authorized Capital III). The new shares can only be used for share-based compensation (as employee shares). Shareholders' subscription rights are excluded.

Contingent Shares

SAP AG's issued capital is subject to a contingent increase of common shares. The contingent increase may be effected only to the extent that the holders of the convertible bonds and stock options that were issued by SAP AG under certain share-based payment plans (see Note 28) exercise their conversion or subscription rights. As at December 31, 2010, €207 million, representing 207 million shares, is still available for issuance (2009: €208 million).

Share Premium

Share premium represents all capital contributed to SAP with the proceeds resulting from the issuance of issued capital in excess of their calculated par value. Share premium arises mainly from issuance of issued capital, treasury shares transactions and share-based compensation transactions.

Retained Earnings

Retained earnings contain prior years' undistributed profit after tax and unrecognized pension costs. Unrecognized pension costs comprise actuarial gains and losses relating to defined benefit pension plans and similar obligations.

Treasury Shares

By resolution of SAP AG's Annual General Meeting of Shareholders held on June 8, 2010, the Executive Board of SAP AG was authorized to acquire, on or before June 30, 2013, up to 120 million shares in the Company on the condition that such share purchases, together with any previously acquired shares, do not account for more than 10% of SAP AG's issued capital. Although treasury shares are legally considered outstanding, there are no dividend or voting rights associated with shares held in treasury. We may redeem or resell shares held in treasury or we may use treasury shares for the purpose of servicing subscription rights and conversion rights under the Company's share-based payment plans. Also, we

may use the shares held in treasury as consideration in connection with the acquisition of other companies.

The Company purchased no SAP American depository receipts (ADRs) in 2010, 2009, or 2008, (each ADR represents one common share of SAP AG). The Company held no SAP ADRs as at December 31, 2010, 2009, and 2008, respectively.

Miscellaneous

Under the German Stock Corporation Act (Aktiengesetz), the total amount of dividends available for distribution to SAP AG's shareholders is based on the earnings of SAP AG as reported in its statutory financial statements, which are determined under the accounting rules stipulated by the German Commercial Code (Handelsgesetzbuch). For the year ended December 31, 2010, the Executive Board and the Supervisory Board of SAP AG intend to propose a dividend of €0.60 per share (estimated to be €713 million).

Dividends per share for both 2009 and 2008 were €0.50 and were paid in the succeeding year.

(22) Additional Capital Disclosures

Capital Structure Management

The primary objective of our capital structure management is to maintain a strong financial profile for investor, creditor, and customer confidence, and to support the growth of our business. We aim for a capital structure that gives us a high degree of independence, security, and financial flexibility so that we can, for example, access capital markets on reasonable terms to satisfy funding requirements.

We currently do not have a credit rating with any agency. We do not believe that a rating would have a substantial effect on our current or future borrowing conditions and financing options.

Capital Structure

	2010		2009		
	€ Millions	**% of Equity and Liabilities**	**€ Millions**	**% of Equity and Liabilities**	**% Change**
Total equity	9,824	47	8,491	63	16
Total current liabilities	5,149	25	3,416	26	51
Total noncurrent liabilities	5,868	28	1,467	11	300
Total liabilities	11,017	53	4,883	37	126
Equity and liabilities	20,841	100	13,374	100	56

Until 2010, we were mainly equity-financed, but our debt ratio (defined as the ratio of total liabilities to equity and liabilities) increased to 53% at the end of 2010 (as compared to 37% at the end of 2009) mainly due to the issuance of bank loans, bonds and private placements in connection with the Sybase acquisition. For the same reason, the ratio of total financial debt to equity and liabilities increased to 21% at the end of 2010 (as compared to 5% at the end of 2009). Total financial debt consists of bank loans, bonds, and private placements. While we monitor those ratios continuously, our main focus is on the management of our net liquidity position as outlined in the following table:

Group Liquidity of SAP Group

	2010 € millions	**2009 € millions**	**Change**
Cash and cash equivalents	3,518	1,884	1,634
Current investments	10	400	-390
Total group liquidity	3,528	2,284	1,244
Current bank loans	1	4	-3
Net liquidity 1	3,527	2,280	1,247
Non-current bank loans	1,106	2	1,104
Private placement transactions	1,071	697	374
Bonds	2,200	0	2,200
Net liquidity 2	-850	1,581	-2,431

Our net liquidity position is defined as cash, cash equivalents, and current investments, less financial debt, which consists of bank loans, bonds, and private placements. Our goal is to continuously maintain a positive net liquidity position. However, we might deviate from that goal for a limited period of time due to large acquisitions that require us to enter into financing instruments. For example, this is the case as of December 31, 2010, due to the acquisition of Sybase, which we financed with cash on hand and significant financial debt. We structured the maturity profile of the additional financial debt in a balanced way, so that our target of a positive net liquidity position could be reached as quickly as possible given our underlying cash flow planning.

Our goal is to remain in a position to return excess liquidity to our shareholders by distributing annual dividends and repurchasing shares. The amount of future dividends and the extent of future repurchases of shares will be balanced with our effort to continue to maintain an adequate liquidity position.

In each of 2010, 2009, and 2008, we were able to distribute €594 million in dividends from our 2009, 2008, and 2007 profit. Aside from the distributed dividend, in 2010 and 2008 we also returned €220 and €487 million respectively to our shareholders by repurchasing our own shares (no share repurchase occurred in 2009).

Commitments exist to reissue treasury shares or issue common shares in connection with our equity-settled share-based payment plans as described in Note (28). In all years presented we have satisfied and we expect to continue to satisfy commitments resulting from our equity-settled share-based payment plans through both reissuance of treasury shares and capital increases.

Capital Disclosures—Regulatory Capital

1.78

Author's Note

UBS AG's capital disclosures are extensive. UBS incorporates many of the capital disclosures required by IAS 1 by reference to the Treasury and Risk Management section of the annual report. This excerpt includes part of those referenced disclosures.

UBS AG (Dec 2010)

BALANCE SHEET (in part)

CHF Million	Note	31.12.10	31.12.09	31.12.08	% Change From 31.12.09
Equity					
Share capital		383	356	293	8
Share premium		34,393	34,824	25,288	(1)
Cumulative net income recognized directly in equity, net of tax		(6,534)	(4,875)	(4,335)	(34)
Retained earnings		19,285	11,751	14,487	64
Equity classified as obligation to purchase own shares		(54)	(2)	(46)	
Treasury shares		(654)	(1,040)	(3,156)	37
Equity attributable to UBS shareholders		46,820	41,013	32,531	14
Equity attributable to non-controlling interests		5,043	7,620	8,002	(34)
Total equity		51,863	48,633	40,533	7
Total liabilities and equity		1,317,247	1,340,538	2,014,815	(2)

STATEMENT OF CHANGES IN EQUITY (in part)

CHF Million	Share Capital	Share Premium	Treasury Shares	Equity Classified as Obligation to Purchase Own Shares	Retained Earnings	Foreign Currency Translation	Financial Investments Available-for-Sale	Cash Flow Hedges	Total Equity Attributable to UBS Shareholders	Non-Controlling Interests	Total Equity
Balance at 31 December 2009	356	34,824	(1,040)	(2)	11,751	(6,445)	364	1,206	41,013	7,620	48,633
Issuance of share capital	27								27		27
Acquisition of treasury shares			(1,574)						(1,574)		(1,574)
Disposition of treasury shares			1,960						1,960		1,960
Net premium/(discount) on treasury share and own equity derivative activity		(43)							(43)		(43)
Premium on shares issued and warrants exercised		(27)							(27)		(27)
Employee share and share option plans		(104)							(104)		(104)
Tax benefits from deferred compensation awards		(8)							(8)		(8)
Transaction costs related to share issuances, net of tax		(113)							(113)		(113)
Dividends[1]									0	(305)	(305)
Equity classified as obligation to purchase own shares—movements				(52)					(52)		(52)
Preferred securities									0	(1,529)	(1,529)
New consolidations and other increases		(136)							(136)	6	(130)
Deconsolidations and other decreases									0	(264)	(264)
Total comprehensive income for the year recognized in equity					7,534	(909)	(607)	(143)	5,875	(484)	5,391
Balance at 31 December 2010	383	34,393	(654)	(54)	19,285	(7,354)	(243)	1,063	46,820	5,043	51,863

Preferred Securities[1]	For the Year Ended		
CHF Million	**31.12.10**	**31.12.09**	**31.12.08**
Balance at the beginning of the year	7,254	7,381	6,381
Issuances			1,618
Redemptions	(1,529)	(7)	
Foreign currency translation	(818)	(120)	(618)
Balance at the end of the year	4,907	7,254	7,381

[1] Represents equity attributable to non-controlling interests. Increases and offsetting decreases of equity attributable to non-controlling interests due to dividends are excluded from this table.

	For the Year Ended			% Change From
Number of Shares	**31.12.10**	**31.12.09**	**31.12.08**	**31.12.09**
Shares Issued				
Balance at the beginning of the year	3,558,112,753	2,932,580,549	2,073,547,344	21
Issuance of shares	272,727,760	625,532,204	859,033,205	(56)
Balance at the end of the year	3,830,840,513	3,558,112,753	2,932,580,549	8
Treasury Shares				
Balance at the beginning of the year	37,553,872	61,903,121	158,105,524	(39)
Acquisitions	105,824,816	33,566,097	13,398,118	215
Disposals	(104,486,657)	(57,915,346)	(109,600,521)	(80)
Balance at the end of the year	38,892,031	37,553,872	61,903,121	4

Shares Issued

On 5 March 2010, the mandatory convertible notes (MCNs) with a notional value of CHF 13 billion issued in March 2008 to the Government of Singapore Investment Corporation Pte. Ltd. and an investor from the Middle East were converted into UBS shares. The notes were converted at a price of CHF 47.68 per share. As a result, UBS issued 272,651,005 new shares with a nominal value of CHF 0.10 each from existing conditional capital. The MCNs were treated as equity instruments and recognized in *Share premium*. The conversion of the MCNs resulted in a reclassification of CHF 27 million from *Share premium* to *Share capital*.

Conditional Share Capital

On 31 December 2010, 149,920,712 shares were available for issue to fund UBS's employee share option programs. In addition, conditional capital of up to 100,000,000 shares was available in connection with the Swiss National Bank (SNB) transaction. Furthermore, on 14 April 2010 the Annual General Meeting of UBS AG approved the creation of conditional capital up to a maximum amount of 380,000,000 shares for conversion rights/warrants granted in connection with the issuance of bonds or similar financial instruments. These positions are shown as conditional share capital in the UBS AG (Parent Bank) disclosure.

STATEMENT OF CASH FLOWS (in part)

	For the Year Ended		
CHF Million	**31.12.10**	**31.12.09**	**31.12.08**
Cash flow from/(used in) financing activities			
Net money market papers issued/(repaid)	4,459	(60,040)	(40,637)
Net movements in treasury shares and own equity derivative activity	(1,456)	673	623
Capital issuance	(113)	3,726	23,135
Issuance of long-term debt, including financial liabilities designated at fair value	78,418	67,062	103,087
Repayment of long-term debt, including financial liabilities designated at fair value	(77,497)	(65,024)	(92,894)
Increase in non-controlling interests[1]	6	3	1,661
Dividends paid to/decrease in non-controlling interests	(2,053)	(583)	(532)
Net cash flow from/(used in) financing activities	1,764	(54,183)	(5,557)
Effects of exchange rate differences	(12,181)	5,529	(39,186)
Net increase/(decrease) in cash and cash equivalents	(24,151)	(14,721)	30,588
Cash and cash equivalents at the beginning of the year	164,973	179,693	149,105
Cash and cash equivalents at the end of the year	140,822	164,973	179,693
Cash and cash equivalents comprise:			
Cash and balances with central banks	26,939	20,899	32,744
Money market papers[2]	77,998	98,432	86,732
Due from banks with original maturity of less than three months[3]	35,885	45,642	60,217
Total	**140,822**	**164,973**	**179,693**

[1] Includes issuance of preferred securities of CHF 1,617 million for the year ended 31 December 2008.
[2] Money market papers are included in the balance sheet under Trading portfolio assets, Trading portfolio assets pledged as collateral and Financial investments available-for-sale. CHF 39,768 million, CHF 57,116 million and CHF 19,912 million were pledged at 31 December 2010, 31 December 2009 and 31 December 2008, respectively.
[3] Includes positions recognized in the balance sheet under Due from banks and Cash collateral receivables on derivative instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1. Summary of Significant Accounting Policies (in part)

a) Significant Accounting Policies (in part)

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1) Basis of Accounting

UBS AG and subsidiaries ("UBS" or the "Group") provide a broad range of financial services including: advisory services, underwriting, financing, market making, asset management and brokerage on a global level and retail banking in Switzerland. The Group was formed on 29 June 1998 when Swiss Bank Corporation and Union Bank of Switzerland merged. The merger was accounted for using the uniting of interests method of accounting.

The consolidated financial statements of UBS (the "Financial Statements") are prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), and are stated in Swiss francs (CHF), the currency of Switzerland where UBS AG is incorporated. On 3 March 2011, the Board of Directors approved them for issue.

Disclosures under IFRS 7 Financial Instruments: Disclosures about the nature and extent of risks and capital disclosures under IAS 1 Presentation of Financial Statements have been included in the audited parts of the "Risk and treasury management" section. Several IFRS 7 credit risk-related disclosures are provided in Note 29c.

Note 26. Capital Increase and Mandatory Convertible Notes

Conversion of the Mandatory Convertible Notes Issued in March 2008

On 5 March 2010, the mandatory convertible notes (MCNs) with a notional value of CHF 13 billion issued in March 2008 to the Government of Singapore Investment Corporation Pte. Ltd. and an investor from the Middle East were converted into UBS shares. The notes were converted at a price of CHF 47.68 per share. As a result, UBS issued 272,651,005 new shares with a nominal value of CHF 0.10 each from existing conditional capital. The MCNs were treated as equity instruments and recognized in *Share premium.* The conversion of the MCNs resulted in a reclassification of CHF 27 million from *Share premium* to *Share capital.*

THE FOLLOWING EXCERPTS ARE INCORPORATED IN THE FINANCIAL STATEMENTS BY REFERENCE

Treasury Management (in part)

Group Treasury oversees the balance sheet and the usage of our critical financial resources including capital, liquidity and funding. Treasury manages key portions of these resources including the interest rate and currency risks arising from balance sheet and capital management activities.

Capital Ratios, Risk-Weighted Assets And Eligible Capital

On 31 December 2010, our BIS tier 1 ratio was 17.8% and the total capital ratio was 20.4%, up from 15.4% and 19.8%, respectively, on 31 December 2009. BIS risk-weighted assets declined from CHF 206.5 billion at the end of December 2009 to CHF 198.9 billion at the end of December 2010, while eligible tier 1 capital increased from CHF 31.8 billion to CHF 35.3 billion over the same period.

Equity Attribution

Group Treasury uses our equity attribution framework to guide our businesses in the allocation of resources to opportunities that are expected to provide the best risk-adjusted profitability contributions.

Shares

As of 31 December 2010, we had a total of 3,830,840,513 shares issued. In 2010, the issued shares were increased by a total of 272,727,760 shares. This was mainly due to our capital raising as CHF 13 billion in convertible notes (MCN) issued in 2008 expired on 5 March 2010. The notes were mandatorily converted into 272,651,005 newly issued shares, which represented 7.7% of our issued share capital at the time. Additionally there were a small number of exercises of conditional capital due to exercises of employee options (76,755 shares).

Financial Resource Governance

Our Group Asset and Liability Management Committee (Group ALCO) promotes the usage of our assets and liabilities in line with our overall UBS Group (Group) strategy as defined by the Board of Directors (BoD) and the Group Executive Board (GEB), our regulatory commitments and the interests of our shareholders and other stakeholders. The Group ALCO manages the balance sheet of the business divisions through allocation and monitoring of targets. In addition, the Group ALCO manages our liquidity, funding and capital by taking into account their business performance, overall risk profile as well as market conditions.

Group Treasury provides Group ALCO with monthly reporting of our financial resources (e.g. balance sheet, capital, liquidity and funding) in order for them to oversee and monitor our asset and liability management policies and processes to ensure their effectiveness under prevailing and prospective conditions.

Capital Management

Eligible capital must be available to support business activities, in accordance with both our own internal assessment and the requirements of our regulators, in particular our lead regulator FINMA.

We aim to maintain sound capital ratios at all times, and we therefore consider not only the current situation but also projected business and regulatory developments. The main tools we employ to manage our capital ratios are: the active management of own shares, capital instruments, dividends and RWA.

Capital Adequacy Management

Ongoing compliance with regulatory capital requirements and target capital ratios is central to our capital adequacy management. In this process, we manage towards tier 1 and total capital target ratios. In the target setting process we take into account the current and future minimum requirements set by regulators as well as their "buffer" expectations. Furthermore, we consider our own internal assessment of aggregate risk exposure in terms of capital-at-risk, the views of rating agencies and comparisons with peer institutions.

- Refer to the "Risk management and control" section of this report for more information on earnings-at-risk and capital-at-risk.

Regulatory Requirements

We are subject to FINMA regulatory capital requirements, which result in higher RWA than under BIS guidelines.

- Refer to the additional capital management disclosure in the "Basel II Pillar 3" section of this report.

To allow for comparability, published RWA are determined in accordance with the BIS guidelines. For the determination of the eligible capital, there were no differences between BIS guidelines and FINMA regulations as of 31 December 2010.

During 2010, we complied with all externally imposed capital requirements.

The Basel III revisions will have a negative impact on capital (mainly due to the exclusion of deferred tax assets, pension assets and hybrid tier 1 capital instruments for the calculation of common equity) and also mean significantly higher RWA. As a result, our common equity ratio would be materially lower than our current BIS tier 1 ratio, if Basel III requirements were effective immediately. It is therefore important to also consider the Basel III transitional arrangements, which effectively phase in the impacts on capital over several years.

- Refer to the "Regulatory developments" section of this report for more information.

BIS Capital Ratios

The BIS capital ratios compare eligible capital (tier 1 and total capital) with total RWA.

On 31 December 2010, our BIS tier 1 capital ratio stood at 17.8% (up from 15.4% on 31 December 2009), our BIS core tier 1 capital ratio stood at 15.3% (up from 11.9% on 31 December 2009), while our BIS total capital ratio was 20.4% (up from 19.8% on 31 December 2009). Our BIS tier 1 capital increased by CHF 3.5 billion to CHF 35.3 billion, while RWA decreased to CHF 198.9 billion from CHF 206.5 billion.

- Refer to the discussions on "Capital adequacy management" and "Eligible capital" in this section for more information.

Capital Requirements

Our capital requirements are based on our consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), adjusted for regulatory differences. Under IFRS, subsidiaries and special purpose entities that are directly or indirectly controlled by UBS must be consolidated, whereas for regulatory capital purposes, different consolidation principles apply. For example, subsidiaries that are not active in the banking and finance business are not consolidated.

- Refer to the additional capital management disclosure in the "Basel II Pillar 3" section of this report for more information.

On 31 December 2010, BIS RWA were CHF 198.9 billion, compared with CHF 206.5 billion at year-end 2009. The analysis by component is as follows:

Treasury Management (in part)

Credit Risk

RWA for credit risk amounted to CHF 119.9 billion on 31 December 2010, compared with CHF 140.5 billion on 31 December 2009. The reduction was primarily related to lower derivatives RWA of CHF 7.9 billion and reduced drawn exposure RWA of CHF 8.7 billion, as well as a reduction in residential mortgage RWA of CHF 2.6 billion. These decreases occurred mainly in the Investment Bank and Wealth Management & Swiss Bank. The weakening of several major currencies against the Swiss franc has been a significant contributor to most of these RWA reductions.

- Refer to the "Credit risk" section of this report for more information.

Non-Counterparty Related Assets

RWA for non-counterparty related assets amounted to CHF 6.2 billion on 31 December 2010, compared with CHF 7.0 billion on 31 December 2009.

Market Risk

In 2010, RWA for market risk increased by CHF 7.9 billion to CHF 20.8 billion on 31 December 2010. This was due to an increase in average regulatory VaR exposures, primarily resulting from increased credit spread risk.

- Refer to the "Market risk" section of this report for more information.

Operational Risk

RWA for operational risk increased to CHF 51.9 billion on 31 December 2010 from CHF 46.1 billion on 31 December 2009, as agreed with FINMA.

- Refer to the "Operational risk" section of this report for more information.

Eligible Capital

Eligible capital, the capital available to support RWA, consists of tier 1 and tier 2 capital. To determine eligible tier 1 and total capital, specific adjustments must be made to equity attributable to our shareholders as defined by IFRS and as shown on our balance sheet. The most notable adjustments are the deductions for goodwill, intangible assets, investments in unconsolidated entities engaged in banking and financial activities and own credit effects on liabilities designated at fair value.

Tier 1 Capital

Tier 1 capital amounted to CHF 35.3 billion on 31 December 2010, compared with CHF 31.8 billion on 31 December 2009, an increase of CHF 3.5 billion. The positive contributors to this increase were the CHF 7.5 billion net profit attributable to UBS shareholders and the reversals of own credit losses of CHF 0.5 billion. These effects were partially offset by a redemption of hybrid tier 1 capital of CHF 1.5 billion, increased tier 1 deductions of CHF 1.0 billion (securitization exposures and other deduction items), negative effects relating to share-based compensation net of tax of CHF 0.9 billion, as well as currency effects of CHF 0.6 billion and other effects of CHF 0.5 billion.

Hybrid Tier 1 Capital

These instruments are perpetual and can only be redeemed if they are called by the issuer after having received regulatory approval. The payment of interest is subject to compliance with minimum capital ratios and other requirements. Any missed payment is non-cumulative. As of 31 December 2010, our hybrid tier 1 instruments amounted to CHF 4.9 billion, down from CHF 7.2 billion as of 31 December 2009. Under IFRS, these instruments are accounted for as equity attributable to non-controlling interests.

Tier 2 Capital

These instruments consist mainly of our subordinated long-term debt that ranks senior to both our shares and hybrid tier 1 instruments but is subordinated to all our senior obligations. Tier 2 capital net of tier 2 deductions accounted for CHF 5.2 billion in total capital as of year-end 2010. In 2010, we redeemed a floating rate EUR 1.2 billion subordinated bond.

- Refer to the "Shares and capital instruments" section of this report for more information.

Capital Adequacy

CHF Million, Except Where Indicated	31.12.10	31.12.09
BIS core tier 1 capital	30,420	24,574
BIS tier 1 capital	35,323	31,798
BIS total capital	40,542	40,941
BIS core tier 1 capital ratio (%)	15.3	11.9
BIS tier 1 capital ratio (%)	17.8	15.4
BIS total capital ratio (%)	20.4	19.8
BIS risk-weighted assets	198,875	206,525
of which: credit risk[1]	119,919	140,494
of which: non-counterparty related risk	6,195	7,026
of which: market risk	20,813	12,861
of which: operational risk	51,948	46,144

[1] Includes securitization exposures and equity exposures not part of the trading book and capital requirements for settlement risk (failed trades).

Capital Components

CHF Million	31.12.10	31.12.09
BIS core tier 1 capital prior to deductions(1)	46,365	40,144
of which: paid-in share capital	383	356
of which: share premium, retained earnings, currency translation differences and other elements	45,982	39,788
Less: treasury shares/deduction for own shares(2)	(2,993)	(2,424)
Less: goodwill & intangible assets	(9,822)	(11,008)
Less: securitization exposures(3)	(2,385)	(1,506)
Less: other deduction items(4)	(744)	(632)
BIS core tier 1 capital	30,420	24,574
Hybrid tier 1 capital	4,903	7,224
of which: non-innovative capital instruments	1,523	1,785
of which: innovative capital instruments	3,380	5,438
BIS tier 1 capital	35,323	31,798
Upper tier 2 capital	110	50
Lower tier 2 capital	8,239	11,231
Less: securitization exposures(3)	(2,385)	(1,506)
Less: other deduction items(4)	(744)	(632)
BIS total capital	40,542	40,941

(1) "BIS core tier 1 capital prior to deductions" plus "Hybrid tier 1 capital" less "treasury shares/deduction for own shares" equals "Total equity/gross tier 1 including hybrid tier 1 instruments" in the "Reconciliation of IFRS equity to BIS tier 1 capital" table.
(2) Consists of: i) net long position in own shares held for trading purposes; ii) own shares bought for unvested or upcoming share awards; and iii) accruals built for upcoming share awards.
(3) Includes a 50% deduction of the fair value of UBS's option to acquire the SNB StabFund's equity (CHF 1,781 million on 31.12.10 and CHF 1,216 million on 31.12.09).
(4) Positions to be deducted as 50% from tier 1 and 50% from total capital mainly consist of: i) net long position of non-consolidated participations in the finance sector; ii) expected loss on advanced internal ratings-based portfolio less general provisions (if difference is positive); and iii) expected loss for equities (simple risk weight method).

Transfer of Capital Within UBS Group

Under Swiss company law, UBS is organized as an "Aktiengesellschaft," a corporation that has issued shares of common stock to investors. UBS AG is the parent company of the Group. The legal entity structure of the Group is designed to support our businesses within an efficient legal, tax, regulatory and funding framework. We enter into intragroup transactions in order to provide funding and capital to individual UBS entities. As of 31 December 2010, we were not aware of any material restrictions, or other major impediments, concerning the transfer of funds or regulatory capital within the Group apart from those which apply to these entities by way of local laws and regulations.

IFRS Equity to BIS Tier 1 Capital

The main differences between IFRS equity attributable to shareholders and tier 1 capital result from:

- The difference of CHF 0.4 billion in *Net income recognized directly in equity, net of tax* was due to cash flow hedge effects, which are reversed for BIS purposes and thereby reduced the amount by CHF 1.1 billion. This was partly offset by CHF 0.4 billion of net positive foreign currency translation effects and the reclassification for BIS purpose of fair value changes relating to *Available-for-sale securities* of CHF 0.3 billion.

Reconciliation of IFRS Equity to BIS Tier 1 Capital

	31.12.10		
CHF Million	IFRS View(1)	Reconciliation Items	BIS View
Share capital	383	0	383
Share premium	34,393	(8)	34,386
Net income recognized directly in equity, net of tax	(6,534)	(406)	(6,940)
Retained earnings	19,285	(857)	18,428
Equity classified as obligation to purchase own shares	(54)	54	0
Equity attributable to non-controlling interests	5,043	(33)	5,010
Treasury shares/deduction for own shares(2)	(654)	(2,339)	(2,993)
Total equity/gross tier 1 including hybrid tier 1 instruments	51,863	(3,588)	48,274
Less: goodwill, intangible assets and other deduction items			(12,952)(3)
Less: accrual for expected future dividend payments			0
Eligible tier 1 capital			35,323

(1) International Financial Reporting Standards (IFRS).
(2) Generally, treasury shares are fully deducted from equity under IFRS, whereas for capital adequacy purposes this position covers the following: i) net long position in own shares held for trading purposes; ii) own shares bought for unvested or upcoming share awards; and iii) accruals built for upcoming share awards.
(3) "Other deduction items" include primarily 50% of the deductions for net long position of non-consolidated participations in the finance sector; expected loss on advanced internal ratings-based approach portfolio less general provisions (if difference is positive): expected loss for equities (simple risk weight method); and first loss positions from securitization exposures.

- Retained earnings were lower under the BIS view than under IFRS by CHF 0.9 billion, primarily due to CHF 0.2 billion of life-to-date IFRS gains on own credit net of tax which are reversed for BIS purposes and CHF 0.3 billion attributable to differences in the scope of consolidation. The remainder is due to multiple factors, e.g. differences in measurement and recognition principles between IFRS and BIS, including a deduction for unrealized losses on available-for-sale securities.
- A negative adjustment in *Treasury shares/deduction for own shares* of CHF 2.3 billion, mainly due to the different calculation of the capital deduction relating to share-based compensation.

FINMA Leverage Ratio

FINMA requires a minimum leverage ratio of 3% at a Group level and expects that, in normal times, the ratio will be well above this. This target is to be achieved by 1 January 2013 at the latest.

On 31 December 2010, our Group FINMA leverage ratio improved to 4.45%, compared with the 31 December 2009 ratio of 3.93%. During the year, average total assets prior to deductions decreased by CHF 27.7 billion to CHF 1,398.5 billion. The average total adjusted assets fell by CHF 15.2 billion to CHF 794.2 billion. The table below shows the FINMA leverage ratio calculation for the Group.

Equity Attribution Framework

The equity attribution framework reflects our overarching objectives of maintaining a strong capital base and guiding businesses toward activities with the best balance of profit potential, risk and capital usage. In June 2010, the key principles underlying the equity attribution framework received BoD approval.

Within this framework, the BoD attributes equity to the businesses after considering their risk exposure, RWA usage, asset size, goodwill and intangible assets.

The design of the equity attribution framework enables us to:

- Calculate and assess return on attributed equity (RoE) in each of our business divisions. RoE is disclosed for all business divisions and units.
- Integrate Group-wide capital management activities with those at business division and business unit levels.
- Measure current period and historical performance in a consistent manner across business divisions and business units.
- Make better comparisons between our businesses and those of our competitors.

The framework operates as follows: First, each business is attributed an amount of equity equal to the average book value of goodwill and intangible assets, as reported for that business division or business unit according to IFRS. Second, the BoD considers a number of factors that drive required capital, including:

- Equity requirements based on aggregated risk exposure, including the potential for losses exceeding earnings capacity as defined by the firm's risk-based capital. At certain other institutions, this factor is sometimes referred to as "economic capital."
- RWA usage and a target capital ratio for each business.
- Asset size and a target leverage ratio for each business.

After reviewing the results of this formulaic approach, the Group ALCO recommends and the BoD makes adjustments to the final tangible equity attribution to reflect the amount of equity it believes is appropriate for each business. This assessment is based on the expectations of the business's clients and the business environment, including allowing for sufficient capital to support the business's underlying risks and sustain extreme stress scenarios. The amount of equity attributed to all the businesses corresponds to the amount that we believe is required to maintain a strong capital base and support our businesses adequately. If the total equity attributed to the businesses differs from the Group's actual equity during a given period, the surplus or deficit is reflected in Treasury activities and other corporate items. The BoD currently makes equity attribution decisions on a quarterly basis.

FINMA Leverage Ratio Calculation

CHF Billion, Except Where Indicated	Average 4Q10	Average 4Q09
Total assets (IFRS)[1]	1,398.5	1,426.2
Less: netting of replacement values[2]	(410.1)	(420.9)
Less: loans to Swiss clients (excluding banks)[3]	(161.6)	(161.4)
Less: cash and balances with central banks	(20.1)	(22.1)
Less: other[4]	(12.4)	(12.4)
Total adjusted assets	794.2	809.4
BIS tier 1 capital (at year-end)	35.3	31.8
FINMA leverage ratio (%)	4.45	3.93

(1) Total assets are calculated as the average of the month-end values for the three months in the calculation period.
(2) Includes the impact of netting agreements (including cash collateral) in accordance with Swiss Federal Banking law, based on the IFRS scope of consolidation.
(3) Includes mortgage loans to international clients for properties located in Switzerland.
(4) Refer to the "Capital components" table for more information on deductions of assets from BIS tier 1 capital.

The amount of equity attributed to each division is an important input into the calculation of economic profit for that division. Broadly speaking, economic profit equals profits minus the product of attributed equity and the cost of equity.

As outlined in the table "Average attributed equity," the amount of average equity attributed to the Investment Bank and Treasury activities and other corporate items increased by CHF 3.0 billion and CHF 2.0 billion respectively from the fourth quarter of 2009 to the fourth quarter of 2010. The Investment Bank increase was influenced by an expected moderate increase in the size of its assets and RWA over time.

In addition, the increases in both the Investment Bank and in Treasury activities and other corporate items were due to a refinement of our methodology. Previously, we had not explicitly taken account of the equity burden related to tier 1 deductions in the equity attribution framework. In the calculation of the RWA driver, we now convert these tier 1 deductions to the equivalent amount of tangible equity and add that to the amount of tangible equity needed to support reported RWA for each division. Similarly, in the calculation of the asset driver, we now convert these tier 1 deductions to the equivalent amount of tangible equity and add that to the amount of tangible equity needed to support the reported leverage ratio denominator for each division.

We continue to use both internal assessments of risk (as reflected in the UBS Risk-Based Capital framework) and regulatory measures of risk as drivers, as we believe that both play a role in the amount of equity needed to strongly support each division and UBS as a whole. In addition, we believe it is useful for top management and the BoD to compare equity requirements derived from internal risk measures with equity requirements derived from regulatory capital requirements and standards.

Further, the equity attribution framework continues to be forward-looking. Therefore, with regard to the RWA and asset drivers, we will be taking into account during 2011 the impacts of the enhanced Basel II framework and Basel III requirements.

Average Attributed Equity

CHF Billion	4Q10	4Q09
Wealth Management	4.4	4.4
Retail & Corporate	4.6	4.6
Wealth Management & Swiss Bank	9.0	9.0
Wealth Management Americas	8.0	8.0
Global Asset Management	2.5	2.5
Investment Bank	27.0	24.0
Treasury activities and other corporate items	3.0	1.0
Average equity attributed to the business divisions	49.5	44.5
Surplus/(deficit)	(2.2)	(4.2)
Average equity attributable to UBS shareholders	47.3	40.3

Shares and Capital Instruments

Shares

UBS Shares and Tier 1 Capital

The majority of our tier 1 capital comprises share premium and retained earnings attributed to UBS shareholders. As of 31 December 2010, total IFRS equity attributable to our shareholders amounted to CHF 46,820 million, and was represented by a total of 3,830,840,513 shares issued, of which 38,892,031 (1.0%) were held by UBS.

In 2010, the shares issued were increased by a total of 272,727,760 shares due to the conversion of CHF 13 billion mandatory convertible notes (MCN) on 5 March 2010, leading to an issuance of 272,651,005 shares from conditional capital. In addition, the exercise of employee options led to the issuance of 76,755 shares.

Each share has a par value of CHF 0.10, and generally entitles the holder to one vote at the shareholders' meeting and to a proportionate share of distributed dividends. There are no preferential rights for shareholders and no other classes of shares are issued by the Parent Bank directly.

- Refer to the "Shareholders' participation rights" section of this report for more information.

Under Swiss company law, shareholders must approve in a shareholders' meeting any increase in the total number of issued shares, which may arise from an ordinary share capital increase or the creation of conditional or authorized capital. The table below lists all shareholder-approved issuances of shares at year-end 2010. It is our objective not to dilute shares by the issuance of additional shares unless it is warranted by stressed financial market conditions or by regulators.

Holding of UBS Shares

UBS holds own shares for two main purposes: in Group Treasury to cover employee share and option programs and in the Investment Bank, to a limited extent, for trading purposes where the Investment Bank engages in market-making activities in UBS shares and related derivative products. The holding of treasury shares on 31 December 2010 increased to 38,892,031 or 1.0% of shares issued, from 37,553,872 or 1.1% on the same date one year prior.

As of 31 December 2010, employee options and stock appreciation rights to receive 5.2 million shares were exercisable. Shares held in treasury or newly shares issued are delivered to the employee at exercise. On 31 December 2010, 25.8 million shares were available for this purpose, and an additional 149.9 million unissued shares in conditional share capital were assigned to cover future employee option exercises. At year-end 2010, the shares available covered all exercisable employee obligations.

The presentation in the table "Treasury share activities" shows the purchase of our shares by Group Treasury and does not include the activities of the Investment Bank.

Treasury Shares Held by the Investment Bank

The Investment Bank, acting as liquidity provider to the equity index futures market and as a market-maker in our shares and derivatives, has issued derivatives linked to UBS stock. Most of these instruments are classified as cash-settled derivatives and are primarily issued to meet client demand and for trading purposes. To hedge the economic exposure, a limited number of our shares are held by the Investment Bank.

Shares

	For the Year Ended
Number of Shares	31.12.10
Balance at the beginning of the year	3,558,112,753
Issue of shares for capital increase (conversion of MCN in March 2010)	272,651,005
Issue of shares for employee options	76,755
Balance at the end of the year	3,830,840,513

Shareholder-Approved Issuance of Shares

	Maximum Number of Shares to Be Issued	Year Approved by Shareholder General Meeting	% of Shares Issued 31.12.10
Conditional Capital			
SNB warrants	100,000,000	2009	2.61
Employee equity participation plans of UBS AG	149,920,712	2006	3.91
Conversion rights/ warrants granted in connection with bonds	380,000,000	2010	9.92
Total	629,920,712		16.44

Capital Instruments

In order to improve the quality of capital, regulators are proposing new requirements for capital instruments and creating a new category of capital instruments: contingent convertible bonds (CoCo). The changes proposed are designed to increase the resilience against a financial crisis and are expected to maintain the banks in crisis as going concerns. Regulators view these instruments as additional protection against systemic risks of large banks.

- Refer to the "Regulatory developments" section of this report for more information.

Mandatory Convertible Notes

As part of the measures taken to strengthen our capital base in 2008, we issued two MCN. The first had a principal amount

of CHF 13 billion and consisted of private placements with two financial investors. The second was placed with the Swiss Confederation and had a principal amount of CHF 6 billion. The CHF 6 billion MCN was converted on 25 August 2009. The CHF 13 billion MCN expired on 5 March 2010, and was mandatorily converted into 273 million of newly issued shares, representing 7.7% of our then issued share capital.

Hybrid Tier 1 Capital

Hybrid tier 1 instruments represent innovative and non-innovative perpetual instruments. They are accounted for under non-controlling interests in the IFRS equity. Hybrid tier 1 instruments are perpetual instruments which can only be redeemed if they are called by the issuer after having received regulatory approval. If such a call is not exercised at the call date, the terms might include a change from fixed to floating coupon payments and, in the case of innovative instruments only, a limited step-up of the interest rate. Non-innovative instruments do not have a step-up of the interest rate and are therefore viewed as having a higher equity characteristic for regulatory capital purposes. The instruments are issued either through trusts or our subsidiaries and rank senior to our shares in dissolution. Payments under the instruments are subject to adherence to our minimum capital ratios and other requirements. Any missed payment is non-cumulative. We did not issue hybrid tier 1 instruments in 2010 but redeemed USD 1.5 billion of trust preferred securities. As of 31 December 2010, we had CHF 4,903 million of such instruments in various currencies outstanding.

Treasury Share Activities

	Treasury Shares Purchased for Employee Share and Option Participation Plans and Acquisitions[1]		Total Number of Shares	
Month of Purchase	Number of Shares	Average Price in CHF	Number of Shares (Cumulative)	Average Price in CHF
January 2010	0	0.00	0	0.00
February 2010	45,000,000	14.20	45,000,000	14.20
March 2010	33,580,113	15.13	78,580,113	14.60
April 2010	0	0.00	78,580,113	14.60
May 2010	0	0.00	78,580,113	14.60
June 2010	0	0.00	78,580,113	14.60
July 2010	0	0.00	78,580,113	14.60
August 2010	900,000	16.93	79,480,113	14.63
September 2010	0	0.00	79,480,113	14.63
October 2010	0	0.00	79,480,113	14.63
November 2010	3,110,000	15.72	82,590,113	14.67
December 2010	670,000	15.70	83,260,113	14.68

[1] This table excludes market-making and related hedging purchases by UBS. The table also excludes UBS shares purchased by investment funds managed by UBS for clients in accordance with specified investment strategies that are established by each fund manager acting independently of UBS; and also excludes UBS shares purchased by pension and retirement benefit plans for UBS employees, which are managed by a board of UBS management and employee representatives in accordance with Swiss law guidelines. UBS's pension and retirement benefit plans purchased 53,000 UBS shares during the year and held 1,638,000 UBS shares as of 31 December 2010.

Conversion Price and Number of Shares

	Coupon	Amount (CHF Billion)	Issuance Date	Conversion Period/Maturity		Conversion Price Per UBS Share (CHF)	Conversion Into Number of UBS Shares
MCN	9%	13	5 March 2008	6 September 2008	5 March 2010	47.68[1]	272,651,005

[1] Adjusted for dilution effects of the capital increase.

Treasury Management (in part)

Tier 2 Capital

The major element in tier 2 capital consists of subordinated long-term debt. Tier 2 instruments have been issued in various currencies and with a range of maturities across capital markets globally. They accounted for CHF 8,239 million in total eligible capital as of year-end 2010. Tier 2 instruments rank senior to both our shares and to hybrid tier 1 instruments but are subordinated to all our senior obligations. In 2010, we redeemed EUR 1.2 billion floating rate subordinated notes.

Distributions to Shareholders

The decision whether to pay a dividend, and the level of the dividend, are dependent on our targeted capital ratios and cash flow generation. The decision on dividend payments is proposed by the BoD to the shareholders and is subject to their approval at the Annual General Meeting. The BoD has decided to further bolster capital and has therefore not proposed any dividend for the financial year 2010.

Dividends Declared and Not Recognized as a Liability

1.79

TAM S.A. (Dec 2010)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Significant Accounting Policies (in part)

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

2.1 Basis of Preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board—(IASB) and International Financial Reporting Interpretations Committee (IFRIC).

The consolidated financial statements were prepared under the historical cost model and the fair value measurement model for derivative financial instruments.

The first IFRS consolidated financial statements were prepared by the Company for the year ended December 31, 2008, in anticipation of the requirements in Brazilian Exchange Comission (CVM) Instruction 457/07, which established the preparation, by Brazilian listed companies, of consolidated financial statements in conformity with the pronouncements issued by the IASB. At that moment, the Company elected to adopt certain accounting policies, selected among those permitted by international accounting standards, including the policy of periodic revaluation of the carrying amount of its flight equipment. In its individual parent company financial statements, prepared in accordance with accounting practices adopted in Brazil, the revaluation of flight equipment was not considered, since this option is not legally provided for. As a result, the profit and equity presented in its individual financial statements were not equivalent to those in the consolidated financial statements.

Among the accounting policies adopted by Accounting Pronouncements Committee (CPC) for local purposes in its pronouncements, the option for measurement of assets at revalued cost is not included, considering the prohibition contained in the Brazilian Corporate Law.

On December 2, 2010, CVM issued CVM Resolution 647, approving Technical Pronouncement CPC 37 (R1)—First-time Adoption of International Accounting Standards. CPC 37 (R1) defines that, should the entity have disclosed its IFRS consolidated financial statements related to any year ended before January 1, 2009 in disagreement with the Brazilian accounting practices defined by CPC, it should restrict its divergences of accounting practices to those adopted when CPC 37(R1) was approved and requires that new diverging pronouncements shall not be adopted. Nevertheless, in such resolution, CVM included the requirement that listed companies that have already published their IFRS consolidated financial statements in disagreement with the accounting practices defined by CPC shall present detailed information supporting the maintenance of these differences, and CVM can accept or restrict them or determine their elimination.

On December 16, 2010, CVM issued CVM Resolution 651, approving Technical Pronouncement CPC 43(R1)—First-time Adoption of Technical Pronouncements CPC 15 to 41. One of the purposes of CPC 43(R1) is of, together with CPC 37(R1), permitting the presentation of equal net profit or loss and equity in the individual and in the consolidated financial statements of Brazilian entities. In it's introduction, CPC 43(R1) reaffirms the CPC's vision that it its fully undesirable to have two sets of statements with distinct accounting criteria and with different net profit or loss and equity. Thus, CPC 43(R1) permits adjustments in the individual financial statements of Brazilian companies, so that they may produce, when consolidated, the same amounts of assets, liabilities, equity, and profit or loss that the consolidation prepared under IFRSs and Technical Pronouncement CPC 37(R1). The Company understands that the difference presented between its individual and consolidated financial statements, due to the recognition of flight equipment revaluation, is in accordance with the accounting practice issued by the CPCs and IFRSs issued by IASB until now.

Since the recognition of the effects of flight equipment revaluation in the Company's individual financial statements, basis for payment of dividends, is prohibited by law, and considering the purposes of CPC 43(R1) and CVM that preferably no differences exist between profit or loss and equity in the individual and consolidated financial statements, the Company's management elected to change its accounting policy related to measurement of its flight equipment in the preparation of its consolidated financial statements for consistency with its individual financial statements. Such change in accounting policy has effects on the consolidated financial statements prepared in accordance with IFRS previously issued for the years ended December 31, 2009, 2008 and 2007. Therefore these consolidated financial statements prepared in accordance with IFRS and the accounting practices adopted in Brazil differ from IFRS financial statements previously issued as detailed in Note 4.

4. Adjustments Retroactive to the Financial Statements Consolidated for the Prior Period

As mentioned in note 2.1, at December 31, 2010, the Company decided to change the accounting policy related to recognition of flight equipment revaluation in its consolidated financial statements, in order that the consolidated profit and equity may be equivalent to those presented in the parent company's individual financial statements since the Brazilian corporate law does not permit the revaluation of assets. This change in accounting policy has effects on the consolidated financial statements presented for comparative purposes for the years ended December 31, 2009, 2008 and 2007 previously issued.

The effects of retroactive adjustments at December 31, 2009, 2008 and 2007 are as follows:

	December 31, 2009		
	As Originally Presented	Retrospective Adjustment	Adjusted
Effects on Balance Sheet			
Property, plant and equipment	6,910,496	1,223,532	8,134,028
Deferred income tax and social contribution asset	621,788	(427,912)	193,876
Total	7,532,284	795,620	8,327,904
Revaluation reserve	116,504	(116,504)	
Retained earnings (accumulated deficit) and other reserves	(296,993)	912,124	615,131
Total	(180,489)	795,620	615,131

	December 31, 2008		
	As Originally Presented	Retrospective Adjustment	Adjusted
Effects on Balance Sheet			
Property, plant and equipment	9,663,452	(1,566,101)	8,097,351
Deferred income tax and social contribution asset	306,969	532,474	839,443
Total	9,970,421	(1,033,627)	8,936,794
Revaluation reserve	1,146,829	(1,146,829)	
Accumulated deficit and other reserves	(499,433)	113,202	(386,231)
Total	647,396	(1,033,627)	(386,231)

	December 31, 2007		
	As Originally Presented	Retrospective Adjustment	Adjusted
Effects on Balance Sheet			
Property, plant and equipment	5,781,076	83	5,781,159
Deferred income tax and social contribution asset	4,770	(19)	4,751
Total	5,785,846	64	5,785,910
Revaluation reserve	284,465	(284,465)	
Accumulated deficit and other reserves	946,125	284,529	1,230,654
Total	1,230,590	64	1,230,654

	December 31, 2009		
	As Originally Presented	Retrospective Adjustment	Adjusted
Effects on Profit or Loss			
Operating expenses	(9,595,826)	40,194	(9,555,632)
Gains (losses) on revaluation of aircraft	(1,207,608)	1,207,608	
Operating profit (loss) before income tax and social contribution	650,196	1,247,802	1,897,998
Income tax and social contribution	(212,781)	(436,758)	(649,539)
Profit for the year	437,415	811,044	1,248,459
Earnings per share—basic	2.90		8.30
Earnings per share—diluted	2.90		8.29
Effects on Comprehensive Income (Loss) for the Year			
Revaluation of property, plant and equipment	(1,017,255)	1,017,255	
Profit for the year	437,415	811,044	1,248,459
Total comprehensive income (loss) for the year	(599,944)	1,828,299	1,228,356

	December 31, 2008		
	As Originally Presented	Retrospective Adjustment	Adjusted
Effects on Profit or Loss			
Operating expenses	(9,954,107)	18,670	(9,935,437)
Gains (losses) on revaluation of aircraft	242,370	(242,370)	
Operating profit (loss) before income tax and social contribution	(2,068,013)	(223,700)	(2,291,713)
Income tax and social contribution	634,243	75,931	710,174
Profit for the year	(1,433,770)	(147,769)	(1,581,539)
Earnings per share—basic	(9.54)		(10.52)
Earnings per share—diluted	(9.54)		(10.52)
Effects on Comprehensive Income (Loss) for the Year			
Revaluation of property, plant and equipment	885,921	(885,921)	
Profit for the year	(1,433,770)	(147,769)	(1,581,539)
Total comprehensive income (loss) for the year	(534,697)	(1,033,690)	(1,568,387)

	December 31, 2007		
	As Originally Presented	Retrospective Adjustment	Adjusted
Effects on Profit or Loss			
Operating expenses	(7,698,478)	(11,009)	(7,709,487)
Gains (losses) on revaluation of aircraft	(224,701)	224,701	
Operating profit (loss) before income tax and social contribution	477,720	213,692	691,412
Income tax and social contribution	(145,941)	(67,808)	(213,749)
Profit for the year	331,779	145,884	477,663
Earnings per share—basic	2.20		3.17
Earnings per share—diluted	2.19		3.15
Effects on Comprehensive Income (Loss) for the Year			
Revaluation of property, plant and equipment	(17,370)	17,370	
Profit for the year	331,779	145,884	477,663
Total comprehensive income (loss) for the year	310,872	163,254	474,126

Change in Accounting Estimate

1.80

Absa Group Limited (Dec 2010)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

24. Policyholder Liabilities Under Insurance Contracts (in part)

24.2 Reconciliation of the Gross Long-Term Insurance Contracts

	Group	
	2010 Rm	2009 Rm
Balance at the beginning of the year	1,402	1,493
Reinsurance liability	16	(31)
Transfer from statement of comprehensive income (refer to note 34)	45	(60)
Increase in retrospective liabilities	165	152
Unwind of discount rate	34	32
New business	59	33
Change in methodology	(34)	39
Change in economic assumptions	37	(86)
Changes in non-economic assumptions	(154)	(158)
Expected cash flow	354	259
Expected release of margins	(411)	(337)
Experience variances	(5)	6
Balance at the end of the year (refer to note 24)	1,463	1,402
Recoverable from reinsurers	58	41
Net liabilities	1,405	1,361
Unit-linked liabilities	1,049	898
Non-linked liabilities	356	463
	1,463	1,402

Change in Accounting Estimate—Changes in Non-Economic Assumptions

One of the margins established in terms of the Group's accounting policy, is that future investment management charges on unit-linked business are not recognised when determining the value of policyholder liabilities under insurance contracts. The Group earns investment management fees on the investment balances held in respect of unit-linked business. PGN 104 allows for the inclusion of expected future investment management fees when determining the best estimate of future cash flows. The best estimate of future cash flows is used in the calculation of the policyholder liabilities. Allowing for the future investment management charges in the best estimate of future cash flows will reduce the policyholder liability. Management previously considered it appropriate not to provide for this margin as asset-based fees are more appropriately accounted for as and when they are received. However, the emergence of investment management charges in the Group's financial statements have been consistent and can be expected to continue into the future. Furthermore, PGN 104 allows for the explicit recognition in the liabilities of factors that are expected to be received in terms of the policy contracts. During the current reporting period management has reassessed the margin held in respect of future investment management fees. Management considered it appropriate to revise the margin to take full account of the future investment management charges expected to be received on unit-linked business, based on additional experience of the emergence of investment management fees.

This has resulted in a decrease in policyholder liabilities and an increase in profit before taxation of R117 million (a reduced lapse margin was previously held on certain regular premium business against the uncertainty and inherent volatility associated with future lapses, which resulted in a release of R162 million in 2009). This amount is taxed in the corporate fund at 28%, amounting to R32,8 million, as it represents a transfer from the individual policyholders fund to the corporate fund.

Correction of an Error

1.81

Alumina Limited (Dec 2010)

CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2010

		US$ Million		
	Notes	**2010**	**2009**	**1 January 2009(*)**
Current Assets				
Cash and cash equivalents	10	112.1	305.6	46.3
Derivative financial instruments		5.0	—	4.6
Receivables	11	0.2	0.1	50.4
Other assets		9.4	8.6	1.1
Total current assets		126.7	314.3	102.4
Non-Current Assets				
Investments accounted for using the equity method	12	3,415.6	3,189.7	2,597.0
Property, plant and equipment	13	0.2	0.2	0.1
Deferred tax assets	17	—	—	1.5
Total non-current assets		3,415.8	3,189.9	2,598.6
Total assets		3,542.5	3,504.2	2,701.0
Current Liabilities				
Payables	14	5.9	5.3	38.5
Interest-bearing liabilities	15	217.7	—	250.0
Derivative financial instruments		—	1.4	—
Current tax liabilities		—	—	0.3
Provisions	16	0.2	0.2	0.1
Other		0.6	0.8	1.1
Total current liabilities		224.4	7.7	290.0
Non-Current Liabilities				
Interest-bearing liabilities	15	246.2	577.9	475.9
Provisions	18	0.4	0.3	0.2
Total non-current liabilities		246.6	578.2	476.1
Total liabilities		471.0	585.9	766.1
Net assets		3,071.5	2,918.3	1,934.9
Equity				
Contributed equity	19	2,154.1	2,154.1	1,000.8
Treasury shares	21(e)	(1.5)	(1.0)	(0.6)
Reserves:				
—Group	21	4.3	(205.6)	172.4
—Associates	21	2.5	1.7	1.3
Retained profits:				
—Group	21(d)	903.6	803.0	515.2
—Associates	12(c)	8.5	166.1	245.8
Total equity		3,071.5	2,918.3	1,934.9

(*) See note 1(a) for details regarding the change in accounting policy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

22. Revision of Financial Statements for 31 December 2008

We have revised our consolidated financial statements as of and for the comparative years ended 31 December 2008 and 2009.

In May 2011 the Company identified an error related to the 2008 financial statements which resulted from differences between US GAAP and IFRS accounting regarding the joint venture's defined benefit plans. The impact of the error resulted in an overstatement of share of net profit of associates for the year 2008 of $23.9 million. The error also understated equity reserves for the year ended 31 December 2008 by $23.9 million. The opening balances for certain 2009 equity accounts have been adjusted to reflect the revised 2008 numbers. As the errors were of a non-cash nature which did not impact

the Company's cash position, business activities or prospects, the Company after having assessed the materiality of this misstatement in accordance with the SEC's Staff Accounting Bulletin (SAB) No. 99 concluded that these errors were not material to our previously issued consolidated financial statements for 2008.

Accordingly, by reference to SAB No. 108, our previously issued consolidated financial statements have been revised as shown in the tables below. Effective in 2010, the Company has changed to US presentation currency retrospectively and accordingly the 2008 figures are presented in US dollars.

Revision to Consolidated Statements of Comprehensive Income

	Year Ended and as of 31 December 2008		
(In US$ Millions, Except Per Share Amounts)	As Previously Reported	Revision	As Revised
Share of net profits of associates accounted for using the equity method	206.7	(23.9)	182.8
Profit/(loss) before income tax	145.3	(23.9)	121.4
Profit/(loss) for the year	143.1	(23.9)	119.2
Foreign exchange translation difference	(115.5)	23.9	(91.6)
Other comprehensive income/(loss) for the year, net of tax	(115.5)	23.9	(91.6)
Basic earnings per share	9.6¢	(1.6¢)	8.0¢
Diluted earnings per share	9.6¢	(1.6¢)	8.0¢

Revision to Consolidated Balance Sheets

	Year Ended and as of 31 December 2009			Year Ended and as of 31 December 2008		
(In US$ Millions, Except Per Share Amounts)	As Previously Reported	Revision	As Revised	As Previously Reported	Revision	As Revised
Reserves-Group	(229.5)	23.9	(205.6)	148.5	23.9	172.4
Retained profits-Associates	190.0	(23.9)	166.1	269.7	(23.9)	245.8

TABLE 1-8: COMMITMENTS AND CONTINGENCIES

	2010	2009
Commitments		
Business combinations	9	9
Capital expenditures	107	108
Collaboration and licensing arrangements	14	14
Commitments to associates and joint ventures	21	19
Commitments to extend credit	12	12
Commitments to purchase goods and services	45	42
Commitments to purchase investments	15	9
Compensation agreements	1	1
Environmental matters	23	18
Leases	142	140
Pensions and other employee benefits	10	8
Total	399	380
Contingencies		
Contractual disputes, including arbitration	10	9
Debt obligations	17	14
Guarantees	106	104
Letters of credit	25	19
Litigations	122	111
Related to government grants	3	5
Taxation	30	27
Total	313	307
Other commitments or contingencies	66	62

1.82

AstraZeneca plc (Dec 2010)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

25. Commitments and Contingent Liabilities

	2010 $m	2009 $m	2008 $m
Commitments			
Contracts placed for future capital expenditure on property, plant and equipment and software development costs not provided for in these accounts	259	368	178

Guarantees and contingencies arising in the ordinary course of business, for which no security has been given, are not expected to result in any material financial loss.

Research and Development Collaboration Payments

The Group has various ongoing collaborations including in-licensing and similar arrangements with development partners. Such collaborations may require the Group to make payments on achievement of stages of development, launch or revenue milestones although the Group generally has the right to terminate these agreements at no cost. The Group recognises research and development milestones as

intangible assets once it is committed to payment, which is generally when the Group reaches set trigger points in the development cycle. Revenue-related milestones are recognised as intangible assets on product launch at a value based on the Group's long-term revenue forecasts for the related product. The table below indicates potential development and revenue-related payments that the Group may be required to make under such collaborations.

	Total $m	Under 1 year $m	Years 1 and 2 $m	Years 3 and 4 $m	Years 5 and Greater $m
Future potential research and development milestone payments	3,106	115	711	646	1,634
Future potential revenue milestone payments	3,234	–	2	70	3,162

The table includes all potential payments for achievement of milestones under ongoing research and development arrangements. Revenue-related milestone payments represent the maximum possible amount payable on achievement of specified levels of revenue as set out in individual contract agreements, but exclude variable payments that are based on unit sales (eg royalty-type payments) which are recognised as the associated sale is recognised in the comprehensive income statement. The table excludes any payments already capitalised in the financial statements for the year ended 31 December 2010 and excludes payments under the Merck agreements (detailed below).

The future payments we disclose represent contracted payments and, as such, are not discounted and are not risk adjusted. As detailed in the Principal risks and uncertainties section from page 96, the development of any pharmaceutical product candidate is a complex and risky process that may fail at any stage in the development process due to a number of factors (including items such as failure to obtain regulatory approval, unfavourable data from key studies, adverse reactions to the product candidate or indications of other safety concerns). The timing of the payments is based on the Group's current best estimate of achievement of the relevant milestone.

Arrangements With Merck

Introduction

In 1982, Astra AB set up a joint venture with Merck & Co., Inc. (now Merck Sharp & Dohme Corp., a subsidiary of the new Merck & Co., Inc. that resulted from the merger with Schering-Plough) (Merck) for the purposes of selling, marketing and distributing certain Astra products in the US. In 1998, this joint venture was restructured (Restructuring). Under the agreements relating to the Restructuring (Agreements), a US limited partnership (Partnership) was formed, in which Merck is the limited partner and AstraZeneca is the general partner, and AstraZeneca obtained control of the joint venture's business subject to certain limited partner and other rights held by Merck and its affiliates. These rights provide Merck with safeguards over the activities of the Partnership and place limitations on AstraZeneca's commercial freedom to operate. The Agreements provided for:

- A payment to Merck in the event of a business combination between Astra and a third party in order for Merck to relinquish certain claims to that third party's products.
- Annual contingent payments.
- Termination arrangements which cause Merck to relinquish its interests in AstraZeneca's products and activities in stages, some of which are mandatory and others optional.

These elements are discussed in further detail below, together with a summary of their accounting treatments.

Payment in the Event of a Business Combination

On the merger of Astra and Zeneca, a one-time lump sum payment of $809m was triggered. As a result of this payment, Merck relinquished any claims it may have had to Zeneca products.

This payment was expensed at the point of merger since it caused no incremental benefits over the prior years' aggregate Astra and Zeneca performance to accrue to the merged AstraZeneca entity.

Annual Contingent Payments

AstraZeneca makes ongoing payments to Merck based on sales of certain of its products in the US (the 'contingent payments' on the 'agreement products'). AstraZeneca will continue to make contingent payments to Merck until at least 2012. Contingent payments (excluding those in respect of *Prilosec*, *Nexium* and the authorised generic version of felodipine) ceased in 2010 as AstraZeneca exercised the First Option (as discussed under First Option below); contingent payments in respect of *Prilosec* and *Nexium* will cease in late 2012 if AstraZeneca exercises the Second Option that year (as discussed under Second Option below); contingent payments in respect of the authorised generic version of felodipine will continue at least until June 2011.

The annual contingent payments on agreement products are expensed as incurred.

Termination Arrangements

The Agreements provided for arrangements and payments under which, subject to the exercise of certain options, the rights and interests in AstraZeneca's activities and products held by Merck immediately prior to the merger would be terminated, including details of:

- the Advance Payment
- the Partial Retirement
- the True-Up
- the Loan Note Receivable
- the First Option
- Second Option.

Advance Payment

The merger between Astra and Zeneca in 1999 triggered the first step in the termination arrangements. Merck relinquished all rights, including contingent payments on future sales, to potential Astra products with no existing or pending US patents at the time of the merger. As a result, AstraZeneca now has rights to such products and is relieved of potential obligations to Merck and restrictions in respect of those products (including annual contingent payments), affording AstraZeneca substantial freedom to exploit the products as it sees fit.

At the time of the merger, the Advance Payment was paid. It was calculated as the then net present value of $2.8bn discounted from 2008 to the date of merger at a rate of 13% per annum and amounted to $967m. It was subject to a true-up in 2008 (as discussed under True-Up below).

Partial Retirement

In March 2008, there was a partial retirement of Merck's limited partnership interest by payment to Merck of an amount calculated as a multiple of the average annual contingent payments from 2005 to 2007 on the relevant products, plus $750m. The payment was $4,271m.

Upon the Partial Retirement, Merck's rights in respect of certain of the agreement products ended. The products covered by the Partial Retirement include *Toprol-XL*, *Pulmicort*, *Rhinocort* and *Symbicort*.

True-Up

In 2008, in accordance with the Agreements, there was a True-Up of the Advance Payment. The True-Up amount was based on a multiple of the average annual contingent payments from 2005 to 2007 in respect of all the agreement products with the exception of *Prilosec* and *Nexium* (subject to a minimum of $6.6bn), plus other defined amounts (totalling $912m). In accordance with the Agreements, the calculated amount was then reduced by the Appraised Value (as discussed under 'First Option' below), the Partial Retirement and the Advance Payment (at its undiscounted amount of $2.8bn). This True-Up amount was settled in an amount equal to $241m owed by Merck to AstraZeneca.

Loan Note Receivable

Included in the assets and liabilities covered by the Restructuring was a loan note receivable by AstraZeneca from Merck with a face value of $1.38bn. In 2008, at the same time as the settlement of the Partial Retirement and the True-Up, Merck settled the loan note receivable by paying AstraZeneca $1.38bn.

If Merck had exercised the First Option in 2008, the net minimum payment that would have been made to Merck would have been $3.3bn, being the minimum combined payments of $4.7bn specified in the Agreements on the Partial Retirement, the True-Up and First Option, less the repayment of the loan note of $1.38bn. In accounting for the Restructuring in 1998, the loan note was included in the determination of the fair values of the assets and liabilities to be acquired. At that time, the loan note was ascribed a fair value of zero on acquisition and on the balance sheet, because it was estimated that the net minimum payment of $3.3bn equated to the fair value of the rights to be acquired under the Partial Retirement, True-Up and First Option.

First Option

In accordance with the Agreements, in 2008 a calculation was made of the Appraised Value, being the net present value of the future contingent payments in respect of all agreement products not covered by the Partial Retirement, other than *Prilosec* and *Nexium*. The Appraised Value was calculated in 2008 as $647m.

Payment of the Appraised Value to Merck in March 2008 would have taken place only if Merck had exercised the First Option in 2008. Merck did not exercise this option. Under the Agreements AstraZeneca could exercise the First Option in the first two months of 2010 for a sum equal to the 2008 Appraised Value.

In 2010, AstraZeneca gave Merck an irrevocable notice of its intention to exercise the First Option. Payment of $647m to Merck was made on 30 April 2010. This payment resulted in AstraZeneca acquiring Merck's interests in products covered by the First Option including *Entocort*, *Atacand*, *Plendil* and the authorised generic version of felodipine, and certain products still in development (principally *Brilinta* and lesogaberan (AZD3355)). On 30 April 2010, contingent payments on these products ceased with respect to periods after this date (except for contingent payments on the authorised generic version of felodipine, which will continue at least until June 2011) and AstraZeneca obtained the ability to exploit these products and other opportunities in the Cardiovascular and Neuroscience therapy areas. As detailed in Note 9, the intangible asset relating to lesogaberan (AZD3355) of $128m was subsequently impaired to a value of nil following a decision to terminate further development of this compound.

Second Option

AstraZeneca may exercise a Second Option to repurchase Merck's interests in *Prilosec* and *Nexium* in the US. This option is exercisable by AstraZeneca in 2012, or in 2017, or if combined annual sales of the two products fall below a minimum amount. AstraZeneca's consummation of the Second Option will end the contingent payments in respect of *Prilosec* and *Nexium* and will effectively end AstraZeneca's relationship with, and obligations to, Merck (other than some residual manufacturing arrangements). In September 2010, AstraZeneca and Merck reached an agreement with respect to the treatment of *Vimovo* under the Agreements, pursuant to which AstraZeneca will pay Merck certain amounts with respect to *Vimovo* only if it exercises the Second Option and as part of the exercise price for the Second Option.

The exercise price for the Second Option is the net present value of the future annual contingent payments on *Nexium* and *Prilosec* as determined at the time of exercise and the net present value of up to 5 percent of future US sales of *Vimovo*, with the precise amount dependent on the level of annual sales and the timing of the option exercise. The exercise price of the Second Option cannot be determined at this time.

Accounting Treatment of Termination Arrangements

AstraZeneca considers that the termination arrangements described above represent the acquisition, in stages, of Merck's interests in the Partnership and agreement products (including Merck's rights to contingent payments) and depend, in part, on the exercise of the First and Second Options. The effects will only be reflected in the financial statements as these stages are reached. If and when all such payments are

made, AstraZeneca will have unencumbered discretion in its operations in the US market.

AstraZeneca anticipates that the benefits that accrue under all of the termination arrangements arise:

- Currently, from the substantial freedom over products acquired or discovered post-merger.
- On occurrence of each stage of such arrangements, from enhanced contributions from, and substantial freedom over, those products that have already been launched (for example, *Pulmicort*, *Symbicort*, *Rhinocort* and *Atacand*), and those that are in development.

Economic benefits include relief from contingent payments, anticipated cost savings from cessation of manufacturing arrangements and other cost efficiencies, together with the strategic advantages of increased freedom to operate.

The Advance Payment has been accounted for as an intangible asset and is being amortised over 20 years. This approach reflects the fact that, under the Agreements, AstraZeneca has acquired rights relieving it of potential obligations and restrictions in respect of Astra products with no existing or pending patents at the time of merger. Although these rights apply in perpetuity, the period of amortisation of 20 years has been chosen to reflect the typical timescale of development and marketing of a product.

The net payment made in 2008, consisting of the Partial Retirement of $4.271bn less the True-Up of $241m and loan note receivable of $1.38bn, in total $2.6bn, has been capitalised as intangible assets.

Part of the net payment made in 2008 resulted in AstraZeneca acquiring Merck's interests in certain AstraZeneca products, including *Pulmicort*, *Rhinocort*, *Symbicort* and *Toprol-XL*. Consequently AstraZeneca no longer has to make contingent payments on these products to Merck and has obtained the ability to fully exploit these products and to fully exploit other opportunities in the respiratory therapy area that AstraZeneca was previously prevented from doing by Merck's interests in these products. Intangible assets aggregating $994m have been recognised in respect of these acquired product rights and these are being amortised over various periods, giving rise to an annual expense of approximately $60m going forward.

The balance of the net payment made in 2008 ($1,656m) represented 'non-refundable deposits' for future product rights associated with the First and Second Options. In 2010, $647m was recognised as an intangible asset as a result of payment of the Appraised Value for the First Option (see above). Together with the $1,656m non-refundable deposits recognised in 2008, the total sum of $2,303m was allocated as follows: $689m to contingent payment relief, $1,140m to intangible assets reflecting the ability to fully exploit the products in the cardiovascular and neuroscience therapy areas, and $474m as non-refundable deposits associated with the Second Option. The intangible assets recognised on exercise of the First Option give rise to an additional amortisation expense in the range of $20m to $50m per annum charged to cost of sales in respect of contingent payment relief, the precise amount dependent upon the launch status of the covered pipeline compounds, and an additional charge to SG&A of around $60m per annum. Amortisation on these intangible assets began when the $647m payment was made on 30 April 2010. The remaining $474m relating to the non-refundable deposits will not be subject to amortisation until the Second Option is exercised and the related product rights are acquired. If the Second Option is exercised then amortisation related to the ability to exploit opportunities in the gastrointestinal therapy area will commence, in the amount of around $25m per annum (charged to SG&A), as well as an as yet indeterminable amount of amortisation related to relief from contingent payments.

The intangible assets relating to purchased product rights and the intangible assets relating to non-refundable deposits are subject to impairment testing and would be partially or wholly impaired if a product is withdrawn or if activity in any of the affected therapy areas is significantly curtailed. Consequently, following the discontinuation of the development of lesogaberan (AZD3355) in the third quarter of 2010, an impairment of $128m was recognised. If it becomes probable that the Second Option will not be exercised, the non-refundable deposits for the product rights to be acquired under the Second Option will be expensed immediately.

Environmental Costs and Liabilities

The Group's expenditure on environmental protection, including both capital and revenue items, relates to costs which are necessary for implementing internal systems and programmes, and meeting legal and regulatory requirements for processes and products.

They are an integral part of normal ongoing expenditure for carrying out the Group's research, manufacturing and commercial operations and are not separated from overall operating and development costs. There are no known changes in legal, regulatory or other requirements resulting in material changes to the levels of expenditure for 2008, 2009 or 2010.

In addition to expenditure for meeting current and foreseen environmental protection requirements, the Group incurs costs in investigating and cleaning up land and groundwater contamination. In particular, AstraZeneca has environmental liabilities at some currently or formerly owned, leased and third party sites.

In the US, Zeneca Inc., and/or its indemnitees, have been named as potentially responsible parties (PRPs) or defendants at approximately 19 sites where Zeneca Inc. is likely to incur future environmental investigation, remediation, operation and maintenance costs under federal or state, statutory or common law environmental liability allocation schemes (together, US Environmental Consequences). Similarly, Stauffer Management Company LLC (SMC), which was established in 1987 to own and manage certain assets of Stauffer Chemical Company acquired that year, and/or its indemnitees, have been named as PRPs or defendants at approximately 31 sites where SMC is likely to incur US Environmental Consequences. Outside the US, AstraZeneca has given indemnities to third parties in respect of approximately 22 sites. These environmental liabilities arise from legacy operations that are not part of the Group's current pharmaceutical business and, at most of these sites, remediation, where required, is either completed or nearing completion.

AstraZeneca has made provisions for the estimated costs of future environmental investigation, remediation, operation and maintenance activity beyond normal ongoing expenditure for maintaining the Group's R&D and manufacturing capacity and product ranges. Where a present obligation exists, it is probable that such costs will be incurred and they can be estimated reliably. With respect to such estimated future costs, there were provisions at 31 December 2010 in the aggregate of $106m, which mainly relate to the US. These provisions do not include possible additional costs that are not currently probable. Where we are jointly liable or otherwise have cost sharing agreements with third parties, we reflect

only our share of the obligation. Where the liability is insured in part or in whole by insurance or other arrangements for reimbursement, an asset is recognised to the extent that this recovery is virtually certain.

It is possible that AstraZeneca could incur future environmental costs beyond the extent of our current provisions. The extent of such possible additional costs is inherently difficult to estimate due to a number of factors, including: (1) the nature and extent of claims that may be asserted in the future; (2) whether AstraZeneca has or will have any legal obligation with respect to asserted or unasserted claims; (3) the type of remedial action, if any, that may be selected at sites where the remedy is presently not known; (4) the potential for recoveries from or allocation of liability to third parties; and (5) the length of time that the environmental investigation, remediation and liability allocation process can take. Notwithstanding and subject to the foregoing, it is estimated that potential additional loss for future environmental investigation, remediation and remedial operation and maintenance activity above and beyond our provisions could be, in aggregate, in the order of $20m to $40m, which relates solely to the US.

Legal Proceedings

AstraZeneca is involved in various legal proceedings considered typical to its business, including actual or threatened litigation and/or actual or potential government investigations relating to employment matters, product liability, commercial disputes, pricing, sales and marketing practices, infringement of intellectual property rights, the validity of certain patents and anti-trust laws. The more significant matters are discussed below.

Most of the claims involve highly complex issues. Often these issues are subject to substantial uncertainties and therefore the probability of a loss, if any, being sustained and an estimate of the amount of any loss is difficult to ascertain. Consequently, for a majority of these claims, it is not possible to make a reasonable estimate of the expected financial effect, if any, that will result from ultimate resolution of the proceedings. In these cases, AstraZeneca discloses information with respect to the nature and facts of the cases.

With respect to each of the legal proceedings described below, other than those for which provision has been made, we are unable to make estimates of the possible loss or range of possible losses at this stage, other than as set forth herein. We also do not believe that disclosure of the amount sought by plaintiffs, if that is known, would be meaningful with respect to those legal proceedings. This is due to a number of factors, including (1) the stage of the proceedings (in many cases trial dates have not been set) and the overall length and extent of pre-trial discovery; (2) the entitlement of the parties to an action to appeal a decision; (3) clarity as to theories of liability, damages and governing law; (4) uncertainties in timing of litigation; and (5) the possible need for further legal proceedings to establish the appropriate amount of damages, if any.

However, although there can be no assurance regarding the outcome of any of the legal proceedings referred to in this Note 25, based on management's current and considered view of each situation, we do not currently expect them to have a material adverse effect on our financial position. This position could of course change over time, not least because of the factors referred to above.

In cases that have been settled or adjudicated, or where quantifiable fines and penalties have been assessed and which are not subject to appeal (or other similar forms of relief), or where a loss is probable and we are able to make a reasonable estimate of the loss, we indicate the loss absorbed or the amount of the provision accrued.

Where it is considered that the Group is more likely than not to prevail, legal costs involved in defending the claim are charged to profit as they are incurred.

Where it is considered that the Group has a valid contract which provides the right to reimbursement (from insurance or otherwise) of legal costs and/or all or part of any loss incurred or for which a provision has been established, and we consider recovery to be virtually certain, the best estimate of the amount expected to be received is recognised as an asset.

Assessments as to whether or not to recognise provisions or assets, and of the amounts concerned, usually involve a series of complex judgements about future events and can rely heavily on estimates and assumptions. AstraZeneca believes that the provisions recorded are adequate based on currently available information and that the insurance recoveries recorded will be received. However, given the inherent uncertainties involved in assessing the outcomes of these cases, and in estimating the amount of the potential losses and the associated insurance recoveries, we could in future periods incur judgments or insurance settlements that could have a material adverse effect on our results in any particular period.

Intellectual property claims include challenges to the Group's patents on various products or processes and assertions of non-infringement of patents. A loss in any of these cases could result in loss of patent protection on the related product. The consequences of any such loss could be a significant decrease in sales of the product, which could have a materially adverse effect on our future results. The lawsuits pending against companies that have filed ANDAs in the US, seeking to market generic forms of products sold by the Group prior to the expiry of the applicable patents covering these products, typically include allegations of non-infringement, invalidity and unenforceability of these patents. In the event that the Group is not successful in these actions or the statutory 30-month stay expires before a ruling is obtained, the companies involved will also have the ability, subject to FDA approval, to introduce generic versions of the product concerned.

AstraZeneca has full confidence in, and will vigorously defend and enforce, its intellectual property.

Accolate (zafirlukast)

Patent Litigation—US

As previously reported, in June 2008, AstraZeneca commenced patent infringement litigation against Dr. Reddy's Laboratories, Ltd and Dr. Reddy's Laboratories, Inc. (together, DRL) in the US District Court for the District of New Jersey for infringement of US Patent Nos. 5,319,097 (the '097 patent), 5,482,963 (the '963 patent) and 6,143,775 (the '775 patent). In 2009, the parties agreed to dismiss without prejudice all claims and counterclaims based on the '097 and '775 patents. In February 2010, DRL filed a motion for summary judgment based on prosecution history estoppel. AstraZeneca applied for summary judgment in response. In November 2010, the US District Court for the District of New Jersey denied AstraZeneca's motion and granted DRL a summary judgment that DRL's zafirlukast tablets did not infringe the '963 patent. In December 2010, AstraZeneca filed a Notice of Appeal to the US Court of Appeals for the Federal Circuit. In January 2011, AstraZeneca and DRL entered into a settlement agreement under which AstraZeneca will dismiss its appeal and

give DRL a covenant-not-to-sue respecting DRL's zafirlukast ANDA product.

Arimidex (anastrozole)

Patent Litigation—Canada

In 2009, AstraZeneca received a Notice of Allegation from Mylan Pharmaceuticals ULC (Mylan) in respect of Canadian Patent No. 1,337,420 (the '420 patent) listed on the Canadian Patent Register for *Arimidex*. AstraZeneca filed a Notice of Application in federal court seeking an order prohibiting the Minister of Health from issuing a Notice of Compliance to Mylan for its anastrozole tablets until the expiration of the '420 patent. In October 2010, the hearing in this matter was scheduled for three days commencing on 31 May 2011.

Atacand (candesartan cilexetil)

Patent Litigation—US

In November 2010, AstraZeneca received a Paragraph IV Certification notice-letter from Apotex Inc. (Apotex) informing AstraZeneca that Apotex was seeking approval to market a generic version of *Atacand* prior to the expiration of US Patent No. 5,534,534 (the '534 patent). Apotex alleged that its product did not infringe the '534 patent. AstraZeneca did not file suit in response to Apotex's letter.

Patent Litigation—Canada

In April 2009, AstraZeneca received a Notice of Allegation from Sandoz Canada Inc. (Sandoz) in respect of Canadian Patent Nos. 2,040,955 (the '955 patent) and 2,083,305 (the '305 patent) listed on the Canadian Patent Register for *Atacand*. Sandoz indicated it would await the expiry of the '955 patent, but alleged that the '305 patent was not infringed and was not properly listed on the Canadian Patent Register.

In May 2009, AstraZeneca filed a Notice of Application in federal court seeking an order prohibiting the Minister of Health from issuing a Notice of Compliance to Sandoz for its 4, 8 and 16mg candesartan cilexetil tablets until the expiration of the '305 patent. In December 2009, AstraZeneca discontinued the proceeding.

In March 2010, AstraZeneca received a Notice of Allegation from Cobalt Pharmaceuticals Inc. (Cobalt) in respect of the '955 and '305 patents listed on the Canadian Patent Register for *Atacand*. Cobalt has confirmed it will await the expiry of the '955 patent. For the '305 patent, Cobalt alleges that the patent is not infringed, is invalid, irrelevant and not properly listed. AstraZeneca did not commence an application in response.

In April 2010, AstraZeneca received a Notice of Allegation from Pharmascience Inc. (PMS) in respect of the '305 patent listed on the Canadian Patent Register for *Atacand*. PMS alleges that the formulation patent is not infringed. PMS has not addressed the '955 patent and must await its expiry in April 2011 before it may receive its marketing authorisation. AstraZeneca did not commence an application in response.

In May 2010, AstraZeneca received a Notice of Allegation from Mylan Pharmaceuticals ULC (Mylan) in respect of the '955 and '305 patents listed on the Canadian Patent Register for *Atacand*. Mylan has confirmed it will await the expiry of the '955 patent. Mylan alleged that the '305 patent is not infringed, is improperly listed and is invalid. AstraZeneca did not commence an application in response.

In June 2010, AstraZeneca received a Notice of Allegation from Sandoz in respect of the '305 patent and relating to the 32mg strength of *Atacand*, not previously addressed by Sandoz. Sandoz alleges that the '305 patent is not infringed and is improperly listed. Sandoz does not address the '955 patent and must await its expiry before it may receive its marketing authorisation. AstraZeneca did not commence an application in response.

In August 2010, AstraZeneca received a Notice of Allegation from Teva Canada Limited (Teva) in respect of the '955 patent and the '305 patent listed on the Canadian Patent Register for *Atacand*. AstraZeneca did not commence an application in response. In December 2010, AstraZeneca received another Notice of Allegation from Teva in respect of the '955 and '305 patents listed on the Canadian Patent Register for *Atacand*. Teva has confirmed it will await the expiry of the '955 patent. AstraZeneca is evaluating the allegations.

None of Sandoz, Cobalt, PMS, Mylan or Teva may receive a marketing authorisation before April 2011.

Patent Litigation—Brazil

In October 2010, an infringement action with a request for an interlocutory injunction was filed against Sandoz do Brasil Industria Farmaceutica Ltda (Sandoz) in the Central Court of São Paolo. The Court denied the request for an interlocutory injunction on 22 October 2010. Takeda Pharmaceutical Company Ltd. and AstraZeneca have filed a joint appeal. Sandoz has responded and a decision is expected in the first quarter of 2011.

Patent Litigation—EU

In Portugal, a request was filed with the Lisbon Administrative Court of First Instance in December 2009 seeking a preliminary injunction in the administrative courts in order to suspend the effect of decisions taken by administrative bodies in Portugal to grant Sandoz Farmacêutica Limitada marketing authorisations for generic candesartan cilexetil. The Court denied the preliminary injunction. The decision has been appealed. A similar preliminary injunction request was filed in April 2010 with respect to PTR Pharma Consulting Lda as an interested party. Other similar preliminary injunction requests were filed in October 2010, with respect to Laboratórios Azevedos—Industria Farmacêutica (Laboratórios Azevedos), S.A. Ceamed, Servico e Consultadoria Farmacêutica Lda (Ceamed) and Teva Pharma—Produtos Farmacêuticos Lda, as interested parties regarding candesartan cilexetil and also in combination with hydrochlorothiazide. Corresponding main actions have been initiated regarding all the above mentioned matters.

In addition to the previously reported cases, a preliminary injunction request was filed in December 2010, with respect to Laboratórios Azevedos and Ceamed as interested parties, in the capacity of owners of the marketing authorisations, and of applicants of the retail prices regarding candesartan cilexetil containing generics. The corresponding main action was filed in the administrative courts also in December 2010, with the aim of declaring null, or to annul, the decisions taken by administrative bodies in Portugal granting Laboratórios Azevedos and Ceamed marketing authorisations for generic candesartan cilexetil, or to defer the effects of the said decision, and to prevent the decision being taken by administrative bodies regarding the retail prices of the generic products. A preliminary injunction request was filed in December 2010, with respect to Labesfal—Laboratorios Almiro, S.A. (Labesfal) as an interested party, in the capacity of owner of the marketing

authorisations and of applicants of the retail prices regarding candesartan cilexetil and a combination of candesartan cilexetil and hydrochlorothiazide containing generics. The corresponding main action was filed in the administrative courts in December 2010, with the aim of declaring null, or to annul, the decisions taken by administrative bodies in Portugal granting Labesfal marketing authorisations for generic candesartan cilexetil and a combination of candesartan cilexetil and hydrochlorothiazide, or to defer the effects of the said decision, and to prevent the decision being taken by administrative bodies regarding the retail prices of the generic products.

Atacand HCT/Atacand Plus (candesartan cilexetil/hydrochlorothiazide)

Patent Litigation—US

As previously reported, in 2008 and 2009, AstraZeneca and Takeda Pharmaceutical Company Limited (Takeda) received Paragraph IV Certification notice-letters from Matrix Laboratories Limited (Matrix) and Sandoz Inc. (Sandoz) notifying the parties that ANDAs had been submitted to the FDA seeking approval to market generic versions of *Atacand HCT* in 32/12.5, 32/25 and 16/12.5mg dose forms. Matrix is a subsidiary of Mylan, Inc.

Neither Matrix nor Sandoz challenged the two listed compound patents, US Patent Nos. 5,705,517 and 5,196,444, the latest of which expires in June 2012. As a result, neither generic filer can market its candesartan cilexetil/hydrochlorothiazide (HCT) combination product before December 2012, when the six-month Paediatric Exclusivity period expires. Matrix and Sandoz have alleged that the remaining Orange Book patents listed for *Atacand HCT*, US Patent Nos. 5,534,534, 5,721,263, 5,958,961 and 7,538,133 are invalid, unenforceable or not infringed. AstraZeneca and Takeda did not file a complaint for patent infringement in response to either notice-letter.

Patent Litigation—Canada

In 2009, AstraZeneca received a Notice of Allegation from Sandoz Canada Inc. (Sandoz) in respect of Canadian Patent Nos. 2,040,955 (the '955 patent), 2,083,305 (the '305 patent) and 2,125,251 (the '251 patent) listed on the Canadian Patent Register for *Atacand Plus*. Sandoz has confirmed that it will await the expiry of the '955 patent, but alleges that the '305 patent is not infringed and is not properly listed on the Canadian Patent Register, and that the '251 patent is not infringed, is invalid and not properly listed. In September 2009, AstraZeneca filed a Notice of Application in federal court seeking an order prohibiting the Minister of Health from issuing a Notice of Compliance to Sandoz for its 16/12.5mg candesartan cilexetil-HCT tablets until the expiration of the '305 and '251 patents. In January 2010, the court scheduled a hearing in the Sandoz matter for four days beginning on 9 May 2011.

In January 2010, AstraZeneca received a Notice of Allegation from Mylan Pharmaceuticals ULC (Mylan) in respect of the '955, '305 and '251 patents. On 12 January 2011, Mylan withdrew its Notice of Allegation and AstraZeneca discontinued its application on 17 January 2011.

In April 2010, AstraZeneca received two Notices of Allegation from Cobalt Pharmaceuticals Inc. (Cobalt) in respect of the '305 and '251 patents listed on the Canadian Patent Register for *Atacand Plus*. Cobalt alleges that the '305 patent is not infringed, is invalid, and is irrelevant and not properly listed. Cobalt alleges that the '251 patent is not infringed and is invalid. Cobalt has indicated that it is prepared to await its marketing approval until after the '955 patent expires in April 2011. AstraZeneca commenced a proceeding in response in June 2010.

In April 2010, AstraZeneca received a Notice of Allegation from Pharmascience Inc. (PMS) in respect of the '305 patent listed on the Canadian Patent Register for *Atacand Plus*. PMS alleges that the '305 patent is not infringed. AstraZeneca commenced a proceeding in response on 17 June 2010. On 20 December 2010, AstraZeneca received a Notice of Allegation from PMS in respect of the '251 patent. AstraZeneca is evaluating the allegations. PMS has not addressed the '955 patent.

In September 2010, AstraZeneca received a Notice of Allegation from Teva Canada Limited (Teva) in respect of the '305 patent listed on the Canadian Patent Register for *Atacand Plus*. Teva withdrew its Notice of Allegation on 17 November 2010, and in response, on 30 November 2010, AstraZeneca discontinued its application responding to Teva's Notice of Allegation.

Crestor (rosuvastatin calcium)

Patent Litigation—US

US Patent No. RE 37,314 (the '314 patent)

As previously reported, in 2007 and 2008, AstraZeneca and AstraZeneca's licensor, Shionogi Seiyaku Kabushiki Kaisha (Shionogi) (together, the Plaintiffs), filed lawsuits in the US District Court for the District of Delaware, against various parents or subsidiaries of eight generic ANDA filers for infringement of the '314 patent, the patent covering rosuvastatin calcium, the active ingredient in *Crestor* tablets.

On 3 March 2010, Judge Joseph Farnan, in the US District Court for the District of Delaware, completed the trial of the consolidated matter. Following the trial, on 26 March 2010, the Court approved and signed the stipulation and consent order of the Plaintiffs and co-defendants, Aurobindo Pharma Ltd and Aurobindo Pharma USA Inc., whereby Aurobindo Pharma Ltd consented to jurisdiction and venue. Aurobindo Pharma USA Inc. agreed to be bound by any judgment against Aurobindo Pharma Ltd and the Plaintiffs agreed in exchange to dismiss the action against Aurobindo Pharma USA Inc.

In June 2010, the Court issued a decision finding infringement and rejecting the defendants' arguments of invalidity and unenforceability with respect to the '314 patent. In August 2010, the defendants filed Notices of Appeal to the US Court of Appeals for the Federal Circuit. The defendants filed their opening briefs with the appellate court in December 2010.

For trial, the Court retained jurisdiction over Apotex Corp., which participated in the trial. However, the Court transferred the infringement matter as it pertained to co-defendant, Apotex Inc. to the US District Court for the Southern District of Florida. The Florida Court stayed the Apotex Inc. case pending the outcome of the appeal to the Federal Circuit.

In May 2010, AstraZeneca received a Paragraph IV Certification notice-letter from Glenmark Generics Inc., USA (formerly, Glenmark Pharmaceuticals, Inc., USA) (Glenmark), challenging the '314 patent. In June 2010, the Plaintiffs filed a patent infringement action against Glenmark in the US District Court for the District of Delaware. On 15 November 2010, the Court approved the parties' stipulation and proposed order requesting the Court to enter judgment in favour of the Plaintiffs and to stay the Glenmark action in its entirety. As part of the stipulation, Glenmark conceded infringement of the '314

patent and agreed to be bound by the Court's June 2010 decision. The parties also agree to be bound by the results of any subsequent appeal in the Plaintiffs' other *Crestor* ANDA litigation, which found the '314 patent valid and enforceable.

505(b)(2) NDA for Rosuvastatin zinc Tablets (the '314 Patent)

In September 2010, AstraZeneca received a Paragraph IV Certification notice-letter from Watson Laboratories, Inc. informing AstraZeneca of the filing of its section 505(b)(2) NDA for rosuvastatin zinc tablets, and challenging the '314 patent and the *Crestor* formulation patent (US Patent No. 6,316,460 (the '460 patent)). On 26 October 2010, AstraZeneca and Shionogi (together, the Plaintiffs) commenced a patent infringement action in the US District Court for the District of Delaware (the Delaware Action) against Watson Pharmaceuticals, Inc., Watson Pharma, Inc., Watson Laboratories, Inc. and other related entities for infringement of the '314 patent. On 10 November 2010, for jurisdictional reasons, the Plaintiffs filed a duplicate protective lawsuit in the US District Court for the District of Nevada (the Nevada Action) against Watson Pharmaceuticals, Inc., Watson Pharma Inc. and Watson Laboratories, Inc. On 23 December 2010, pursuant to the parties' joint stipulation in the Delaware Action setting forth the agreement of Watson Laboratories, Inc. to personal jurisdiction in the District of Delaware and other admissions, conditions, and agreements, the Court dismissed all of the Watson co-defendants without prejudice, except Watson Laboratories, Inc. Watson Pharmaceuticals, Inc., Watson Pharma, Inc., Watson Laboratories, Inc. and other named Watson entities were dismissed without prejudice from the Delaware action. In January 2011, AstraZeneca dismissed the Nevada Action.

US Patent Nos. 6,858,618 (the '618 Patent) and 7,030,152 (the '152 Patent)

In April 2010, AstraZeneca commenced new patent infringement actions involving *Crestor* in the US District Court for the District of Delaware, based on the '618 and '152 patents. Later in April 2010, AstraZeneca amended nine complaints, adding a co-plaintiff, The Brighams & Women's Hospital (BWH), AstraZeneca's licensor of the '152 patent, to the suits. In these new infringement actions, AstraZeneca and BWH (together, the Plaintiffs) allege that the defendants' original filings or amendments of ANDAs seeking approval to market generic rosuvastatin calcium tablets prior to the expiration of these patents, infringe the '618 and '152 patents under 35 USC §271(e)(2). The '618 and '152 patents, which AstraZeneca lists in the FDA's Orange Book, relate respectively to the use of rosuvastatin calcium for primary prevention of cardiovascular disease and the treatment of heterozygous familial hypercholesterolemia (HeFH). AstraZeneca obtained FDA approval for the use of *Crestor* tablets for primary prevention of cardiovascular disease in February 2010 and for paediatric treatment of HeFH in October 2009. The new infringement actions were brought against: (a) Aurobindo Pharma Ltd, Aurobindo Pharma USA Inc. (together, Aurobindo) (b) Apotex Corp., (c) Cobalt Pharmaceuticals Inc., Cobalt Laboratories, Inc. (together, Cobalt) (d) Par Pharmaceuticals, Inc. (e) Sandoz Inc. (Sandoz), (f) Mylan Pharmaceuticals, Inc. (g) Sun Pharmaceutical Industries Ltd., Sun Pharmaceutical Industries Inc., Caraco Pharmaceutical Laboratories Ltd. (together, Sun) and (h) Teva Pharmaceuticals USA, Inc. These eight defendant groups were also defendants in the '314 patent litigation described above. In addition, AstraZeneca commenced a first patent infringement action against Glenmark Generics Inc. USA.

In May 2010, AstraZeneca received a Paragraph IV Certification notice-letter from Torrent Pharmaceuticals Limited (Torrent Pharmaceuticals), challenging the '460 patent (the formulation patent). In July 2010, the Plaintiffs filed a patent infringement action against Torrent Pharmaceuticals and Torrent Pharma Inc. (together, Torrent) in the US District Court for the District of Delaware, based on the '618 and '152 patents. Torrent did not challenge the '314 patent in its Paragraph IV notice-letter.

In July and August 2010, all of the defendants, except Sandoz, filed Motions to Dismiss for lack of subject matter jurisdiction and failure to state a claim.

In November 2010, the Court approved a stipulation and proposed order of the Plaintiffs and Torrent jointly requesting the Court to stay the Torrent action. As part of the stipulation, Torrent agrees to be bound by the results of the first final decision and any appeals of that decision, as prosecuted by the remaining defendants.

In December 2010, the Court granted the Motions to Dismiss and dismissed the infringement actions for lack of subject matter jurisdiction. The Court also ordered the Plaintiffs to show cause why the claims against Sandoz, the sole nonmovant, should not also be dismissed. In 2011, the Plaintiffs filed Notices of Appeal to the US Court of Appeals for the Federal Circuit. In January 2011, the Plaintiffs and Sandoz also filed a joint response to the show cause order, requesting that the Sandoz action be stayed until after the Federal Circuit renders its decision on the appeals or, alternatively, dismisses it without prejudice.

Patent Litigation—Canada

In 2008, AstraZeneca received Notices of Allegation from Novopharm Limited (now, Teva Canada Limited) (Teva) and Apotex Inc. (Apotex), respectively, regarding Canadian Patent Nos. 2,072,945 (the '945 patent) and 2,313,783 (the '783 patent) listed on the Canadian Patent Register for *Crestor*. AstraZeneca commenced proceedings in response. The Canadian Federal Court conducted consecutive hearings on the two matters beginning on 22 March 2010 and 29 March 2010 respectively. In July 2010, AstraZeneca reached comprehensive settlement agreements with each of Teva and Apotex to resolve litigation between them. As part of the agreements, Teva and Apotex may enter the Canadian market in April 2012, or earlier, in certain circumstances. The Canadian substance patent expires in July 2012.

In 2009, AstraZeneca received a Notice of Allegation from Cobalt Pharmaceuticals, Inc. (Cobalt) in respect of the '945 and '783 patents. In November 2010, AstraZeneca reached a comprehensive settlement agreement with Cobalt, resolving the litigation, and as part of the agreement, Cobalt may enter the Canadian market in April 2012, or earlier, in certain circumstances. The Canadian substance patent expires in July 2012.

Also in 2009, AstraZeneca received a Notice of Allegation from Sandoz Canada Inc. (Sandoz) in respect of the '945 and '783 patents. In January 2011, AstraZeneca reached a comprehensive settlement agreement resolving the litigation, and as part of the agreement, Sandoz may enter the Canadian market in April 2012, or earlier, in certain circumstances.

In August 2009, AstraZeneca received a Notice of Allegation from ratiopharm Inc. (ratiopharm) with respect to the '945 and '783 patents. AstraZeneca commenced an application

in response. In August 2010, AstraZeneca discontinued the application as a result of Teva's acquisition of ratiopharm.

In February 2010, AstraZeneca received a Notice of Allegation from Pharmascience Inc. (Pharmascience) in respect of the '945 and '783 patents. Pharmascience alleges that the '945 and '783 patents are not infringed and are invalid. AstraZeneca commenced an application in response in April 2010.

In July 2010, AstraZeneca received a Notice of Allegation from Ranbaxy Pharmaceuticals Canada Inc. (Ranbaxy) regarding the '945 patent, the '783 patent and Canadian Patent No. 2,315,141 (the '141 patent). Ranbaxy alleges certain of the claims of the '945, '783 and '141 patents are not infringed and that the patents are invalid. AstraZeneca commenced an application in response in August 2010.

In August 2010, AstraZeneca received a Notice of Allegation from Mylan Pharmaceuticals ULC (Mylan) regarding the '945, '783 and '141 patents. Mylan alleges certain of the claims of the '945, '783 and '141 patents are not infringed and that the patents are invalid. AstraZeneca commenced an application in response in September 2010.

Patent Litigation—EU

In Portugal, a preliminary injunction request was filed with the Lisbon Administrative Court of First Instance in May 2010 seeking a suspension of the effect of decisions taken by administrative bodies in Portugal to grant Teva Pharma Lda (Teva) marketing authorisations for generic rosuvastatin calcium, and to prevent the approval of the retail price. A similar preliminary injunction request was filed with respect to Sandoz Farmaceutica Lda in June 2010. In October 2010, the Court granted the preliminary injunction request to suspend the effect of the decisions taken by the administrative bodies in Portugal to grant Teva marketing authorisation for generic rosuvastatin. The decision has been appealed by the administrative body, Infarmed, and by Teva. In November 2010, the Court granted the preliminary injunction request to suspend the marketing authorisations for generic rosuvastatin granted to Sandoz Farmaceutica Lda. The decision has been appealed by Infarmed. In November 2010, the Court granted the preliminary injunction request to suspend the marketing authorisations for generic rosuvastatin granted to Hexal AG. The decision has been appealed by Infarmed. Corresponding main actions have been initiated regarding all the above mentioned matters.

Patent Litigation—Brazil

Torrent do Brasil (Torrent) launched its generic versions of *Crestor* in early October 2010 and AstraZeneca filed a request for a preliminary injunction. On 13 October 2010, the court of first instance granted the requested injunction and ordered Torrent to discontinue the sale and marketing of these generic products in Brazil and to recall products already on the market. Torrent appealed the decision. The effects of the preliminary injunction were suspended by the court of first instance until the decision by the Court of Appeal. The Court of Appeal is likely to make its decision in the first quarter of 2011.

Other US Patent Litigation

In October 2010, in the Teva Pharmaceuticals Industries Ltd. (Teva) patent infringement lawsuit against AstraZeneca, with regard to *Crestor*, the US District Court for the Eastern District of Pennsylvania granted AstraZeneca's motion for summary judgment invalidating Teva's patent based on prior inventorship. AstraZeneca thereafter filed a motion for attorneys' fees, which was denied by the Court without prejudice pending Teva's appeal, which it filed in November 2010.

Entocort EC (Budesonide)

In 2008, AstraZeneca initiated patent infringement actions against Barr Laboratories, Inc. (Barr) and Mylan Pharmaceuticals, Inc. (Mylan) for infringement of US Patent Nos. 6,423,340 (the '340 patent) and 5,643,602 (the '602 patent) in the US District Court for the District of Delaware.

In May 2010, AstraZeneca entered into a settlement agreement with Barr (acquired by Teva Pharmaceutical Industries Ltd. in 2009, now, Teva). Under the terms of the agreement, AstraZeneca has granted Teva a licence to enter the US market with its generic version of oral budesonide on 15 February 2012, subject to regulatory approval. Also in May 2010, AstraZeneca proceeded to trial against Mylan before Judge Gregory Sleet on the sole issue of infringement of the '602 patent. The Court has reserved judgment.

Faslodex (Fulvestrant)

Patent Litigation—US

In 2009, AstraZeneca received a Paragraph IV Certification notice-letter from Teva Parenteral Medicines, Inc. (Teva Parenteral), informing AstraZeneca that it had filed an ANDA to market a generic form of *Faslodex* before the expiration of the Orange Book listed patents covering *Faslodex*. In January 2010, AstraZeneca filed a patent infringement lawsuit against Teva Parenteral, Teva Pharmaceuticals USA, Inc. and Teva Pharmaceutical Industries Ltd (together, Teva) in the US District Court for the District of Delaware for infringement of US Patent Nos. 6,774,122 and 7,456,160. The case was assigned to Judge Joel Pisano, sitting by designation due to judicial vacancy in the District of Delaware. On 24 December 2010, Teva advised AstraZeneca that it had requested the FDA to withdraw its ANDA without prejudice to refile. The Court has stayed the litigation to permit the parties to resolve the matter pending the FDA's acknowledgement of the withdrawal.

Iressa (Gefitinib)

Between 2004 and 2008, seven claims were filed against AstraZeneca in Japan, in the Osaka and Tokyo District Courts. In these claims, it is alleged that *Iressa* caused a fatal incidence of interstitial lung disease in a Japanese patient. AstraZeneca believes the claims are without merit and has defended all the cases. Decisions are expected from the Courts in the first quarter of 2011.

Losec/Prilosec (Omeprazole)

Patent Litigation—US

As previously reported, by 2006, AstraZeneca had initiated patent infringement actions in the US District Court for the Southern District of New York against several generic companies and their suppliers, all alleging infringement of AstraZeneca's patents relating to omeprazole. As previously reported, following trials against numerous defendants, in 2007, the District Court upheld both formulation patents covering the *Prilosec* omeprazole product and ruled that the generic

omeprazole formulations of Impax Laboratories Inc. (Impax) (manufacturers of the generic product distributed in the US by Teva Pharma Ltd (Teva)) and Apotex Corp. and Apotex Inc. (together, Apotex Group) infringed AstraZeneca's patents. The Court found that the generic products sold by Lek Pharmaceutical and Chemical Company d.d. and Lek Services USA, Inc. (together, Lek), Mylan Pharmaceuticals, Inc. and Mylan, Inc. (together, Mylan) and Laboratorios Esteve, S.A. and Esteve Quimica, S.A. (together, Esteve) did not infringe AstraZeneca's patents. In 2008, the US Court of Appeals for the Federal Circuit upheld the rulings that Mylan and Esteve did not infringe. The Federal Circuit also upheld that the generic omeprazole formulations of Impax and Apotex Group infringed AstraZeneca's patents. In January 2010, AstraZeneca settled with Impax and Teva for their infringing commercial sales, obtaining a one-time payment for past infringement. In 2010, AstraZeneca continued efforts to recover infringement damages and other remedies against Andrx Pharmaceuticals, Inc. and Apotex Group.

Patent Litigation—Canada

AstraZeneca continues to be involved in proceedings in Canada involving various patents relating to omeprazole capsules and omeprazole magnesium tablets. Apotex Inc. launched a generic omeprazole capsule product in Canada in January 2004.

In 2006, AstraZeneca was served with a claim in the Federal Court of Canada for payment of an undetermined sum based on damages allegedly suffered by Apotex Inc. due to the delay from January 2002 to January 2004 in the issuance to Apotex Inc. of a Notice of Compliance for its 20mg omeprazole capsule product. AstraZeneca believes the claim is without merit and is defending it, as well as continuing to vigorously pursue its already pending patent infringement action against Apotex Inc.

In May 2010, the Federal Court scheduled the trial for the pending matters to be heard concurrently commencing in March 2012.

European Commission Case

In July 2010, the General Court of the European Union (the General Court) handed down its judgment in AstraZeneca's appeal against the European Commission's 2005 Decision fining AstraZeneca €60m for abuse of a dominant position regarding omeprazole. The General Court upheld most of the European Commission's arguments but reduced the fine to €52.5m as it said that the European Commission's case had not been proven in relation to Denmark and Norway. The fine was paid in 2005 in accordance with the original Decision and €7.5m plus interest has been repaid to AstraZeneca. AstraZeneca was ordered to pay 90% of the European Commission's costs and the European Commission was ordered to pay 10% of AstraZeneca's costs. AstraZeneca has appealed the General Court's judgment in relation to market definition, that AstraZeneca's behaviour was abusive (even if AstraZeneca was dominant at the time) and the level of fine. The European Commission has cross appealed the General Court's judgment regarding Denmark and Norway. It is possible that third parties could seek damages for alleged losses arising from this matter. Any such claims would be vigorously resisted.

Nexium (Esomeprazole Magnesium)

Sales and Marketing Practices

AstraZeneca entities have been sued in various state and federal courts in the US in purported representative class actions involving the marketing of *Nexium*. These actions generally allege that AstraZeneca's promotion and advertising of *Nexium* to physicians, consumers and third party payers was unfair, unlawful and deceptive, particularly as the promotion relates to comparisons of *Nexium* with *Prilosec*. Some of the cases also allege that AstraZeneca's conduct relating to the pricing of *Nexium* was unfair, unlawful and deceptive. The plaintiffs allege claims under various state consumer protection, unfair practices and false advertising laws. The plaintiffs in these cases seek remedies that include restitution, disgorgement of profits, damages, punitive damages, injunctive relief, attorneys' fees and costs of suit.

The first action was brought in 2004 in California State Court on behalf of a class of Californian consumers and third-party payers. Lawsuits making substantially similar allegations were later filed in 2004 and 2005 in state courts in Arkansas, Florida, Massachusetts and Delaware, and in the Delaware Federal Court.

The Florida and Arkansas cases have been dismissed at the trial court level. Both of those dismissals were affirmed on appeal and no further appeal is possible. Similarly, in May 2010, the Delaware Federal Court dismissed the complaint for failure to state a claim and the plaintiffs did not appeal.

In March 2009, the California trial court granted AstraZeneca's motions for summary judgment and denied plaintiffs' motion for class certification. That decision was appealed. In August 2010, the California Court of Appeal affirmed the trial court's orders denying class certification and granting summary judgment in favour of AstraZeneca in an unpublished decision. The time for further appeals has lapsed.

In July 2010, the Massachusetts trial court entered an order granting plaintiffs' motion to certify a class of Massachusetts purchasers of *Nexium* denying AstraZeneca's motion for summary judgment as to two plaintiffs, and granting AstraZeneca's motion for summary judgment as to one plaintiff. AstraZeneca filed a petition for discretionary interlocutory review of those rulings, which was denied by a single justice of the Massachusetts Appeals Court in September 2010.

The Delaware state case in Superior Court has been stayed since May 2005 in favour of the Delaware federal court case. In August 2010, the plaintiffs filed a request to lift the stay based on the final resolution of the Delaware federal case and to enter a scheduling order setting deadlines for the plaintiffs to file an amended complaint and for the briefing of AstraZeneca's expected motion to dismiss. The Delaware Superior Court has not yet acted on the plaintiffs' request and the case remains stayed.

Patent Litigation—US

In 2008, AstraZeneca entered into a settlement agreement and consent judgment with Ranbaxy Pharmaceuticals, Inc. and Ranbaxy Laboratories Limited (together, Ranbaxy) to settle the Ranbaxy ANDA patent litigation. Ranbaxy was the first to file a Paragraph IV Certification notice-letter in respect of *Nexium* patents listed in the FDA's Orange Book. The settlement agreement allows Ranbaxy to commence sales of a generic version of *Nexium* under a licence from AstraZeneca on 27 May 2014.

In 2006, in response to a Paragraph IV Certification notice-letter from IVAX Pharmaceuticals Inc. stating that IVAX Corporation (together, IVAX Group) had submitted an ANDA for approval to market 20 and 40mg esomeprazole magnesium delayed-release capsules, AstraZeneca commenced patent infringement litigation in the US District Court for the District of New Jersey against IVAX Group, its parent, Teva Pharmaceutical Industries Ltd, and their affiliates (together, Teva Group). In 2008, the Court granted AstraZeneca's motion to add Cipla, Ltd. as a defendant in the IVAX Group/Teva Group litigation.

In 2007, AstraZeneca received a Paragraph IV Certification notice-letter from Dr. Reddy's Laboratories, Ltd and Dr. Reddy's Laboratories, Inc (together, DRL) stating that DRL had submitted an ANDA for 20 and 40mg esomeprazole magnesium delayed-release capsules. In 2008, AstraZeneca commenced patent infringement litigation in the US District Court for the District of New Jersey against DRL in response to DRL's ANDA and Paragraph IV Certifications regarding *Nexium*.

In 2008, AstraZeneca, IVAX Group and DRL filed declaratory judgment suits in the US District Court for the District of New Jersey for patents that were not previously included in the ongoing *Nexium* patent infringement litigations.

In January 2010, AstraZeneca entered into an agreement to settle the IVAX Group/Teva Group litigation. Teva Group conceded that all patents-at-issue in its US *Nexium* patent litigations are valid and enforceable. Teva Group also conceded that its ANDA product would infringe six of the *Nexium* patents-in-suit. AstraZeneca granted Teva Group a licence for its ANDA product to enter the US market, subject to regulatory approval, on 27 May 2014. This market entry date, and the settlement, are consistent with AstraZeneca's prior settlement with Ranbaxy. As a result of settlement and entry of a consent judgment, the litigation against IVAX Group/Teva Group and Cipla, Ltd. has been dismissed. In January 2010, as part of the settlement between AstraZeneca and IVAX Group, the 2008 declaratory judgment actions involving IVAX Group were also dismissed.

In January 2011, AstraZeneca entered into an agreement to settle the DRL litigation. DRL conceded that the patents-at-issue in its US *Nexium* patent litigations are valid and enforceable with reference to DRL's US esomeprazole magnesium ANDA product. DRL also conceded that its ANDA product would infringe three *Nexium* patents-in-suit. AstraZeneca granted DRL a licence for its ANDA product to enter the US market, subject to regulatory approval, on 27 May 2014. This market entry date, and the settlement, are consistent with AstraZeneca's settlement with Ranbaxy and the January settlement with the IVAX Group, Teva Pharmaceutical Ltd., and their affiliates. As a result of the DRL settlement and entry of a consent judgment, the DRL litigation was dismissed. As part of the settlement, DRL's declaratory judgment actions were also dismissed.

In January 2010, AstraZeneca received a Paragraph IV Certification notice-letter from Sun Pharma Global FZE and its affiliates (together, Sun) stating that Sun had filed an ANDA and notifying of Sun's challenge to patents listed in the FDA's Orange Book in reference to *Nexium i.v.* In February 2010, AstraZeneca filed suit against Sun in the US District Court for the District of New Jersey. In August 2010, upon AstraZeneca's motion, Magistrate Judge Bongiovanni stayed the Sun litigation. In December 2010, among other actions, the Court vacated the stay and referred the matter back to Magistrate Judge Bongiovanni for a scheduling conference. No trial date has been set in the Sun patent litigation.

In 2008, AstraZeneca received a Paragraph IV Certification notice-letter from Sandoz Inc. (Sandoz) stating that Sandoz had submitted an ANDA for approval to market 20 and 40mg esomeprazole magnesium delayed-release capsules. In 2009, AstraZeneca commenced patent infringement litigation in the US District Court for the District of New Jersey. In July 2009, the Court stayed the Sandoz patent infringement litigation until after trial in the above referenced DRL *Nexium* patent infringement litigation. No trial date has been set in the Sandoz patent infringement litigation.

In September 2009, AstraZeneca received a Paragraph IV Certification notice-letter from Lupin Limited (Lupin) stating that Lupin had submitted an ANDA for approval to market 20 and 40mg esomeprazole magnesium delayed-release capsules relating to patents listed in the FDA's Orange Book with reference to *Nexium*. In October 2009, AstraZeneca commenced patent infringement litigation against Lupin in the US District Court for the District of New Jersey. In March 2010, the Court stayed the Lupin patent infringement litigation until after trial in the DRL *Nexium* patent infringement litigation. No trial date has been set in the Lupin patent litigation.

In December 2010, AstraZeneca received a Paragraph IV Certification notice-letter from Hanmi USA Inc. (Hanmi) stating that it had submitted an NDA under section 505(b)(2) for FDA approval to market 20 and 40mg esomeprazole strontium capsules. Hanmi alleges non-infringement or invalidity of 11 patents listed in the FDA's Orange Book with reference to *Nexium*. AstraZeneca is evaluating Hanmi's notice and certifications.

Patent Litigation—Canada

AstraZeneca received several Notices of Allegation from Apotex Inc. (Apotex) in 2007 in respect of patents listed on the Canadian Patent Register for *Nexium*. AstraZeneca responded by commencing seven applications in 2008 under the Patented Medicines (Notice of Compliance) Regulations.

In June 2010, after a hearing, the Federal Court of Canada dismissed AstraZeneca's application to prohibit the Minister of Health from issuing a Notice of Compliance (marketing authorisation) for generic esomeprazole magnesium to Apotex, and Apotex received its marketing authorisation in June 2010. In October 2010, AstraZeneca commenced a patent infringement action against Apotex alleging infringement of five Canadian patents related to *Nexium*.

As previously reported, in 2009, AstraZeneca received a Notice of Allegation from Mylan Pharmaceuticals ULC. AstraZeneca commenced an application in response in January 2010. A hearing has been set for 24 October 2011.

In September 2010, AstraZeneca received several Notices of Allegation from Pharmascience Inc. in respect of the patents listed on the Canadian Patent Register for *Nexium*. AstraZeneca commenced applications in response in October 2010.

In October 2010, AstraZeneca received a Notice of Allegation from Ranbaxy Pharmaceuticals Canada Inc. (Ranbaxy) in respect of the patents listed on the Canadian Patent Register for *Nexium*. AstraZeneca commenced a proceeding in response in December 2010.

Patent Litigation—Brazil

AstraZeneca has filed two law suits before the Federal Courts of Brasilia seeking judicial declaration to confirm that all conditions established in the Trade-Related Aspects of Intellectual Property Rights Agreement have been satisfied and thereby entitling AstraZeneca to exclusive marketing rights for *Nexium* to July 2012. The Court rejected one suit in 2008 and the other one on 1 May 2010. AstraZeneca has appealed both decisions and the Federal Court of Appeals is expected to issue decisions on the merits by the middle of 2011.

Patent Litigation—EU

Most major European markets (Belgium, France, Italy, Luxembourg, the Netherlands, Germany, Sweden and the UK) had regulatory data protection for *Nexium* until 10 March 2010 and other markets had six years regulatory data protection. To date, there are generic products in several 6-year countries and in Germany, Sweden and the Netherlands among the 10-year countries.

Patent Litigation—EU: 10-Year Countries

In July 2010, Consilient Health Limited (Consilient) was granted marketing approval in the UK for a generic esomeprazole product manufactured by Krka, d.d., Novo Mesto (Krka) in Slovenia. AstraZeneca initiated infringement proceedings against Consilient and Krka on 8 September 2010. Consilient and Krka agreed not to launch their generic esomeprazole product pending the outcome of the main infringement case. AstraZeneca has undertaken to be liable for losses of the defendants and third parties if the injunction is lifted at a later date. The trial will not be held before 3 October 2011.

In October 2010, AstraZeneca was served an invalidity case in which Ranbaxy (UK) Ltd claimed that the *Nexium* esomeprazole magnesium patent (EP 1020461) and the esomeprazole magnesium trihydrate patent (EP 0984957) are invalid in the UK. Ranbaxy (UK) Ltd further requested the Court to confirm that its generic esomeprazole product does not infringe either patent if launched in the UK. The trial of the non-infringement part will not be held before May 2011. The invalidity part has been stayed pending the non-infringement trial.

In Germany, Krka, d.d., Novo Mesto, TAD Pharma GmbH, Abz-Pharma GmbH, CT Arzneimittel GmbH, ratiopharm GmbH and Teva GmbH launched generic esomeprazole magnesium products during September and October 2010. In October 2010, AstraZeneca filed requests for preliminary injunctions to restrain said companies from marketing and selling these products in Germany. In November 2010, AstraZeneca added Hexal AG and Sandoz Pharmaceuticals GmbH as defendants. The trial was held on 10 December 2010, and the court rejected the request for preliminary injunctions on 17 December 2010. The decision has not yet been published. AstraZeneca has four weeks from the date of publication to determine whether it will appeal. In November 2010, AstraZeneca was served with a law suit filed by Ethypharm S.A. claiming that the two *Nexium* cloud point patents (EP 0984773 and EP 1124539) are invalid in Germany.

In Sweden, AstraZeneca filed a request for an interlocutory injunction on 26 October 2010 against Krka Sverige AB to restrain this company from marketing and selling its generic esomeprazole magnesium product in Sweden. In January 2011, AstraZeneca was served with a lawsuit filed by ratiopharm GmbH and ratiopharm AB claiming that the *Nexium* esomeprazole magnesium patent (EP 1020461) is invalid in Sweden.

In the Netherlands, Sandoz B.V. and Hexal AG (both in the Sandoz group) and Stada Arzneimittel AG and Centrafarm Services B.V. (both in the Stada group) filed lawsuits in June 2010, in accelerated proceedings, claiming that the *Nexium* esomeprazole magnesium patent (EP 1020461) is invalid in the Netherlands. The trials were held on 14 January 2011. The decision has not yet been published.

In Italy, EG s.p.a. (a company in the Stada group) filed a law suit in June 2010 claiming that the *Nexium* esomeprazole magnesium patent (EP 1020461) is invalid in Italy. AstraZeneca has added a counterclaim of infringement. An initial hearing was held on 23 November 2010.

In France, ratiopharm GmbH and Laboratoire ratiopharm S.A. filed a law suit against AstraZeneca on 18 August 2010 claiming that the *Nexium* esomeprazole magnesium patent (EP 1020461) is invalid in France. Ethypharm S.A. filed a law suit against AstraZeneca in August 2010 claiming that the *Nexium* esomeprazole magnesium patent (EP 1020461) and the cloud point patent (EP 1124539) are invalid in France. The next hearing in these cases will be on 17 March 2011.

In Belgium, AstraZeneca was served in October 2010 with a revocation action by Teva Pharmaceutical Industries Ltd and Teva Pharma Belgium NV claiming that the *Nexium* esomeprazole magnesium patent (EP 1020461) is invalid in Belgium. The next hearing is scheduled for 23 September 2011.

Patent Litigation—EU: 6-Year Countries

In Denmark, Sandoz A/S (Sandoz) launched its generic product in June 2009 and AstraZeneca filed a request for a preliminary injunction in the same month. In January 2010, the court granted AstraZeneca a preliminary injunction preventing Sandoz from continuing to sell the products based on an infringement of a *Nexium* esomeprazole magnesium patent (EP 1020461). Sandoz appealed this decision and the appeal will be heard on 22 to 25 February 2011. In March 2010, the court granted a preliminary injunction based on infringement of a *Nexium* process patent (EP 0773940). Sandoz appealed this decision and the appeal was heard on 17 to 24 January 2011. The decision will be announced on 28 February 2011. In July 2010, AstraZeneca filed an application with the District Court of Copenhagen, seeking an interlocutory injunction to restrain Krka Sverige AB from selling and marketing its generic esomeprazole magnesium products in Denmark. The hearing took place in November 2010. On 10 December 2010, the court denied AstraZeneca's request for a preliminary injunction. AstraZeneca has appealed this decision.

In Austria, Hexal Pharma GmbH and 1A Pharma GmbH (both in the Sandoz group) launched generic products in October 2009. Requests for preliminary injunctions were filed in December 2009. Preliminary injunctions have been granted by the Vienna Commercial Court against Hexal Pharma GmbH on 10 March 2010 and against 1A Pharma GmbH on 11 March 2010. The decisions were appealed by the Sandoz companies. The Higher Regional Court of Vienna upheld the injunction against 1A Pharma GmbH in July 2010 and against Hexal Pharma GmbH in September 2010. In December 2010, the Supreme Court rejected 1A Pharma GmbH's request for extraordinary appeal. In July 2010, AstraZeneca filed an application for a preliminary injunction to be granted against Krka Pharma GmbH and Krka, d.d., Novo Mesto. In October 2010, the Vienna Commercial Court granted the preliminary injunction against Krka Pharma GmbH. This decision

has been appealed by Krka Pharma GmbH. The case is still pending against Krka, d.d., Novo Mesto. On 29 November 2010, a similar request for a preliminary injunction was filed with the Vienna Commercial Court against ratiopharm Arzneimittel Vertriebs-GmbH.

In July 2008, AstraZeneca initiated a declaratory action in Finland requesting the District Court of Helsinki to confirm that Sandoz AS and Sandoz A/S would infringe a patent relating to esomeprazole if they were to commercialise their generic esomeprazole product in Finland. In September 2008, Hexal AG, Sandoz Oy Ab and Sandoz A/S (all in the Sandoz group) initiated an invalidity case requesting the Court to invalidate the same patent. These cases will be heard jointly and were scheduled to be heard in September 2010. The hearing has been postponed to a date to be determined later.

AstraZeneca initiated similar declaratory actions in Finland at the District Court of Helsinki against Ranbaxy (UK) Limited in December 2009, against Mylan AB in March 2010, against Stada Arzneimittel AG in April 2010 and against Teva Sweden AB on 17 January 2011, requesting an order that these companies would infringe a patent relating to esomeprazole if they were to commercialise their generic products in Finland.

In Portugal, AstraZeneca filed a request in August 2009 with the Lisbon Administrative Court of First Instance seeking a preliminary injunction and initiating a main action in the administrative courts. AstraZeneca has filed the request to seek a suspension of the effect of decisions taken by administrative bodies in Portugal to grant Sandoz Farmacêutica Limitada marketing authorisations for generic esomeprazole magnesium products. In October 2009, the Court granted AstraZeneca a preliminary injunction suspending the efficacy of the marketing authorisations and the price approvals for Sandoz Farmacêutica Limitada's generic esomeprazole magnesium products. The decision was appealed by the Portuguese authorities. In a decision on 22 December 2010, the court upheld the preliminary injunction. In January 2010, Mepha AG and Mepha Investigacao Fabricacao Farmacêutica, Limitada filed a nullity action to revoke the esomeprazole magnesium patent (EP 1020461) for *Nexium*. In February 2010, AstraZeneca filed a similar request for a preliminary injunction regarding the marketing approval for Mepha Farmacêutica Limitada. The preliminary request was denied by the Court in June 2010. AstraZeneca has appealed this decision.

During 2009, Lek Farmacevtska Druzba d.d. (a company within the Sandoz group), (Lek) initiated an invalidity case regarding two esomeprazole related patents in Slovenia. AstraZeneca filed a request for an interlocutory injunction in January 2010 against Lek to restrain this company from commercialising, manufacturing and selling products containing esomeprazole magnesium in Slovenia. The interlocutory injunction was granted in June 2010. Lek appealed in July 2010, and in September 2010 the Appeal Court upheld the injunction. In July 2010, AstraZeneca filed an application with the District Court of Ljubljana in Slovenia seeking an interlocutory injunction to restrain Krka, d.d., Novo Mesto from manufacturing and selling generic esomeprazole magnesium products. On 20 October 2010, the court rejected the request for an injunction. AstraZeneca appealed this decision on 28 October 2010.

In Spain, AstraZeneca filed a request for a preliminary injunction in April 2010 against Sandoz Farmacéutica S.A., Bexal Farmacéutica S.A., and Acost Comercial Genericpharma, S.L. (all in the Sandoz group) to restrain the companies from selling their generic esomeprazole magnesium products in Spain. In May 2010, the Court of Barcelona granted AstraZeneca a preliminary injunction against these Sandoz companies. A hearing in court took place in July 2010. Six days later, the court revoked the preliminary injunction. AstraZeneca has appealed.

In Poland, AstraZeneca filed in May 2010 a request for an interlocutory injunction against Lek Farmacevtska Druzba d.d. and Sandoz GmbH (both in the Sandoz group) to restrain them from manufacturing, using and selling their generic esomeprazole magnesium product in Poland. In June 2010, the application was granted regarding commercialising the product. AstraZeneca has appealed to have the injunction extended to manufacturing and Lek and Sandoz appealed in August 2010. In November 2010, the Appeal Court denied both appeals and thereby confirmed the interlocutory injunction.

In Ireland, AstraZeneca initiated a main action in August 2010 against Krka, d.d., Novo Mesto and Pinewood Laboratories Ltd claiming that the sale and marketing of their generic esomeprazole magnesium products infringes the *Nexium* esomeprazole magnesium patent (EP 1020461).

In Estonia, AstraZeneca filed a request for an interlocutory injunction in June 2010 against Krka, d.d., Novo Mesto (Krka) to restrain this company from commercialising its magnesium esomeprazole product in Estonia. In July 2010, the court granted the requested interlocutory injunction. Krka appealed. In September 2010, the Appeal Court rejected the appeal and upheld the injunction. Krka, d.d., Novo Mesto filed an appeal with the Supreme Court, which denied leave to appeal. In July 2010, AstraZeneca filed a similar request for an interlocutory injunction against Krka in Lithuania. In July 2010, the injunction was granted. In September 2010, Krka appealed. Krka and Zentiva k.s. have challenged *Nexium* esomeprazole magnesium patents in courts in Estonia, Latvia and Lithuania. In January 2011, Zentiva k.s. waived its invalidity claim in Lithuania.

<u>Patent Litigation—Norway</u>

In Norway, Hexal AG, Sandoz AS and Sandoz A/S (together, Sandoz) initiated an invalidity case regarding two esomeprazole related patents in July 2008. In December 2009, the Court of Oslo invalidated a formulation patent while it upheld a substance patent related to esomeprazole. Both parties have appealed and the case was heard by the Appeal Court in January 2011. In September 2010, AstraZeneca filed a request for an interlocutory injunction against Krka Sverige AB to restrain the company from marketing and selling its generic esomeprazole magnesium product in Norway. In December 2010, the Court granted AstraZeneca's application, thereby prohibiting Krka Sverige AB's commercialisation of its generic esomeprazole product in Norway. Krka Sverige AB has appealed this decision.

<u>Patent Proceedings</u>

In July 2009, the European Patent Office (EPO) published the grant of two patents that relate to *Nexium* (EP 1020461) and *Nexium i.v.* (EP 1020460). These two patents were granted on the basis of two divisional applications of European Patent No. 0652872 (the Parent Patent). The Parent Patent, a substance patent covering *Nexium*, was revoked by the EPO Board of Appeal in December 2006 following post-grant opposition and appeal proceedings. The claims of EP 1020461 are different and narrower than the Parent Patent.

The divisional applications were supported by new evidence that was not available at the time the EPO Board of

Appeal made its decision to revoke the Parent Patent. The new patents are due to remain in force until May 2014. The claims of the esomeprazole magnesium divisional application are limited to preparations and uses thereof having a very high optical purity, namely esomeprazole magnesium with an optical purity of equal to or greater than 99.8% enantiomeric excess.

The period for filing Notices of Opposition to the grant of these patents expired in April 2010. Thirteen Notices of Opposition have been filed in relation to EP 1020461 and six Notices of Opposition in relation to EP 1020460. No hearing date has been set.

European Commission Investigation

On 30 November 2010, the European Commission commenced an investigation relating to certain alleged practices regarding *Nexium* and dawn raided several AstraZeneca sites. The European Commission is investigating whether AstraZeneca may have acted individually or jointly to delay generic entry, in alleged breach of Articles 101 and/or 102 of the Treaty on the Functioning of the European Union, which prohibit anti-competitive practices between third parties and abuse of a dominant position. Dawn raids are a preliminary step in investigating suspected anti-competitive practices. The European Commission is continuing its investigation. AstraZeneca remains of the view that the investigation is unfounded and that it has complied with all relevant competition laws. AstraZeneca has, in accordance with its corporate policy, co-operated with the European Commission's investigation. AstraZeneca will continue to co-operate with the European Commission should it decide to take the matter further.

Dutch Competition Authority *Nexium* Investigation

On 30 November 2010, the Dutch Competition Authority (NMa) commenced an investigation relating to alleged breach of Article 24 of Dutch competition law and Article 102 of the Treaty on the Functioning of the European Union. The NMa's investigation relates to alleged foreclosure of generic versions of certain proton pump inhibitors (PPIs). The NMa is continuing its investigation. AstraZeneca remains of the view that the investigation is unfounded and that it has complied with all relevant competition laws. AstraZeneca has, in accordance with its corporate policy, co-operated with the NMa's investigation. AstraZeneca will continue to co-operate with the NMa should it decide to take the matter further.

Federal Trade Commission (FTC) Inquiry

In July 2008, AstraZeneca received a Civil Investigative Demand from the FTC seeking information regarding the *Nexium* patent litigation settlement with Ranbaxy (UK) Limited. AstraZeneca is co-operating fully with the request.

Pulmicort Respules (Budesonide Inhalation Suspension)

In 2008, AstraZeneca filed a lawsuit in the US District Court for the District of New Jersey against Breath Ltd. (now owned by Watson Pharmaceuticals) (Watson) for patent infringement resulting from an ANDA filed by Watson seeking approval to market generic copies of *Pulmicort Respules* in the US prior to the expiration of AstraZeneca's patents.

In 2009, AstraZeneca filed a patent infringement lawsuit in the US District Court for the District of New Jersey against Apotex Inc. and Apotex Corp. (together, Apotex Group) seeking declaratory judgments and injunctive relief following the FDA's approval of Apotex Group's ANDA for a generic version of *Pulmicort Respules* in the US prior to the expiration of AstraZeneca's patents. In May 2009, due to concerns about Apotex Group's intent to market its generic ANDA product, AstraZeneca obtained a preliminary injunction barring Apotex Group from launching its generic version of *Pulmicort Respules* until further order of the Court. In November 2010, the Court of Appeals for the Federal Circuit affirmed the District Court's decision to issue a preliminary injunction. Apotex Group has filed a petition in the Court of Appeals for rehearing *en banc*.

In April 2009, AstraZeneca listed in the FDA's Orange Book a newly issued US patent directed to sterile formulations of budesonide inhalation suspensions. AstraZeneca listed the new patent in the FDA's Orange Book, referencing *Pulmicort Respules*. AstraZeneca amended its pleadings against Apotex Group and Watson alleging infringement of the newly issued patent. The litigation involving Apotex Group and Watson has been consolidated under a common scheduling order. In December 2010, the Court scheduled a claim construction hearing to commence on 9 May 2011.

In September 2010, AstraZeneca received a Paragraph IV Certification notice-letter from Sandoz Inc. notifying AstraZeneca that it was seeking approval to market a generic version of 0.25, 0.50 and 1mg doses of *Pulmicort Respules* prior to expiration of the patents covering *Pulmicort Respules*. In November 2010, AstraZeneca commenced patent infringement litigation against Sandoz Inc. in the US District Court for the District of New Jersey.

Seroquel (Quetiapine Fumarate)

AstraZeneca has made provisions in the year totalling $592m in respect of the ongoing *Seroquel* product liability litigation and state attorney general investigations into sales and marketing practices in the aggregate.

Sales and Marketing Practices

As previously reported, AstraZeneca reached a civil settlement with the US Attorney's Office (Department of Justice) and the state Attorneys General National Medicaid Fraud Control Unit (NMFCU) to resolve an investigation relating to the marketing of *Seroquel*, pursuant to which AstraZeneca paid to the United States Federal Government a fine of $302m plus accrued interest and to participating states a proportional share of up to $218m plus accrued interest. In September 2010, AstraZeneca entered into individual settlement agreements with 41 states and Washington, D.C. for an aggregate amount of approximately $210m.

There are also a number of additional active investigations involving *Seroquel* sales and marketing practices led by state Attorneys General which include investigations relating to *Seroquel* off-label issues and which purport to cover issues in addition to the respective states' participation in NMFCU. AstraZeneca has reached an agreement in principle to settle *Seroquel*-related state consumer protection and deceptive trade practice claims under state law with 37 states and Washington, D.C., as part of the National Association of Attorneys General and has recorded a provision for the agreed amount. Some states may also be conducting individual investigations.

Some states are separately suing AstraZeneca. As previously reported, the Commonwealth of Pennsylvania and the states of Arkansas, Montana, New Mexico, South Carolina,

Mississippi and Utah have sued AstraZeneca under various state laws generally alleging that AstraZeneca made false and/or misleading statements in connection with the marketing and promotion of *Seroquel*. In December 2010, the State of Alaska also sued AstraZeneca, making similar allegations. In September 2010, the Commonwealth of Pennsylvania voluntarily dismissed its lawsuit, and in December 2010, a federal judge dismissed Utah's suit in its entirety and gave the State until 2 February 2011 to amend its complaint and refile. AstraZeneca believes that the remaining claims, which are in various stages of litigation, are without merit and intends to vigorously defend them.

In May 2007, the New Jersey Ironworkers Local Union No. 68 filed a class action suit against AstraZeneca on behalf of all individuals and non-governmental entities that paid for *Seroquel* from January 2000 to date. The lawsuit was filed in the federal District Court in New Jersey and alleged that AstraZeneca promoted *Seroquel* for off-label uses and misled class members into believing that *Seroquel* was superior to other, lower-cost alternative medicines. Two similar class action lawsuits were filed in June and July 2007 in the New Jersey and Pennsylvania federal courts. In December 2007, the three lawsuits were transferred to the Middle District of Florida by the US Judicial Panel on Multi-District Litigation (MDL). In November 2008, the MDL Court granted AstraZeneca's motion and dismissed these cases in their entirety with prejudice. The plaintiffs have appealed this decision. AstraZeneca intends to vigorously defend the appeal, which was heard by the Eleventh Circuit Court of Appeals in February 2010 and remains pending.

In September 2008, the Pennsylvania Employees Benefit Trust Fund (PEBTF) served AstraZeneca with a complaint filed in the Pennsylvania Court of Common Pleas of Philadelphia County seeking economic damages stemming from allegedly improper marketing practices that caused the PEBTF to reimburse for allegedly overpriced *Seroquel* prescriptions and the medical care of PEBTF members allegedly injured from *Seroquel* use. In October 2008, AstraZeneca removed this lawsuit to the federal court and immediately requested that it be transferred to the *Seroquel* MDL. In July 2009, the MDL Court dismissed PEBTF's complaint with prejudice. PEBTF elected to forego a federal appeal of that decision, and instead pursued an appeal in the Pennsylvania Superior Court on the dismissal of an earlier-filed state court action. In August 2010, PEBTF voluntarily dismissed its appeal to the Pennsylvania Superior Court.

Product Liability

AstraZeneca, either alone or in conjunction with one or more affiliates, has been sued in numerous individual personal injury actions involving *Seroquel*. In most of these cases, the nature of the plaintiffs' alleged injuries is not clear from the complaint and, in most cases, little or no factual information regarding the alleged injury has been provided in the complaint. However, the plaintiffs generally contend that they developed diabetes and/or other related injuries as a result of taking *Seroquel* and/or other atypical anti-psychotic medications.

AstraZeneca has defended *Seroquel* product liability litigation in federal courts, including a Multi-District Litigation (MDL) in the Middle District of Florida, as well as in multiple state courts, including Delaware, New York and New Jersey courts, where cases were consolidated in order to manage the large volume of claims pending in those jurisdictions.

As of 31 December 2010, AstraZeneca was aware of approximately 3,950 *Seroquel* US product liability claims that have not been settled in principle (see below). The majority of these remaining claims are pending in New Jersey and New York state courts, although some claims are pending in a handful of other state courts and in the federal MDL. Some of the cases pending against AstraZeneca also include claims against other pharmaceutical manufacturers such as Eli Lilly & Company, Janssen Pharmaceutica, Inc. and/or BMS. At present, trial dates remain pending in multiple jurisdictions, including New Jersey and New York, beginning mid 2011 and continuing through 2012.

There are four additional putative Canadian class actions raising allegations that AstraZeneca failed to provide adequate warnings in connection with an alleged association between *Seroquel* and the onset of diabetes. These actions have been filed in the Canadian provinces of British Columbia, Alberta, Ontario and Quebec. The Quebec court dismissed the action, and the petitioner's appeal of that decision is scheduled for hearing in April 2011. A class certification hearing has been set in the Ontario action for the week of 21 November 2011.

In September 2010, the court presiding over the Delaware *Seroquel* litigation issued an opinion dismissing three cases on the basis that the claims were time-barred under the statute of limitations.

The only case that has gone to trial resulted in a defence verdict in favour of AstraZeneca. The plaintiffs have appealed that verdict, and the appeal is pending before the New Jersey appellate court.

In November 2009, Judge Anne Conway, who is presiding over the *Seroquel* federal MDL, ordered the parties to mediate their claims with a court-appointed mediator. AstraZeneca remains committed to a strong defence effort, but will also continue to participate in good faith in the court-ordered mediation process.

As of 31 December 2010, the mediation process has resulted in agreements in principle on monetary terms, subject to various subsequent conditions, approvals and agreement on non-monetary terms, with the attorneys representing 24,591 claimants. The claims that have settled in principle include both claims that have been filed in the courts as well as claims that had not yet been filed. The specific terms of those conditional agreements in principle are by agreement, and at the request of the mediator, confidential at this time. Written settlement agreements have been finalised in connection with 18,072 claims and payments have been made in connection with certain of those claims. The parties are finalising written settlement agreements in respect of the other claims that have been resolved in principle. The mediation process is ongoing with regard to other currently unsettled claims.

A provision has been established in respect of the *Seroquel* product liability claims regarding both current and anticipated future settlement costs as well as anticipated future defence costs associated with resolving all or substantially all remaining claims.

The amount of this provision remains subject to a number of significant uncertainties and is based on AstraZeneca's best estimate of (1) the number of claims that are outstanding and may be subject to mediation, (2) the financial terms of any future agreements to settle claims not subject to settlement agreements in principle at the balance sheet date, and (3) the likely cost of defending those claims and finalising settlement agreements through to substantial completion. Each of these estimates is subject to future adjustment based on multiple

variables, such as the number of asserted claims, the success of future mediations, and further developments in the litigation. It is therefore not possible at this time to provide any reasonable indication as to when remaining claims may be settled. Furthermore, it is possible that the actual cost of ultimately settling or adjudicating the *Seroquel* product liability claims may differ significantly from the total amount provided.

As of 31 December 2010, legal defence costs of approximately $738m have been incurred in connection with *Seroquel*-related product liability claims.

AstraZeneca has product liability insurance dating from 2003 that is considered to respond to the vast majority of the *Seroquel*-related product liability claims. This insurance provides cover for legal defence costs and potential damages amounts. The insurers that issued the applicable policies for 2003 have disputed coverage for *Seroquel*-related product liability claims on various grounds. In April 2010, AstraZeneca settled its claims against several of its insurers for legal costs incurred defending the *Seroquel*-related product liability claims immediately in excess of AstraZeneca's self-insured retention of $39m for an amount approximately equal to the receivable that had been recorded at 31 December 2009.

Disputes continue with insurers about the availability of coverage under additional insurance policies. As of 31 December 2010, legal costs of approximately $123m have been incurred in connection with *Seroquel*-related product liability claims which AstraZeneca believes to be covered by these additional insurance policies. However, the combined amount charged to the income statement to date in respect of legal costs and settlements which AstraZeneca believes to be covered by these additional policies, including the provisions taken in the third and fourth quarters of 2010, now significantly exceeds the total stated upper limits of these insurance policies.

While no insurance receivable can be recognised under applicable accounting standards at this time, AstraZeneca believes that it is more likely than not that further insurance recoveries will be secured under the additional policies, but there can be no assurance of this or the amount of any potential future recovery.

Patent Litigation—Brazil

In January 2006, AstraZeneca filed a lawsuit before the Federal Courts of Rio de Janeiro seeking judicial declaration extending the term of one of its patents from 2006 to 2012. A preliminary order was granted shortly thereafter. At the end of July 2010, Pró Genéricos and the Brazilian Patent Trademark Office (Brazilian PTO) appealed the preliminary order granted in favour of AstraZeneca. The judge decided in favour of Pró Genéricos and the Brazilian PTO. AstraZeneca appealed this decision. In November 2010, the Court of Appeal decided in favour of Pró Genéricos and the Brazilian PTO and revoked the prelimary order previously granted to AstraZeneca. The main action continues.

Patent Litigation—EU

Since 2007, AstraZeneca has filed requests with the Portuguese courts seeking suspension of the effect of decisions taken by administrative bodies in Portugal to grant other companies marketing authorisations for generic quetiapine fumarate. Many preliminary injunctions and main actions are pending before the courts. The courts have generally agreed with AstraZeneca's position and suspended the marketing authorisations in the preliminary injunction actions until a definitive decision on the merits in the main actions (or until AstraZeneca's patent rights expire, in March 2012, if this occurs first). Only in one case did the administrative courts not suspend the grant of the marketing authorisation (decision of December 2009, confirmed in July 2010). Accordingly, the Portuguese administrative bodies have granted the retail price in respect of that product. In July and November 2010, AstraZeneca filed preliminary injunction proceedings with the aim of suspending the effect of the retail price decision. AstraZeneca has filed corresponding main actions.

Seroquel XR

Patent Litigation—US

AstraZeneca lists two patents in the FDA's Orange Book referencing *Seroquel XR*, US Patent No. 4,879,288 (the '288 patent) covering quetiapine fumarate, the active ingredient, and US Patent No. 5,948,437 (the '437 patent) covering extended-release formulations, processes and methods in respect of quetiapine fumarate.

As previously reported, in 2008 and 2009, AstraZeneca filed patent infringement actions in the US District Court for the District of New Jersey against various entities of Handa Pharmaceuticals, LLC (Handa), Accord Healthcare Inc. (Accord), and Biovail Laboratories International SRL (Biovail) for ANDAs seeking approval to market generic copies of *Seroquel XR* tablets.

In March 2010, AstraZeneca received a Paragraph IV Certification notice-letter from Anchen Pharmaceuticals, Inc. (Anchen) seeking approval to market generic versions of 150, 200, 300 and 400mg *Seroquel XR* tablets before the expiration of the '437 patent. In its Certification notice-letter, Anchen claims that certain of the claims of the '437 patent will not be infringed by its proposed ANDA products and that the '437 patent is invalid. In April 2010, AstraZeneca filed a lawsuit in the US District Court for the District of New Jersey against Anchen and Anchen, Inc. alleging infringement of the '437 patent.

In July 2010, AstraZeneca received a Paragraph IV Certification notice-letter from Torrent Pharmaceuticals Ltd. (Torrent) indicating that it was seeking approval to market generic versions of 150, 200, 300 and 400mg *Seroquel XR* tablets before the expiration of the '437 patent. Torrent claims that certain of the claims of the '437 patent will not be infringed by its proposed ANDA products and that the '437 patent is invalid. In August 2010, AstraZeneca filed a lawsuit in the US District Court for the District of New Jersey against Torrent alleging infringement of the '437 patent. In September 2010, AstraZeneca received another Certification notice-letter similar to that described above from Torrent with respect to the 50mg *Seroquel XR* tablets. In September 2010, AstraZeneca filed another lawsuit in the US District Court for the District of New Jersey against Torrent for patent infringement alleging infringement of the '437 patent with respect to the 50mg tablet.

In July 2010, AstraZeneca received a Paragraph IV Certification notice-letter from Osmotica Pharmaceutical Corporation (Osmotica) indicating that it was seeking approval to market generic versions of 200, 300 and 400mg *Seroquel XR* tablets before the expiration of the '437 patent. In its Certification notice-letter, Osmotica claims that certain of the claims of the '437 patent will not be infringed by its proposed ANDA products and that the '437 patent is invalid. In August 2010,

AstraZeneca filed a lawsuit in the US District Court for the District of New Jersey against Osmotica.

In October 2010, AstraZeneca received a Paragraph IV Certification notice-letter from Mylan Pharmaceuticals Inc. (Mylan) indicating that it was seeking approval to market a generic version of 200mg *Seroquel XR* tablets before the expiration of the '437 patent. In its Certification notice-letter, Mylan claims that certain of the claims of the '437 patent will not be infringed by its proposed ANDA products and that the '437 patent is invalid. In October 2010, AstraZeneca filed a patent infringement action in the US District Court for the District of New Jersey against Mylan and Mylan Inc.

The patent infringement actions against all seven ANDA filers proceed in discovery before US District Court Judge Joel Pisano.

On 22 November 2010, the Court conducted a claim construction hearing, and on 30 November 2010, Judge Pisano issued a decision interpreting claims of the '437 patent. In December 2010, Torrent filed a Motion for Clarification and Reconsideration of the Court's decision in response.

In December 2010, Handa and Accord reported that they have received tentative FDA approval of their ANDAs.

On 8 January 2011, AstraZeneca and Handa submitted a joint stipulation and proposed order concerning the '288 patent staying litigation between the parties until and including 26 March 2012. Upon expiration of the stay, AstraZeneca's infringement claims against Handa relating to the '288 patent, and Handa's related counterclaims, will be dismissed as moot. Under the stipulation, Handa agrees not to engage in the commercial sale of the extended release quetiapine fumarate products that are the subject of its ANDA before the 26 March 2012 expiration of AstraZeneca's Paediatric Exclusivity relating to the '288 patent. The Court entered the consent order described above on 10 January 2011. The Court has set a pre-trial schedule and trial to begin on 3 October 2011.

Patent Litigation—EU

In the UK, Teva UK Limited and Teva Pharmaceuticals Limited (Teva) issued revocation proceedings against AstraZeneca in December 2010. Teva claims that the patent EP (UK) 0907364 is invalid.

In Hungary, AstraZeneca was notified in late 2010 that Teva Pharmaceuticals Limited and Teva Gyógyszergyár Zrt (together, Teva) had filed a request for nullity of the Hungarian formulation patent for *Seroquel XR* with the Hungarian Patent Office. Teva claims that Hungarian Patent No. 225 152 should be declared null and void. AstraZeneca is considering its response.

Synagis (Palivizumab)

In December 2008, MedImmune initiated patent litigation against PDL BioPharma, Inc. (PDL) in the US District Court for the Northern District of California. MedImmune sought a declaratory judgment that the Queen patents (owned by PDL) are invalid and/or not infringed by either *Synagis* and/or motavizumab, and that no further royalties are owed under a patent licence MedImmune and PDL signed in 1997 (1997 Agreement). MedImmune has paid royalties on *Synagis* since 1998 under the 1997 Agreement. In February 2009, MedImmune amended its complaint to add a separate claim asserting that MedImmune is entitled, under the 1997 Agreement's 'most favoured licensee' provision, to the more favourable royalty terms that MedImmune contends PDL has granted to other Queen patent licensees. PDL has taken the position in the case that both *Synagis* and motavizumab infringe a single claim of the Queen patents, and on that basis, that MedImmune owes royalties for both products. With respect to the 'most favoured licensee' dispute, PDL contends that MedImmune's rights under that provision have not been triggered by PDL's licensing activities with third parties. In December 2009, PDL purported to cancel the 1997 Agreement, an action PDL later explained was based on an allegation that MedImmune had underpaid royalties on ex-US sales of *Synagis* by Abbott International, Inc. (Abbott), and that MedImmune failed to cooperate in a royalty audit. After the purported termination, PDL amended its answer to add counterclaims for breach of contract and patent infringement. PDL's claims seek actual and exemplary damages and an injunction. MedImmune responded to the new claims by adding its own claims for damages and recoupment of past royalties. In December 2010, the Court heard motions for summary judgment that could resolve certain issues, including patent invalidity, without a trial. On 7 January 2011, the Court granted some of those motions. The Court held that the single patent claim asserted by PDL as a basis for MedImmune's royalty obligation is invalid, and also that MedImmune properly paid royalties on ex-US sales by Abbott. On 12 January 2011, the Court held a case management conference and scheduled the remaining claims for trial on 4 March 2011 with a further hearing scheduled on 4 February 2011 to finalise the trial date.

As at 31 December 2010, MedImmune had provided for \$38m in respect of accrued royalties not paid to PDL for the period from December 2009 to the end of 2010.

Symbicort (Budesonide/Formoterol)

Symbicort Maintenance and Reliever Therapy *(Symbicort SMART)*

In December 2008, oppositions were filed against patent EP 1 085 877 B1 covering the use of *Symbicort* for the as needed symptomatic relief of asthma in addition to regular maintenance treatment of chronic asthma. The opponents are Vectura Limited, ratiopharm GmbH, Generics (UK) Limited and Norton Healthcare Limited. A hearing date has not yet been set by the European Patent Office Opposition Division.

US Patent Term Extension

In June 2008, the US Patent and Trademark Office issued a final determination that US Patent No. 5,674,860 was not eligible for patent term extension. AstraZeneca filed a request for reconsideration and the matter continues.

Toprol-XL (Metoprolol Succinate)

In the first quarter of 2006, AstraZeneca was served with 14 complaints filed in the US District Court for the Districts of Delaware, Massachusetts and Florida against AstraZeneca and Aktiebolaget Hässle. The complaints were putative class actions filed on behalf of both direct purchasers and indirect purchasers that allege that AstraZeneca attempted to illegally maintain monopoly power in the US over *Toprol-XL* in violation of the Sherman Act through the listing of invalid and unenforceable patents in the FDA's Orange Book and the enforcement of such patents through litigation against generic manufacturers seeking to market metoprolol succinate. The complaints seek treble damages based on alleged overcharges to the putative classes of plaintiffs. These 14

complaints were consolidated into two amended complaints in the US District Court for the District of Delaware, one on behalf of direct purchasers, and one on behalf of indirect purchasers. The lawsuits are based upon a 2006 ruling by the US District Court for the Eastern District of Missouri in the consolidated patent litigation against KV Pharmaceuticals Co., Andrx Pharmaceuticals, LLC and Eon Labs, Inc. that the AstraZeneca patents relating to *Toprol-XL* are invalid and unenforceable. In 2006, AstraZeneca filed a motion seeking to dismiss or, in the alternative, stay the consolidated complaint in both anti-trust cases. In March 2010, the court ordered the parties to begin discovery and in April 2010 issued an order denying AstraZeneca's motions to dismiss.

In July 2010, a non-class action anti-trust complaint was filed in federal court in Delaware against AstraZeneca by Walgreen Co., The Kroger Co., Safeway Inc., HEB Grocery Company LLP and Supervalu Inc. In October 2010, a similar complaint was filed in Delaware by CVS Pharmacy Inc., Caremark LLC, Rite Aid Corp, Rite Aid Headquarters Corp, JCG (PJC) USA LLC, Maxi Drug, Inc. (doing business as, Brooks Pharmacy) and Eckerd Corp. These two complaints are based on the same anti-trust allegations that were already alleged in the direct purchaser actions and, if upheld, would reduce the damages available to the plaintiffs in the direct purchaser actions.

Zestril (Lisinopril)

In 1996, two of AstraZeneca's predecessor companies, Zeneca Limited and Zeneca Pharma Inc. (as licensees), Merck & Co., Inc. and Merck Frosst Canada Inc. (together, Merck Group) commenced a patent infringement action in the Federal Court of Canada against Apotex Inc. (Apotex), alleging infringement of Merck Group's lisinopril patent. AstraZeneca and the Merck Group were ultimately successful. In March 2010, AstraZeneca and the Merck Group filed Statements of Issues to commence the reference to quantify the damages related to Apotex's infringement. The damages matter proceeds.

Other Product Liability Litigation

Pain Pump Litigation

Since February 2008, AstraZeneca has been named among other defendants in approximately 300 lawsuits, involving approximately 489 plaintiffs, filed in various US jurisdictions, alleging injuries caused by third party pain pumps. The complaints in these cases generally allege that the use of *Marcaine*, *Sensorcaine*, *Xylocaine* and/or *Naropin*, with or without epinephrine, in pain pumps that were implanted into patients in connection with arthroscopic surgery, caused chondrolysis. As of the end of 2010, AstraZeneca has been dismissed from all but two of these cases, each with only one plaintiff.

It was previously reported that AstraZeneca was among 20 defendants named in a putative class action lawsuit pending in Federal District Court in Texas that was brought by a single plaintiff on behalf of 'several hundred' class members who received local anaesthetics intra-articularly for up to 72 hours or more via a pain pump. In April 2010, the District Court dismissed AstraZeneca from this lawsuit, and no appeal was taken.

AstraZeneca intends to vigorously defend against this matter.

Other Commercial Litigation

Verus Pharmaceuticals Litigation

In May 2009, Verus Pharmaceuticals Inc. (Verus) filed a lawsuit in the New York State Supreme Court, New York County against AstraZeneca and its subsidiary, Tika Läkemedel AB (Tika), alleging breaches of several related collaboration agreements to develop novel paediatric asthma treatments. The complaint purported to state claims for fraud, breach of contract, unjust enrichment and conversion. AstraZeneca and Tika removed the lawsuit to the US District Court for the Southern District of New York and moved to dismiss the complaint. In August 2010, the federal district court granted the defendants' motion to dismiss in its entirety. In September 2010, Verus filed a Notice of Appeal from that decision with the US Court of Appeals for the Second Circuit.

Dr. George Pieczenik v. AstraZeneca Pharmaceuticals LP, AstraZeneca LP, *et al.*

In May 2010, Dr. George Pieczenik (the Plaintiff) filed a lawsuit against AstraZeneca and numerous other companies in the US District Court for the District of New Jersey alleging that defendants' 'research, commercial and licensing activities' infringe US Patent No. 5,866,363 (the '363 patent), purportedly owned by the Plaintiff. The Plaintiff also alleged violations of the Racketeering Institution and Corrupt Organization Act. In June 2010, the Court, *sua sponte*, dismissed without prejudice the Plaintiff's suit, determining that the asserted claims failed to meet federal pleading requirements. In July 2010, the Plaintiff filed an amended complaint again claiming infringement of the '363 patent as well as other legal theories. In October 2010, defendants filed a motion to dismiss the lawsuit asserting that the Plaintiff had failed to state a legally cognisable cause of action. The Plaintiff opposed the motion in November 2010 and filed several unsuccessful ancillary motions, which the Plaintiff has improperly appealed to the Federal Circuit Court. The Court has not yet ruled on the motion to dismiss the amended complaint.

Other Pricing Litigation

Average Wholesale Price Litigation

AstraZeneca is a defendant, along with many other pharmaceutical manufacturers, in several sets of cases involving allegations that, by causing the publication of allegedly inflated wholesale list prices, defendants caused entities to overpay for prescription drugs.

The first set of cases was filed in December 2001 in the US District Court in Boston, Massachusetts on behalf of a putative class of plaintiffs and related only to the physician-administered *Zoladex* medication. Following the Massachusetts complaint, nearly identical class action suits were filed in two other states, which were consolidated with the Massachusetts action for pre-trial purposes, pursuant to federal Multi-District Litigation (MDL) procedures. As previously reported, AstraZeneca and other manufacturers were later sued in similar lawsuits filed by the State Attorneys General of Alabama, Alaska, Arizona, Hawaii, Idaho, Illinois, Iowa, Kansas, Kentucky, Mississippi, Montana, Nevada, Pennsylvania, Utah, and Wisconsin, as well as by multiple individual counties in the State of New York. In September and November 2010 respectively, AstraZeneca was separately served with two new such cases brought by the Attorneys General

of Oklahoma and Louisiana. The Attorneys General lawsuits seek to recover alleged overpayments under Medicaid and other state-funded healthcare programmes for substantially all of AstraZeneca's medications. In several cases, the states are also suing to recover alleged overpayments by state residents. Several of these suits were consolidated with the Massachusetts action for pre-trial purposes, pursuant to federal MDL procedures. Private insurers and consumers filed putative state-wide class actions in Arizona and New Jersey alleging damages relating to private reimbursement of prescription drugs.

In the MDL action in January 2006, the District Court certified three classes of plaintiffs against AstraZeneca: a nationwide class of consumers who made co-payments for *Zoladex* reimbursed under the Medicare Part B programme (Class 1); a Massachusetts-only class of third party payers, including insurance companies, union health and welfare benefit plans, and self-insured employers, who covered consumer co-payments for *Zoladex* (Class 2); and a Massachusetts-only class of third party payers and consumers who paid for *Zoladex* outside of the Medicare programme (Class 3). In September 2008, the MDL Court also provisionally certified multi-state versions of Class 2 and Class 3 relating to *Zoladex*. For all of these classes, the only AstraZeneca drug at issue is *Zoladex*.

As previously reported, in December 2008, the MDL Court approved a settlement to resolve the Class 1 claims for up to $24m to reimburse individual class members submitting claims, plus attorneys' fees of $8.58m, with any unclaimed settlement amounts being donated to charitable organisations that fund cancer patient care and research. A portion of this settlement was paid in June 2010, but the administration of claims continues.

In June 2007 and November 2007, the MDL Court issued decisions, after a bench trial, on liability and damages on the Massachusetts Classes 2 and 3. The Court found AstraZeneca liable in connection with the pricing of *Zoladex* during the period 1998 to 2003 and awarded double damages (with pre-judgment interest) of $5.5m for Class 2, and single damages (with pre-judgment interest) of $7.4m for Class 3, for a total of $12.9m. On 18 June 2010, AstraZeneca executed a settlement agreement to resolve, inclusive of pre- and post-judgment interest, administration fees and plaintiffs' attorney fees, the Massachusetts Class 2 and Class 3 claims for a total of $13m. The Court granted preliminary approval of the settlement on 12 August 2010 and a hearing regarding final approval is scheduled to take place on 2 February 2011.

In June 2010, AstraZeneca executed a settlement agreement to resolve, inclusive of pre- and post-judgment interest, administration fees and plaintiffs' attorney fees, both the *Zoladex* claims of the provisionally certified multi-state class and the *Zoladex* claims in the lawsuit but not certified for class action treatment for a total of $90m. The Court granted preliminary approval of the settlement on 12 August 2010. A hearing regarding final approval is scheduled to take place on 2 February 2011.

With regard to the above-referenced MDL class settlements, AstraZeneca had already taken provisions, prior to 2010, in the aggregate amount of approximately $130m.

Many of the multiple attorney general and state putative class action lawsuits pending against AstraZeneca and other manufacturers nationwide, which involve numerous drugs in addition to *Zoladex*, remain pending and are in various stages of discovery. Those matters with significant developments are noted below.

In October 2009, a Kentucky jury found AstraZeneca liable under the Commonwealth of Kentucky's Consumer Protection statute and Medicaid Fraud statute, and awarded $14.72m in compensatory damages and $100 in punitive damages for drugs reimbursed by the Commonwealth of Kentucky Medicaid Agency and the trial court subsequently awarded statutory penalties of $5.4m. AstraZeneca filed a motion for a new trial and a motion for judgment notwithstanding the verdict, both of which were denied on 19 January 2011. AstraZeneca believes the verdict and the Court's order are in error and intends to appeal.

As previously reported, the cases brought by the Attorneys General of Nevada, Montana, Hawaii, and Pennsylvania have been resolved through settlements. In the fourth quarter of 2010, AstraZeneca finalised agreements to settle the lawsuits brought by Arizona, Iowa, and the New York Counties. In September 2010, AstraZeneca also finalised an agreement to settle the claims of the three named plaintiffs in the putative New Jersey consumer class action case. All of these settlements, the aggregate amount of which is approximately $19m, have been paid in full and AstraZeneca consequently owes no further obligations as a result of those underlying lawsuits.

As previously reported, in 2009 AstraZeneca prevailed in the Alabama Attorney General lawsuit and the Arizona consumer class action.

AstraZeneca remains in litigation with 10 state attorney generals.

AstraZeneca continues to vigorously defend the lawsuits brought by the Attorneys General of Alaska, Idaho, Illinois, Kansas, Kentucky, Louisiana, Mississippi, Oklahoma, Utah and Wisconsin, and denies the allegations therein.

<u>340B Class Action Litigation</u>

In August 2005, AstraZeneca was named as a defendant, along with multiple other pharmaceutical manufacturers, in a putative class action suit filed by the County of Santa Clara on behalf of similarly situated California counties and cities that allegedly overpaid for drugs covered by federal section 340B of the drug pricing programme (42 USC §256b). The 340B programme entitles hospitals and clinics that treat a substantial portion of uninsured patients to preferential drug pricing for outpatient drugs.

On 28 September 2010, the US Supreme Court granted the defendants' petition for *certiorari* from a decision of the US Court of Appeals for the Ninth Circuit. The issue before the Supreme Court is whether covered entities under the 340B programme have enforceable rights to sue as third party beneficiaries of the Pharmaceutical Pricing Agreement that implements the statute. Following the grant of *certiorari*, the trial court stayed all proceedings in the matter pending a decision by the US Supreme Court.

The case was argued on 19 January 2011. A decision is expected by the end of June 2011.

AstraZeneca intends to vigorously defend these claims.

<u>Other Anti-Trust Litigation and Investigations</u>

<u>Drug Importation Anti-Trust Litigation</u>

In August 2004, Californian retail pharmacy plaintiffs filed an action in the Superior Court of California alleging a conspiracy by AstraZeneca and approximately 15 other pharmaceutical manufacturer defendants to set the price of drugs sold in California at or above the Canadian sales price for those same

drugs and otherwise restrict the importation of pharmaceuticals into the US. In July 2005, the Court overruled in part and sustained in part, without leave to amend, the defendants' motion to dismiss the plaintiffs' third amended complaint in these proceedings. The Court overruled the defendants' motion in respect of conspiracy claims but sustained the motion in respect of the California Unfair Competition Law claims.

In December 2006, the Court granted the defendants' motion for summary judgment determining that any alleged damages suffered by plaintiffs were 'passed-on' to their customers and the case was subsequently dismissed. The plaintiffs appealed that decision and the Court of Appeal of the State of California affirmed the lower Court's decision. The plaintiffs appealed to the California Supreme Court. In July 2010, the California Supreme Court reversed the decisions by the lower courts, rejecting the 'pass-on' defence and remanded the case back to the lower court for further proceedings.

As previously reported, in September 2006, the defendants filed a motion for summary judgment arguing that the plaintiffs have failed to prove their allegations of a conspiracy and that the defendants are entitled to judgment as a matter of law. The Superior Court will hear argument on that motion on 17 February 2011. The Court has scheduled a trial of the matter to commence on 1 August 2011.

AstraZeneca denies the material allegations in the California action and is vigorously defending this matter.

US Secondary Wholesalers

In July 2006, AstraZeneca was named as a defendant, along with a number of other pharmaceutical manufacturers and wholesalers, in a complaint filed by RxUSA Wholesale, Inc. (RxUSA) in the US District Court for the Eastern District of New York. The complaint alleges that the defendants violated federal and state anti-trust laws. In August 2010, the Court of Appeal for the Second Circuit affirmed the dismissal and the time period for RxUSA to seek review by the Supreme Court expired, rendering the matter concluded.

European Commission Patent Settlements Monitoring

In January 2010, the European Commission requested copies of settlement agreements entered into between July 2008 and December 2009 from a number of companies, including AstraZeneca. AstraZeneca co-operated fully with the request. The European Commission published its First Report on Monitoring of Patent Settlements in July 2010. The report noted a decrease in the number of settlement agreements which might be problematic (pursuant to EU competition laws) in the relevant period, compared to the period covered by the European Commission's sector inquiry into the pharmaceutical industry (January 2000-June 2008). In January 2011, the European Commission requested copies of settlement agreements which were entered into or amended in 2010 from a number of companies, including AstraZeneca. AstraZeneca will co-operate fully with the request.

Other

For a description of other anti trust-related litigation involving AstraZeneca, see the subsections entitled *Losec/Prilosec* (omeprazole), *Nexium* (esomeprazole) and *Toprol-XL* (metoprolol succinate) in this Note 25 to the Financial Statements.

Other Actual and Threatened Government Investigations and Related Litigation

AstraZeneca is involved in various governmental investigations considered typical to its business. The more significant matters are discussed below.

Foreign Corrupt Practices Act

In connection with an investigation into Foreign Corrupt Practices Act issues in the pharmaceutical industry, AstraZeneca has received inquiries from the US Department of Justice and the SEC regarding, among other things, sales practices, internal controls, certain distributors and interactions with healthcare providers in several countries. AstraZeneca is co-operating with these inquiries. AstraZeneca is investigating indications of inappropriate conduct in certain countries, including China. These investigations are ongoing, and it is not currently possible to predict the scope, duration or outcome of these matters, including the extent to which, if at all, they will result in any liability to AstraZeneca.

Medco *qui tam* Litigation (Schumann)

AstraZeneca has been named as a defendant in a lawsuit filed in Federal Court in Philadelphia by a former Medco Health Systems employee, Karl Schumann, under the *qui tam* (whistleblower) provisions of the federal and certain state False Claims Acts. The action was initially filed in September 2003 but remained under seal until July 2009, at which time AstraZeneca was served with a copy of the amended complaint following the government's decision not to intervene in the case. The lawsuit seeks to recover, *inter alia*, alleged overpayments by federal and state governments for *Prilosec* and *Nexium* from 1996 to 2007. These overpayments are alleged to be the result of improper payments intended to influence the formulary status of *Prilosec* and *Nexium* at Medco and its customers. In October 2010, the district court denied AstraZeneca's motion to dismiss the amended complaint. In November 2010, AstraZeneca filed a separate motion to dismiss for lack of jurisdiction under the False Claims Act. Briefing is complete and this motion remains pending before the district court.

Additional Government Investigations into Drug Marketing Practices

As is true for most, if not all, major prescription pharmaceutical companies operating in the US, AstraZeneca is currently involved in multiple US federal and state investigations into drug marketing and pricing practices. The US Attorney's Offices for the Districts of Delaware, Texas and Alabama are conducting investigations related to sales and marketing activities potentially involving more than one product, including *Crestor* and *Seroquel XR*, and likely in response to the filing of *qui tam* (whistleblower) lawsuits. The precise parameters of these inquiries are unknown, and AstraZeneca is not in a position at this time to predict the scope, duration or outcome of these matters, including whether they will result in any liability to AstraZeneca.

In addition to the investigations described above, and as previously reported, various federal and state law enforcement offices have requested information relating to contracting and disease management programmes, a leading

provider of pharmacy services to long-term care facilities, prior interactions with physicians in the State of Delaware, and nominal pricing under the Medicaid rebate program respectively. There have been no material developments in these matters.

Employment Litigation

Employment—Wage/Hour Litigation

In September 2006, Marc Brody filed a putative class action lawsuit against AstraZeneca on behalf of himself and a class of approximately 844 pharmaceutical sales specialists employed by the Group in California during the period 19 September 2002 to the present. The plaintiff alleged he and the proposed class members were unlawfully classified as exempt employees and denied overtime compensation and meal breaks in violation of the California Labor Code. AstraZeneca removed this action to the US District Court for the Central District of California in October 2006. The plaintiff filed a first amended complaint in March 2007, seeking civil penalties and adding claims for alleged failure to provide meal and rest periods, failure to pay all wages earned each pay period, failure to provide accurate wage statements, failure to pay wages in a timely manner upon termination of employment and unfair competition. AstraZeneca denied the allegations made by the plaintiff, asserting that the sales specialists are properly classified under various exemptions to the wage laws. The plaintiff's lawyers are also pursuing similar claims in lawsuits against most of the major pharmaceutical companies. The US District Court for the Central District of California granted summary judgment in favour of AstraZeneca in the Brody lawsuit, dismissing all claims by the plaintiff and finding the motion for class certification to be moot. The plaintiff has filed a Notice of Appeal with the Ninth Circuit Court of Appeals in California. Briefing in that appeal is currently on hold.

In separate lawsuits against AstraZeneca, the firms representing the Brody plaintiff filed additional state and wage-and-hour class actions. One case captioned Baum v. AstraZeneca, LP was filed under the Pennsylvania Minimum Wage Act and Wage Payment Collection Law in the US District Court for the Western District of Pennsylvania on behalf of a putative class of approximately 473 sales specialists working in Pennsylvania from March 2004. The Court, however, granted summary judgment in favour of AstraZeneca, dismissing all claims filed by plaintiff Baum and finding the motion for class certification to be moot. The plaintiff filed an appeal with the Third Circuit Court of Appeals, but that appeal was denied. On 4 October 2010, the US Supreme Court denied the plaintiff's *certiorari* petition, which denied *certiorari*, preserving the favourable decision for AstraZeneca. The Baum lawsuit is now concluded.

Additionally, in June 2007, the firms representing the Brody plaintiff filed a nationwide collective action based on federal wage-and-hour law in the US District Court for the District of Delaware, seeking unpaid overtime compensation and liquidated damages. The lawsuit had a potential class size of 8,300 current and former sales specialists employed by the Group in the US from June 2004. The parties have negotiated a stipulation of dismissal of this lawsuit and the action was dismissed.

In November 2010, a separate group of plaintiffs' counsel filed a new nationwide collective action in the US District Court for the Southern District of Indiana. In this case, Shatto v. AstraZeneca PLP, the plaintiffs allege violations of federal wage-and-hour law for non-payment of overtime wages. AstraZeneca denies the allegations made by the plaintiff and intends to defend the litigation vigorously.

Bildman v. Astra USA

In March 2010, Bildman filed a petition for a writ of *certiorari* with the US Supreme Court, seeking appeal of the Massachusetts Supreme Judicial Court's dismissal of his defamation claim against AstraZeneca. In May 2010, the US Supreme Court denied Bildman's petition for a writ of *certiorari*, declining to review the lower court's decision and preserving a favourable outcome for AstraZeneca.

Tax

Where tax exposures can be quantified, an accrual is made based on best estimates and management's judgement. Details of the movements in relation to material tax exposures are discussed below.

Transfer Pricing and Other International Tax Contingencies

AstraZeneca faces a number of transfer pricing audits in jurisdictions around the world and, in some cases, is in dispute with the tax authorities. The issues under discussion are often complex and can require many years to resolve. Accruals for tax contingencies require management to make estimates and judgements with respect to the ultimate outcome of a tax audit, and actual results could vary from these estimates. The international tax environment presents increasingly challenging dynamics for the resolution of transfer pricing disputes. These disputes usually result in taxable profits being increased in one territory and correspondingly decreased in another. Our balance sheet positions for these matters reflect appropriate corresponding relief in the territories affected. Management considers that at present such corresponding relief will be available, but given the challenges in the international tax environment will keep this aspect under careful review. The total net accrual included in the Group Financial Statements to cover the worldwide exposure to transfer pricing audits is $2,310m, a decrease of $17m due to negotiated settlements offset by the impact of an additional year of transactions relating to contingencies for which accruals had already been established, revisions of estimates relating to existing audits, a number of new tax contingencies and exchange rate effects.

Tax accruals have been made in respect of two individually significant exposures:

- The tax accrual at 31 December 2008 and 2009 included amounts in relation to a long running transfer pricing dispute between AstraZeneca and HM Revenue & Customs (HMRC) covering all periods from 1996 onwards. In February 2010, AstraZeneca announced that the company had entered into an agreement with HMRC in the UK to settle this dispute. As a consequence of the settlement, AstraZeneca and HMRC have withdrawn the joint referral of this issue to the UK Tax Court. The agreement will result in AstraZeneca paying £505m to HMRC to resolve all claims made by HMRC in relation to this issue for the 15-year period from 1996 to the end of 2010. The £505m settlement is payable in two instalments of which the first instalment of £350m ($562m) was paid in February 2010. A second final instalment of £155m is due to be paid in March 2011 and is included in ordinary tax payable at 31 December 2010.

- AstraZeneca has applied for an advance pricing agreement in relation to intra-group transactions between the UK and the US which is being progressed through competent authority proceedings under the relevant double tax treaty.

Management continues to believe that AstraZeneca's positions on all its transfer pricing audits and disputes are robust and that AstraZeneca is appropriately provided.

For transfer pricing audits where AstraZeneca and the tax authorities are in dispute, AstraZeneca estimates the potential for reasonably possible additional losses above and beyond the amount provided to be up to $565m (2009: $575m); however, management believes that it is unlikely that these additional losses will arise. It is possible that some of these contingencies may reduce in the future to the extent that any tax authority challenge is unsuccessful, or matters lapse following expiry of the relevant statutes of limitation resulting in a reduction in the tax charge in future periods.

Other Tax Contingencies

Included in the tax accrual is $1,429m relating to a number of other tax contingencies, an increase of $468m mainly due to the impact of an additional year of transactions relating to contingencies for which accruals had already been established and exchange rate effects. For these tax exposures, AstraZeneca does not expect material additional losses. It is, however, possible that some of these contingencies may reduce in the future if any tax authority challenge is unsuccessful or matters lapse following expiry of the relevant statutes of limitation resulting in a reduction in the tax charge in future periods.

Timing of Cash Flows and Interest

It is not possible to estimate the timing of tax cash flows in relation to each outcome, however, it is anticipated that a number of significant disputes may be resolved over the next one to two years. Included in the provision is an amount of interest of $608m (2009: $565m). Interest is accrued as a tax expense.

IAS 27, *CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS*

SIC-12, *CONSOLIDATION—SPECIAL PURPOSE ENTITIES*

IFRSs Overview and Comparison to U.S. GAAP

Author's Note

In May 2011, the IASB issued IFRS 10, *Consolidated Financial Statements*, and a revised IAS 27, *Separate Financial Statements*. IFRS 10 establishes the principles for presentation and preparation of consolidated financial statements and supersedes the requirements of IAS 27, *Consolidated and Separate Financial Statements*, and SIC 12 *Consolidation—Special Purpose Entities*. IFRS 10 and IAS 27 (revised 2011) are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

Because the new and revised standards would not apply to the companies in this sample, the commentary that follows describes the requirements of IAS 27 (2008) and SIC 12.

1.83 IAS 27 (2008) establishes the requirements that an entity should apply in preparing and presenting consolidated financial statements for a group of entities under control of a parent. *Consolidated financial statements* are those of a group of entities presented as those of a single economic entity. A *parent* is an entity with one or more subsidiaries that it controls.

1.84 An entity should also apply IAS 27 in accounting for its investments in associates and joint ventures when preparing separate financial statements, regardless of whether separate statements are required by a regulatory authority or issued voluntarily. *Separate financial statements* are those presented by a parent, an investor in an associate, or an investor in a jointly controlled entity, in which the investments are accounted for on the basis of a direct equity interest rather than on the basis of the investees' reported results and net assets.

Author's Note

In November 2009, the IASB issued IFRS 9, *Financial Instruments*, which amends IAS 27 and other IFRSs, and is effective for annual periods beginning on or after 1 January 2013, with early application permitted. Specifically, IFRS 9 applies when an entity is permitted and elects to account for its interest in a subsidiary in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*, and IFRS 9. An entity is also required to apply IFRS 9 in accounting for any derivatives linked to its interest in a subsidiary, unless the derivative meets the definition of an *equity instrument* in accordance with IAS 32, *Financial Instruments: Presentation*.

Recognition and Measurement

IFRSs

1.85 Unless it meets the criteria for exemption, a parent should present consolidated financial statements that include its investments in subsidiaries (controlled entities) in accordance with the requirements of IAS 27. A parent controls another entity (a subsidiary) when the parent has the power to govern the financial and operating policies of the subsidiary so as to obtain benefits from the subsidiary's activities.

1.86 A parent is only exempt from preparing consolidated financial statements in accordance with IAS 27 if all of the following criteria are met:

- The parent is itself a wholly-owned or partially-owned subsidiary of another entity and other owners, if any, and all owners, including those not entitled to vote, have been informed and do not object to the parent not preparing consolidated financial statements.
- Neither the parent's debt nor equity instruments are traded in a public market, whether the public market is domestic or foreign, an exchange or over-the-counter, or local or regional.
- The parent has neither filed nor is in the process of filing its financial statements with a regulatory authority for the purpose of listing any class of securities in a public market.
- The ultimate or any intermediate parent of the parent prepares and issues for public use a complete set of consolidated financial statements in compliance with IFRSs.

1.87 If an entity is exempt from preparing consolidated financial statements and elects to present separate financial statements, the entity should prepare the separate statements in accordance with IAS 27.

1.88 An entity should include all subsidiaries in its consolidated financial statements. In order to determine which investments it should consider subsidiaries, an entity should apply the guidance in IAS 27 to determine whether it has control over another entity. An entity should presume that it has control when it owns, directly or indirectly, more than 50 percent of the voting power, unless, in exceptional circumstances, it can clearly demonstrate that such ownership does not constitute control. However, an entity may still have control even if such ownership interests are less than 50 percent. IAS 27 requires an entity to assess the substance of the relationship with the investee to determine whether control exists. IAS 27 does not permit an entity to exclude an investment from consolidation as a subsidiary for any other reason except the absence of control.

1.89 IAS 27 provides guidance to an entity with respect to the consolidation process and requires the entity to eliminate fully any intragroup balances, transactions, income, and expenses in the consolidation process.

1.90 All financial statements, whether of the parent or subsidiaries, included in the consolidated financial statements should be prepared as of the same date. When the financial statements of one or more subsidiaries are prepared as of a different date than the parent's reporting date, these subsidiaries should prepare additional financial statements as of the reporting date of the parent, unless impracticable. When the financial statements of one or more subsidiaries are not prepared as of the same date as the parent's financial statements, the parent should make adjustments for the effects of significant transactions that occurred between the date of the subsidiary's financial statements and its own reporting date. In any event, IAS 27 does not permit a difference in the reporting dates of a parent and its subsidiaries of more than three months.

1.91 IAS 27 requires an entity to apply uniform accounting policies for like transactions and other events in similar circumstances in all financial statements included in the consolidated financial statements. When one or more entities in the group use different accounting policies in their separate financial statements, the parent should make adjustments to conform accounting policies in consolidation.

1.92 A parent should present any noncontrolling interest (that is, other equity owners of subsidiaries) in the equity section of the consolidated balance sheet separate from its own equity accounts.

1.93 A parent accounts for changes in its ownership interest that do not result in loss of control as equity transactions. However, if a parent loses control of a subsidiary, it should account for this event as follows:

a. Derecognize the carrying amounts of the following:
   i. Subsidiary's assets, including goodwill, and liabilities as of the date the parent lost control
   ii. Noncontrolling interest, including any components of other comprehensive income
b. Recognize the following when resulting from loss of control:
   i. Fair value of consideration received, if any
   ii. Distribution, if any, of the subsidiary's shares to owners, in their capacity as owners
   iii. Any retained investment in the former subsidiary at fair value as of the date it lost control
c. Reclassify to profit or loss or transfer directly to retained earnings, if required by an IFRS, all amounts previously recognized in other comprehensive income
d. Recognize as a gain or loss in profit or loss attributable to the parent, any resulting difference from the required derecognition, recognition, and reclassification of amounts previously recognized in other comprehensive income

1.94 When an entity loses control of a subsidiary and remeasures any retained investment at fair value, it should subsequently account for that retained investment in accordance with other applicable IFRSs. For example, if the entity retained significant influence, it should account for the investment in accordance with IAS 28, *Investments in Associates*.

1.95 In any separate (company- or parent-only) financial statements that it prepares, an entity should account for its investment in a subsidiary, associate, or jointly controlled entity either at cost or in accordance with IAS 39. When an investment is classified as held for sale or discontinued operations, an entity should apply the requirements of IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*. An entity recognizes any dividends declared by these investees in profit and loss.

1.96 When an entity accounts for its investment in an associate or jointly controlled entity in its consolidated financial statements in accordance with IAS 39 rather than IAS 28 or

IAS 31, *Interests in Joint Ventures*, it should also apply IAS 39 in its separate financial statements.

1.97 Standing Interpretations Committee (SIC) Interpretation 12, *Consolidation—Special Purpose Entities*, requires an entity to consolidate an other entity that is created for a narrow and well-defined objective (namely a special purpose entity), regardless of its form, when the substance of the relationship between the entity and the special purpose entity indicates that the special purpose entity is controlled by that entity. SIC 12 refers to situations in IAS 27 that indicate an entity controls another entity, even when it has less than 50 percent of the voting power. SIC 12 also provides examples of situations that indicate an entity controls a special purpose entity and, consequently, should consolidate the special purpose entity in its financial statements.

U.S. GAAP

Author's Note

In general, FASB ASC includes considerably more guidance on consolidation than IFRSs. The following discussion only addresses issues directly related to those addressed in IAS 27 or SIC 12.

1.98 Like IFRSs, FASB ASC 810-10-15-8 considers ownership by the reporting entity, directly or indirectly, of more than 50 percent of the outstanding voting shares of another entity to be the usual condition indicating that the reporting entity should consolidate. Also, like IFRSs, this FASB ASC paragraph indicates that the power to control may also exist with a lesser percentage of ownership. However, FASB ASC 810, *Consolidation*, contains considerably more guidance on consolidation and includes exemptions from consolidation not included in IAS 27. For example, FASB ASC 810-10-15-10 and "Pending Content" in FASB ASC 810-10-15-12 include the following scope exclusions to consolidation under this topic:

- A majority-owned subsidiary should not be consolidated if control does not rest with the majority owner. For instance, if any of the following are present:
  - —The subsidiary is in legal reorganization.
  - —The subsidiary is in bankruptcy.
  - —The subsidiary operates under foreign exchange restrictions, controls, or other governmentally imposed uncertainties so severe that they cast significant doubt on the parent's ability to control the subsidiary.
  - —In some instances, the powers of a shareholder with a majority voting interest to control the operations or assets of the investee are restricted in certain respects by approval or veto rights granted to the noncontrolling shareholder (hereafter referred to as noncontrolling rights). In paragraphs 2–14 of FASB ASC 810-10-25, the term noncontrolling shareholder refers to one or more noncontrolling shareholders. Those noncontrolling rights may have little or no impact on the ability of a shareholder with a majority voting interest to control the investee's operations or assets, or alternatively, those rights may be so restrictive to call into question whether control rests with the majority owner.
  - —Control exists through means other than through ownership of a majority voting interest.
- A broker-dealer parent within the scope of FASB ASC 940, *Financial Services—Broker and Dealers*, should not consolidate a majority-owned subsidiary in which it has a controlling financial interest if the control is likely to be temporary.
- Except as discussed in FASB ASC 946-810-45-3, an investment company within the scope of FASB ASC 946, *Financial Services—Investment Companies*, should not consolidate a noninvestment company investee.
- An employer should not consolidate an employee benefit plan subject to the provisions of FASB ASC 712, *Compensation—Nonretirement Postemployment Benefits*, or 715, *Compensation—Retirement Benefits*.
- An entity should not consolidate investments accounted for at fair value in accordance with specialized guidance in FASB ASC 946.
- An entity should not consolidate either a governmental entity or a financing entity established by a governmental entity, unless certain conditions are met.

FASB ASC 810-10-15-10 also requires an entity to consider additional guidance to determine whether consolidation is appropriate for a limited partnership, a research and development arrangement, or an entity controlled by contract.

1.99 FASB ASC 810 also includes more specific and detailed guidance than IFRSs for determining when a variable interest entity (VIE) (broadly comparable to a special purpose entity in SIC 12) should be consolidated. FASB ASC 810-10-05-8 explains that a *VIE* is a legal entity in which equity investors do not have the characteristics of a controlling financial interest or sufficient equity at risk for the legal entity to finance its activities without additional subordinated financial support. When applying this guidance, an entity should first determine whether the entity under consideration is a legal entity within the scope of the guidance on consolidation of VIEs, as discussed in FASB ASC 810-10-15-14. The specific design of the legal entity is important for making this determination.

1.100 Like IFRSs, it is preferable under FASB ASC that the subsidiary's financial statements have the same or nearly the same fiscal period as the parent. However, FASB ASC 810-10-45-12 states that for consolidation purposes, it is usually acceptable to use the subsidiary's financial statements if the difference in fiscal period is not more than approximately three months. In addition, when a difference in the fiscal periods exists, FASB ASC does not require adjustments to be made for the effects of significant transactions that occurred between the parents' and subsidiaries' fiscal year-ends. However, FASB ASC 810-10-45-12 requires recognition by disclosure or otherwise of the effect of intervening events that materially affect the financial position or results of operations. FASB ASC does not state what qualifies as an otherwise acceptable means of recognition besides disclosures or adjustments to reported amounts. In contrast, IAS 27 requires both the parents' and subsidiaries' financial statements used in the consolidated financial statements to be prepared as of the same date, unless impracticable. When it is impracticable for a subsidiary to prepare financial statements as of the date of the parent's financial statements, IAS 27 requires an entity to adjust the financial statements for the effects of significant transactions or events that occurred between the two dates, with the proviso that the difference between the end of the parent's and subsidiary's fiscal year-ends is not more than three months.

1.101 Like IFRSs, "Pending Content" in FASB ASC 810-10-45-16 requires the entity to present any noncontrolling interest within the "Equity" or "Net Assets" section of the consolidated statement of financial position separately from the parent's equity or net assets.

1.102 Like IFRSs, with some exceptions, "Pending Content" in FASB ASC 810-10-40-4 requires an entity to deconsolidate a subsidiary or derecognize a group of assets as of the date it ceases to have a controlling financial interest in the subsidiary or group of assets. The process that an entity should follow when it deconsolidates a subsidiary is similar under both IFRSs and FASB ASC, except when an entity deconsolidates a subsidiary through a nonreciprocal transfer to owners (such as a spinoff). According to "Pending Content" in FASB ASC 810-10-40-5, if a parent deconsolidates a subsidiary through a nonreciprocal transfer to owners, the guidance in FASB ASC 845-10 applies. Otherwise, an entity should recognize a gain or loss in net income measured as the difference between the following amounts:

a. Carrying amount of the assets and liabilities of the former subsidiary or the carrying amount of the group of assets
b. Sum of the following amounts:
   i. Fair value of any consideration received
   ii. Fair value of any retained noncontrolling investment in the former subsidiary or group of assets at the date that the subsidiary is deconsolidated or the group of assets is derecognized
   iii. Carrying amount of any noncontrolling interest in the former subsidiary (including any accumulated other comprehensive income attributable to the noncontrolling interest) at the date the subsidiary is deconsolidated

1.103 Like IFRSs, FASB ASC 810-10-45-11 recognizes that an entity may need to prepare parent-entity (separate) financial statements, in addition to consolidated financial statements. Unlike IFRSs, this paragraph provides guidance on how an entity may choose to present these statements (for example, consolidating financial statements, in which one column is used for the parent and other columns for particular subsidiaries or groups of subsidiaries, which is an effective means of presenting the pertinent information).

Disclosure

IFRSs

1.104 In consolidated financial statements, IAS 27 requires an entity to disclose the following, when applicable:

- Nature of the relationship between the parent and subsidiary if control exists at less than 50 percent of the direct or indirect voting power
- Reasons why control does not exist if the parent has more than 50 percent of the direct or indirect voting power
- Reasons why the parent and subsidiary have different reporting dates
- Nature and extent of significant restrictions on the ability to transfer funds to the parent in the form of dividends, loans, or cash advances
- Schedule of effects of changes in ownership interests that did not result in loss of control
- Gain or loss, if any, recognized in profit or loss when the entity loses control and a disaggregation of the net gain or loss into the following amounts:
  —portion of gain or loss attributable to recognition of retained investment at fair value
  —line item(s) in statement of comprehensive income in which the gain or loss is recognized, if not shown separately on the face of the statement

1.105 IAS 27 requires the separate financial statements of a parent, venturer in a jointly controlled entity, or an investor in an associate to include disclosures of the following:

- Statement that the financial statements are separate and the reasons why separate statements are prepared, if not by law
- List of significant investments in subsidiaries, jointly controlled entities, and associates, including the name; country of incorporation or residence; proportion of ownership interest; and, if different, proportion of voting power held
- Description of the method used to account for the investments listed under the previous bullet item

1.106 When a parent prepares separate financial statements because it is exempt from preparing consolidated financial statements in accordance with IAS 27, it should (*a*) disclose the fact that it is exempt and the name and country of domicile or incorporation of the parent that prepares consolidated financial statements in compliance with IFRSs and (*b*) address where such statements may be obtained.

1.107 SIC 12 does not include additional disclosure requirements.

U.S. GAAP

1.108 FASB ASC 810-10-50-1 requires an entity to disclose the consolidation policy that is being followed. IFRSs require an entity to disclose whether the financial statements are consolidated or separate.

1.109 Like IFRSs, "Pending Content" in FASB ASC 810-10-50-1B requires a parent to disclose all of the following when a subsidiary is deconsolidated or a group of assets is derecognized in accordance with "Pending Content" in FASB ASC 810-10-40-3A:

- Amount of any gain or loss recognized in accordance with "Pending Content" in FASB ASC 810-10-40-5
- Portion of any gain or loss related to the remeasurement of any retained investment in the former subsidiary or group of assets to its fair value
- Line item in which the gain or loss is recognized, unless separately presented on the face of the income statement

In addition, unlike IFRSs, a parent must also disclose the following:

- A description of the valuation technique(s) used to measure the fair value of any direct or indirect retained investment in the former subsidiary or group of assets
- Information that enables users of the parent's financial statements to assess the inputs used to develop the fair value in item (d)
- The nature of the continuing involvement with the subsidiary or entity acquiring the group of assets after it has been deconsolidated or derecognized
- Whether the transaction that resulted in the deconsolidation or derecognition was with a related party

- Whether the former subsidiary or entity acquiring a group of assets will be a related party after deconsolidation

Unlike IAS 27, FASB ASC 810-10-50-1A requires additional disclosures about less-than-wholly-owned subsidiaries for each reporting period.

1.110 Unlike IFRSs, FASB ASC does not have any specific disclosure requirements for parent-entity-only financial statements.

Author's Note

The IASB revised IAS 27 in 2008 at the same time it revised IFRS 3, *Business Combinations*. These revisions are effective for annual periods beginning on or after 1 July 2009, with early application permitted if the entity also early adopts the revisions to IFRS 3 at the same time.

Additionally, all survey companies in this edition have listed securities and have filed with regulatory authorities and, therefore, are required by IAS 27 to present consolidated financial statements.

Presentation and Disclosure Excerpts

Change in Accounting Policy—Revaluation of Previously Held Interests

1.111

Millicom International Cellular S.A. (Dec 2010)

CONSOLIDATED INCOME STATEMENTS (in part)

For the years ended December 31, 2010, 2009 and 2008

	Notes	2010 US$ '000	2009 US$ '000	2008 US$ '000
Revenues	9	3,920,249	3,372,727	3,150,559
Cost of sales		(1,331,003)	(1,202,902)	(1,114,822)
Gross profit		**2,589,246**	**2,169,825**	**2,035,737**
Sales and marketing		(737,691)	(647,009)	(657,480)
General and administrative expenses		(738,779)	(606,213)	(498,597)
Other operating expenses, net		(71,046)	(65,580)	(61,438)
Operating profit	**9,10**	**1,041,730**	**851,023**	**818,222**
Interest expense		(214,810)	(173,475)	(135,932)
Interest and other financial income		14,748	11,573	32,277
Revaluation of previously held interests	4	1,060,014	32,319	—
Other non operating expenses, net	12	(29,702)	(32,181)	(52,265)
(Loss) profit from associates	17	(1,817)	2,329	8,706
Profit before tax from continuing operations		**1,870,163**	**691,588**	**671,008**
Charge for taxes	13	(227,096)	(187,998)	(268,813)
Profit for the year from continuing operations		**1,643,067**	**503,590**	**402,195**
Profit for the year from discontinued operations, net of tax	6	11,857	300,342	2,246
Net profit for the year		**1,654,924**	**803,932**	**404,441**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (in part)

As at December 31, 2010 and 2009

Assets	Notes	2010 US$ '000	2009 US$ '000
Non-current assets			
Intangible assets, net	15	2,282,845	1,044,837
Property, plant and equipment, net	16	2,767,667	2,710,641
Investments in associates	17	18,120	872
Pledged deposits	18, 26	49,963	53,333
Deferred taxation	13	23,959	19,930
Other non-current assets		17,754	7,965
Total non-current assets		5,160,308	3,837,578

CONSOLIDATED STATEMENTS OF CASH FLOWS (in part)

For the years ended December 31, 2010, 2009 and 2008

	Notes	2010 US$ '000	2009 US$ '000	2008 US$ '000
Profit before tax from continuing operations		1,870,163	691,588	671,008
Adjustments for non-operating items:				
Interest expense		214,810	173,475	135,932
Interest and other financial income		(14,748)	(11,573)	(32,277)
Revaluation of previously held interests		(1,060,014)	(32,319)	—
Profit from associates		1,817	(2,329)	(8,706)
Other non operating expenses, net		29,702	32,181	52,265
Adjustments for non-cash items:				
Depreciation and amortization	9,10,15,16	676,986	611,435	463,720
Loss on disposal and impairment of property, plant and equipment	9,10	16,257	7,246	9,166
Share-based compensation	24	30,718	10,175	13,619
		1,765,691	1,479,879	1,304,727
Decrease (increase) in trade receivables, prepayments and other current assets		(31,282)	73,380	5,077
Decrease (increase) in inventories		(12,606)	8,812	24,700
(Decrease) increase in trade and other payables		44,773	(4,669)	29,235
Changes to working capital		885	77,523	59,012
Interest expense paid		(170,604)	(148,038)	(137,301)
Interest received		14,639	11,316	32,535
Taxes paid		(238,723)	(195,851)	(201,235)
Net cash provided by operating activities		1,371,888	1,224,829	1,057,738

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Summary of Consolidation and Accounting Policies (in part)

2.28 Changes in Accounting Policies (in part)

The consolidated financial statements as of December 31, 2010 are prepared in accordance with consolidation and accounting policies consistent with those of the previous financial years, with the exception of the early adoption as of January 1, 2009 of IFRS 3R, 'Business combinations,' and IAS 27R, 'Consolidated and separate financial statements.'

The following new standards and amendments to standards, which affect the presentation of the consolidated financial statements, which were mandatory for the first time for the financial year beginning January 1, 2010 were early adopted by the Group in 2009.

IFRS 3 (revised) ('IFRS 3R'), 'Business combinations' and consequential; amendments to IAS 27, 'Consolidated and separate financial statements,' IAS 28, 'Investments in associates,' and IAS 31, 'Interests in joint ventures' are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition costs are expensed.

The Group early adopted IFRS 3R, 'Business combinations,' in 2009 for the step-up acquisition of Navega.com S.A. (see note 4). Millicom revalued its previously held interests in Navega.com S.A. at fair value, recognising the resulting gain in the consolidated income statement.

IAS 27 (revised) ('IAS 27R') requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting treatment when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognized in profit or loss.

As the Group early adopted IFRS 3R, it was required to early adopt IAS 27R, 'Consolidated and separate financial statements,' at the same time.

4. Acquisitions of Subsidiaries, Joint Ventures and Non-Controlling Interests (in part)

Millicom completed the allocation of the purchase price to the assets acquired, liabilities assumed and contingent liabilities during the year ended December 31, 2010. The recognized amounts of identified assets acquired and liabilities assumed as of July 1, 2010 were as follows:

	Fair Value (100%) US$ '000	Previously Held Interests (66.7%) US$ '000
Intangible assets, net[1]	435,174	22,602
Other investments	20,653	13,769
Property, plant and equipment, net	339,082	226,055
Trade receivables	13,876	9,251
Prepayments and accrued income	6,681	4,454
Other current assets	34,485	22,990
Cash and cash equivalents	24,654	16,436
	874,605	315,557
Other non-current liabilities[2]	264,590	100,492
Current debt and other financing	74,943	49,962
Trade payables	6,117	4,078
Accrued interests and other expenses	12,756	8,504
Current income tax liabilities	17,465	11,643
Other current liabilities	51,890	35,871
	427,761	210,550
Non-controlling interests	147,121	
Fair value of the net assets acquired and contingent liabilities	299,723	
Goodwill arising on change of control	854,572	
Previously held interests in Celtel	(105,007)	
Revaluation of the previously held interests in Celtel	1,049,288	
Cost of change of control	—	

(1) Intangible assets not previously recognized are trademarks for an amount of $40 million, with estimated useful life of 10 years, customers' list for an amount of $335 million, with estimated useful life of 8-9 years, and telecommunications license for an amount of $21 million, with estimated useful life of 11 years.

(2) Deferred tax liabilities, related to the differences between the tax base and the fair value of the identifiable assets acquired amount to $114 million.

The goodwill, which is not expected to be tax deductible, is attributable to the profitability potential of Celtel and the synergies expected to arise. The fair value of the customers' list was ascertained using the discounted excess earnings method, the fair value of the trademark was ascertained using the relief from royalty approach, and the fair value of the telecommunications license against comparable transactions.

The change of control contributed revenues of $100 million and net profit of $1,049 million (including gain on revaluation) for the period from acquisition to December 31, 2010. If the change of control had occurred on January 1, 2010, unaudited pro forma Group revenues from continuing operations for the year ended December 31, 2010 would have been $4,018 million, and the unaudited pro forma net profit from continuing operations for the same period would have been $1,665 million. These amounts have been calculated using the Group accounting policies.

Millicom revalued at fair value its previously held 66.7% interest in Celtel recognizing a gain of $1,044 million, recorded under the caption "Revaluation of previously held interests." The fair value of the previously held interests was determined based on a discounted cash flow. The cash flow projections used (adjusted operating profit margins, income tax, working capital and capital expenditure) were estimated by management covering 6 years. Cash flows beyond this period were extrapolated using a perpetual growth rate of 2%. The valuation was determined using a discount rate of 14.3%.

Navega S.A. DE CV

As part of a regional shareholding alignment agreement with its local partner in Honduras, on August 20, 2010 Millicom reached agreement with its local partner in Honduras whereby Millicom acquired a further 6% of Navega S.A. DE CV ("Navega Honduras") (formerly Metrored S.A.). As a result of this agreement Millicom has the right to control Navega Honduras, which has been fully consolidated into the Millicom Group financial statements from August 20, 2010. Previously, the results of Navega Honduras were proportionately consolidated. The agreement is expected to facilitate further integration of the cable business and to create synergies.

Millicom completed the allocation of the purchase price to the assets acquired, liabilities assumed and contingent liabilities during the year ended December 31, 2010. The recognized amounts of identified assets acquired and liabilities assumed were as follows:

	Fair Value (100%) US$ '000	Previously Held Interests (60.72%) US$ '000
Intangible assets, net	19,563	11,879
Property, plant and equipment, net	22,875	13,890
Other non-current assets	180	109
Trade receivables	1,988	1,207
Prepayments and accrued income	40	25
Current income tax assets	0	
Other current assets	482	293
Cash and cash equivalents	3,050	1,852
	48,178	29,255
Other non-current liabilities	3,178	1,930
Current debt and other financing	1,152	699
Trade payables	357	217
Accrued interests and other expenses	1,135	689
Current income tax liabilities	1,035	628
Other current liabilities	2,211	1,343
	9,068	5,506
Non controlling interests	13,037	
Fair value of the net assets acquired and contingent liabilities	26,073	
Goodwill arising on change of control	13,866	
Previously held interests in Navega Honduras	(23,748)	
Revaluation of the previously held interests in Navega Honduras	10,726	
Cost of change of control	5,465	

The goodwill, which is not expected to be tax deductible, is attributable to the profitability potential of Navega Honduras

and the synergies expected to arise. The fair value of the customers' list was ascertained using the discounted excess earnings method, and the fair value of the trademark was ascertained using the relief from royalty approach.

Navega Honduras contributed revenues of $1 million and net profit of $20 million (including gain on revaluation) for the period from acquisition to December 31, 2010. If the acquisition had occurred on January 1, 2010, unaudited pro forma Group revenues from continuing operations for the year ended December 31, 2010 would have been $3,924 million, and the unaudited pro forma net profit from continuing operations for the same period would have been $1,644 million. These amounts have been calculated using the Group accounting policies.

Millicom revalued at fair value its previously held 60% interest in Navega Honduras recognizing a gain of $11 million, recorded under the caption "Revaluation of previously held interests."

Restrictions on Dividend Payments to Shareholders by Subsidiaries

1.112

National Westminster Bank Plc (Dec 2010)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

24. Subordinated Liabilities

	Group			Bank		
	2010 £m	**2009 £m**	**2008 £m**	**2010 £m**	**2009 £m**	**2008 £m**
Dated loan capital	5,605	6,403	6,560	4,113	4,695	4,518
Undated loan capital	1,681	2,271	3,194	1,500	2,085	2,997
Preference shares	297	325	345	297	325	345
	7,583	8,999	10,099	5,910	7,105	7,860

In May 2010, the Group redeemed certain subordinated debt securities in exchange for cash or senior debt. The exchanges involving instruments classified as liabilities all met the criteria in IFRS for treatment as the extinguishment of the original liability and the recognition of a new financial liability. Gains on these exchanges and on the redemption of securities classified as liabilities for cash, totalling £145 million were credited to profit or loss.

A similar series of exchange and tender offers concluded in April 2009 resulted in a gain of £381 million.

The RBS Group has undertaken that, unless otherwise agreed with the European Commission, neither the ultimate holding company nor any of its direct or indirect subsidiaries (excluding companies in the RBS Holdings N.V. Group, which are subject to different restrictions) will pay external investors any dividends or coupons on existing hybrid capital instruments (including preference shares, B shares and upper and lower tier 2 instruments) from 30 April 2010 for a period of two years thereafter ("the deferral period"), or exercise any call rights in relation to these capital instruments between 24 November 2009 and the end of the deferral period, unless there is a legal obligation to do so. Hybrid capital instruments issued after 24 November 2009 will generally not be subject to the restriction on dividend or coupon payments or call options.

Certain preference shares issued by the company are classified as liabilities; these securities remain subject to the capital maintenance rules of the Companies Act 2006.

Additional Parent Company Information Disclosed in a Note to the Consolidated Financial Statements

1.113

Ashtead Group plc (Apr 2010)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

30. Parent Company Information

a) Balance Sheet of the Company

	Notes	2010 £m	2009 £m
Current Assets			
Prepayments and accrued income		0.2	0.1
Non-Current Assets			
Investments in Group companies	(g)	363.7	363.7
Deferred tax asset		0.2	—
		363.9	363.7
Total assets		364.1	363.8
Current Liabilities			
Amounts due to subsidiary undertakings	(f)	82.7	72.0
Accruals and deferred income		3.1	1.2
Total liabilities		85.8	73.2
Equity			
Share capital	(b)	55.3	55.3
Share premium account	(b)	3.6	3.6
Capital redemption reserve	(b)	0.9	0.9
Non-distributable reserve	(b)	90.7	90.7
Own shares held by the Company	(b)	(33.1)	(33.1)
Own shares held through the ESOT	(b)	(6.3)	(6.3)
Retained reserves	(b)	167.2	179.5
Equity attributable to equity holders of the Company		278.3	290.6
Total liabilities and equity		364.1	363.8

Parent's Separate Financial Statements Presented Side-by-Side With Related Parent Company's Consolidated Financial Statements

1.114

Author's Note

Almost every note disclosure in Alesco Corporation Limited's 2010 financial statements provides information about both the group and the company. Only a subset of these notes in the disclosure examples from Alesco that follow.

Alesco Corporation Limited (May 2010)

INCOME STATEMENTS

For the year ended 31 May 2010

		Consolidated		The Company	
	Note	2010 $000	2009 $000	2010 $000	2009 $000
Continuing Operations					
Sale of goods		747,858	828,526	—	—
Rendering services		23,300	25,970	12,335	10,569
Other revenue		2,038	1,613	25,407	177
Total revenue		773,196	856,109	37,742	10,746
Cost of sales		(503,033)	(553,750)	—	—
Gross profit		270,163	302,359	37,742	10,746
Other income	3	244	459	—	—
Selling expenses		(92,492)	(97,593)	—	—
Marketing expenses		(11,427)	(12,739)	—	—
Customer service expenses		(20,324)	(22,157)	—	—
Purchasing and inventory management		(2,005)	(2,256)	—	—
Distribution expenses		(48,113)	(49,053)	—	—
Administration and general expenses		(60,086)	(65,703)	(16,895)	(15,480)
Restructuring and other expenses	6	—	(28,327)	—	(3,720)
Impairment of assets	6	(133,100)	(70,000)	(133,100)	(70,000)
Termination payment	6	(1,700)	—	(1,700)	—
Share loan plan expense	6	(5,120)	—	(5,120)	—
Results from operating activities		(103,960)	(45,010)	(119,073)	(78,454)
Financial income	5	250	449	14,956	9,761
Financial expenses	5	(15,656)	(40,782)	(79)	(133)
Net financing (costs)/income	5	(15,406)	(40,333)	14,877	9,628
Share of associates' equity accounted net profit	30	—	22	—	—
(Loss)/profit from continuing operations before income tax		(119,366)	(85,321)	(104,196)	(68,826)
Income tax (expense)/benefit	7	(4,935)	1,813	8	396
(Loss)/profit from continuing operations		(124,301)	(83,508)	(104,188)	(68,430)
Discontinued operation					
Profit from discontinued operation, net of income tax	32	—	70,719	—	28,248
(Loss)/profit for the period after income tax	23	(124,301)	(12,789)	(104,188)	(40,182)
Earnings Per Share					
Basic earnings per share	2	(132.84)¢	(13.94)¢		
Diluted earnings per share	2	(132.84)¢	(13.94)¢		
Continuing operations					
Basic earnings per share	2	(132.84)¢	(91.05)¢		

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 May 2010

		Consolidated		The Company	
	Note	2010 $000	2009 $000	2010 $000	2009 $000
(Loss)/profit for the period	23	(124,301)	(12,789)	(104,188)	(40,182)
Other comprehensive income					
Foreign currency translation differences on translating foreign subsidiaries	22	22	1,363	—	—
Effective portion of changes in fair value of cash flow hedges		1,313	(9,345)	—	—
Net change in fair value of cash flow hedges transferred to profit or loss		4,371	762	—	—
Income tax (expense)/benefit on other comprehensive income		(1,706)	2,575	—	—
Other comprehensive income/(loss) for the period, net of income tax		4,000	(4,645)	—	—
Total comprehensive income for the period		(120,301)	(17,434)	(104,188)	(40,182)

The notes on pages 69 to 142 are an integral part of these consolidated financial statements.

STATEMENTS OF FINANCIAL POSITION

As at 31 May 2010

		Consolidated		The Company	
	Note	2010 $000	2009 $000	2010 $000	2009 $000
Assets					
Cash and cash equivalents	36(a)	—	6,106	—	471
Trade and other receivables	8	111,663	128,672	—	6,905
Inventories	9	120,614	122,009	—	—
Current tax assets	19	3,901	—	3,901	—
Other	10	6,143	5,022	470	520
Total current assets		242,321	261,809	4,371	7,896
Non-current assets					
Trade and other receivables	8	5,764	6,869	291,795	310,602
Other investments	11	—	89	358,395	358,391
Property, plant and equipment	12	55,158	67,521	1,181	2,183
Intangible assets	13	371,413	506,094	401	371
Deferred tax assets	14	17,204	19,648	3,889	3,621
Other	15	62	638	62	638
Total non-current assets		449,601	600,859	655,723	675,806
Total assets		691,922	862,668	660,094	683,702
Liabilities					
Bank overdraft	17	3,881	—	8,479	—
Trade and other payables	16	96,319	92,586	4,781	6,304
Loans and borrowings	17	—	85,262	—	—
Current tax liabilities	19	5,126	3,969	—	887
Provisions	20	27,871	38,149	3,665	4,178
Other	18	—	3,992	—	—
Total current liabilities		133,197	223,958	16,925	11,369
Non-current liabilities					
Loans and borrowings	17	125,000	80,500	221,257	142,777
Provisions	20	6,185	6,773	364	224
Total non-current liabilities		131,185	87,273	221,621	143,001
Total liabilities		264,382	311,231	238,546	154,370
Net assets		427,540	551,437	421,548	529,332
Equity					
Share capital	21	520,407	513,262	520,407	513,262
Reserves	22	10,734	4,376	2,997	639
Retained earnings	23	(103,601)	33,799	(101,856)	15,431
Total equity		427,540	551,437	421,548	529,332

The notes on pages 69 to 142 are an integral part of these consolidated financial statements.

STATEMENTS OF CHANGES IN EQUITY

Consolidated

	Note	Share Capital $000	Translation Reserve $000	Hedging Reserve $000	Share Equity Reserve $000	Retained Earnings $000	Total Equity $000
Balance at 1 June 2009		513,262	3,196	(2,794)	3,974	33,799	551,437
Total comprehensive income for the period							
(Loss)/profit for the period	2	—	—	—	—	(124,301)	(124,301)
Other comprehensive income							
Foreign exchange translation differences on translating foreign subsidiaries	22	—	22	—	—	—	22
Effective portion of changes in fair value of cash flow hedges, net of tax		—	—	919	—	—	919
Net change in fair value of cash flow hedges transferred to profit or loss, net of tax		—	—	3,059	—	—	3,059
Total other comprehensive income		—	22	3,978	—	—	4,000
Total comprehensive income for the period		—	22	3,978	—	(124,301)	(120,301)
Transactions with owners, recorded directly in equity contributions by and distributions to owners							
Issue of ordinary shares	21	3,405	—	—	—	—	3,405
Shares granted as part of Total Eden McCracken's deferred consideration	21	3,740	—	—	—	—	3,740
Equity settled share-based payments	22	—	—	—	693	—	693
Senior executive share loan plan adjustment	22	—	—	—	1,665	—	1,665
Dividends to equity holders	24	—	—	—	—	(13,099)	(13,099)
Total transactions with owners		7,145	—	—	2,358	(13,099)	(3,596)
Balance at 31 May 2010		520,407	3,218	1,184	6,332	(103,601)	427,540

The notes on pages 69 to 142 are an integral part of these consolidated financial statements.

Company

	Note	Share Capital $000	Share Equity Reserve $000	Retained Earnings $000	Total Equity $000
Balance at 1 June 2009		513,262	639	15,431	529,332
Total comprehensive income for the period					
(Loss)/profit for the period		—	—	(104,188)	(104,188)
Transactions with owners, recorded directly in equity contributions by and distributions to owners					
Issue of ordinary shares	21	3,405	—	—	3,405
Shares granted as part of Total Eden McCracken's deferred consideration	21	3,740	—	—	3,740
Equity settled share-based payments	22	—	693	—	693
Senior executive share loan plan adjustment	22	—	1,665	—	1,665
Dividends to equity holders	24	—	—	(13,099)	(13,099)
Total transactions with owners		7,145	2,358	(13,099)	(3,596)
Balance at 31 May 2010		520,407	2,997	(101,856)	421,548

The notes on pages 69 to 142 are an integral part of these consolidated financial statements.

STATEMENTS OF CASH FLOWS

For the year ended 31 May 2010

	Note	Consolidated		The Company	
		2010 $000	2009 $000	2010 $000	2009 $000
Cash Flows From Operating Activities					
Cash receipts in the course of operations		861,524	1,136,319	522	195
Cash payments in the course of operations		(797,213)	(1,046,561)	(17,974)	(20,665)
Income taxes paid		(7,268)	(12,673)	(6,818)	(14,773)
Net cash provided by/(used in) operating activities	36(b)	57,043	77,085	(24,270)	(35,243)
Cash Flows from Investing Activities					
Proceeds from sale of property, plant and equipment		819	1,900	—	—
Payments for property, plant and equipment and capitalised development expenditure		(8,871)	(16,992)	(579)	(2,417)
Proceeds from sale of investments		200	—	—	—
Receipt of deferred consideration on disposal of entity		6,905	—	6,905	—
Disposal of discontinued operation, net of cash disposed of	32	—	173,248	—	67,417
Proceeds from sale of equity accounted investees	30	—	342	—	—
Payments of deferred consideration on acquisitions		—	(1,791)	—	—
Payments for assets on acquisition of business	29(c)	—	(5,542)	—	—
Interest received		250	514	162	206
Net cash (used in)/provided by investing activities		(697)	151,679	6,488	65,206
Cash Flows from Financing Activities					
Proceeds from issue of shares		—	761	—	761
Dividends paid		(10,875)	(28,830)	(10,875)	(28,830)
Finance lease payments		(262)	(536)	—	—
Proceeds from borrowings, net of transaction costs		262,000	177,207	—	—
Repayment of borrowings		(302,500)	(330,130)	—	—
Net proceeds from loans with controlled entities		—	—	19,786	3,508
Payments related to interest rate hedge restructure		—	(14,842)	—	—
Interest paid		(14,704)	(28,158)	(79)	(133)
Net cash (used in)/provided by financing activities		(66,341)	(224,528)	8,832	(24,694)
Net increase/(decrease) in cash held		(9,995)	4,236	(8,950)	5,269
Cash and cash equivalents at the beginning of the financial year		6,106	1,910	471	(4,798)
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		8	(40)	—	—
Cash and cash equivalents at the end of the financial year	36(a)	(3,881)	6,106	(8,479)	471

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1: Statement of Significant Accounting Policies (in part)

The significant policies which have been adopted in the preparation of this financial report are:

(b) Basis of Preparation

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the majority of the Group. The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments that are stated at fair value.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and, in accordance with the Class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

(d) Going Concern

Whilst the Company's current liabilities exceed its current assets by $12,554,000 (2009: $3,473,000), the directors are satisfied that the Company's financial report be prepared on a going concern basis as the Company has access to cash generated by the Group via the Deed of Cross Guarantee.

On this basis, the directors believe that it is appropriate to prepare the Company's financial statements on a going concern basis.

(e) Basis of Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so

as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the financial report from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at their cost of acquisition, less any impairment losses, in the Company's financial statements.

(s) Income Tax

Income tax expense comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Tax Consolidation

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 June 2004 and are therefore taxed as a single entity from that date. The Company is the head entity within the tax-consolidated group.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the "separate taxpayer within group" approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated group and are recognised as amounts payable (receivable) to (from) other entities in the tax-consolidated group in conjunction with any tax-funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

Nature of Tax-Funding Arrangements and Tax-Sharing Agreements

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax-funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax-funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivable (payable) is at call.

Contributions to fund the current tax liabilities are payable as per the tax-funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity, in conjunction with other members of the tax-consolidated group, has also entered into a tax-sharing agreement. The tax-sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax-sharing agreement is considered remote.

Note 3: Other Income

	Consolidated		The Company	
	2010 $000	2009 $000	2010 $000	2009 $000
Gain on disposal of property, plant and equipment	126	459	—	—
Gain on sale of investments	118	—	—	—
Total other income	244	459	—	—

Note 4: Other Expenses

	Note	Consolidated 2010 $000	Consolidated 2009 $000	The Company 2010 $000	The Company 2009 $000
Depreciation and amortisation:					
Buildings	12	390	391	—	—
Leasehold improvements	12	1,014	1,105	37	42
Motor vehicles	12	1,241	1,514	—	—
Plant and equipment	12	7,766	12,734	338	526
Leased plant and equipment	12	1	—	—	—
		10,412	15,744	375	568
Amortisation of identifiable intangibles:					
Brand names	13	965	3,188	—	—
Patents and trademarks	13	462	460	—	—
Customer relationships	13	4,399	6,847	—	—
Development costs	13	4,960	3,521	235	56
Lease premium	13	—	750	—	—
Other	13	54	883	—	—
		10,840	15,649	235	56
Total depreciation and amortisation		21,252	31,393	610	624
Personnel expenses:					
Wages and salaries		122,860	150,897	6,933	7,020
Employee benefits		37,532	45,938	3,381	2,668
Equity-settled share-based payments		693	(1,752)	693	(892)
Senior executive share loan adjustments	6	5,120	—	5,120	—
		166,205	195,083	16,127	8,796
Impairment loss on trade receivables		1,588	1,689	—	—
Operating lease rental expense		20,021	23,332	559	419
Research and development expenditure		41	100	—	—
Gain on disposal of property, plant and equipment		126	459	—	—
Loss on disposal of property, plant and equipment		(1,325)	(1,098)	—	(42)
Net loss on disposal of property, plant and equipment		(1,199)	(639)	—	(42)

Note 5: Net Financing Income/(Costs)

Recognised in Profit or Loss

	Consolidated 2010 $000	Consolidated 2009 $000	The Company 2010 $000	The Company 2009 $000
Interest income:				
Cash and cash equivalents	250	449	162	206
Related parties	—	—	14,794	9,555
Financial income	250	449	14,956	9,761
Interest expense:				
Bank loans and overdraft	(15,656)	(25,940)	(79)	(133)
Interest rate hedging restructure	—	(14,842)	—	—
Financial expenses	(15,656)	(40,782)	(79)	(133)
Net financing (costs)/income	(15,406)	(40,333)	14,877	9,628
Recognised in Other Comprehensive Income				
Foreign currency translation differences on translating foreign subsidiaries	22	1,363	—	—
Effective portion of changes in fair value of cash flow hedges	1,313	(9,345)	—	—
Net change in fair value of cash flow hedges transferred to profit or loss	4,371	762	—	—
Income tax (expense)/benefit on other comprehensive income	(1,706)	2,575	—	—
Finance income/(costs) recognised in other comprehensive income, net of income tax	(4,000)	(4,645)	—	—

Note 6: Significant Items

	Consolidated		The Company	
	2010 $000	2009[(2)] $000	2010 $000	2009 $000
Asset Write-Downs				
Impairment loss on goodwill	(116,341)	(59,980)	—	—
Impairment loss on brand names	—	(10,020)	—	—
Impairment loss on capitalised software development costs	(1,688)	—	—	—
Impairment loss on customer relationships	(12,705)	—	—	—
Impairment loss on property, plant and equipment	(2,366)	—	—	—
Impairment loss on loans to controlled entities	—	—	(133,100)	(70,000)
Impairment of assets	(133,100)	(70,000)	(133,100)	(70,000)
Related income tax benefit	1,216	—	—	—
	(131,884)	(70,000)	(133,100)	(70,000)
Termination Payment				
Termination payment	(1,700)	—	(1,700)	—
Related income tax benefit	510	—	510	—
	(1,190)	—	(1,190)	—
Senior Executive Share Loan Plan Expense				
Senior executive share loan plan expense	(5,120)	—	(5,120)	—
Related income tax benefit	1,536	—	1,536	—
	(3,584)	—	(3,584)	—
Sale of Scientific & Medical Division				
Proceeds on sale of Scientific & Medical division	—	181,537	—	73,953
Carrying value of net assets sold, associated costs incurred and net impact of foreign exchange	—	(115,162)	—	(38,951)
Gain on sale	—	66,375	—	35,002
Related income tax expense	—	(6,754)	—	(6,754)
	—	59,621	—	28,248
Business Restructuring				
Rationalisation of business operations	—	(16,834)	—	(530)
Related income tax benefit	—	5,050	—	159
	—	(11,784)	—	(371)
Inventory				
Write-down of inventory to net realisable value	—	(7,920)	—	—
Related income tax benefit	—	2,376	—	—
	—	(5,544)	—	—
Sale of Investment				
Loss on sale of equity accounted investment	—	(165)	—	—
Related income tax expense	—	—	—	—
	—	(165)	—	—
Occupational Health and Safety (OH&S)				
Provision for costs associated with OH&S	—	(3,408)	—	(3,190)
Related income tax benefit	—	573	—	507
	—	(2,835)	—	(2,683)
Interest Rate Hedge Restructure[(1)]				
Costs associated with revaluation and settlement of interest rate swaps	—	(14,842)	—	—
Related income tax benefit	—	4,453	—	—
	—	(10,389)	—	—
Total significant items before income tax expense	(139,920)	(46,794)	(139,920)	(38,718)
Related income tax benefit/(expense) on significant items	3,262	5,698	2,046	(6,088)
Total significant items after income tax	(136,658)	(41,096)	(137,874)	(44,806)

(1) Interest rate hedge restructuring included in net financing costs.
(2) For continuing operations only.

Note 7: Income Tax Expense

	Consolidated		The Company	
	2010 $000	**2009 $000**	**2010 $000**	**2009 $000**
Recognised in the Income Statement				
Current tax expense:				
Current year	5,758	2,929	1,334	(390)
Adjustments for prior year	(1,506)	588	(246)	(193)
	4,252	3,517	1,088	(583)
Deferred tax expense:				
Origination and reversal of temporary differences	683	(881)	(1,096)	187
Total income tax expense/(benefit) excluding gain on sale of discontinued operation	4,935	2,636	(8)	(396)
Income tax expense/(benefit) from continuing operations	4,935	(1,813)	(8)	(396)
Income tax expense from discontinued operation (excluding gain on sale)	—	4,449	—	—
	4,935	2,636	(8)	(396)
Income tax expense on gain on sale of discontinued operation	—	6,754	—	6,754
Total income tax expense/(benefit)	4,935	9,390	(8)	6,358

	Consolidated			Consolidated		
Income Tax Recognised in Other Comprehensive Income	**Before Tax 2010 $000**	**Tax (Expense) Benefit 2010 $000**	**Net of Tax 2010 $000**	**Before Tax 2009 $000**	**Tax (Expense) Benefit 2009 $000**	**Net of Tax 2009 $000**
Foreign currency translation differences on translating foreign subsidiaries	22	—	22	1,363	—	1,363
Effective portion of changes in fair value of cash flow hedges	1,313	(394)	919	(9,345)	2,804	(6,541)
Net change in fair value of cash flow hedges transferred to profit or loss	4,371	(1,312)	3,059	762	(229)	533
	5,706	(1,706)	4,000	(7,220)	2,575	(4,645)

There were no amounts recognised in other comprehensive income for the Company for the financial year ended 31 May 2010 (31 May 2009: Nil).

Numerical Reconciliation Between Tax Expense and Pre-Tax Net (Loss)/Profit	Consolidated 2010 $000	Consolidated 2009 $000	The Company 2010 $000	The Company 2009 $000
(Loss)/profit for the period	(124,301)	(12,789)	(104,188)	(40,182)
Total income tax expense/(benefit)	4,935	9,390	(8)	6,358
(Loss)/profit excluding income tax expense	(119,366)	(3,399)	(104,196)	(33,824)
Prima facie income tax (benefit)/expense calculated at 30% (2009: 30%) on (loss)/profit before tax	(35,810)	(1,020)	(31,259)	(10,147)
Increase/(decrease) in income tax expense due to:				
Non-deductible amortisation of intangibles	1,958	3,921	—	—
Non-deductible expenses	307	548	7	479
Non-deductible foreign exchange losses	216	1,890	216	—
Derecognition of foreign tax loss benefit	1,241	—	—	—
Non-deductible impairment expenses	38,714	21,000	39,930	21,000
Non-deductible set up cost	—	298	—	—
Overseas tax rate differential	(88)	(35)	—	—
Research and development	—	(589)	—	—
Recovery of tax benefits not previously brought to account	—	(3,181)	—	(3,181)
Non-assessable dividend income	—	—	(7,465)	—
Non-assessable capital gains	(194)	(10,377)	(158)	(566)
Non-assessable foreign exchange gains	—	(3,234)	—	—
Non-assessable interest income	—	—	(1,033)	(926)
Sundry items	97	(419)	—	(108)
Income tax expense on (loss)/profit	6,441	8,802	238	6,551
Income tax (over)/under provided in prior year	(1,506)	588	(246)	(193)
Income tax expense/(benefit) attributable to pre-tax (loss)/profit	4,935	9,390	(8)	6,358

In February 2009, the New Zealand Inland Revenue Department issued amended assessment notices to Alesco NZ group entities in relation to an ongoing dispute regarding the tax deductibility of interest on Optional Convertible Notes ("OCNs") issued by Alesco NZ Limited in 2003. On the basis of external legal and tax advice, Alesco has commenced proceedings in the New Zealand High Court in relation to this matter. If Alesco is unsuccessful, the accounting value of interest deductions claimed since the inception of this financing arrangement in 2003 to 31 May 2010 would be $NZ7,065,000 (2009: $NZ5,964,000). This amount has been fully provided for (progressively since 2004). No provision has been made in respect of interest or potential penalty that could be levied should Alesco be unsuccessful in its New Zealand High Court action.

If Alesco NZ Limited is successful in the proceedings, any provision held at that time in relation to the OCNs will be written back to profit.

The Group will continue to fully provide for any future tax deductions in relation to the interest on the OCNs.

Note 21: Share Capital

	The Company 2010 Shares	The Company 2009 Shares	The Company 2010 $000	The Company 2009 $000
Share Capital				
Ordinary shares, fully paid	94,193,403	92,115,140	520,407	513,262
Ordinary Shares—Movements During the Year				
Balance at beginning of year	92,115,140	90,577,876	513,262	504,664
Shares issued:				
• as part of dividend reinvestment plan	521,068	587,892	2,233	3,787
Associated transaction costs	—	—	(9)	(9)
• shares granted as part of Total Eden McCracken's deferred consideration	1,078,609	48,114	3,740	616
• shares granted for no consideration under the employee and management share plans	—	315,043	—	1,026
• shares issued for consideration under the employee share plans	—	90,673	—	613
• shares issued for consideration under the management share plans	—	21,726	—	148
• shares issued under the senior executive share acquisition plan	478,586	473,816	1,181	2,417
Balance at end of year	94,193,403	92,115,140	520,407	513,262

Terms and Conditions

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid. Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the Company, ordinary shareholders rank after creditors and are fully entitled to any proceeds of liquidation.

At reporting date, there were 136,422 (2009: 67,984) shares forfeited under the employee share plans held by a third party plan trustee.

Capital Management

The consolidated entity's and the parent entity's overall strategic capital management objective is to:

- safeguard the consolidated entity's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- provide optimal capital structure to reduce the cost of capital;
- maintain a strong/conservative capital base so as to maintain creditor and market confidence and to sustain future development of the business;
- maintain a conservative funding structure which provides sufficient flexibility to fund the operational demands of the business and to underwrite any strategic opportunities; and
- manage capital to ensure sufficient buffer over and beyond any banking covenants.

The consolidated entity monitors the return on capital, which the consolidated entity defines as net operating income divided by total shareholders' equity. The consolidated entity's target is for all divisions to achieve a return on average net operating assets over the medium-term which is greater than the Group's cost of capital. During the year, the return on average net operating assets was 6.9% (2009: 9.8%).

Returns on capital fluctuate according to prevailing economic circumstances and, in particular, the level of merger and acquisition activity the consolidated entity undertakes and the mix of debt and equity used to fund the consolidated entity.

The consolidated entity monitors capital with reference to having an optimal level of gearing. The level of gearing is measured by reference to the net debt gearing ratio which is calculated as net debt divided by total capital. Net debt is calculated at total interest-bearing financial assets and liabilities less cash and cash equivalents. Total capital is calculated as equity as shown in the statement of financial position plus net debt.

The consolidated entity's net debt gearing ratio at the end of the reporting period was as follows:

	Consolidated	
	2010 $000	2009 $000
Net debt	128,881	159,656
Total equity	427,540	551,437
Net debt	128,881	159,656
Total capital	556,421	711,093
Net debt gearing ratio at 31 May	23.2%	22.5%

The consolidated entity also monitors the level of dividends to ordinary shareholders.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to the shareholders, return capital to shareholders or issue new shares.

The consolidated entity's capital management objectives will be effected through:

- an ongoing flow of fully franked dividends, which subject to the consolidated entity's franking ability and ongoing profitability will be on an annually progressive basis; and
- from time to time, on-market purchases mitigate the dilutionary impact of share issues which would be otherwise necessary to satisfy obligations under employee share-based remuneration plans as they crystallise.

The consolidated entity expects to continue the payment of fully franked dividends on an ongoing basis subject to its overall earnings performance, prevailing economic circumstances, alternative demands on funds or alternative more effective capital management opportunities becoming available.

The Board of directors and management review the Capital Management Policy on a periodic basis and implement initiatives which are deemed appropriate in the environment existing at that time. External consultants and advisers are used as required to determine the appropriate capital structure for the consolidated entity and advise on other capital management related items.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Note 22: Reserves

	Consolidated		The Company	
	2010 $000	2009 $000	2010 $000	2009 $000
Foreign currency translation reserve	3,218	3,196	—	—
Hedging reserve	1,184	(2,794)	—	—
Share equity reserve	6,332	3,974	2,997	639
	10,734	4,376	2,997	639
Movements During the Year:				
Foreign currency translation reserve				
Balance at beginning of year	3,196	1,833	—	—
Decrease through disposal of entities and businesses	—	6,333	—	—
Net translation adjustment	22	(4,970)	—	—
Balance at end of year	3,218	3,196	—	—
Hedging Reserve				
Balance at beginning of year	(2,794)	3,214	—	—
Net gain/(loss) transferred to/from hedging reserve	3,978	(6,008)	—	—
Balance at end of year	1,184	(2,794)	—	—
Share Equity Reserve				
Balance at beginning of year	3,974	4,725	639	774
Employee share-based payments	693	1,068	693	1,068
Reversal of employee share-based expenses	—	(1,203)	—	(1,203)
Senior executive share loan plan expense	1,665	—	1,665	—
Deferred earn-out	—	(616)	—	—
Balance at end of year	6,332	3,974	2,997	639

Nature and Purpose of Reserves

Foreign Currency Translation

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary. Refer to accounting policy Note 1(f).

Hedging Reserve

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

Share Equity

The share equity reserve relates to shares issued, and held on trust, associated with the Group's equity compensation plans that have not vested at the reporting date as well as an amount in relation to potential deferred consideration associated with previous acquisitions. The fair value of the shares is expensed over the vesting period and credited to this reserve. The reserve will reverse against share capital when the underlying shares vest in the employee.

Note 23: Retained Earnings

		Consolidated		The Company	
	Note	2010 $000	2009 $000	2010 $000	2009 $000
Balance at beginning of year		33,799	79,196	15,431	88,221
Net loss attributable to members of the parent entity		(124,301)	(12,789)	(104,188)	(40,182)
Dividends	24	(13,099)	(32,608)	(13,099)	(32,608)
Balance at end of year		(103,601)	33,799	(101,856)	15,431

IAS 10, *EVENTS AFTER THE REPORTING PERIOD*

IFRSs Overview and Comparison to U.S. GAAP

1.115 IAS 10, *Events After the Reporting Period*, establishes recognition and disclosure requirements for certain events that occur after the balance sheet date. The events within the scope of IAS 10 may be favorable or unfavorable and occur between the balance sheet date and the date the entity authorizes the financial statements for issue.

Recognition and Measurement

IFRSs

1.116 An entity should adjust the financial statements for those events that provide evidence of conditions existing at the balance sheet date (that is, adjusting events) and should not adjust for those events that indicate conditions arising after the balance sheet date (that is, nonadjusting events).

1.117 IAS 10 provides several examples of adjusting events for conditions that existed at the balance sheet date, including the following:

- Settlement of a lawsuit confirming a present obligation
- Confirming information of an asset impairment
- Determination of costs of assets purchased or proceeds of assets sold
- Discovery of fraud or errors

1.118 Examples of nonadjusting events include the following:

- Declines in market values
- Filing of lawsuits
- Issue of new debt or equity securities
- Declaration of dividends

1.119 IAS 10 prohibits an entity from preparing its financial statements on a going concern basis if management determines after the end of the reporting period that it will liquidate the entity or cease operations and has no alternatives to doing so.

U.S. GAAP

1.120 Like IFRSs, FASB ASC 855, *Subsequent Events*, includes general guidance applicable to all entities on accounting for, and disclosure of, events after the reporting period (subsequent events) that are not addressed specifically in other topics within FASB ASC.

1.121 Like IFRSs, paragraphs 1 and 3 of FASB ASC 855-10-25 require an entity to recognize only the effects of events that provide evidence of conditions that existed at the balance sheet date, including accounting estimates, and prohibit an entity from recognizing events that provide evidence about conditions that arose after the balance sheet date. However, unlike IFRS, no exception exists when the going concern assumption is no longer appropriate. Also unlike IFRSs, FASB ASC 855-10-25-1A extends the period over which an SEC filer or a conduit bond obligor for conduit debt securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets) should evaluate subsequent events until the date the financial statements are issued, rather than the date of authorization. In addition, FASB ASC 855-10-25-2 requires all other entities that do not meet the criteria outlined in FASB ASC 855-10-25-1A to evaluate such events through the date the financial statements are available to be issued. As defined in the FASB ASC glossary, *financial statements* are considered available to be issued when they are complete in a form and format that complies with U.S. GAAP, and all approvals necessary for issuance have been obtained, for example, from management, the board of directors, or significant shareholders.

1.122 Like IFRSs, FASB ASC 855-10-25-3 prohibits an entity from recognizing subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date and before the financial statements are issued or are available to be issued.

1.123 Unlike IFRSs, FASB ASC 855-10-25-4 also addresses the potential for reissue of the financial statements in reports filed with regulatory agencies. In this circumstance, an entity should not recognize events occurring between the time the financial statements were originally issued or were available to be issued and the time the financial statements were reissued, unless U.S. GAAP or regulatory requirements require the adjustment. Similarly, an entity should not recognize events or transactions occurring after the financial statements were issued or available to be issued in financial statements that are later reissued in comparative form along with financial statements of subsequent periods, unless the adjustment meets the criteria previously stated.

1.124 FASB ASC provides specific guidance on the following:

- Like IFRSs, FASB ASC 740-10-25-15 requires an entity to recognize changes in judgment after the balance sheet date that result in subsequent recognition, derecognition, or a change in measurement of an income tax position taken in a prior annual period as a discrete item when the change occurs.

Author's Note

See the related discussion of income taxes in section 3, "Statement of Comprehensive Income and Related Disclosures."

- Like IFRSs, FASB ASC 260-10-55-12 requires an entity to adjust earnings per share amounts for changes in common stock resulting from stock dividends, stock splits, or reverse stock splits that occur after the close of the period. In addition, if per share computations reflect such changes in the number of shares, that fact should be disclosed. Unlike IFRSs, the period of evaluation for such events is extended to the date before the date that the financial statements are issued or available to be issued, rather than the date of authorization. Also unlike IFRSs, SEC registrants are required to make retroactive adjustments, as previously noted, upon declaration of a stock dividend, stock split, or reverse stock split, even if the actual date of the event is subsequent to financial statement issuance, but the event is declared prior to the issuance of the financial statements.

Author's Note

See the related discussion of earnings per share in section 3, "Statement of Comprehensive Income and Related Disclosures."

- Similar to the treatment of contingent assets in IFRSs, FASB ASC 450-30-25-1 generally prohibits recognition of gain contingencies in the financial statements because to do so might be to recognize revenue before its realization. Comparable to the definition of a *contingent asset* in IFRSs, the FASB ASC glossary defines a *gain contingency* as an existing condition, situation, or set of circumstances involving uncertainty about possible gain to an entity that will ultimately be resolved when one or more future events occur or fail to occur. Unlike IFRSs, FASB ASC does not address recognition when the realization of contingent income is virtually certain.

Author's Note

See the related discussion of provisions, contingent liabilities, and contingent assets in section 2, "Statement of Financial Position and Related Disclosures."

- Like IFRSs, generally, the classification of liabilities as current or noncurrent reflects circumstances at the reporting date. However, unlike IFRSs, paragraphs 14–15 of FASB ASC 470-10-45 address refinancing considerations in determining the classification of debt at the reporting date.

Presentation

IFRSs

1.125 IFRSs do not include specific presentation requirements for events after the reporting date.

U.S. GAAP

1.126 Unlike IFRSs, FASB ASC 855-10-50-3 requires an entity to consider supplementing the historical financial statements with pro forma financial data when an unrecognized subsequent event occurs. An entity should present pro forma financial data when an unrecognized subsequent event is sufficiently significant that pro forma information provides the best disclosure. In preparing pro forma data, an entity should include the event as if it had occurred on the balance sheet date. An entity should also consider presenting pro forma statements, usually a statement of financial position only, in columnar form on the face of the historical statements.

Disclosure

IFRSs

1.127 An entity should disclose who authorized the issuance of the financial statements and the authorization date. When applicable, an entity should also disclose the fact that the entity's owners or others have the power to amend the financial statements after issue.

1.128 Even when an entity does not adjust the financial statements for new information about conditions existing at the balance sheet date, it should update disclosures relating to those conditions.

1.129 For material, nonadjusting events, an entity should disclose the following information by category of event:

- Nature of the event
- Estimate of the financial effect or a statement that an estimate cannot be made

U.S. GAAP

1.130 Paragraphs 1 and 4 of FASB ASC 855-10-50 state that an entity, except an SEC registrant, should disclose the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. An entity, except an SEC registrant, should also disclose in the revised financial statements the date through which subsequent events have been evaluated in both the originally issued financial statements and the reissued financial statements. The aforementioned guidance is similar to IFRSs in that both require disclosure of issuance or authorization, so that the users of the financial statements will know that the financial statements do not reflect events after the date(s) disclosed. Unlike IFRSs, FASB ASC does not explicitly discuss the circumstances when an entity's owners or others have the power to amend financial statements after issue.

1.131 FASB ASC 855-10-S99 provides guidance to SEC registrants on recognition or disclosure, or both, of significant events that occur after the date of the financial statements. FASB ASC 855-10-S99-2 explains that a registrant may widely distribute its financial statements, but before filing them with the SEC, the registrant or its auditor may then become aware of an event or a transaction that existed at the date of the financial statements that causes those financial statements to be materially misleading. If a registrant does not amend those financial statements, so that they are free of material misstatement or omissions when they are filed with the SEC, the registrant will be knowingly filing a false and misleading document. In addition, SEC registrants are reminded of their responsibility to, at a minimum, disclose subsequent events, and independent auditors are reminded of their responsibility to assess subsequent events and evaluate the impact of the events or transactions on their audit report.

1.132 Like IFRSs, FASB ASC 855-10-50-2 requires an entity to disclose the following information about unrecognized subsequent events when failure to disclose would result in misleading financial statements:

- Nature of the event
- Estimate of the event's financial effect or a statement that such an estimate cannot be made

Presentation and Disclosure Excerpts

Cash Dividend Declaration and Distribution

1.133

Companhia de Bebidas das Américas (American Beverage Company)—Ambev (Dec 2010)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

33. Events After the Balance Sheet Date

a) Dividend and Interest on Equity

On February 28, 2011, the Company approved the distribution of (i) dividends, to be deducted from the reserve and attributed to the minimum mandatory dividends for 2010, at R$ 0.56 per Common share and R$ 0.61 per Preferred share, without withholding income tax, pursuant to applicable law.

The payments were made on March 22, 2011 (conditioned to approval of the Annual General Meeting which will approve the 2010 financial statements). The record date was March 3, 2011 for BM&FBOVESPA shareholders and March 8, 2011 for ADR holders. Shares and ADRs shall be traded ex-dividends as from March 4, 2011.

Binding Offer to Acquire Another Company and Extension of Credit Lines

1.134

Pargesa Holding AG (Dec 2010)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 25—Important Events After the Balance Sheet Date

On 23 February 2011, Imerys announced that it had entered into exclusive negotiations with Rio Tinto and had made a binding offer for the acquisition of 100% of the Luzenac group, one of the leading players in the talc industry, for an enterprise value of USD 340 million.

At the start of 2011, GBL extended part of its confirmed credit lines. GBL will therefore be able to take advantage of facilities amounting to EUR 1.8 billion up to 2013/2014 and EUR 900 million from then until 2016.

Initial Public Offering and Private Placement

1.135

Adecoagro S.A (Dec 2010)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

34. Events After the Date of the Statement of Financial Position

Initial Public Offering (IPO) and Private Placement

On January 28, 2011 the Company successfully completed an initial public offering of its shares in the New York Stock Exchange. The Company issued 28,405,925 shares, at a price of US$ 11 per share. In addition, on February 11, 2010, the Company issued 4,285,714 shares as a consequence of the over-allotment option exercised by the underwriters of the initial public offering, raising an overall amount of approximately US$ 359 million.

On January 28, 2011, Adecoagro issued and sold to Al Gharrafa 7,377,598 common shares at a purchase price per share of US$ 10,65, which is equal to the price per common share paid by the underwriters acting in the initial public offering of the Group. This transaction was conditioned upon, and close immediately after, the closing of the initial public offering of the Company. Consequently the company raised US$ 79 million.

The Company intend to use these funds to finance part of the construction costs of Ivinhema (sugar and ethanol mill in Brazil) and for potential investments in the acquisition of farmland and capital expenditures required in the expansion of the farming business.

Tender Offer

1.136

InterContinental Hotels Group plc (Dec 2010)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1—Accounting Policies (in part)

General Information

The consolidated financial statements of InterContinental Hotels Group PLC (the "Group" or "IHG") for the year ended December 31, 2010 were authorized for issue to the UK listing authorities in accordance with a resolution of the Directors on February 14, 2011. InterContinental Hotels Group PLC (the "Company") is incorporated in Great Britain and registered in England and Wales.

On February 23, 2011, the Group received an unfavorable court judgment in respect of a prior year litigation claim. As required by IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and IAS 10 "Events after the Reporting Period," the Consolidated Financial Statements for the year ended December 31, 2010, authorized by the Directors on April 11, 2011, for issue on Form 20-F include a litigation

provision of $22 million ($13 million net of tax) to reflect this adjusting post balance sheet event.

The impact of the above adjusting post balance sheet event is summarized as follows:

	Consolidated Financial Statements Authorized on	
	February 14, 2011	April 11, 2011
Profit before tax ($ million)	397	375
Profit for the year ($ million)	293	280
Net assets ($ million)	291	278
Basic earnings per share (cents)	101.7	97.2
Diluted earnings per share (cents)	99.0	94.6

As the provision has been recorded as an exceptional item, there was no impact on results before exceptional items and adjusted earnings per share.

Financial Statements Subject to Approval of Shareholders

1.137

A.G. Barr plc (January 2011)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

9. Dividends

	2011 Per Share	2010 Per Share	2011 £000	2010 £000
Paid final dividend	16.85p	15.20p	6,450	5,837
Paid interim dividend	6.75p	6.25p	2,595	2,413
	23.60p	21.45p	9,045	8,250

The directors have proposed a final dividend in respect of the year ended 29 January 2011 of 18.66p per share, amounting to a dividend of £7,263,000. It will be paid on 3 June 2011 to shareholders who are on the Register of Members on 6 May 2011.

This dividend is subject to approval by shareholders at the annual general meeting and has not been included as a liability in these financial statements in line with the requirements of IAS 10 Events after the Balance Sheet Date.

Issue of Court Opinion in Litigation and Agreement to Acquire Credit Card Assets

1.138

Barclays plc (Dec 2010)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

26. Legal Proceedings (in part)

Lehman Brothers Holdings Inc.

On 15th September 2009, motions were filed in the United States Bankruptcy Court for the Southern District of New York (the Court) by Lehman Brothers Holdings Inc. (LBHI), the SIPA Trustee for Lehman Brothers Inc. (the Trustee) and the Official Committee of Unsecured Creditors of Lehman Brothers Holdings Inc. (the Committee). All three motions challenge certain aspects of the transaction pursuant to which Barclays Capital Inc. (BCI) and other companies in the Group acquired most of the assets of Lehman Brothers Inc. (LBI) in September 2008 and the court order approving such sale. The claimants seek an order voiding the transfer of certain assets to BCI; requiring BCI to return to the LBI estate alleged excess value BCI received; and declaring that BCI is not entitled to certain assets that it claims pursuant to the sale documents and order approving the sale. On 16th November 2009, LBHI, the Trustee and the Committee filed separate complaints in the Court asserting claims against BCI based on the same underlying allegations as the pending motions and seeking relief similar to that which is requested in the motions. On 29th January 2010, BCI filed its response to the motions. Barclays considers that the motions and claims against BCI are without merit and BCI is vigorously defending its position. On 29th January 2010, BCI also filed a motion seeking delivery of certain assets that LBHI and LBI have failed to deliver as required by the sale documents and the court order approving the sale. Approximately £2.6bn of the assets acquired as part of the acquisition had not been received by 31st December 2010, approximately £2.0bn of which were recognised as part of the accounting for the acquisition and are included in the balance sheet as at 31st December 2010. This results in an effective provision of £0.6bn against the uncertainty inherent in the litigation.

On 22nd February 2011, the Court issued its Opinion in relation to these matters. The Opinion calls for the parties to submit proposed Orders that will implement the Opinion, and anticipates a possible status conference to resolve any potential differences between the parties regarding the final Order that should be entered. Any such Order should clarify the precise impact of the Opinion, and may include specific guidance regarding the treatment of specific types of assets. Such an Order may be the subject of further proceedings or appeals by one or more of the parties.

Barclays has considered the Opinion and the decisions contained therein and its possible actions with respect thereto. If the Opinion were to be unaffected by future proceedings, Barclays estimates that its maximum possible loss, based on its worst case reading of the Opinion, would be approximately £2.6bn, after taking into account the effective provision of £0.6bn. Any such loss, however, is not considered probable and Barclays is satisfied with the current level of provision.

46 Events After the Balance Sheet Date

On 22 February 2011, the US Bankruptcy Court for the Southern District of New York issued its opinion in relation to Lehman Brothers Holdings Inc.. Further information is provided on page 226.

On 1st March 2011, Barclays agreed to acquire Egg's UK credit card assets. Under the terms of the transaction, Barclays will purchase Egg's UK credit card accounts, consisting of approximately 1.15 million credit card accounts with approximately £2.3bn of gross receivables. Completion is subject to competition clearance, and is expected to occur during the first half of 2011.

Business Combinations

1.139

Galenica Ltd. (Dec 2010)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

35. Events After the Reporting Period

Several business combinations occurred between 31 December 2010 and the date the annual accounts of Galencia were released.

Retail Acquisitions

Galenica purchased several pharmacies. The assets and liabilities of these acquisitions will be consolidated for financial year 2011 as of the date control was obtained. The purchase consideration was CHF 1.8 million, the fair value of the net assets resulting from these additions was estimated at CHF 0.5 million on the acquisition date. The difference is reflected in the purchased goodwill due to the locations and the existing customer base of these businesses. Since the transactions were concluded shortly before the annual accounts were prepared and released, it was not possible to publish the additional information required by IFRS.

There are no further significant events after the reporting period.

Property Sales and Capital Contribution by Swiss Federal Tax Authorities

1.140

PSP Swiss Property Ltd (Dec 2010)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

30. Subsequent Events

After the balance sheet date of 31 December 2010, the following properties were, respectively will be, transferred (transfer of benefit and risk): i) as at 1 February 2011: Rösslimatte 6/6A/6C (depot), Thun, and ii) as at 20 June 2011: Schützengasse 32, Zurich. The total sales price for the two properties amounts to CHF 12.1 million.

In early February 2011, the Swiss Federal Tax Authorities approved for PSP Swiss Property Ltd an amount of CHF 659.2 million of capital contributions. The Company discloses such amount already in the 2010 financial statements (holding balance sheet) in the new legal reserves account "capital contribution reserves." This required (apart from bookings within the legal reserves) a booking of CHF 89.6 million of free reserves into legal reserves; therefore, the Board of Directors proposes to the Annual General Meeting of 1 April 2011 to approve this booking together with the 2010 financial statements. The capital contribution reserves may be used for tax exempt repayments to the shareholders in future business years.

There are no other significant subsequent events to report.

Withdrawal of Tax Reduction by Hungarian Government

1.141

Magyar Telekom plc (Dec 2010)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

37. Events After the Reporting Period

37.1 Announcement of the Hungarian Government on Intended Withdrawal of Tax Reduction from 2013

On March 1, 2011 the Hungarian Government announced that as part of its long-term effort to reduce the Hungarian budget deficit it intends to amend existing law that provides for a reduction in corporate tax rates from the current 19% to 10% starting in 2013. When the law reducing future corporate tax rates was enacted in 2010, the Group recalculated its deferred tax balances, resulting in the reversal of net deferred tax liabilities of HUF 14.5 billion (see Note 9.3) in the 2010 income statement of comprehensive income. The recent announcement of the intended cancellation of the scheduled reduction of the tax rate from 2013 is expected to cause the recognition of a substantially higher amount of net deferred tax liabilities in 2011 and result in a negative impact on deferred tax expense in 2011 equivalent in magnitude to the positive impact on net deferred tax expense in 2010.

Early Repayment of Bonds and Declaration of Taxable Bonus Share Issue to Shareholders

1.142

Silver Fern Farms Limited (Sep 2010)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

32. Events After the Balance Sheet Date

Early Repayment of SFF030 Bond

The SFF030 bond principal of $75m was repaid effective 15 November 2010. This was one month earlier than originally anticipated given the successful renegotiation of banking facilities. As a result of repayment of the Bond, the Group delists from the NZ Debt Exchange.

Taxable Bonus Issue

On 23 November 2010, the Board of Directors resolved to declare a one for five taxable bonus issue to the New ordinary shareholders. The number of New ordinary shares to be issued is calculated on all New ordinary shares on issue at balance date, both fully and partly paid. The issue price is $1.00 per share and the taxable bonus issue is fully imputed.

Divestiture of Controlling Interest in Subsidiary, Announcement of Share Buy Back Program, Received Binding Offer to Buy Talc Business

1.143

Rio Tinto Limited and Rio Tinto plc (Dec 2010)

NOTES TO THE STATEMENT OF FINANCIAL POSITION (in part)

48. Events After the Statement of Financial Position Date

On 4 January 2011, Rio Tinto completed the divestment of 61 per cent of Alcan Engineered Products (AEP) to certain investment funds affiliated with Apollo Global Management, LLC (Apollo) and the Fonds Stratégique d'Investissement (FSI). The terms of the transaction are confidential.

Apollo is now the majority shareholder in AEP with a 51 per cent stake in a new holding company for AEP, with the FSI holding 10 per cent. Rio Tinto holds a 39 per cent stake and will treat its interest in AEP as an equity accounted unit.

On 3 February, Rio Tinto acquired an additional 34,387,776 additional shares in Ivanhoe Mines Ltd. ("Ivanhoe"), by participating fully in Ivanhoe's strategic rights offering, paying a total of US$477 million and maintaining the Group's interest in Ivanhoe. On 3 February, Rio Tinto also completed the purchase of ten million shares in Ivanhoe, together with the rights (1.5 million shares) associated with these shares from Citibank, in accordance with the announcement made on 15 December 2010, paying a total of US$274 million. The transaction increased Rio Tinto's ownership of Ivanhoe to 42.1 per cent.

On 10 February 2011, as part of its capital management programme, the Group announced a share buy back of US$5 billion which, subject to market conditions, is planned for completion by the end of 2012. At 21 February 2011, 1.725 million Rio Tinto plc shares had been repurchased and held in treasury at an average price of £45.02 per share, resulting in total consideration paid of US$125.5 million. No Rio Tinto Limited shares had been repurchased at 21 February 2011.

On 23 February 2011, Rio Tinto has received a binding offer from Imerys to acquire its talc business for an enterprise value of US$340 million. A period of exclusivity with Imerys has been agreed, and Rio Tinto will respond to this binding offer following consultation with the relevant European works councils.

Announcement of Quarterly Dividend and Bond Issue

1.144

Unilever N.V. and Unilever plc (Dec 2010)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

32. Events After the Balance Sheet Date

On 3 February 2011 Unilever announced a quarterly dividend with the 2010 fourth quarter results of €0.2080 per NV ordinary share and £0.1775 per PLC ordinary share.

On 10 February 2011 Unilever issued a bond composed of two senior notes: (i) US $500 million 2.75% fixed rate note which will mature in five years and (ii) US $1,000 million 4.25% fixed rate note which will mature in ten years.

Increase in Shareholding in Associate, Sale and Leaseback, and Sale of Building

1.145

China Yuchai International Limited (Dec 2010)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

38. Events After the Balance Sheet Date (in part)

(c) Changes in Shareholding of HLGE

With the conversion of 17,234,000 Existing HLGE RCPS B into HLGE ordinary shares on the Mandatory Conversion Date, the Company's shareholding interest in HLGE increased from 47.4% to 48.4% with effect from March 24, 2011 upon receipt of regulatory approval.

(e) Sale and Leaseback Agreement

On January 2011, Yuchai terminated the sale and leaseback agreement signed with CDB Leasing Company Limited ("CDB") in 2009. YAMC repaid approximately RMB28 million in a lump sum to CDB for redemption of the full ownership of the finance lease assets.

(f) Sale of Guilin Office Building

On April 27, 2011, Guangxi Yulin Hotel Company Limited entered into a sale and purchase agreement with a third party to sell its office building located in Guilin, Guangxi province for a total consideration of Rmb 120 million, where Rmb 60 million of down payment will be paid within 15 working days from the contract date, and the remaining Rmb 60 million will be paid by November 30, 2011.

IAS 21, *THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES*

IFRSs Overview and Comparison to U.S. GAAP

1.146 IAS 21, *The Effects of Changes in Foreign Exchange Rates*, establishes the accounting for transactions and carrying amounts in foreign currencies, except derivative transactions and carrying amounts within the scope of IAS 39. An entity should also apply IAS 21 in translating the results and financial position of foreign operations that an entity includes in its financial statements by consolidation, proportionate consolidation, or the equity method.

1.147 IAS 21 includes the following definitions relevant to understanding the required accounting:

Functional currency. Currency of the primary economic environment in which an entity operates.

Presentation currency. Currency in which the financial statements are presented. (The presentation currency is sometimes referred to as the *reporting currency*.)

Monetary items. Units of currency that an entity holds or assets or liabilities that an entity expects to receive or pay in fixed or determinable units of currency.

Foreign operation. Subsidiary, associate, jointly controlled entity, or branch of the entity preparing financial statements. The foreign operation bases or conducts its activities in a country or currency different from that of the reporting entity.

Net investment in a foreign operation. Reporting entity's interest in the foreign operation's net assets.

1.148 IAS 21 does not apply to either the presentation of foreign currency transactions in the statement of cash flows or the translation of cash flows of a foreign operation. An entity should apply the requirements of IAS 7, *Statement of Cash Flows*, to these issues.

Recognition and Measurement

IFRSs

1.149 On initial recognition, IAS 21 requires an entity to measure a foreign currency transaction in its functional currency by applying the spot exchange rate between the foreign and functional currencies at the date the transaction qualifies for recognition under IFRSs (transaction date).

1.150 At subsequent balance sheet dates, when the entity keeps its books and records in its functional currency, it should translate any foreign currency monetary items into the functional currency at the closing rate. The method an entity should use to translate nonmonetary items depends on its measurement basis. When the item is carried at historical cost, an entity should translate the carrying value at the exchange rate on the date of the original transaction. When the item is carried at fair value, an entity should translate the carrying value at the date it determined fair value. IAS 21 includes additional guidance for situations in which multiple exchange rates prevailed or no exchange rate is available.

1.151 When an entity keeps its books and records in a currency other than its functional currency, IAS 21 requires the entity to translate all amounts into the functional currency when preparing its financial statements (that is, monetary items are translated at the closing rate and nonmonetary items are translated at either the historical exchange rate at the date of recognition [if measured at historical cost] or the exchange rate at the date when the fair value was determined [if measured at fair value]).

1.152 On translation or settlement of a monetary item, an entity should recognize in profit or loss in the period in which they arise any exchange differences arising from differences in exchange rates from those used previously, except those that form part of the entity's net investment in a foreign operation. An entity should recognize the latter type of foreign exchange difference in its consolidated financial statements in other comprehensive income and then should reclassify these differences to profit and loss on disposal of the net investment. Such differences are recognized either in the separate financial statements of the entity or the individual financial statements of the foreign operation.

1.153 Individual IFRSs may require a gain or loss on a particular nonmonetary item is to be recognized in other comprehensive income rather than profit or loss (for example, revaluations of property, plant, and equipment carried at a revalued amount). In these cases, an entity should also record the effect of any foreign exchange difference in other comprehensive income. However, when an entity recognizes a gain or loss on a nonmonetary item in profit or loss, it should also recognize any foreign exchange difference in profit or loss.

1.154 When an entity's functional currency changes, an entity should apply the requirements of IAS 21 prospectively from the date of change.

1.155 When an entity uses a presentation currency different from its functional currency, IAS 21 requires it to apply the following translation procedures:

a. Translate all assets and liabilities for each statement of financial position presented (including comparative items) at the closing rate on the balance sheet date.
b. Translate all income and expenses for each statement of comprehensive income or separate income statement presented (including comparatives) at the exchange rate on the transaction date (or a rate that approximates these rates).
c. Recognize resulting exchange differences in other comprehensive income.

An entity that does not apply this translation method to these statements is not in compliance with IFRSs.

1.156 When exchange differences relate to a partially-owned foreign operation, the entity should allocate the applicable proportion of these differences to the noncontrolling interest.

1.157 IAS 21 requires different procedures for translating the financial statements of an entity whose functional currency is that of a hyperinflationary economy.

Author's Note

See section 10, "Reporting in Hyperinflationary Economies," for a discussion of the requirements applicable to hyperinflationary economies, including illustrative examples.

1.158 With respect to acquisition of a foreign operation, an entity should account for any goodwill or fair value adjustments as assets or liabilities of the operation measured in the operation's functional currency. An entity should use the closing rate to translate these assets and liabilities into its presentation currency. On disposal of the foreign operation, an entity should reclassify the cumulative foreign exchange differences from equity to profit or loss at the same time it recognizes any gain or loss on disposal. IAS 21 also requires an entity to account for loss of control; significant influence; and joint control of subsidiaries, associates, and jointly controlled entities, respectively, even when the entity retains an interest, as disposals for the purpose of reclassification of the related cumulative foreign exchange difference.

U.S. GAAP

1.159 Like IFRSs, FASB ASC 830-10-15-3 requires an entity to apply the functional currency approach to all foreign currency transactions in its financial statements and to translate all foreign currency (a currency different from its reporting currency) financial statements that are incorporated in the entity's financial statements, whether by consolidation, combination, or the equity method of accounting.

1.160 Like IFRSs, the FASB ASC glossary defines an entity's *functional currency* as the currency of the primary economic environment in which the entity operates; normally, that is the currency of the environment in which an entity primarily generates and expends cash. Paragraphs 3–6 of FASB ASC 830-10-45 and paragraphs 3–7 of FASB ASC 830-10-55 provide similar guidance as that provided in IFRSs for determining an entity's functional currency.

1.161 For foreign currency transactions, FASB ASC 830-20-30-1, like IFRSs, requires an entity to recognize the assets, liabilities, revenue, expenses, gains, and losses arising from the transaction in the entity's functional currency by translating each transaction into the functional currency at the exchange rate in effect on the recognition date. FASB ASC 830-20-30-2 contains guidance similar to IAS 21 when no exchange rate exists. FASB ASC 830-10-55 also provides implementation guidance, including the use of averages and methods of approximation. FASB ASC 830-30-S99-1 provides guidance to SEC registrants when multiple foreign currency exchange rates exist.

1.162 Like IFRSs, FASB ASC 830-20-35-1 requires an entity to include a change in exchange rates between the functional currency and the currency in which the transaction is denominated in income for the period of the change. Like IFRSs, FASB ASC 830-10 distinguishes between monetary and nonmonetary items. However, unlike IFRSs, FASB ASC 830-10-45-18 provides specific nonmonetary balance sheet items and related revenue, expenses, gain, and loss accounts that an entity should remeasure at historical rates.

1.163 Like IFRSs, paragraphs 1–2 of FASB ASC 830-20-35 require that an entity adjust the carrying amounts of foreign currency balances to reflect the current exchange rate at the date of the financial statements and should generally recognize these gains or losses in net income. However, FASB ASC 830-20-35-3 denotes that an entity should not recognize in net income gains and losses on foreign currency transactions that are designated and effective hedges of a net investment in a foreign entity or intra-entity transactions in which settlement is not planned or anticipated in the foreseeable future (net investment) and the entities that are parties to the transaction are included in the consolidated financial statements of the reporting entity by consolidation, combination, or the equity method.

1.164 Like IFRSs, FASB ASC 830-30-45-3 requires an entity to translate all financial statement items using a current exchange rate, as follows:

- Assets and liabilities should be translated at the exchange rate at the balance sheet date.
- Revenues, expenses, gains, and losses should be translated at the exchange rate at the dates on which those items were recognized.

Like IFRSs, FASB ASC 830-30-45-12 requires an entity to include translation adjustments in other comprehensive income.

1.165 Unlike IFRSs, the guidance in FASB ASC 830-30-45-3 also applies to accounting allocations (for example, depreciation, cost of goods sold) and requires translation at the current exchange rates applicable to the dates those allocations are included in revenues and expenses (that is, not the rates on the dates the related items originated). Like IFRSs, paragraphs 10–11 of FASB ASC 830-10-55 permit the use of an average rate, but provide more guidance than IAS 21 on how an entity should determine the average.

1.166 Like IFRSs, FASB ASC 830-10-45-17 also requires that, when the entity does not maintain its books and records in its functional currency, it should remeasure the transaction in the functional currency before translating to the reporting currency. Although IFRSs do not use the term *remeasure*, both IFRSs and FASB ASC require this process so as

to produce financial statements as if the entity had always accounted for its transactions in the functional currency.

1.167 FASB ASC 830-10 has specific guidance for an entity whose functional currency is that of a hyperinflationary economy. However, this guidance is significantly different than that required by IFRSs.

1.168 Like IFRSs, FASB ASC 830-10-15-7 permits the translation of financial statements from one currency to another for purposes other than consolidation, combination, or the equity method but does not provide guidance on the approach an entity should take in preparing such convenience translations.

Disclosure

IFRSs

1.169 An entity should disclose the amount of foreign exchange differences recognized in profit or loss, except those from financial instruments carried at fair value through profit or loss, in accordance with IAS 39, and any net foreign exchange differences recognized in other comprehensive income. An entity should also disclose a reconciliation of the beginning and ending balances in the related component of equity in which such differences are accumulated.

1.170 When an entity's presentation currency is different from its functional currency, it should disclose this fact, its functional currency, and the reason for using a different presentation currency.

1.171 When an entity changes its own functional currency or the functional currency of a significant foreign operation, it should disclose this fact and the reason for the change.

1.172 An entity sometimes chooses to display its financial statements or other financial statement information in a currency that differs from either the presentation or functional currency for the convenience of readers. In this case, an entity should clearly identify that this is supplemental information to distinguish it from the information presented in compliance with IFRSs and should disclose both the display and functional currencies and translation method used to achieve the display amounts.

U.S. GAAP

1.173 Unlike IFRSs, FASB ASC 830-20-45-1 requires an entity to disclose the aggregate transaction gain or loss included in net income, either in the statements or the notes.

1.174 Like IFRSs, paragraphs 18–20 of FASB ASC 830-30-45 require an entity to provide an analysis (reconciliation) of the changes in the cumulative translation adjustment account (equity), either in a statement or the notes, and provide guidance to the entity on the content of this analysis. Unlike IFRSs, FASB ASC 830-30-45-20 provides a list of the minimum line items that an entity should disclose in this analysis, including the following:

- Beginning and ending amounts of cumulative translation adjustments
- Aggregate adjustment for the period resulting from translation adjustments and gains and losses from certain hedges and intraentity balances
- Amount of income taxes for the period allocated to translation adjustments
- Amounts transferred from cumulative translation adjustments and included in determining net income for the period as a result of the sale or complete or substantially complete liquidation of an investment in a foreign entity

1.175 Unlike IFRSs, FASB ASC 830-20-50-2, with respect to foreign currency transactions, and FASB ASC 830-30-50-2, with respect to foreign currency translation, advise that disclosure of (*a*) a rate change that occurs after the balance sheet date of the reporting entity's financial statements or, after the date of the foreign currency statements of a foreign entity, if consolidated, combined, or accounted for by the equity method in the financial statements of the reporting entity, and (*b*) the effects of the rate change on any unsettled foreign currency transactions may be necessary if these effects are significant. FASB ASC 830-20-50-2 further explains that in some cases, it may not be practicable for the entity to determine the changes to unsettled transactions, and the entity should state that fact. FASB ASC 830-20-50-3 also explicitly encourages entities to supplement the required disclosures with discussion of the potential effects of rate changes on their operating results.

Presentation and Disclosure Excerpts

Author's Note

In the excerpts that follow, the statements of recognized income and expense are comparable to statements of comprehensive income.

Accounting Policy Disclosure

1.176

Alesco Corporation Limited (May 2010)

STATEMENTS OF COMPREHENSIVE INCOME (in part)

For the Year Ended 31 May 2010

	Note	Consolidated 2010 $000	Consolidated 2009 $000	The Company 2010 $000	The Company 2009 $000
(Loss)/profit for the period	23	(124,301)	(12,789)	(104,188)	(40,182)
Other comprehensive income					
Foreign currency translation differences on translating foreign subsidiaries	22	22	1,363	—	—

STATEMENTS OF CHANGES IN EQUITY (in part)

Consolidated

	Note	Share Capital $000	Translation Reserve $000	Hedging Reserve $000	Share Equity Reserve $000	Retained Earnings $000	Total Equity $000
Balance at 1 June 2009		513,262	3,196	(2,794)	3,974	33,799	551,437
Total comprehensive income for the period							
(Loss)/profit for the period	2	—	—	—	—	(124,301)	(124,301)
Other comprehensive income							
Foreign exchange translation differences on translating foreign subsidiaries	22	—	22	—	—	—	22
Effective portion of changes in fair value of cash flow hedges, net of tax		—	—	919	—	—	919
Net change in fair value of cash flow hedges transferred to profit or loss, net of tax		—	—	3,059	—	—	3,059
Total other comprehensive income		—	22	3,978	—	—	4,000
Total comprehensive income for the period		—	22	3,978	—	(124,301)	(120,301)
Transactions with owners, recorded directly in equity contributions by and distributions to owners							
Issue of ordinary shares	21	3,405	—	—	—	—	3,405
Shares granted as part of Total Eden McCracken's deferred consideration	21	3,740	—	—	—	—	3,740
Equity settled share-based payments	22	—	—	—	693	—	693
Senior executive share loan plan adjustment	22	—	—	—	1,665	—	1,665
Dividends to equity holders	24	—	—	—	—	(13,099)	(13,099)
Total transactions with owners		7,145	—	—	2,358	(13,099)	(3,596)
Balance at 31 May 2010		520,407	3,218	1,184	6,332	(103,601)	427,540

The notes on pages 69 to 142 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1: Statement of Significant Accounting Policies (in part)

(f) Foreign Currency

Foreign Currency Transactions

Transactions in foreign currencies are translated to the functional currency of the Group at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined.

Change in Functional Currency

1.177

Deutsche Bank Aktiengesellschaft (Dec 2010)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In € m	2010	2009	2008
Net income (loss) recognized in the income statement	2,330	4,958	(3,896)
Actuarial gains (losses) related to defined benefit plans, net of tax	106	(679)	(1)
Other comprehensive income			
Unrealized net gains (losses) on financial assets available for sale:(1)			
Unrealized net gains (losses) arising during the period, before tax	83	523	(4,516)
Net (gains) losses reclassified to profit or loss, before tax	39	556	(666)
Unrealized net gains (losses) on derivatives hedging variability of cash flows:(1)			
Unrealized net gains (losses) arising during the period, before tax	(78)	118	(263)
Net (gains) losses reclassified to profit or loss, before tax	4	6	2
Unrealized net gains (losses) on assets classified as held for sale, before tax(2)	(25)	–	–
Foreign currency translation:(1)			
Unrealized net gains (losses) arising during the period, before tax	920	40	(1,144)
Net (gains) losses reclassified to profit or loss, before tax	(6)	11	(3)
Unrealized net gains (losses) from equity method investments(1)	(26)	85	(15)
Tax on net gains (losses) in other comprehensive income	240	(254)	731
Other comprehensive income, net of tax	1,151(3)	1,085(4)	(5,874)(5)
Total comprehensive income, net of tax	3,587	5,364	(9,771)
Attributable to:			
Noncontrolling interests	4	(1)	(37)
Deutsche Bank shareholders	3,583	5,365	(9,734)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (in part)

In € m	Balance as of December 31, 2009	Total Comprehensive Income(2)
Common shares (no par value)	1,1589	—
Additional paid-in capital	14,830	—
Retained earnings(1)	24,056	2,310
Common shares in treasury, at cost	(48)	—
Equity classified as obligation to purchase common shares	—	—
Unrealized net gains (losses) on financial assets available for sale, net of applicable tax and other(3)	(186)	73
Unrealized net gains (losses) on derivatives hedging variability of cash flows, net of tax(3)	(134)	(45)
Unrealized net gains (losses) on assets classified as held for sale, net of tax	—	(11)
Foreign currency translation, net of tax(3,4)	(3,521)	1,188
Unrealized net gains (losses) from equity method investments	61	(26)
Accumulated other comprehensive income, net of tax	(3,780)	1,179
Total shareholders' equity	36,647	3,489
Noncontrolling interests	1,322	(8)
Total equity	37,969	3,481

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

01—Significant Accounting Policies (in part)

Change in the Functional Currency of a Significant Operation

On January 1, 2010, the functional currency of Deutsche Bank Aktiengesellschaft London Branch ('London Branch') and certain other London-based subsidiaries was changed from pound sterling to euro.

These entities' functional currency had previously been determined to be pound sterling on the basis that the currency of their primary economic environment was based on pound sterling. However during 2009 it was determined that the London Branch's operating environment, mix of business and balance sheet composition had gradually changed over time. To better reflect this change, London Branch management undertook to manage their operations in euro from January 1, 2010. To implement this decision, procedures were put in place for London Branch to hedge all non-euro exposures, sell profits into euro and report internally in euro.

The effect of the change in functional currency to euro was applied prospectively in these consolidated financial statements. The Group translated all items into the new functional currency using the exchange rate as at January 1, 2010. Exchange differences arising from the translation of the foreign operation previously recorded in other comprehensive income were not reclassified to profit or loss and remain in other comprehensive income until the entities are disposed of or sold.

IAS 21 Disclosures With Convenience Translation

1.178

Sterlite Industries (India) Limited (Mar 2010)

CONSOLIDATED STATEMENTS OF INCOME

(Indian Rupees in millions except share or per share amounts unless otherwise stated)

		For the Year Ended March 31		
		2009	2010	2010
	Notes	(Rs. in Millions)	(Rs. in Millions)	(US Dollars in Millions) (Note 2)
Revenue	5	212,192	244,903	5,448.3
Cost of sales		(165,097)	(181,928)	(4,047.3)
Gross profit		47,095	62,975	1,401.0
Other operating income		3,750	1,907	42.4
Distribution expenses		(3,388)	(3,022)	(67.2)
Administration expenses		(4,367)	(8,026)	(178.6)
Operating profit		43,090	53,834	1,197.6
Investment and other income	6	18,772	13,811	307.3
Finance and other costs	7	(6,244)	214	4.8
Share in Consolidated (loss)/profit of associate	10	(3,160)	2,051	45.6
Profit before tax		52,458	69,910	1,555.3
Income tax expense	8	(7,782)	(13,247)	(294.7)
Profit for the year		44,676	56,663	1,260.6
Profit attributable to:				
Equity holders of the parent		32,228	39,263	873.5
Minority interest		12,448	17,400	387.1
Earnings per share	29			
Basic		11.37	12.27	0.3
Diluted		11.37	12.03	0.3
Weighted average number of equity shares used in computing earnings per share				
Basic		2,833,583,490	3,199,826,061	3,199,826,061
Diluted		2,833,583,490	3,236,000,281	3,236,000,281

The accompanying notes are an integral part of these consolidated financial statements.

The Company presents the statement of income disclosing expenses by function. The statement of income disclosing expenses by nature is presented in Note 34 (c).

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Indian Rupees in millions except share or per share amounts unless otherwise stated)

	For the Year Ended March 31		
	2009	2010	2010
	(Rs. in Millions)	(Rs. in Millions)	(US Dollars in Millions) (Note 2)
Profit for the year	44,676	56,663	1,260.6
Other comprehensive (loss)/income, net of tax:			
Exchange differences on translation of foreign operations	(327)	1,295	28.8
(Loss)/gain on available-for-sale financial investments	(79)	318	7.1
Cash flow hedges(*)	398	121	2.7
Share in consolidated other comprehensive (loss)/income of associate(*)	(582)	799	17.7
Total other comprehensive (loss)/income for the year, net of tax	(590)	2,533	56.3
Total comprehensive income	44,086	59,196	1,316.9
Total comprehensive income attributable to:			
Equity holders of the parent	31,708	41,724	928.2
Minority interest	12,378	17,472	388.7
	44,086	59,196	1,316.9

(*) Refer to Note 8 for tax related to each component of other comprehensive (loss)/income
Refer to Note 34(a) for amounts reclassified into profit for the year out of other comprehensive (loss)/income.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Indian Rupees in millions except share or per share amounts unless otherwise stated)

		As at April 1	As at March 31		
		2008	2009	2010	2010
	Notes	(Rs. in Millions)	(Rs. in Millions)	(Rs. in Millions)	(US Dollars in Millions) (Note 2)
Assets					
Non-current assets					
Property, plant and equipment	9	121,699	166,528	226,629	5,041.8
Leasehold land prepayments		483	967	1,220	27.1
Investment in associate	10	19,085	15,043	4,621	102.8
Financial assets investments	11	1,123	1,044	1,362	30.3
Other non-current assets	12	1,274	9,651	10,227	227.5
Total non-current assets		143,664	193,233	244,059	5,429.5
Current assets					
Inventories	13	33,373	24,608	29,822	663.4
Current tax asset		20	109	660	14.7
Trade and other receivables	14	27,780	32,311	118,907	2,645.3
Short term investments	15	155,964	188,067	211,022	4,694.6
Derivative financial assets	25	1,627	1,538	115	2.6
Restricted cash and cash equivalents	16	59	2,011	60	1.3
Cash and cash equivalents	17	12,363	2,701	2,021	45.0
Total current assets		231,186	251,345	362,607	8,066.9
Assets held for sale	18	—	—	188	4.2
Total assets		374,850	444,578	606,854	13,500.6
Liabilities					
Current liabilities					
Short-term borrowings	19	10,190	20,202	19,121	425.4
Acceptances	20	27,033	35,829	29,901	665.2
Trade and other payables	21	22,831	27,243	35,095	780.8
Derivative financial liabilities	25	638	2,639	669	14.9
Provisions	22	687	737	748	16.7
Current tax liabilities		1,087	676	863	19.1
Total current liabilities		62,466	87,326	86,397	1,922.1
Net current assets		168,720	164,019	276,210	6,144.8
Non-current liabilities					
Long-term borrowings	19	9,949	14,384	43,578	969.4
Deferred tax liabilities	8	16,141	15,172	17,955	399.5
Retirement benefits	24	647	711	865	19.2
Provisions	22	322	348	382	8.5
Other non-current liabilities	23	6,332	6,034	5,689	126.6
Total non-current liabilities		33,391	36,649	68,469	1,523.2
Total liabilities		95,857	123,975	154,866	3,445.3
Net assets		278,993	320,603	451,988	10,055.3
Equity					
Share capital	27	1,417	1,417	1,681	37.4
Securities premium		106,532	106,532	182,797	4,066.7
Other components of equity		(377)	439	2,723	60.6
Retained earnings		113,232	142,145	177,971	3,959.2
Equity attributable to equity holders of the parent		220,804	250,533	365,172	8,123.9
Minority interest		58,189	70,070	86,816	1,931.4
Total equity		278,993	320,603	451,988	10,055.3

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Indian Rupees in millions except share or per share amounts unless otherwise stated)

	For the Year Ended March 31		
	2009	2010	2010
	(Rs. in Millions)	(Rs. in Millions)	(US Dollars in Millions) (Note 2)
Cash Flows From Operating Activities			
Profit before taxes	52,458	69,910	1,555.3
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	8,024	8,061	179.3
Provision for doubtful debts/advances	12	46	1.0
Fair value gain on financial assets held for trading	(2,254)	(2,741)	(61.0)
Profit on sale of fixed asset, net	(10)	(104)	(2.3)
Share in consolidated (profit)/loss of associate	3,160	(2,051)	(45.6)
Impairment of guarantees	137	—	—
Exchange (gains)/loss, net	2,159	(6,074)	(135.1)
Gain on fair valuation of conversion option	—	(587)	(13.0)
Interest and dividend income	(13,779)	(13,076)	(290.9)
Interest expenses	4,688	3,910	87.0
Changes in assets and liabilities:			
Decrease in trade and other receivables	12,843	3,008	66.9
Decrease/(Increase) in inventories	8,767	(5,167)	(115.0)
(Increase)/decrease in other current and non-current assets	(6,629)	1,313	29.2
(Decrease)/increase in trade and other payable	(8,520)	3,410	75.9
Increase/(Decrease) in other current and non-current liabilities	1,759	(1,482)	(33.0)
Proceeds from short term investments	984,841	1,231,265	27,391.9
Purchases of short term investments	(976,457)	(1,270,518)	(28,265.1)
Cash generation from operation	71,199	19,123	425.5
Interest paid	(3,897)	(5,597)	(124.5)
Interest received	4,420	6,460	143.7
Dividend received	9,030	5,966	132.7
Income tax paid	(8,649)	(11,703)	(260.3)
Net cash from operating activities	72,103	14,249	317.1
Cash Flows from Investing Activities			
Purchases of property, plant and equipment	(40,623)	(61,875)	(1,376.5)
Proceeds from sale of property, plant and equipment	66	323	7.1
Redemption of investments in associate	—	13,342	296.8
Loans repaid by related parties	—	6,850	152.4
Loans to related parties	(15,381)	(96,848)	(2,154.5)
Proceeds from short term deposits	13,354	55,811	1,241.6
Purchases of short term deposits	(50,277)	(37,136)	(826.2)
Net changes in restricted cash and cash equivalents	(1,952)	1,951	43.4
Net cash used in investing activities	(94,813)	(117,582)	(2,615.9)
Cash Flows from Financing Activities			
Proceeds from issuance of equity shares, net	—	76,529	1,702.5
Proceeds from Convertible notes	—	23,133	514.6
Proceeds from/(repayment of) working capital loan, net	(3,588)	(1,194)	(26.6)
Proceeds from/(repayment of) acceptances, net	5,454	(1,386)	(30.9)
Repayment of other short term borrowings	—	(4,500)	(100.1)
Proceeds from other short-term borrowings	4,500	5,626	125.2
Proceeds from long-term borrowings	14,790	13,380	297.7
Repayment of long-term borrowings	(3,902)	(5,103)	(113.5)
Payment of dividends to equity holders of the parent, including dividend tax	(3,315)	(3,437)	(76.5)
Payment of dividends to minority, including dividend tax	(497)	(726)	(16.1)
Net cash provided by financing activities	13,442	102,322	2,276.3
Effect of exchange rate changes on cash and cash equivalents	(394)	331	7.4
Net (decrease) in cash and cash equivalents	(9,662)	(680)	(15.1)
Cash and cash equivalents at the beginning of the year	12,363	2,701	60.1
Cash and cash equivalents at the end of the year	2,701	2,021	45.0
Supplementary disclosure of non-cash investing activities:			
Payables for purchase of property, plant and equipment	14,383	18,363	408.5

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (in part)

(Indian Rupees in millions except share or per share amounts unless otherwise stated)

	Attributable to Equity Holders of the Parent								
	Share Capital	Securities Premium	Translation of Foreign Operations	Available for Sale Financial Investments	Cash Flow Hedges	Retained Earning	Total	Minority Interest	Total Equity
Balance as at March 31, 2009	1,417	106,532	(399)	8	830	142,145	250,533	70,070	320,603
Balance as at April 1, 2009	1,417	106,532	(399)	8	830	142,145	250,533	70,070	320,603
Profit for the year						39,263	39,263	17,400	56,663
Exchange differences on translation of foreign operations	—	—	1,295	—	—	—	1,295	—	1,295
Movement in available for sale financial investments	—	—	—	318	—	—	318	—	318
Net movement in fair value of cash flow hedges, net of tax(*)	—	—	—	—	49	—	49	72	121
Share of other comprehensive income of associate, net of tax(*)	—	—	—	—	799	—	799	—	799
Total comprehensive income for the year	—	—	1,295	318	848	39,263	41,724	17,472	59,196
Shares issued	264	76,265	—	—	—	—	76,529	—	76,529
Share in associate towards adjustment for amount transferred to initial carrying amount of property, plant and equipments	—	—	—	—	(177)	—	(177)	—	(177)
Dividend paid including tax on dividend						(3,437)	(3,437)	(726)	(4,163)
Balance as at March 31, 2010	1,681	182,797	896	326	1,501	177,971	365,172	86,816	451,988
Balance as at March 31, 2010 (in US dollars in millions)	37.4	4,066.7	19.9	7.3	33.4	3,959.2	8,123.9	1,931.4	10,055.3

(*) Refer to Note 8 for taxes related to each component of the other comprehensive income
Refer to Note 34(a) for amount reclassified to the statement of income from other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Basis of Preparation of Financial Statements (in part)

Convenience Translation

The consolidated financial statements are presented in Indian Rupee, the functional and presentational currency of the Company. Solely for the convenience of readers, the consolidated financial statements as at and for the year ended March 31, 2010 have been translated into US dollars (“$”) at the noon buying rate of $1.00 = Rs. 44.95 in the City of New York for cable transfers of Indian Rupee as certified for customs purposes by the Federal Reserve Bank of New York on March 31, 2010. No representation is made that the Indian Rupee amounts represent US dollar amounts or have been, could have been or could be converted into US dollars at such a rate or any other rate.

IAS 20, *ACCOUNTING FOR GOVERNMENT GRANTS AND DISCLOSURE OF GOVERNMENT ASSISTANCE*

IFRSs Overview and Comparison to U.S. GAAP

Author's Note

IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, was amended by IFRS 9. IFRS 9 amends paragraph 10A of IAS 20 affecting recognition and measurement of government loans at below market rates, requiring such loans to be measured in accordance with IFRS 9 rather than IAS 39. This change is effective for annual periods beginning on or after 1 January 2013. However, entities that adopt IFRS 9 would apply the amendment to IAS 20 at the same time.

1.179 IAS 20 establishes the accounting for government grants and disclosures of government grants and other forms of government assistance. IAS 20 does not address government grants included in the scope of IAS 41, *Agriculture*; government participation in ownership of the entity; government assistance in the form of tax benefits; or special problems associated with changing prices.

1.180 IAS 20 defines a *government grant* to be government assistance in the form of transfers of resources to an entity in return for past or future compliance with certain conditions related to the entity's operating activities, excluding assistance that cannot reasonably be valued and transactions that cannot be distinguished from the entity's ordinary activities. *Government assistance* is defined as actions designed to provide an economic benefit specific to a qualifying entity or entities, excluding benefits provided indirectly through general governmental actions (such as trading constraints on competitors). The term *governments* includes governments, governmental agencies, and similar entities, whether local, regional, national, or international.

Recognition and Measurement

IFRSs

1.181 IAS 20 prohibits an entity from recognizing a government grant, including a nonmonetary grant at fair value, unless the entity is reasonably assured that it will receive the grant and comply with the required conditions.

1.182 An entity should treat a forgivable loan from a government as a government grant when there is reasonable assurance that the entity will meet the terms for forgiveness of the loan.

1.183 An entity should treat the benefit from receiving a government loan at a below market rate as a government grant. An entity should measure the initial carrying value of the loan in accordance with IAS 39 and the benefit received as the difference between the initial carrying value and the loan proceeds. IAS 20 requires the entity to consider any conditions or obligations it has met or should meet in the future when determining costs associated with the benefit received.

1.184 IAS 20 requires an entity to recognize the benefit from a government grant in profit or loss on a systematic basis over the periods that it incurs the expected costs related to the benefits from the grant. IAS 20 states that an entity would usually recognize benefits of grants related to depreciable assets in proportion to the depreciation expense recorded on these assets. An entity would recognize the benefits of other grants when it incurs the costs and meets the grant's conditions.

1.185 IAS 20 requires an entity to recognize in profit or loss a grant related to costs it incurred in the past or to which no conditions are attached when that grant is receivable.

1.186 An entity may recognize a nonmonetary grant at either fair value or a nominal amount.

1.187 SIC 10, *Government Assistance—No Specific Relation to Operating Activities*, clarifies that government assistance can meet the definition of a government grant even when the government does not place conditions on an entity's operations beyond a requirement to operate in specific geographic areas or industry sectors. SIC 10 does not permit an entity to recognize such grants directly in equity.

1.188 If a government grant becomes repayable, an entity should account for the change prospectively as a change in accounting estimate, in accordance with IAS 8. To the extent the repayment exceeds the carrying value of a related liability, or if no liability exists, an entity should recognize the difference in profit or loss immediately. When the repayment relates to a depreciable asset, an entity should increase the carrying value of the asset or the related deferred income by the amount repayable and recognize immediately in profit or loss the cumulative additional depreciation that would have been recognized if it had not received the grant. IAS 20 notes that such repayment may be an indicator of asset impairment.

U.S. GAAP

1.189 Unlike IFRSs, FASB ASC does not include guidance on recognition, measurement, presentation, or disclosure of government grants or assistance, except for those received by not-for-profit entities and entities in regulated industries.

1.190 Without specific guidance to the contrary, FASB ASC would require an entity to treat a loan from the government in the same way as a loan from a private sector entity. Therefore, like IFRSs, an entity would most likely impute interest on loans made at below market rates.

1.191 In the specific implementation guidance on nonreciprocal transfers between an entity and counterparties other than its owners, FASB ASC 845-10-05-5 includes the example of a contribution of land by a governmental unit for construction of productive facilities by an entity. FASB ASC 845-10-30-1 states that for exchanges of nonmonetary assets, an entity should measure the asset received at its fair value, unless the fair value of the asset given up is more clearly evident. In cases of government grants of nonmonetary assets, the asset is transferred in exchange for future services; hence, it is more likely that the fair value of the asset received is more clearly evident. Unlike IFRSs, FASB ASC does not permit an entity to measure a nonmonetary government grant and related asset at nominal amount.

Presentation

IFRSs

1.192 An entity may present government grants in the statement of financial position either as deferred income or a reduction of the carrying value of the related asset.

1.193 IAS 20 suggests that it would be appropriate for an entity to show cash flows from government grants separately in the statement of cash flows even when the grant is presented in the balance sheet as a reduction of the related asset.

1.194 With respect to the statement of comprehensive income, an entity may recognize the income from the grant in the line item "other income" either as part of profit or loss or as a reduction of the related expense.

1.195 IAS 1 does not require an entity to present government grants separately in the financial statements, unless the effect is material to an income or expense item.

U.S. GAAP

1.196 FASB ASC does not include specific presentation requirements for government grants.

Disclosure

IFRSs

1.197 IAS 20 requires an entity to disclose the following information about government grants and, when appropriate, government assistance that does not meet the definition of a grant:

- Accounting policy and presentation methods adopted
- Nature and extent of such grants recognized and an indication of other forms of government assistance that directly benefit the entity
- Unfulfilled conditions and contingencies related to recognized grants

1.198 When a grant is recognized in profit or loss when it is receivable, an entity should disclose the circumstances of the grant so users understand why immediate recognition was appropriate.

U.S. GAAP

1.199 FASB ASC does not include any specific disclosure requirements for government grants.

Presentation and Disclosure Excerpts

Initial Recognition at Nominal Amount

1.200

Straumann Holding AG (Dec 2010)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2.4 Summary of Significant Accounting Policies (in part)

Government Grants

Government grants are recognized where there is a reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs it is intended to compensate. Where the grant relates to an asset, it is recognized as deferred income and released to income in equal annual amounts over the expected useful life of the related asset.

Where the Group receives non-monetary grants, the assets and grants are recorded at nominal amounts and released to profit or loss over the expected useful life of the relevant assets by equal annual instalments.

14. Other Liabilities (Non-Current)

(In CHF 1,000)	2010	2009
Other long-term employee benefits	1,952	—
Government grants	1,777	2,146
Rent payable	1,054	968
Unpaid purchase price consideration	950	1,517
Other	1,158	1,116
Total other liabilities	6,891	5,747

Government grants relate to grants recognized in Germany in connection with investments in the manufacturing facilities of Straumann CADCAM GmbH.

Initial Recognition as Reduction of Carrying Value of Depreciable Assets

1.201

Telecom Corporation of New Zealand Limited (Jun 2010)

STATEMENT OF FINANCIAL POSITION (in part)

As at 30 June 2010, 2009 and 2008

		Group			Parent		
		2010	2009	2008	2010	2009	2008
As at 30 June	Notes	NZ$M	Restated NZ$M	Restated NZ$M	NZ$M	NZ$M	NZ$M
Non-Current Assets							
Long-term investments	13	276	267	278	8,791	9,287	9,262
Long-term receivables	11	31	—	—	—	—	—
Deferred tax assets	19	—	—	—	—	4	—
Long-term derivative assets	10	51	69	48	—	—	—
Intangible assets	14	1,106	953	990	—	—	—
Property, plant and equipment	15	4,274	4,288	3,984	—	—	—
Total non-current assets		5,738	5,577	5,300	8,791	9,291	9,262

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1. Statement of Accounting Policies

Specific Accounting Policies (in part)

Government Grants

Government grants are recognised in earnings on a systematic basis that matches them with the related costs that they are intended to compensate. To achieve this, grants that were made for Telecom to purchase assets are netted off against the cost of that asset.

Initial Recognition at Fair Value, Change in Accounting Policy for Government Grants

1.202

Guangshen Railway Company Limited (Dec 2010)

CONSOLIDATED BALANCE SHEETS (in part)

As at January 1, 2009 and December 31, 2009 and 2010

		January 1	December 31		
(Amounts in Thousands)	Note	2009 RMB Restated (Note 5)	2009 RMB Restated (Note 5)	2010 RMB	2010 US$*
Liabilities					
Non-current liabilities					
Borrowings	25	3,390,000	—	—	—
Deferred income related to government grants	24	100,495	97,120	95,093	14,408
Bonds payable	26	—	3,465,801	3,471,994	526,060
Employee benefits obligations	27	237,422	174,767	197,386	29,907
		3,727,917	3,737,688	3,764,473	570,375

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Principal Accounting Policies (in part)

2.24 Government Grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the comprehensive income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the comprehensive income statement on a straight-line basis over the expected lives of the related assets.

The Group changed the accounting policy in respect of government grants relating to property, plant and equipment from January 1, 2010. Please refer to Note 5 for more details.

5. Changes in Accounting Policies

During the current year, the Group changed its accounting policies in respect of fixed assets and government grants to enhance the comparability of the Group's financial statements with those of the other listed companies with similar background, as well as to eliminate the differences between the Group's financial statements under IFRS and its PRC Generally Accepted Accounting Principles ("GAAP") financial statements.

a) Change in Accounting Policy for Fixed Assets

The Group's first financial statements prepared under IFRS were for the year ended December 31,1996, with the start of the earliest comparative period being January 1,1994. During the period from January 1,1994 to December 31, 1996, the Group was required, due to the Restructuring, by the applicable laws and regulations of the PRC to undertake a valuation of the to-be-listed fixed assets by an independent appraisal firm and the values arising from this valuation became the deemed costs of the related fixed assets included the Group's PRC GAAP financial statements.

However, prior to the improvements to IFRSs (2010) issued in May 2010, IFRS 1 only permitted such valuations to be used as deemed cost if the event occurred before the date of the entity's transition to IFRS. As this valuation was performed as at a date later than the date of transition to IFRS, the Group was not permitted at that time to adopt these valuations as deemed cost for the purposes of its IFRS financial statements.

With the improvements to IFRSs (2010) issued in May 2010, IFRS 1 was revised and the revalued amounts can become deemed costs so long as the revaluation takes place at periods before or during the first-time adopters' first set of IFRS financial statements. In addition, the IASB has made a special provision in this IFRS 1 that existing IFRS preparers may also be able to retrospectively apply this.

The Group early adopted the aforementioned improved IFRS 1 from January 1,2010. The impact of the improved IFRS 1 was applied retrospectively and the comparative financial information has also been restated. The effect of the change is tabulated below:

	As at January 1, 2009 RMB'000	As at December 31, 2009 RMB'000	As at December 31, 2010 RMB'000
Increase in fixed assets	918,225	890,636	863,187
Decrease in deferred income tax assets	(228,641)	(223,123)	(217,084)
Increase in share premium	1,270,011	1,270,011	1,270,011
Decrease in retained earnings	(580,427)	(602,498)	(623,908)

	Year Ended December 31		
	2008 RMB'000	2009 RMB'000	2010 RMB'000
Increase in operating expenses	37,106	27,171	27,449
Increase in other expense, net	42	418	—
Decrease in income tax expense	(6,687)	(5,518)	(6,039)
Decrease in profit for the period	30,461	22,071	21,410

	Year Ended December 31		
	2008 RMB'000	2009 RMB'000	2010 RMB'000
Decrease in earnings per share for profit attributable to the equity holders of the Company during the period—Basic and diluted	—	—	—

b) Change in Accounting Policy for Government Grants

Under IAS 20 "Accounting for government grants and disclosure of government assistance," government grants related to fixed assets are presented in the financial statements either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the related fixed asset. Prior to January 1, 2010, the Group accounted for government grant related to fixed assets as a deduction to the carrying amount of the related fixed assets. The grants are recognized in profit or loss over the lives of the related fixed assets by way of a reduced depreciation charge. With the consideration of the following, the Group changed its accounting policy during the current year to account for government grants related to fixed assets as deferred income that is recognized in profit or loss on a systematic basis over the useful lives of the related fixed assets:

- The practice of other listed companies with similar background;
- Eliminating the difference between the Group's financial statements under IFRS and its PRC GAAP financial statements; and
- The change will provide reliable and more relevant information regarding the relevant government grants received by the Company.

The change in the accounting policy for government grants has been accounted for retrospectively.

The effect of the change is tabulated below:

	As at January 1, 2009 RMB'000	As at December 31, 2009 RMB'000	As at December 31, 2010 RMB'000
Increase in fixed assets	100,495	97,120	95,093
Increase in deferred government grants	100,495	97,120	95,093

	Year Ended December 31		
	2008 RMB'000	2009 RMB'000	2010 RMB'000
Increase in operating expenses	3,963	3,375	3,388
Decrease in other expense, net	(3,963)	(3,375)	(3,388)

Other than the above stated, the aforementioned accounting policy changes do not have any impact on other notes to the financial statements.

24. Deferred Income Related to Government Grant

	2009 RMB'000 Restated (Note 5)	2010 RMB'000
Beginning of the year	100,495	97,120
Additions	—	1,361
Amortization	(3,375)	(3,388)
End of the year	97,120	95,093

31. Other Income/(Expense), Net

	2008 RMB'000 Restated (Note 5)	2009 RMB'000 Restated (Note 5)	2010 RMB'000
Interest income from bank	24,321	24,440	41,510
Unwinding of interest accrued on long-term receivable (Note 18)	7,589	4,093	2,893
Write-back of long outstanding payables	21,562	1,932	537
Loss on disposal of fixed assets	(31,584)	(42,053)	(95,849)
Loss on disposal of subsidiaries	(188)	—	—
Amortization of government grants	3,963	3,375	3,388
Dividends income on available-for-sale investments	2,420	3,000	3,853
Others	(6,459)	(11,595)	(3,392)
	21,624	(16,808)	(47,060)

36. Cash Flow Generated From Operations

(a) Reconciliation From Profit Attributable to Shareholders to Cash Generated From Operations:

	2008 RMB'000 Restated (Note 5)	2009 RMB'000 Restated (Note 5)	2010 RMB'000
Profit before income tax:	1,464,514	1,684,790	1,925,307
Adjustments for:			
Depreciation of fixed assets (Note 7)	1,213,111	1,292,690	1,349,210
Impairment of fixed assets and construction-in-progress	—	448	—
Amortization of leasehold land payments (Note 9)	15,603	15,989	15,988
Loss on disposal of fixed assets (Note 31)	31,584	42,053	95,849
Write-down and amortization of deferred employee costs (Note 14)	32,005	20,156	73,911
Recognition of employee benefits obligations (Note 27)	85,988	1,200	100,989
Interest unwound for employee benefit obligations (Note 27)	3,417	6,510	7,609
Share of results of associates (Note 12)	(128)	(773)	(1,361)
Loss on disposal of subsidiaries (Note 31)	188	—	—
Dividend income on available-for-sale investment (Note 31)	(2,420)	(3,000)	(3,853)
Provision /(reversal of provision) for doubtful accounts	2,766	414	(1,661)
Write-back of long outstanding of payables (Note 31)	(21,562)	(1,932)	(537)
Amortization of bonds payable (Note 26)	—	325	(6,193)
Amortization of government grants (Note 24)	(3,963)	(3,375)	(3,388)
Interest expenses (Note 32)	207,767	227,178	167,650
Interest income (Note 31)	(31,910)	(28,533)	(44,403)
Operating profit before working capital changes	2,996,960	3,254,140	3,675,117
Increase in trade receivables	(143,200)	(211,176)	(107,701)
Increase in materials and supplies	(48,249)	(29,187)	(23,969)
Decrease/(increase) in prepayments and other receivables	51,335	24,117	(6,448)
Decrease in long-term receivable	8,000	8,000	12,000
Increase in trade payables	95,438	150,499	383,289
Decrease in employee benefits obligations	(126,179)	(64,312)	(71,357)
(Decrease)/increase in accrued expenses and other payables	(660,420)	(23,706)	28,451
Cash generated from operations	2,173,685	3,108,375	3,889,382

Government Grant Contingencies

1.203

Trinity Biotech plc (Dec 2010)

CONSOLIDATED STATEMENTS OF OPERATIONS (in part)

	Notes	Year Ended December 31		
		2010 Total US$'000	**2009 Total US$'000**	**2008 Total US$'000**
Revenues	2	89,635	125,907	140,139
Cost of sales		(45,690)	(68,891)	(77,645)
Gross profit		43,945	57,016	62,494
Other operating income	5	1,616	437	1,173
Research and development expenses		(4,603)	(7,341)	(7,544)
Selling, general and administrative expenses		(26,929)	(36,013)	(47,816)
Selling, general and administrative—impairment charges and restructuring expenses	28	—	—	(87,882)
Total selling, general and administrative expenses		(26,929)	(36,013)	(135,698)
Net gain on divestment of business and restructuring expenses	3	46,474	—	—
Operating profit/(loss)		60,503	14,099	(79,575)
Financial income	2, 4	1,352	8	65
Financial expenses	2, 4	(495)	(1,192)	(2,160)
Net financing income/(costs)		857	(1,184)	(2,095)
Profit/(loss) before tax	6	61,360	12,915	(81,670)
Total income tax (expense)/credit	2, 9	(942)	(1,091)	3,892

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Basis of Preparation and Significant Accounting Policies (in part)

o) Government Grants

Grants that compensate the Group for expenses incurred such as research and development, employment and training are recognised as revenue or income in the statement of operations on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in the statement of operations as other operating income on a systematic basis over the useful life of the asset.

(e) Government Grant Contingencies

The Group has received training and employment grant income from Irish development agencies. Subject to existence of certain conditions specified in the grant agreements, this income may become repayable. No such conditions existed as at December 31, 2010. However if the income were to become repayable, the maximum amounts repayable as at December 31, 2010 would amount to US$3,373,000 (2009: US$3,646,000).

IAS 24, *RELATED PARTY DISCLOSURES*

IFRSs Overview and Comparison to U.S. GAAP

1.204 An entity should apply the requirements of IAS 24, *Related Party Disclosures*, when identifying related party relationships and transactions; outstanding balances between the related party and itself; and the circumstances when disclosure about these relationships, transactions, and balances would be required. An entity should also determine the specific disclosures to provide in accordance with IAS 24.

Author's Note

In November 2009, the IASB revised IAS 24 by simplifying the definition of a *related party*, clarifying its intended meaning, and eliminating inconsistencies with the definition. The revisions also provide a partial exemption from the disclosure requirements for government-related entities. The revised IAS 24 is effective for annual periods beginning on or after 1 January 2011. Early application is permitted. Because the survey companies selected for this edition generally have annual periods ending on or before 31 December 2010, the narrative text and illustrative excerpts that follow may not reflect this newest revision to IAS 24.

Recognition and Measurement

IFRSs

1.205 For the purposes of IAS 24 disclosures, a party is related to the entity if it has the following characteristics:

- Controls, is controlled by, or is under common control with the entity, directly or indirectly through an intermediary
- Either has an interest in the entity that gives it either significant influence or joint control over the entity, directly or indirectly through an intermediary, or is an associate or joint venture of the entity
- Is a member of the key management personnel of the entity or its parent
- Is a close family member of an individual who is a member of the key management personnel or other related party with control, significant influence, or joint control over the entity (close family member)
- Is an entity that a close family member controls, jointly controls, or has significant influence over or with whom significant voting power resides
- Is a postemployment benefit plan for the benefit of the employees of the entity or any related party to the entity

1.206 *Key management personnel* are those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, either directly or indirectly. This includes directors of the entity, regardless of whether they are an executive. A *close family member* is one who would be expected to influence or be influenced by the individual in the family member's interactions with the entity. An entity may consider the following to be close family members under IAS 24:

- Domestic partners
- Own and domestic partner's children
- Other dependents

U.S. GAAP

1.207 The FASB ASC definition of *related parties* is similar, but not identical, to that in IAS 24. In the FASB ASC glossary definition, *related parties* include the following:

- Entity's affiliates (according to the FASB ASC glossary, an *affiliate* is a party that, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with an entity)
- Entities for which investments in their equity securities would be required to be accounted for by the equity method by the investing entity, absent the election of the fair value option under the "Fair Value Option" sections of FASB ASC 825-10-15
- Trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management

Author's Note

The requirements of the previous bullet points are likely a lower threshold for meeting the definition of *related parties* than those in IAS 24 included in its guidance related to close family members.

- Principal owners of the entity and members of their immediate families
- Entity's management (according to the FASB ASC glossary, *management* is defined as persons who are responsible for achieving an entity's objectives and who have the authority to establish policies and make decisions in pursuit of these objectives, regardless of whether those persons have a formal title) and members of their immediate families

Author's Note

Unlike IFRSs, directors are not specifically scoped into the FASB ASC glossary definition of *management*. However, directors have both the responsibility and authority to set and pursue an entity's objectives.

- Other parties with which the entity may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests
- Other parties that can significantly influence the management or operating policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests

Presentation

IFRSs

1.208 IAS 24 does not require a particular presentation of related party information. IAS 1 requires separate presentation when the transactions or balances are material. If an entity does not include receivables and payables for key management personnel separately on the balance sheet, it should present in a note disclosure a disaggregation of the balance sheet amounts in which such receivables or payables are included.

U.S. GAAP

1.209 Unlike IFRSs, FASB ASC 850-10-50-2 requires separate presentation of notes or accounts receivable from officers, employees, or affiliated entities on the balance sheet and prohibits an entity from including these accounts with other notes receivable or accounts receivable. IFRSs permit an entity to provide this disaggregation in a note disclosure.

Disclosure

IFRSs

1.210 An entity should disclose relationships between parents and subsidiaries, regardless of whether there are transactions between the related party and the entity, including the name of the entity's parent and, if different, the ultimate controlling party. When neither the parent nor ultimate controlling party prepares publicly available financial statements, an entity should disclose the name of the next most senior parent that does prepare such statements.

1.211 An entity should disclose information about (*a*) the compensation of key management personnel, both in total and separately for each of the categories described in IAS 19, *Employee Benefits* (that is, short-term benefits, postemployment benefits, other long-term employee benefits, and termination benefits), and (*b*) share-based payments, as described in IFRS 2, *Share-based Payment*.

1.212 In addition, when the entity has transactions with related parties, it should disclose the nature of the related party relationship. At a minimum, an entity should also disclose the following:

- Amounts of transactions
- Amounts of, and other information about, outstanding balances, including the following:
  - — Terms and conditions
  - — Whether the balances are secured
- Details of any guarantees given or received
- Provision for uncollectible amounts and any bad debt expense recognized during the period

IAS 24 does not require an entity to disclose this information for the comparative periods presented in the financial statements.

1.213 IAS 24 requires an entity to make these disclosures separately for each of the following: parent, entities with joint control or significant influence over the entity, subsidiaries, associates, joint ventures, key management personnel of the entity and its parent, and other related parties. IAS 24 provides examples of transactions that an entity would be expected to disclose, including, for example, purchases or sales of goods; property, plant, and equipment; and financing arrangements.

1.214 IAS 24 permits an entity to aggregate items of a similar nature, unless disaggregation is necessary for understanding the effects of the transactions in the entity's financial statements.

U.S. GAAP

1.215 Like IFRSs, FASB ASC 850-10-50-6 requires an entity to disclose the nature of any control relationship even when there are no transactions between the entities.

1.216 Like IFRSs, FASB ASC 850-10-50-1 requires an entity to disclose material related party transactions. Also like IFRSs, an entity is not required to disclose transactions that are eliminated in consolidation. Unlike IFRSs, FASB ASC 850-10-50-1 exempts compensation arrangements, expense allowances, and other similar items in the ordinary course of business from disclosure requirements. However, Item 402 "Executive Compensation" of SEC Regulation S-K requires SEC registrants to provide compensation information outside the financial statements for specified members of management.

1.217 Like IFRSs, FASB ASC 850-10-50-1 requires an entity to disclose the following:

- Nature of the relationships
- Description of the transactions and other information necessary for understanding of the effects of the transactions on the financial statements
- Amounts of the transactions
- Outstanding balances and, if not otherwise apparent, the terms and manner of settlement

However, unlike IFRS, FASB ASC does not have a requirement for such disclosures to be combined by related party category.

1.218 Unlike IFRSs, FASB ASC 850-10-50-1 requires an entity to disclose the amount of transactions for each period for which the entity presents an income statement and to disclose the effects of any change in the method of establishing the terms from that used in the preceding period. For outstanding balances, an entity should disclose the amount at each balance sheet date presented.

1.219 Unlike IFRSs, FASB ASC 740-10-50-17 also includes guidance for disclosures about the tax effects of transactions between an entity and its affiliates when the entity prepares separate (unconsolidated) financial statements.

1.220 Like IFRSs, FASB ASC 850-10-50-3 permits aggregation of similar transactions by type of related party in certain circumstances.

Presentation and Disclosure Excerpts

Author's Note

None of the excerpts that follow reflect the revisions to IAS 24 that are effective for annual periods beginning on or after 1 January 2011.

Disaggregation by Category of Related Party

1.221

Barry Callebaut AG (Aug 2010)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

12. Trade Receivables and Other Current Assets (in part)

As of August 31	2010	2009
In thousands of CHF		
Trade receivables	314,636	349,416
Fair values of hedged firm commitments	98,651	42,534
Prepayments	72,063	28,713
Other current assets	7,915	8,966
Accrued income	4,123	2,760
Receivables from related parties	2	192
Other taxes and receivables from government	55,990	62,710
Loans and other receivables	34,000	29,556
Total trade receivables and other current assets	587,380	524,847

27. Related Parties

The following shareholders hold a participation of more than 3% of the issued share capital of the Group's ultimate parent Barry Callebaut AG:

As of August 31	2010	2009
Jacobs Holding AG, Zurich, Switzerland	50.11%	50.21%
Renata Jacobs	8.48%	8.48%
Nicolas and Philippe Jacobs[1]	6.14%	6.14%
Nathalie Jacobs	3.07%	3.07%

[1] Form a group of shareholders according to Swiss Stock exchange regulations as published in the Swiss Official Gazette of Commerce of February 4, 2008.

Significant transactions and balances between the Group and related parties are as follows:

In Thousands of CHF	Nature of Cost/Revenue	2009/10	2008/09
Sales to related parties		173	476
Pastelería Totel, S.L	Revenue from sales and services	173	476
Purchases from related parties		(11,424)	(9,554)
African Organic Produce AG	Cost of goods sold	(11,424)	(9,554)
Operating expenses charged by related parties		(7,692)	(8,746)
Jacobs Holding AG	Management services	(1,650)	(1,678)
Adecco Group	Human resources services	(5,940)	(6,886)
Pastelería Totel, S.L.	Management services		(13)
Biolands International Ltd	Management services		(67)
Other		(102)	(102)
Trade receivables from related parties		2	192
Jacobs Holding AG		2	2
Adecco Group		—	4
Pastelería Totel, S.L.		—	186
Trade payables to related parties		3,531	2,609
Jacobs Holding AG		310	316
Adecco Group		1,282	1,144
African Organic Produce AG		1,882	1,097
Biolands International Ltd		—	33
Other		57	19

Transactions with related parties were carried out on commercial terms and conditions at market prices. All receivables from related parties are non-interest bearing and their collection is expected within the next twelve months.

Compensation of Key Management Personnel

The key management personnel are defined as the Board of Directors and the Executive Committee. Key management compensation consists of the following:

In Million of CHF	2009/10	2008/09
Short-term employee benefits	8.2	7.1
Post-employment benefits	1.5	0.6
Share-based payments	4.2	8.5
Total	13.9	16.2

Further details related to the requirements of the Swiss Transparency law (Art. 663b^{bis} and 663c Swiss Code of Obligations) are disclosed in note 6 in the Financial Statements of Barry Callebaut AG.

Management Compensation

1.222

Vodafone Group plc (Mar 2010)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

29. Directors and Key Management Compensation

Directors

Aggregate emoluments of the directors of the Company were as follows:

	2011 £m	2010 £m	2009 £m
Salaries and fees	5	5	4
Incentive schemes	3	3	2
Other benefits[1]	1	1	1[2]
	9	9	7

Notes:
[1] Includes the value of the cash allowance taken by some individuals in lieu of pension contributions.
[2] Includes the value of payments in respect of loss of office and relocation to the US.

The aggregate gross pre-tax gain made on the exercise of share options in the year ended 31 March 2011 by directors who served during the year was £nil (2010: £1 million, 2009: £nil).

Further details of directors' emoluments can be found in "Directors' remuneration" on pages 62 to 73.

Key Management Compensation

Aggregate compensation for key management, being the directors and members of the Executive Committee, was as follows:

	2011 £m	2010 £m	2009 £m
Short-term employee benefits	18	21	17
Post-employment benefits—defined contribution schemes	1	1	1
Share-based payments	22	20	14
	41	42	32

30. Related Party Transactions

The Group's related parties are its joint ventures (see note 13), associates (see note 14), pension schemes, directors and Executive Committee members. Group contributions to pension schemes are disclosed in note 23. Compensation paid to the Company's Board and members of the Executive Committee is disclosed in note 29.

Transactions With Joint Ventures and Associates

Related party transactions with the Group's joint ventures and associates primarily comprise fees for the use of products and services including network airtime and access charges, and cash pooling arrangements.

No related party transactions have been entered into during the year which might reasonably affect any decisions made by the users of these consolidated financial statements except as disclosed below. Transactions between the Company and its joint ventures are not material to the extent that they have not been eliminated through proportionate consolidation or disclosed below.

	2011 £m	2010 £m	2009 £m
Sales of goods and services to associates	327	281	205
Purchase of goods and services from associates	171	159	223
Purchase of goods and services from joint ventures	206	194	57
Net interest receivable from joint ventures[1]	(14)	(44)	(18)
Trade balances owed:			
by associates	52	24	50
to associates	23	17	18
by joint ventures	27	27	10
to joint ventures	67	40	33
Other balances owed by joint ventures[1]	176	751	311

Note:
[1] Amounts arise primarily through Vodafone Italy, Vodafone Hutchison Australia and Indus Towers and represent amounts not eliminated on consolidation. Interest is paid in line with market rates.

Amounts owed by and owed to associates are disclosed within notes 17 and 25. Dividends received from associates are disclosed in the consolidated statement of cash flows.

Transactions With Directors Other Than Compensation

During the three years ended 31 March 2011, and as of 16 May 2011, neither any director nor any other executive officer, nor any associate of any director or any other executive officer, was indebted to the Company.

During the three years ended 31 March 2011, and as of 16 May 2011, the Company has not been a party to any other material transaction, or proposed transactions, in which any member of the key management personnel (including directors, any other executive officer, senior manager, any spouse or relative of any of the foregoing or any relative of such spouse) had or was to have a direct or indirect material interest.

IFRIC 13, *CUSTOMER LOYALTY PROGRAMMES*

IFRSs Overview and Comparison to U.S. GAAP

Author's Note

Improvements to IFRSs, issued May 2010, amended International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes*. This amendment clarifies the wording in paragraph AG2 that the IASB believed could have been misinterpreted, leading to diversity in application. The amendment clarifies that when the fair value of award credits is measured on the basis of the value of the awards for which they could be redeemed, the fair value of the award credits should take account of expected forfeitures, as well as the discounts or incentives that would otherwise be offered to customers who have not earned award credits from an initial sale. The amendment is effective for annual periods beginning on or after 1 January 2011, and permits early application with disclosure of that fact.

1.223 IFRIC 13 addresses recognition and measurement of revenues and liabilities related to programs that provide incentives to customers to buy an entity's products or services. Although not formally defined in IFRIC 13, such programs usually grant points or credits (award credits) that a customer can accumulate to become eligible for awards that provide free or discounted products or services. The entity may provide the products or services directly or through a third-party entity. In addition, rather than operating a program itself, an entity may participate in a program operated by another entity. Awards may also be linked to continued purchases or interaction with the company over time or to specific purchases.

1.224 IFRIC 13 applies to award credits that meet the following criteria:

- Entity grants the award credits to the customer as part of a sales transaction.
- Customers, when qualified, can use the award credits in the future to acquire other goods or services.

1.225 IFRIC 13 is effective for annual periods beginning on or after 1 July 2008. Early application is permitted with disclosure of that fact.

Recognition and Measurement

IFRSs

1.226 Paragraph 13 of IAS 18, *Revenue*, requires an entity to apply the revenue recognition criteria separately to identifiable components of a single transaction in order to reflect the substance of the transaction. IFRIC 13 requires an entity to account for award credits as an identifiable component of the sale transaction in which they are awarded to the customer. Therefore, an entity should allocate the consideration received or receivable in these transactions among the award credits and other goods or services received. An entity should measure the amount allocated as the fair value of the amount for which the award credits could be sold.

1.227 When an entity itself provides the awards, it should recognize revenue when the award credits are redeemed and it delivers the products or services awarded. The entity measures the amount of revenue based on the percentage of actual award credits redeemed relative to the total award credits expected to be redeemed.

1.228 When a third party provides the awards, an entity should determine whether, in giving award credits to customers, it is acting on its own account or as an agent for the third party. When the entity collects consideration as an agent for a third party, it should measure revenue only at the net amount it retains, rather than the amount it collects, recognized only when the third party is entitled to the consideration and obligated to provide the awards. The facts and circumstances of the arrangement should determine when this obligating event occurs, and it may not occur until the customer redeems award credits. When an entity receives consideration on its own account, it should recognize revenue when it provides the awards, measured as the amount of consideration allocated to the redeemed award credits.

1.229 Obligations under award credit contracts may lead to an onerous contract—one in which the costs to fulfill the contract exceed the consideration received or receivable. If the contractual obligation under an award credit contract becomes onerous, an entity should recognize a liability for the excess, measured in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. IFRIC 13 explains that one circumstance in which an entity might need to recognize a liability is when the entity revises its estimate of award credits to be redeemed.

U.S. GAAP

1.230 FASB ASC does not include specific guidance on accounting for the type of award credits or customer loyalty programs covered by IFRIC 13. FASB ASC 605-25-15-2A explicitly scopes out award credits by broad-based loyalty program operators from the guidance on revenue recognition for multiple element arrangements. Therefore, an entity should evaluate other appropriate guidance in FASB ASC to determine the most relevant guidance for its specific situation and apply those requirements by analogy. Some entities may apply the guidance for multiple element arrangements and recognize revenue in a manner similar to that required by IFRIC 13. Unlike IFRIC 13, other entities may apply an incremental cost approach and would recognize and measure revenues differently.

Author's Note

FASB and the IASB are currently working on a joint project on revenue that includes guidance on customer loyalty programs. In June 2010, FASB and the IASB jointly published an exposure draft, *Revenue from Contracts with Customers*, which includes requirements on accounting for the issues covered by IFRIC 13. A final standard is expected to be released during the fourth quarter of 2011.

Presentation

IFRSs

1.231 Application of IFRIC 13 does not affect presentation. IAS 1 requires separate presentation or disclosure if the amounts are material.

U.S. GAAP

1.232 FASB ASC does not provide specific presentation guidance on this issue.

Disclosure

IFRSs

1.233 IFRIC 13 does not include disclosure requirements but does state that an entity should apply any necessary change in accounting policy retrospectively and to provide the relevant disclosures in accordance with IAS 8.

U.S. GAAP

1.234 Disclosure requirements would depend on the particular section of FASB ASC that an entity uses to recognize and measure revenue for these award credits.

Presentation and Disclosure Excerpts

Frequent Flyer Program

1.235

Lan Airlines S.A. (Dec 2010)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		For the Year Ended December 31		
	Note	2010 ThUS$	2009 ThUS$	2008 ThUS$
Revenue	27	4,390,502	3,519,162	4,140,245
Cost of sales		(3,012,698)	(2,522,778)	(2,893,944)
Gross margin		1,377,804	996,384	1,246,301
Other income	30	132,826	136,351	142,942
Distribution costs		(383,517)	(326,964)	(366,652)
Administrative expenses		(331,831)	(269,588)	(274,950)
Other expenses		(172,428)	(100,483)	(127,864)
Other gains/(losses)		5,438	(11,728)	(134,731)
Financial income		14,946	18,183	18,480
Financial costs	28	(155,279)	(153,109)	(125,488)
Equity accounted earnings	15	132	315	696
Foreign exchange gains/(losses)	31	13,792	(11,237)	23,443
Result of indexation units		149	(605)	1,229
Income before taxes		502,032	277,519	403,406
Income tax expense	19	(81,107)	(44,487)	(65,094)
Net income for the period		420,925	233,032	338,312
Income attributable to owners of the parent		419,702	231,126	336,480
Income attributable to non-controlling interests		1,223	1,906	1,832
Net income for the period		420,925	233,032	338,312
Earnings Per Share				
Basic earnings per share (US$)		1.23882	0.68221	0.99318
Diluted earnings per share (US$)		1.23534	0.68221	0.99318

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets	**Note**	**2010 ThUS$**	**2009 ThUS$**
Current Assets			
Cash and cash equivalents	6–7	631,052	731,497
Other financial assets	7–11	245,451	110,667
Other non-financial assets	12	18,820	17,128
Trade and other accounts receivable	7–8	481,350	423,739
Accounts receivable from related entities	7–9	50	38
Inventories	10	53,193	46,563
Tax assets		97,656	68,420
Total current assets other than non-current assets (or disposal groups) classified as held for sale		1,527,572	1,398,052
Non-current assets (or disposal groups) classified as held for sale	13	5,497	10,919
Total current assets		1,533,069	1,408,971
Non-current Assets			
Other financial assets	7–11	21,587	20,024
Other non-financial assets	12	32,508	28,736
Rights receivable	7–8	7,883	7,190
Equity accounted investments	15	593	1,236
Intangible assets other than goodwill	16	45,749	34,814
Goodwill	17	157,994	63,793
Property, plant and equipment	18	4,948,430	4,196,556
Deferred tax assets	19	38,084	10,652
Total non-current assets		5,252,828	4,363,001
Total assets		6,785,897	5,771,972

		For the Year Ended December 31	
Liabilities and Net Equity	**Note**	**2010 ThUS$**	**2009 ThUS$**
Liabilities			
Current liabilities			
Other financial liabilities	7–20	542,624	417,932
Trade and other accounts payable	7–21	645,571	476,597
Accounts payable to related entities	7–9	184	297
Other provisions	22	753	970
Tax liabilities		15,736	11,287
Other non-financial liabilities	23	939,151	616,256
Total current liabilities		2,144,019	1,523,339
Non-current liabilities			
Other financial liabilities	7–20	2,562,348	2,443,178
Other accounts payable	7–25	425,681	426,521
Other provisions	22	32,120	26,834
Deferred tax liabilities	19	312,012	240,619
Employee benefits	24	9,657	5,555
Total non-current liabilities		3,341,818	3,142,707
Total liabilities		5,485,837	4,666,046
Equity			
Share capital	26	453,444	453,444
Retained earnings	26	949,214	740,047
Other equity interests	26	5,463	2,490
Other reserves	26	(111,307)	(97,154)
Equity attributable to owners of parent		1,296,814	1,098,827
Non-controlling interest		3,246	7,099
Total equity		1,300,060	1,105,926
Total liabilities and equity		6,785,897	5,771,972

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 2—Summary of Significant Accounting Policies (in part)

The following describes the principal accounting policies adopted in the preparation of these consolidated financial statements.

2.20. Revenue Recognition (in part)

Revenues include the fair value of the proceeds received or to be received on sales of goods and rendering services in the ordinary course of the Company's business. Revenues are shown net of refunds, rebates and discounts.

(a) Rendering of Services

a.1 Passenger and Cargo Transport

The Company shows revenue from the transportation of passengers and cargo once the service has been provided.

a.2 Frequent Flyer Program

The Company currently has a frequent flyer program called Lan Pass, whose objective is customer loyalty through the delivery of kilometers every time that members fly with the Company or its alliance partners, use the services of entities registered with the program or make purchases with an associated credit card. The kilometers earned can be exchanged for flights tickets or other services of associated entities. The consolidated financial statements include liabilities for this concept (deferred income), according to the estimate of the valuation established for the kilometers accumulated pending use at that date, in accordance with IFRIC 13: Customer loyalty programs.

SECTION 2: STATEMENT OF FINANCIAL POSITION AND RELATED DISCLOSURES*

IAS 1, *PRESENTATION OF FINANCIAL STATEMENTS*

IAS 27, *CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS*

THE CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING

Author's Note

Several items that readers may associate with a statement of financial position are covered in other sections within this publication more specific to that topic:

- Government grants and customer loyalty programs (see section 1, "General Topics and Related Disclosures")
- Income, expenses, gains, losses, and changes in fair value associated with balance sheet items (see section 3, "Statement of Comprehensive Income and Related Disclosures")
- Cash and cash equivalents (see section 5, "Statement of Cash Flows and Related Disclosures")
- Construction contracts, assets held for sale, liabilities held for sale, and share-based payments (see section 6, "Non-current Assets Held for Sale and Discontinued Operations")
- Financial instruments and related disclosures, loans and receivables, available for sale financial assets, held to maturity investments, financial assets or financial liabilities held for trading, financial assets or financial liabilities designated as fair value through profit or loss, accounts payable, and financial liabilities held at amortized cost (see section 8, "Financial Instruments and Related Disclosures").

IFRS Overview and Comparison to U.S. GAAP

Author's Note

In September 2010, the International Accounting Standards Board (IASB) issued the *Conceptual Framework for Financial Reporting 2010* (IFRS *Conceptual Framework*), which supersedes the *Framework for the Preparation and Presentation of Financial Statements*. However, the IFRS *Conceptual Framework* retains the definitions of the elements of financial statements (that is, *assets*, *liabilities*, *equity*, *income*, and *expenses*) from the previous *Framework for the Preparation and Presentation of Financial Statements*.

Author's Note

In May 2011, the IASB issued International Financial Reporting Standard (IFRS) 10, *Consolidated Financial Statements*, which supersedes the requirements of International Accounting Standard (IAS) 27, *Consolidated and Separate Financial Statements*, with respect to consolidation, and Standing Interpretations Committee (SIC) 12, *Consolidation—Special Purpose Entities*. IFRS 10 requires an entity to consolidate all entities that it controls. IFRS 10 defines the principle of control and establishes control as the basis for determining which entities an entity should consolidate. IFRS 10 also prescribes the accounting requirements for the preparation of consolidated financial statements. Therefore, IAS 27, *Separate Financial Statements* (as amended in 2011), retains only the requirements for accounting and disclosure of investments in subsidiaries, joint ventures, and associates when an entity prepares separate (or company-only) financial statements. IAS 27 (2011) requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9, *Financial Instruments*. Both IFRS 10 and IAS 27 (2011) are effective for annual reporting periods beginning on or after 1 January 2013, with early application permitted.

Because IFRS 10 and IAS 27 (2011) were not issued until May 2011, no survey entity could apply the new requirements in its 2010 financial statements. Therefore, the following commentary only describes the requirements in IAS 27 (2011) that are applicable to 2010 financial statements.

2.01 IAS 1, *Presentation of Financial Statements*, requires a statement of financial position (that is, a balance sheet) at the end of the period as part of a complete set of financial statements, but does not prescribe a particular title for the statement. IAS 27 (2011) requires an entity to present a balance sheet that includes all entities (subsidiaries) that it controls, except in certain circumstances.

2.02 A complete set of financial statements should include two balance sheets: one for the end of the current period and one for the comparable previous period, except when IFRSs permit or require otherwise. For example, when an entity applies a change in accounting principle retrospectively, it should include a restated balance sheet as at the beginning of the earliest period presented.

2.03 When an entity changes the presentation or classification of balance sheet items, it should also reclassify

* Unless otherwise indicated, references to International Accounting Standards Board (IASB) standards and interpretations throughout this 2011 edition of *IFRS Accounting Trends & Techniques* refer to the version of those standards and interpretations included in the *IFRS 2011* bound volume, the official printed consolidated text of IASB standards and interpretations, including revisions, amendments, and supporting documents, applicable as of 1 January 2011.

comparative period information, unless it is impracticable to do so.

2.04 The IFRS *Conceptual Framework* establishes the concepts that underlie the preparation and presentation of financial statements for external users and contains definitions of the elements of financial statements (that is, assets, liabilities, equity, income, and expenses). Among other purposes, the IFRS *Conceptual Framework* assists preparers of financial statements in applying IFRSs and in dealing with topics that have yet to form the subject of a specific standard or interpretation. IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, states that an entity's management should first refer to, and first consider the applicability of, the requirements in IFRSs dealing with similar and related issues and then to the definitions, recognition criteria, and measurement concepts in the IFRS *Conceptual Framework*. Although the IFRS *Conceptual Framework* is not a standard, the requirements of IAS 8 essentially establish the IFRS *Conceptual Framework* as part of the IFRS hierarchy of accounting and reporting requirements.

Presentation

IFRSs

2.05 At a minimum, IAS 1 requires a balance sheet to include the following line items:

- Financial assets, such as the following:
  - —Cash and cash equivalents
  - —Trade and other receivables
  - —Investments accounted for using the equity method (for example, associates and some joint ventures)
  - —Other financial assets (excluding the amounts included in the preceding line items)
- Inventories
- Property, plant, and equipment (PPE)
- Investment property
- Intangible assets
- Biological assets
- Assets and related liabilities classified as held for sale or included in disposal groups classified as held for sale under IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, such as the following:
  - —Total of assets held for sale and assets included in disposal groups
  - —Liabilities included in disposal groups
- Income tax assets and liabilities as defined in IAS 12, *Income Taxes*, such as the following:
  - —Assets and liabilities for current tax
  - —Deferred tax assets and liabilities
- Financial liabilities, such as the following:
  - —Trade and other payables
  - —Other financial liabilities (excluding amounts shown in the preceding line items)
- Provisions
- Noncontrolling interest presented within equity
- Issued capital and reserves attributable to owners of the parent
- Additional line items, headings, and subtotals when presentation of these is relevant to understanding the entity's financial position

2.06 IAS 1 requires an entity to present a classified balance sheet, except when a presentation based on liquidity provides reliable, but more relevant information. A classified balance sheet presents current and noncurrent assets and liabilities separately. However, IAS 1 does not prescribe a particular organization of information (for example, either an increasing or a decreasing order of liquidity).

2.07 A *current asset* is one that the entity expects to realize, intends to sell or consume in its normal operating cycle or 12 months after the reporting date, or holds for trading, or is a cash or cash equivalent whose exchange or use is unrestricted for at least 12 months after the reporting date. Similarly, a *current liability* is one that the entity intends to settle within its normal operating cycle or 12 months after the reporting date. In addition, an entity also classifies as current a liability for which it has no unconditional right to defer settlement for at least 12 months after the reporting date, including those with terms that could, at the option of the counterparty, result in settlement by issue of equity instruments. An entity should classify all other assets and liabilities as noncurrent.

2.08 IAS 1 permits a liquidity order balance sheet when it provides more relevant information to users of the financial statements, which may be true for financial institutions (including banks and insurance companies). IAS 1 also permits a mixed presentation (that is, some assets and liabilities in the classified format and others in liquidity order) when it provides more relevant information to users. A mixed presentation may be more relevant when an entity has diverse operations (for example, an entity with both manufacturing and finance subsidiaries).

2.09 Regardless of the method of organization selected, an entity should distinguish amounts it expects to realize or settle within 12 months after the reporting date from those it expects to realize or settle later when combined in a single line item on the balance sheet.

2.10 Specific IFRSs may require additional disclosures about balance sheet items. For example, IAS 39, *Financial Instruments: Recognition and Measurement*, requires entities to present treasury stock as a contraequity account (reduction) within stockholders' equity.

U.S. GAAP

2.11 The Financial Accounting Standards Board (FASB) *Accounting Standards Codification*™ (ASC) requires an entity to present a balance sheet, although a comparative balance sheet is preferred. U.S. Securities and Exchange Commission (SEC) Regulation S-X, together with Financial Reporting Releases, prescribe the form and content of, and requirements for, financial statements filed with the SEC. Rule 3A-02 of SEC Regulation S-X generally requires consolidated financial statements, although it does allow combined financial statements in some circumstances. Rule 3-01(a) of SEC Regulation S-X also requires an entity to present a consolidated balance sheet for the current period and one comparative period, unless the registrant has been in existence for less than one year. SEC regulations are more prescriptive in terms of formats than IFRSs.

2.12 FASB ASC does not require an entity to present a classified balance sheet or mandate any particular ordering of balance sheet accounts. However, FASB ASC 210-10-05-4 states that companies usually present a classified balance sheet to facilitate calculation of working capital. The FASB

ASC glossary includes definitions of *current assets* and *liabilities*, similar to those in IFRSs, if an entity chooses to use this classification. FASB ASC 210-10-45 provides additional guidance for determining these classifications. FASB ASC provides additional guidance with respect to specific assets and liabilities. For example, IFRSs are more prescriptive with respect to required line items.

Disclosure

IFRSs

2.13 As appropriate to its operations, entities should disclose additional subclassifications of the required line items, either on the face of the balance sheet or in the notes. For each class of share capital, however, entities should disclose the following:

- Number of shares authorized
- Number of shares issued and fully paid
- Number of shares issued and not fully paid
- Par value or that shares have no par
- Reconciliation of the number of shares outstanding at the beginning and end of the period
- Rights, preferences, and restrictions, including restrictions on dividend distributions or repayment of capital
- Shares reserved for issue under share-based payment or sale contracts, including terms and amounts

2.14 Entities should also describe the nature and purpose of each reserve. Entities without share capital (for example, trusts) should disclose information similar to the requirements previously mentioned.

2.15 Specific IFRSs may require additional disclosures about balance sheet items.

U.S. GAAP

2.16 FASB ASC also sets forth disclosure guidelines regarding capital structure and other balance sheet items. Depending upon the specific asset, liability, or capital account, FASB ASC may be more or less prescriptive than IFRSs. SEC regulations also contain additional requirements for disclosures that registrants should provide outside the financial statements.

TABLE 2-1: FORMAT OF STATEMENT OF FINANCIAL POSITION

	2010	2009	2008
Classified			
Current assets, noncurrent assets, current liabilities, noncurrent liabilities, equity	51	43	16
Noncurrent assets, current assets, equity, noncurrent liabilities, current liabilities	67	64	—
Noncurrent assets, current assets, current liabilities, noncurrent liabilities, equity	30	32	73
Noncurrent assets, current assets, noncurrent liabilities, current liabilities, equity	5	4	—
Liquidity Order			
Most current to least current	14	14	7
Least current to most current	3	3	4
Total	**170**	**160**	**100**

Presentation and Disclosure Excerpts

Classified Presentation—Decreasing Liquidity

2.17

Embotelladora Andina S.A. (Dec 2010)

Author's Note

Embotelladora Andina S.A. implemented IFRSs effective December 31, 2010, with a date of transition of January 1, 2009. The excerpt that follows reflects the initial application of IAS 1.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

At December 31, 2010 and 2009 and at January 1, 2009
(Translation of consolidated financial statements originally issued in Spanish—See Note 2.3)

Assets	Note	12/31/2010 ThCh$	12/31/2009 ThCh$	01/01/2009 ThCh$
Current Assets:				
Cash and cash equivalents	5	48,263,080	62,791,221	89,705,981
Other financial assets	6	48,914,734	72,345,111	39,512,890
Other non-financial assets	7.1	10,712,132	10,086,541	7,270,555
Trade and other accounts receivable, net	8	97,254,597	78,558,590	74,029,537
Accounts receivable from related companies	12.1	248,273	1,051,014	1,726,604
Inventory	9	49,939,194	40,908,937	35,443,903
Current tax assets/Tax accounts receivable	10.1	2,288,725	4,563,058	7,089,181
Total current assets		257,620,735	270,304,472	254,778,651
Non-Current Assets:				
Other non-financial, non-current assets	7.2	21,507,754	20,454,935	17,628,504
Trade and other accounts receivable, net	8	7,804,481	5,817,177	8,542
Accounts receivable from related companies, net	12.1	8,847	37,869	34,719
Investments in equity investees accounted for using the equity method	14	50,754,168	34,731,218	32,822,541
Intangible assets, net	15.1	1,365,595	2,117,333	2,455,762
Goodwill	15.2	57,770,335	61,360,345	65,269,071
Property, plant and equipment, net	11	291,482,180	247,869,091	248,747,764
Deferred tax assets	10.4	6,891,609	6,252,523	6,382,129
Total non-current assets		437,584,969	378,640,491	373,349,032
Total assets		695,205,704	648,944,963	628,127,683

Liabilities and Net Equity	Note	12/31/2010 ThCh$	12/31/2009 ThCh$	01/01/2009 ThCh$
Current Liabilities:				
Other financial liabilities	16	11,996,399	5,799,881	11,504,242
Trade and other accounts payable	17	105,282,335	82,302,124	79,549,681
Accounts payable to related companies	12.2	14,323,473	13,757,847	16,528,635
Provisions	18	60,748	38,879	43,440
Income tax payable	10.2	4,009,389	5,676,913	2,927,434
Other non-financial liabilities	19	31,879,967	30,234,814	31,532,517
Total current liabilities		167,552,311	137,810,458	142,085,949
Non-Current Liabilities:				
Other non-current financial liabilities	16	70,449,459	73,149,674	80,247,530
Accounts payable to related companies	12.2	—	2,565,767	3,137,347
Provisions	18	4,267,619	4,457,107	2,887,777
Deferred tax liabilities	10.4	42,492,348	39,435,167	34,578,183
Post-employment benefit liabilities	13.2	7,256,590	8,401,791	8,034,813
Other non-current liabilities	19	8,322,781	9,567,264	10,861,802
Total non-current liabilities		132,788,797	137,576,770	139,747,452
Equity:	20			
Issued capital		230,892,178	230,892,178	236,327,716
Retained earnings		180,110,975	147,508,036	109,955,729
Accumulated other comprehensive income and capital reserves		(16,146,887)	(4,851,620)	—
Equity attributable to equityholders of the parent		394,856,266	373,548,594	346,283,445
Non-controlling interests		8,330	9,141	10,837
Total equity		394,864,596	373,557,735	346,294,282
Total liabilities and equity		695,205,704	648,944,963	628,127,683

Classified Presentation—Increasing Liquidity

2.18

Adecoagro S.A. (Dec 2010)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of December 31, 2010, 2009 and 2008
(All amounts in US$ thousands, except shares and per share data and as otherwise indicated)

	Note	2010	2009	2008
Assets				
Non-Current Assets				
Property, plant and equipment, net	6	751,992	682,878	571,419
Investment property	7	21,417	21,246	—
Intangible assets, net	8	28,653	21,859	18,108
Biological assets	9	104,216	170,347	75,701
Investments in joint ventures	10	6,271	6,506	7,508
Deferred income tax assets	21	67,463	45,113	18,713
Trade and other receivables, net	11,12	30,752	22,065	8,612
Other assets		26	34	87
Total non-current assets		1,010,790	970,048	700,148
Current Assets				
Biological assets	9	82,541	60,107	50,247
Inventories	13	57,170	57,902	61,221
Trade and other receivables, net	11,12	119,205	106,212	75,928
Derivative financial instruments	11	876	99	2,019
Cash and cash equivalents	11,14	70,269	74,806	93,360
Total current assets		330,061	299,126	282,775
Spin-off assets	15	—	—	45,311
Total assets		1,340,851	1,269,174	1,028,234
Shareholders Equity				
Capital and Reserves Attributable to Equity Holders of the Parent				
Share capital	16	120,000	120,000	108,108
Share premium		563,343	563,343	507,516
Cumulative translation adjustment		11,273	2,516	(87,978)
Equity-settled compensation		13,659	11,914	9,092
Retained earnings		257	44,161	44,421
Equity attributable to equity holders of the parent		708,532	741,934	581,159
Non controlling interest		14,570	15,222	57,269
Total Shareholders Equity		723,102	757,156	638,428
Liabilities				
Non-Current Liabilities				
Trade and other payables	11,19	11,785	6,822	6,090
Borrowings	11,20	250,672	203,134	4,099
Derivative financial instruments	11	—	280	—
Deferred income tax liabilities	21	111,495	107,045	94,627
Payroll and social liabilities	22	1,178	1,106	834
Provisions for other liabilities	23	4,606	3,326	777
Total non-current liabilities		379,736	321,713	106,427
Current Liabilities				
Trade and other payables	11,19	69,236	62,098	46,670
Current income tax liabilities		978	222	1,487
Payroll and social liabilities	22	15,478	10,079	6,025
Borrowings	11,20	138,800	103,647	224,214
Derivative financial instruments	11	8,920	12,607	4,159
Provisions for other liabilities	23	4,601	1,652	824
Total current liabilities		238,013	190,305	283,379
Total liabilities		617,749	512,018	389,806
Total shareholders equity and liabilities		1,340,851	1,269,174	1,028,234

Liquidity Order Presentation—Decreasing Liquidity

2.19

Brookfield Asset Management, Inc. (Dec 2010)

Author's Note

Brookfield Asset Management Inc. implemented IFRSs effective December 31, 2010, with a date of transition of January 1, 2009. The excerpt that follows reflects the initial application of IAS 1.

CONSOLIDATED BALANCE SHEETS

(Millions)	Note	Dec. 31, 2010	Dec. 31, 2009[(1)]	Jan. 1, 2009[(1)]
Assets				
Cash and cash equivalents		$ 1,713	$ 1,309	$ 1,169
Other financial assets	5	4,419	5,146	4,506
Accounts receivable and other	6	7,869	4,709	3,803
Inventory	7	5,849	5,560	4,752
Investments	8	6,629	4,466	4,646
Property, plant and equipment	9	18,148	16,723	15,597
Investment properties	10	22,163	19,219	16,719
Timber	11	3,206	2,968	2,839
Intangible assets	12	3,805	1,048	619
Goodwill	13	2,546	2,363	1,992
Deferred income tax asset	14	1,784	1,454	984
		$78,131	$64,965	$57,626
Liabilities and Equity				
Accounts payable and other	15	$10,334	$ 7,827	$ 6,977
Corporate borrowings	16	2,905	2,593	2,284
Non-recourse borrowings				
Property-specific mortgages	17	23,454	19,712	17,808
Subsidiary borrowings	17	4,007	3,800	3,661
Deferred income tax liability	14	4,970	5,232	4,748
Capital securities	18	1,707	1,641	1,425
Interests of others in funds	19	1,562	1,021	548
Equity				
Preferred equity	20	1,658	1,144	870
Non-controlling interests	20	14,739	10,186	8,038
Common equity	20	12,795	11,809	11,267
		29,192	23,139	20,175
		$78,131	$64,965	$57,626

[(1)] Refer to Note 3 for the effects of the adoption of IFRS.

Liquidity Presentation—Increasing Liquidity

2.20

Aviva plc (Dec 2010)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Note	2010 £m	2009 £m
Assets			
Goodwill	M & 13	3,391	3,381
Acquired value of in-force business and intangible assets	M & 14	2,806	2,860
Interests in, and loans to, joint ventures	C & 15	1,994	1,701
Interests in, and loans to, associates	C & 16	643	1,281
Property and equipment	N & 17	750	753
Investment property	O & 18	13,064	12,422
Loans	T & 20	43,074	41,079
Financial investments	Q,R & 22	253,288	238,679
Reinsurance assets	L & 39	7,084	7,572
Deferred tax assets	AA & 43b	288	218
Current tax assets	43a	198	359
Receivables	23	8,295	9,632
Deferred acquisition costs and other assets	V & 24	6,072	5,621
Prepayments and accrued income	24d	3,691	3,604
Cash and cash equivalents	W & 51d	25,455	25,176
Assets of operations classified as held for sale	AF & 3c	14	53
Total assets		370,107	354,391
Equity			
Capital	AC		
Ordinary share capital	26	705	692
Preference share capital	29	200	200
		905	892
Capital reserves			
Share premium	26b	1,194	1,207
Merger reserve	C & 31	3,271	3,271
		4,465	4,478
Shares held by employee trusts	28	(32)	(68)
Other reserves	32	2,245	1,829
Retained earnings	33	5,411	3,425
Equity attributable to shareholders of Aviva plc		12,994	10,556
Direct capital instrument	30	990	990
Non-controlling interests	34	3,741	3,540
Total equity		17,725	15,086
Liabilities			
Gross insurance liabilities	J & 36	177,700	171,092
Gross liabilities for investment contracts	K & 37	117,787	110,015
Unallocated divisible surplus	J & 41	3,428	3,866
Net asset value attributable to unitholders	C	9,032	9,894
Provisions	Y, Z & 44	2,943	3,980
Deferred tax liabilities	AA & 43b	1,758	1,038
Current tax liabilities	43a	314	192
Borrowings	AB & 46	14,949	15,000
Payables and other financial liabilities	Q & 47	20,292	20,542
Other liabilities	48	4,179	3,653
Liabilities of operations classified as held for sale	AF & 3c	—	33
Total liabilities		352,382	339,305
Total equity and liabilities		370,107	354,391

TABLE 2-2: CAPITAL STRUCTURE

	2010	2009
Companies With One Class of Common Stock and:		
No other equity instrument	110	107
One class of preferred stock	20	18
Two or more classes of preferred stock	9	9
Total	**139**	**134**
Dual-Listed Companies		
Each Company has One Class of Common Stock	5	5
Other Companies With More Than One Class of Common Stock and:		
No other equity instrument	20	18
One class of preferred stock	4	3
Total	**24**	**21**
Companies With Only Another Equity Instrument (for Example, Units)	**1**	**0**
Total Companies	**170**	**160**

One Class of Share Capital

2.21

China Xiniya Fashion Limited (Dec 2010)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (in part)

(Expressed in thousands of Chinese Renminbi Yuan)
As at December 31, 2009 and 2010

	Notes	2009	2010
Equity and Liabilities			
Equity			
Share capital	11	9,843	77
Additional paid-in capital	11	—	529,650
Statutory reserve	12	43,897	69,351
Retained earnings		174,667	403,754
Total equity		228,407	1,002,832

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Organization and Principal Activities

China Xiniya Fashion Limited (the "Company") and its subsidiaries (collectively, the "Group") designs, manufactures and markets business casual apparel to retail customers through a network of authorized retailers and department store chains managed and supervised by its authorized distributors. The Company was incorporated under the laws of Cayman Islands in June 2010. The address of its registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. In November 2010, the Company completed a 20,000 for one share split resulting in an authorized share capital of one billion shares with a par value of US$0.00005. All references to shares and earnings per share have been retroactively restated to give effect to the share split for all periods presented.

The Company currently conducts its business through Fujian Xiniya Garments and Weaving Co., Ltd. ("Fujian Xiniya"), an operating subsidiary in the People's Republic of China, established in October 2005 with a registered capital of HK$10 million (RMB9.8 million) ("Registered Capital"), of which RMB3.1 million was contributed in 2006 and RMB6.7 million was contributed in 2007. Pursuant to January 2005 and September 2005 agreements between Mr. Hing Tuen Wong ("Mr. Wong") and Mr Qiming Xu ("Mr. Xu"), the Company's founder and Chief Executive Officer, Mr. Xu was granted effective control over Fujian Xiniya, including the right to receive dividends declared and to transfer equity interests to third parties, and Mr. Wong was registered to be Fujian Xiniya's shareholder. Accordingly, Mr. Xu was the controlling person and beneficial owner of Fujian Xiniya. The Registered Capital was provided pursuant to a loan agreement executed by Mr. Xu and three Hong Kong investors ("the Investors"). The loan agreement provided that Mr. Xu would repay the HK$10 million, plus interest at 10% per annum, to the Investors if Fujian Xiniya incurred losses in any of the years ended December 31, 2006, 2007 or 2008, or if Fujian Xiniya failed to achieve aggregate profits of less than HK$100 million for the three years ended December 31, 2008. The loan agreement also provided that if Fujian Xiniya achieved aggregate profits of more than HK$100 million, the loan would be satisfied through the transfer of 20% of Mr. Xu's equity interests in Fujian Xiniya to the Investors. Mr. Xu and the Investors further agreed that Mr. Xu would grant protective rights to the Investors for all dividends distributed by Fujian Xiniya for the three years ended December 31, 2008, which rights would not affect the strategic operating and financing policies of Fujian Xiniya, all of which were retained by Mr. Xu.

In January 2009, Xiniya Holdings Limited ("Xiniya HK") (Registration No. 1301502) was incorporated with an authorized share capital of 10,000 ordinary shares, par value HK$1, of which 100 shares were issued to Mr. Wong, on behalf of Mr. Xu, at incorporation. Mr. Xu was the controlling person and beneficial owner of Xiniya Hong Kong. In January 2010, Xiniya HK acquired 100% of the equity interests of Fujian Xiniya for HK$10 million, which consideration was subsequently waived.

In June 2010, China Xiniya Fashion Limited was incorporated in the Cayman Islands with an authorized share capital of one billion shares, par value US$0.00005, of which 20,000 shares were issued at incorporation. In July 2010, China Xiniya Fashion Limited acquired 100% of the equity interests in Xiniya HK for HK$100. In July 2010, an additional 199,980,000 shares were issued, of which 20% were issued to the Investors in satisfaction of the loan agreement.

At the time of these transactions, Xiniya HK and China Xiniya Fashion Limited had no other operating activities, and Fujian Xiniya, Xiniya HK and China Xiniya Fashion Limited were controlled by Mr. Xu. Accordingly, in 2010 these transactions were accounted for as a common control transaction in a manner similar to a pooling of interests.

On November 23, 2010, the Company completed its initial public offering ("IPO") on the New York Stock Exchange and 8,000,000 American depository shares ("ADSs"), representing 32,000,000 ordinary shares, were sold at a price of US$11

per ADS (or US$2.75 per ordinary share). The net proceeds from the IPO, after deducting commissions and IPO costs, were approximately RMB519.8 million.

The financial statements for the three conducted from Jinjiang City, Fujian Province in the PRC. All of the Group's customers are located in the PRC.

2. Summary of Significant Accounting Policies (in part)

(l) Share Capital

The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. These incremental costs include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisors, printing costs and stamp duties, excluding management salaries, items normally included in general and administrative expenses or other recurring costs. Specifically, legal and accounting fees do not include any fees that would have been incurred in the absence of such issuance.

11. Share Capital and Additional Paid-In Capital

(a) Authorized Share Capital

In June 2010, China Xiniya Fashion Limited was incorporated in the Cayman Islands with an authorized share capital of one billion shares, par value of US$0.00005, of which 20,000 shares were issued at incorporation.

(b) Issued Share Capital and Additional Paid-In Capital

	Number of Shares (Thousands)	Ordinary Shares RMB'000	Additional Paid-In Capital RMB'000	Total RMB'000
At June 24, 2010	—	—	—	—
Proceeds from shares issued	232,000	77	529,650	529,727
At December 31, 2010	232,000	77	529,650	529,727

All ordinary shares with a par value of US$0.00005, issued by the Company, were fully paid.

Multiple Classes of Common Share Capital

2.22

Embotelladora Andina S.A. (Dec 2010)

Author's Note

Embotelladora Andina S.A. implemented IFRSs effective December 31, 2010, with a date of transition of January 1, 2009. The excerpt that follows reflects the initial application of IAS 1.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (in part)

At December 31, 2010, at December 31, 2009 and at January 1, 2009

(Translation of consolidated financial statements originally issued in Spanish—See Note 2.3)

Liabilities and Net Equity	Note	12/31/2010 ThCh$	12/31/2009 ThCh$	01/01/2009 ThCh$
Equity:	20			
Issued capital		230,892,178	230,892,178	236,327,716
Retained earnings		180,110,975	147,508,036	109,955,729
Accumulated other comprehensive income and capital reserves		(16,146,887)	(4,851,620)	—
Equity attributable to equityholders of the parent		394,856,266	373,548,594	346,283,445
Non-controlling interests		8,330	9,141	10,837
Total equity		394,864,596	373,557,735	346,294,282
Total liabilities and equity		695,205,704	648,944,963	628,127,683

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 20—Equity

20.1 Paid-In Capital

The paid-in capital of the Company totaled ThCh$230,892,178 as of December 31, 2010, divided into 760,274,542 Series A and B shares. The distribution and differentiation of these is detailed as follows:

20.1.1 Number of Shares:

Series	Number of Shares Subscribed	Number of Shares Paid In	Number of Voting Shares
A	380,137,271	380,137,271	380,137,271
B	380,137,271	380,137,271	380,137,271

20.1.2 Capital:

Series	Subscribed Capital ThCh$	Paid-In Capital ThCh$
A	115,446,089	115,446,089
B	115,446,089	115,446,089
Total	230,892,178	230,892,178

20.1.3 Rights of Each Series:

- Series A: Election of 6 of the 7 directors and their respective alternates.
- Series B: Receipt of 10% more of dividends than what is received by holders of Series A shares, and election of 1 of 7 directors.

20.2 Dividend Policy

According to Chilean law, cash dividends must be paid equal to at least 30% of annual net profits, barring a unanimous vote by shareholders to the contrary. If there is no net profit in a given year, the company will not be legally obligated to pay dividends from retained earnings. At the 2010 annual shareholders meeting, the shareholders authorized the board to pay interim dividends during July and October 2010 and January 2011, at its discretion.

During 2009 and 2010, the shareholders' meeting approved an extraordinary dividend payment against the retained earnings fund in light of significant cash generation. We cannot guarantee that those payments will be repeated in the future.

Regarding Circular Letter N° 1945 of the Chilean Superintendence of Securities and Insurance, the Company does not present any adjustments to be made in order to determine distributable net earnings to comply with minimum legal amounts.

Pursuant to Circular Letter N° 1945 of the Chilean Superintendence of Securities and Insurance dated September 29, 2009, during the session held October 26, 2010, the Company's Board of Directors decided to maintain the initial adjustments of adopting IFRS as retained earnings for future distribution.

Retained earnings at the date of IFRS adoption amounted to ThCh$19,260,703, of which ThCh$935,908 have been realized at December 31, 2010 and are available for distribution as dividends in accordance with the following:

Concept	Event Realized	Amount of Accumulated Earnings at 01/01/2009 ThCh$	Realized at 12/31/2010 ThCh$	Amount of Accumulated Earnings at 12/31/2010 ThCh$
Revaluation of non-depreciating assets	Sale or deterioration	10,958,958	—	10,958,958
Foreign currency translation differences of investments in related companies	Sale or deterioration	6,393,518	—	6,393,518
Revaluation of depreciating assets	Depreciation	1,579,165	(264,582)	1,314,583
Full absorption cost accounting	Sale of products	813,885	(813,885)	—
Post-employment benefits actuarial calculation	Termination of employees	929,560	(238,543)	691,017
Deferred taxes supplementary accounts	Depreciation	(1,414,383)	381,102	(1,033,281)
Revaluation of non-depreciating assets		19,260,703	(935,908)	18,324,795

The dividends declared and paid during 2010 and 2009 are presented below:

Dividend Payment Date		Dividend Type	Profits Imputable to Dividends	Ch$ Per Series A Share	Ch$ Per Series B Share
2011	January	Interim	2010	8.50	9.35
2010	January	Interim	2009	7.00	7.70
	April	Final	2009	11.70	12.87
	May	Additional	Retained Earnings	50.00	55.00
	July	Interim	2010	8.50	9.35
	October	Interim	2010	8.50	9.35
2009	January	Interim	2008	7.00	7.70
	April	Final	2008	14.13	15.543
	May	Additional	Retained Earnings	43.00	47.30
	July	Interim	2009	7.00	7.70
	October	Interim	2009	7.00	7.70

Capital Structure—Equalization Agreement

Author's Note

Five survey companies have a capital structure governed by an equalization agreement whereby two parent entities, together with the other entities under common control, operate as a single reporting unit. The parent entities have the same directors. The two entities are domiciled in different countries and the structure generally has tax advantages for both the companies and their shareholders. This structure is generally referred to as a *dual listed company structure (DLC structure)*. These companies are:

- BHP Billiton Limited (Australia) and BHP Billiton plc (United Kingdom)
- Mondi Limited (South Africa) and Mondi plc (United Kingdom)
- Reed Elsevier NV (The Netherlands) and Reed Elsevier PLC (United Kingdom)
- Rio Tinto Limited (Australia) and Rio Tinto PLC (United Kingdom)
- Unilever N.V. (The Netherlands) and Unilever plc (United Kingdom)

Although the companies may issue separate annual reports, the financial statements contained therein are identical.

2.23

Reed Elsevier NV and Reed Elsevier PLC (Dec 2010)

Author's Note

As explained in note 1, Basis of the Financial Statements, of the Reed Elsevier plc consolidated financial statements:

"On January 1, 1993 Reed Elsevier PLC and Reed Elsevier NV contributed their businesses to two companies, Reed Elsevier Group plc and Elsevier Reed Finance BV. Reed Elsevier Group plc, which owns all the publishing and information businesses, is incorporated in England and Elsevier Reed Finance BV, which owns the financing and treasury companies, is incorporated in the Netherlands. Reed Elsevier PLC and Reed Elsevier NV each hold a 50% interest in Reed Elsevier Group plc. Reed Elsevier PLC holds a 39% interest in Elsevier Reed Finance BV with Reed Elsevier NV holding a 61% interest. Reed Elsevier PLC additionally holds an indirect equity interest in Reed Elsevier NV, reflecting the arrangements entered into between Reed Elsevier PLC and Reed Elsevier NV at the time of the merger, which determined the equalisation ratio whereby one Reed Elsevier NV ordinary share is, in broad terms, intended to confer equivalent economic interests to 1.538 Reed Elsevier PLC ordinary shares.

Under the equalisation arrangements Reed Elsevier PLC shareholders have a 52.9% economic interest in the Reed Elsevier combined businesses and Reed Elsevier NV shareholders (other than Reed Elsevier PLC) have a 47.1% interest. Holders of ordinary shares in Reed Elsevier PLC and Reed Elsevier NV enjoy substantially equivalent dividend and capital rights with respect to their ordinary shares."

The excerpts that follow are from the combined financial statements of the two entities and from the separate consolidated financial statements of Reed Elsevier plc and Reed Elsevier N.V. respectively.

COMBINED STATEMENT OF FINANCIAL POSITION

As at December 31, 2010

	Note	2010 £m	2009 £m	2008 £m
Non-Current Assets				
Goodwill	16	4,441	4,339	4,901
Intangible assets	17	3,457	3,632	4,404
Investments in joint ventures	18	136	135	145
Other investments	18	48	41	49
Property, plant and equipment	19	291	292	329
Net pension assets	8	55	110	152
Deferred tax assets	21	151	208	353
		8,579	8,757	10,333
Current Assets				
Inventories and pre-publication costs	22	228	275	348
Trade and other receivables	23	1,475	1,492	1,685
Derivative financial instruments	20	134	71	76
Cash and cash equivalents	13	742	734	375
		2,579	2,572	2,484
Assets held for sale	24	—	5	49
Total assets		11,158	11,334	12,866
Current Liabilities				
Trade and other payables	25	2,584	2,471	2,769
Derivative financial instruments	20	80	102	258
Borrowings	26	516	678	448
Taxation		646	479	554
Provisions	28	71	134	79
		3,897	3,864	4,108
Non-Current Liabilities				
Borrowings	26	3,786	4,028	5,694
Deferred tax liabilities	21	1,192	1,272	1,525
Net pension obligations	8	225	345	521
Provisions	28	88	61	35
		5,291	5,706	7,775
Liabilities associated with assets held for sale	24	—	5	2
Total liabilities		9,188	9,575	11,885
Net assets		1,970	1,759	981
Capital and Reserves				
Combined share capitals	30	224	225	209
Combined share premiums	31	2,754	2,807	2,529
Combined shares held in treasury	32	(677)	(698)	(783)
Translation reserve	33	29	(100)	(14)
Other combined reserves	34	(387)	(502)	(988)
Combined shareholders' equity		1,943	1,732	953
Non-controlling interests		27	27	28
Total equity		1,970	1,759	981

COMBINED STATEMENT OF CHANGES IN EQUITY (in part)

For the year ended December 31, 2010

	Note	Combined Share Capitals £m	Combined Share Premiums £m	Combined Shares Held in Treasury £m	Translation Reserve £m	Other Combined Reserves £m	Combined Shareholders' Equity £m	Non-Controlling Interests £m	Total Equity £m
Balance at January 1, 2010		225	2,807	(698)	(100)	(502)	1,732	27	1,759
Total comprehensive income for the year		—	—	—	94	596	690	6	696
Dividends paid	15	—	—	—	—	(483)	(483)	(8)	(491)
Issue of ordinary shares, net of expenses		—	11	—	—	—	11	—	11
Decrease in share based remuneration reserve		—	—	—	—	(7)	(7)	—	(7)
Settlement of share awards		—	—	9	—	(9)	—	—	—
Exchange differences on translation of capital and reserves		(1)	(64)	12	35	18	—	2	2
Balance at December 31, 2010		224	2,754	(677)	29	(387)	1,943	27	1,970

NOTES TO THE COMBINED FINANCIAL STATEMENTS (in part)

1. Basis of Preparation

The Reed Elsevier combined financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and IFRS as adopted by the European Union.

The equalisation agreement between Reed Elsevier PLC and Reed Elsevier NV has the effect that their shareholders can be regarded as having the interests of a single economic group. The Reed Elsevier combined financial statements ("the combined financial statements") represent the combined interests of both sets of shareholders and encompass the businesses of Reed Elsevier Group plc and Elsevier Reed Finance BV and their respective subsidiaries, associates and joint ventures, together with the two parent companies, Reed Elsevier PLC and Reed Elsevier NV ("the combined businesses").

Reed Elsevier PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2010

	Note	2010 £m	2009 £m	2008 £m
Non-Current Assets				
Investments in joint ventures	12	1,037	927	515
Total assets		1,037	927	515
Current Liabilities				
Taxation		9	11	11
Total liabilities		9	11	11
Net assets		1,028	916	504
Capital and Reserves				
Called up share capital	13	180	180	164
Share premium account	14	1,168	1,159	1,154
Shares held in treasury (including in joint ventures)	15	(312)	(317)	(347)
Capital redemption reserve	16	4	4	4
Translation reserve	17	142	92	157
Other reserves	18	(154)	(202)	(628)
Total equity		1,028	916	504

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2010

	Note	Share Capital £m	Share Premium £m	Shares Held In Treasury £m	Capital Redemption Reserve £m	Translation Reserve £m	Other Reserves £m	Total Equity £m
Balance at January 1, 2010		180	1,159	(317)	4	92	(202)	916
Total comprehensive income for the year		—	—	—	—	50	302	352
Equity dividends paid	9	—	—	—	—	—	(245)	(245)
Issue of ordinary shares, net of expenses		—	9	—	—	—	—	9
Share of joint ventures' settlement of share awards by employee benefit trust		—	—	5	—	—	(5)	—
Share of joint ventures' decrease in share based remuneration reserve		—	—	—	—	—	(4)	(4)
Balance at December 31, 2010		180	1,168	(312)	4	142	154	1,028

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF Reed Elsevier PLC (in part)

2. Accounting Policies (in part)

Basis of Preparation

These consolidated financial statements report the consolidated income statement, cash flow and financial position of Reed Elsevier PLC, and have been prepared under the historic cost convention and in accordance with accounting policies that are in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and IFRS as adopted by the European Union ("EU").

Unless otherwise indicated, all amounts shown in the financial statements are in pounds sterling ("£").

The basis of the merger of the businesses of Reed Elsevier PLC and Reed Elsevier NV is set out on page 11.

Determination of Profit

The Reed Elsevier PLC share of the Reed Elsevier combined results has been calculated on the basis of the 52.9% economic interest of the Reed Elsevier PLC shareholders in the Reed Elsevier combined businesses, after taking account of results arising in Reed Elsevier PLC and its subsidiaries. Dividends paid to Reed Elsevier PLC and Reed Elsevier NV shareholders are, other than in special circumstances, equalised at the gross level inclusive of the UK tax credit received by certain Reed Elsevier PLC shareholders. In Reed Elsevier PLC's consolidated financial statements, an adjustment is required to equalise the benefit of the tax credit between the two sets of shareholders in accordance with the equalisation agreement. This equalisation adjustment arises on dividends paid by Reed Elsevier PLC to its shareholders and reduces the consolidated attributable earnings by 47.1% of the total amount of the tax credit.

Reed Elsevier NV

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2010

	Note	2010 €m	2009 €m	2008 €m
Non-Current Assets				
Investments in joint ventures	12	1,198	1,031	551
Current Assets				
Amounts due from joint ventures		2	2	4
Cash and cash equivalents		3	3	12
		5	5	16
Total assets		1,203	1,036	567
Current Liabilities				
Payables	13	11	10	10
Taxation		55	56	66
Total liabilities		66	66	76
Net assets		1,137	970	491
Capital and Reserves				
Share capital issued	14	54	53	49
Paid-in surplus	15	2,169	2,168	1,712
Shares held in treasury (including in joint ventures)	16	(433)	(434)	(477)
Translation reserve	17	(51)	(153)	(138)
Other reserves	18	(602)	(664)	(655)
Total equity		1,137	970	491

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2010

	Note	Share Capital €m	Paid-In Surplus €m	Shares Held In Treasury €m	Translation Reserve €m	Other Reserves €m	Total Equity €m
Balance at January 1, 2010		53	2,168	(434)	(153)	(664)	970
Total comprehensive income for the year		—	—	—	98	349	447
Equity dividends paid	9	—	—	—	—	(281)	(281)
Issue of ordinary shares, net of expenses		1	1	—	—	—	2
Share of joint ventures' settlement of share awards by employee benefit trust		—	—	5	—	(5)	—
Share of joint ventures' decrease in share based remuneration reserve		—	—	—	—	(4)	(4)
Equalisation adjustments		—	—	—	—	3	3
Exchange translation differences		—	—	(4)	4	—	—
Balance at December 31, 2010		54	2,169	(433)	(51)	(602)	1,137

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF Reed Elsevier NV

1. Basis of Financial Statements

These consolidated financial statements report the consolidated income statement, cash flow and financial position of Reed Elsevier NV and are presented using the equity method. The consolidated financial statements have been prepared under the historical cost convention.

Unless otherwise indicated, all amounts shown in the consolidated financial statements are stated in euros ("€"). Certain disclosures required to comply with Dutch statutory reporting requirements have been omitted.

The Reed Elsevier combined financial statements on pages F-3 to F-53 form an integral part of the notes to Reed Elsevier NV's consolidated financial statements.

As a consequence of the merger of the company's businesses with those of Reed Elsevier PLC, the shareholders of Reed Elsevier NV and Reed Elsevier PLC can be regarded

as having the interests of a single economic group, enjoying substantially equivalent ordinary dividend and capital rights in the earnings and net assets of the Reed Elsevier combined businesses.

2. Accounting Policies

Basis of Preparation

These consolidated financial statements, which have been prepared under the historic cost convention, report the consolidated statements of income, cash flow and financial position of Reed Elsevier NV, and have been prepared in accordance with accounting policies that are in conformity with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union (EU).

Unless otherwise indicated, all amounts shown in the financial statements are in euros ("€").

The basis of the merger of the businesses of Reed Elsevier PLC and Reed Elsevier NV is set out on page 11.

Reed Elsevier NV's consolidated financial statements are presented incorporating Reed Elsevier NV's investments in the Reed Elsevier combined businesses accounted for using the equity method, as adjusted for the effects of the equalisation arrangement between Reed Elsevier NV and Reed Elsevier PLC. The arrangement lays down the distribution of dividends and net assets in such a way that Reed Elsevier NV's share in the profit and net assets of the Reed Elsevier combined businesses equals 50%, with all settlements accruing to shareholders from the equalisation arrangements taken directly to reserves. Further detail is provided in note 3.

Because the dividend paid to shareholders by Reed Elsevier NV is, other than in special circumstances, equivalent to the Reed Elsevier PLC dividend plus the UK tax credit received by certain Reed Elsevier PLC shareholders, Reed Elsevier NV normally distributes a higher proportion of the combined profit attributable than Reed Elsevier PLC. Reed Elsevier PLC's share in this difference in dividend distributions is settled with Reed Elsevier NV and is credited directly to consolidated reserves under equalisation. Reed Elsevier NV can pay a nominal dividend on its R shares held by a subsidiary of Reed Elsevier PLC that is lower than the dividend on the ordinary shares. Equally, Reed Elsevier NV has the possibility to receive dividends directly from Dutch affiliates. Reed Elsevier PLC is compensated by direct dividend payments by Reed Elsevier Group plc. The settlements flowing from these arrangements are also taken directly to consolidated reserves under equalisation.

Convertible Redeemable Preference Shares, Suppliers' Investment Shares, Members' Shares, New Ordinary Shares

2.24

Silver Fern Farms Limited (Sep 2010)

BALANCE SHEET (in part)

As at 30 September 2010

		Parent		Consolidated	
NZD in Thousands ($000)	**Notes**	**As at 30 Sept 10**	**As at 31 Aug 09**	**As at 30 Sept 10**	**As at 31 Aug 09**
Net assets excluding members' shares		378,004	326,544	367,771	316,261
Convertible redeemable preference shares	19, 22	1,595	1,622	1,595	1,622
Supplier investment shares	22	7,203	24,754	7,203	24,754
Members' ordinary shares	22	20,360	47,769	20,360	47,769
Total members' shares		29,158	74,145	29,158	74,145
Net assets		348,846	252,399	338,613	242,116
Equity—equity attributable to equity holders of the parent					
New ordinary shares	22	117,560	—	117,560	—
Retained earnings		128,878	197,405	126,251	191,841
Other reserves	23	102,408	54,994	94,802	50,275
Total equity		348,846	252,399	338,613	242,116

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Summary of Significant Accounting Policies (in part)

v Convertible Redeemable Preference Shares

The convertible redeemable preference shares exhibit characteristics of a liability, and are therefore recognised as a liability in the balance sheet.

The convertible redeemable preference shares are measured initially at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, these shares are subsequently measured at amortised cost using the effective interest method which allocates the cost through the expected life of the loan or borrowing. Amortised cost is calculated taking into account any issue costs.

w Members' Shares

i Members Ordinary Shares

The Co-operative's share capital includes the amount of shares issued to the members of the Co-operative. From time to time, existing members leave the Co-operative and new members join the Co-operative. Members who leave the Co-operative are entitled, after a length of time, to have their share capital amounts repaid to them. New members are required to subscribe to shares in the Co-operative.

Silver Fern Farms Limited has two classes of Members' shares: Members' ordinary shares which are issued to suppliers who supply stock under the Silver Fern Farms rebate system and Supplier investment shares, which are issued to all suppliers of stock to Silver Fern Farms (subject to certain restrictions). All Members' shares have a nominal value of one dollar per share. Supplier investment shares are paid to ninety cents by the supplier with the balance of ten cents being paid by way of a dividend from retained earnings.

Members' ordinary shares carry full voting rights subject to the shareholder being a Current Supplier (as defined in Silver Fern Farms constitution) at the time of voting. Supplier investment shares carry voting rights in relation to director elections only. Members' shares participate equally on winding up.

The current maximum shareholdings for Members' ordinary shares and Supplier investment shares are 17,500 and 15,000 respectively.

Members' shares are eligible to receive a dividend subject to profitability, although any such dividend is likely to be restricted to fully paid Supplier investment shares. Members' ordinary shares shareholders are eligible to receive a rebate based on the profit earned from stock supplied.

Due to the obligations of the Co-operative set out above, the Co-operative share capital meets the definition of a financial liability as per NZ IAS 32: Financial Instruments Disclosure and Presentation, and hence, the issued and paid up capital is classified as a financial liability.

ii New Ordinary Shares

New ordinary shares are classified as equity. Incremental costs attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

10. Members' Distributions Paid and Proposed

NZD in Thousands ($000)	Parent and Consolidated 13 Months to 30 Sept 10	Parent and Consolidated 12 Months to 31 Aug 09
Recognised Amounts		
Declared and paid during the year:		
Dividends on convertible		
redeemable preference shares	98	127
Members' ordinary shares issued	—	26
Total members' distributions paid		
and proposed	98	153

22. Convertible Redeemable Preference Shares, Members' Shares and New Ordinary Shares

In October 2009 the change in the capital structure was finalised resulting in the issue of new ordinary shares. These shares began trading on the Unlisted exchange on 27 October 2009. As the new ordinary shares are not redeemable, they have been classified as equity. The details of the members shares and new ordinary shares movements as a result of the capital raising are as follows:

NZD in Thousands ($000)	Convertible Redeemable Preference Shares	Supplier Investment Shares	Members' Ordinary Shares	New Ordinary Shares	Total
Balance as at 1 September 2008	2,654	23,937	47,777	—	74,368
Shares issued during the year	—	1,283	1,631	—	2,914
Shares surrendered	(1,032)	(466)	(1,639)	—	(3,137)
Balance as at 31 August 2009	1,622	24,754	47,769	—	74,145
New ordinary shares issued	—	—	—	4,173	4,173
New ordinary shares issued where settlement is deferred (non-cash)	—	—	—	16,163	16,163
Supplier investment shares exchanged (non-cash)	—	(17,235)	—	17,235	—
Members' ordinary shares exchanged (non-cash)	—	—	(25,669)	25,669	—
Transaction costs paid on ordinary share issue	—	—	—	(901)	(901)
Taxable bonus issue of new ordinary shares (non-cash)	—	—	—	55,221	55,221
Total of transactions associated with capital raising	—	(17,235)	(25,669)	117,560	74,656
Shares surrendered	(27)	(316)	(1,740)	—	(2,083)
Balance as at 30 September 2010	1,595	7,203	20,360	117,560	146,718
Called/uncalled					
20.360m Members' ordinary shares of $1 each	—	—	20,360	—	20,360
63.419m New ordinary shares—fully paid	—	—	—	91,542	91,542
18.025m New ordinary shares—partly paid	—	—	—	26,018	26,018
Issued and fully paid	—	—	20,360	117,560	137,920

a Convertible Redeemable Preference Shares

Convertible redeemable preference shares were issued on 1 December 2002. A dividend of 6% (or as otherwise determined by the board) plus any available imputation credits, is paid on the anniversary of their issue. Convertible redeemable preference shares may next be redeemed at the option of the holder on 1 December 2011 and every three years thereafter.

Convertible redeemable preference shares are currently finite and subject to a fixed term with rights of renewal.

b Members Shares

Silver Fern Farms Limited has two classes of Members' shares: Members' ordinary shares which are issued to suppliers who supply stock under Silver Fern Farms Limited's rebate system and Supplier investment shares, which are issued to all suppliers of stock to Silver Fern Farms (subject to certain restrictions). All Members' shares have a nominal value of one dollar per share. Supplier investment shares are paid to ninety cents by the supplier with the balance of ten cents being paid by way of a dividend from retained earnings. Members' shares are currently classified as a financial liability as Silver Fern Farms does not have the unconditional right to refuse redemption.

Members' ordinary shares carry full voting rights subject to the shareholder being a Current Supplier (as defined in Silver Fern Farms' Limited constitution) at the time of voting. Supplier investment shares carry voting rights in relation to director elections only. Ordinary Shares participate equally on winding up.

The maximum shareholding for Members' ordinary shares and Supplier investment shares is 17,500 (2009: 17,500) and 15,000 (2009: 15,000) respectively.

Silver Fern Farms Limited's Members' shares are eligible to receive a dividend subject to profitability, although any such dividend is likely to be restricted to fully paid Supplier investment shares. Members' ordinary shares shareholders are eligible to receive a rebate based on the profit earned from stock supplied.

c New Ordinary Shares Issued

As part of the change in the capital structure, shareholders could elect to exchange Members' ordinary shares and Supplier investment shares for New ordinary shares on a one for one basis; no cash was payable on exchange. In addition to the exchange of shares, shareholders could elect to participate in a two for one rights issue. Under the terms of the rights issue, shareholders were entitled to subscribe in cash for two New ordinary shares for every one New ordinary share issued to them under the exchange offer.

The rights issue price per New ordinary share of $1.00 was payable either in full on application or under a deferred payment option, over a period of approximately three years by way of deduction from proceeds of the sale of livestock. Under the deferred payment option, the New ordinary shares must be fully paid by February 2013. The deferred payments due are held at their fair value based on their discounted expected future cashflows. The discount rate applied is 7.3%. The outstanding balance of deferred payments due is as follows:

NZD in Thousands ($000)	Parent and Consolidated As at 30 Sept 10	Parent and Consolidated As at 31 Aug 09
Deferred payments due within 12 months	6,486	—
Deferred payments due after 12 months	6,192	—
Total deferred payments	12,678	—

Multiple Classes of Preference Shares, Treasury Shares, Minority Interest

2.25

Anooraq Resources Corporation (Dec 2010)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (in part)

As at 31 December 2010 and 2009
(Expressed in Canadian Dollars, unless otherwise stated)

	Note	2010	2009
Equity			
Share capital	18	71,852,588	71,713,114
Treasury shares	18	(4,991,726)	(4,991,726)
Convertible preference shares	18	162,910,000	162,910,000
Foreign currency translation reserve		(5,197,843)	(9,390,899)
Hedging reserve		(4,124,155)	(731,293)
Share-based payment reserve		22,032,571	19,770,786
Accumulated loss		(163,519,502)	(111,798,092)
Total equity attributable to equity holders of the Company		78,961,933	127,481,890
Non-controlling interest		42,404,014	82,025,730
Total equity		121,365,947	209,507,620

CONSOLIDATED STATEMENTS OF CASH FLOWS (in part)

For the years ended 31 December 2010, 2009 and 2008
(Expressed in Canadian Dollars, unless otherwise stated)

	Note	2010	2009	2008
Cash flows from financing activities				
Long-term borrowings raised	19	41,382,644	125,380,745	3,630,000
Common shares issued		67,809	15,869,148	2,037,558
"A" Preference shares issued	19	—	177,720,000	—
"A" Preference shares repaid	19	—	(1,066,320)	—
"B" Preference shares issued	18	—	162,910,000	—
Transaction costs paid	19	—	(4,857,128)	—
Vendor claims settled	34	—	(251,770,000)	—
Interest-free loan raised	19	599,442	4,267,913	—
Loans repaid	19	(590,537)	(16,790,368)	—
Cash generated from financing activities		41,459,358	211,663,990	5,667,558

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

4. Accounting Policies (in part)

These consolidated financial statements are presented in (unless stated otherwise) Canadian Dollars ("$"), which is also the Company's functional currency.

(iv) Share Capital

Common Shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognised as a deduction from equity, net of any tax effects.

Preference Share Capital

Preference share capital is classified as equity if it is non-redeemable, redeemable for a fixed number of the Company's shares, 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 Board of Directors.

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

Treasury Shares

Shares issued to subsidiaries or SPE's are reflected as treasury shares on consolidation.

18. Share Capital

Authorised and Issued

	Number of Shares	
Common shares with no par value	201,813,472	201,743,472
B2 Convertible Preference shares of $0.1481 (ZAR 1) each	115,800	115,800
B3 Convertible Preference shares of $0.1481 (ZAR 1) each	111,600	111,600

The Company's authorised share capital consists of an unlimited number of common shares without par value. During 2009 cumulative convertible redeemable "B" preference shares were issued to facilitate the transaction as discussed in note 34.

Share Capital

	Number of Shares	
Share capital	74,035,621	73,896,147
Share issue costs	(2,183,033)	(2,183,033)
	71,852,588	71,713,114

The Company issued the following common shares on 1 July 2009:

- Anglo Platinum contributed an amount of $15.4 million (ZAR 103.8 million) to the Anooraq Community Participation Trust. Approximately $10.9 million was used to acquire shares of the Company. As of 1 July 2009, the Company issued 9,799,505 common shares at $1.11 to the Anooraq Community Participation Trust.
- Anglo Platinum contributed approximately $6.8 million (ZAR 45.6 million) to the Bokoni Platinum Mine ESOP Trust ("ESOP Trust"), of which $5 million was used to acquire shares of the Company. As of 1 July 2009, the Company issued 4,497,062 common shares at $1.11 to the ESOP Trust. The ESOP Trust is consolidated as a SPE by the Group (refer below).

	Number of Shares	
Treasury shares	4,991,726	4,991,726

Treasury shares relate to shares held by the ESOP Trust in Anooraq, which is consolidated by the Group.

Preference Shares

	2010	2009
B2 Convertible Preference shares	17,150	17,150
B3 Convertible Preference shares	16,528	16,528
Share premium	162,876,322	162,876,322
	162,910,000	162,910,000

$162.9 million (ZAR 1.1 billion) was raised through share-settled financing with the issue of cumulative mandatory convertible "B" preference shares ("B Prefs") to RPM and a subsidiary of Pelawan to finance the acquisition discussed in note 34. The final effects of the share settled financing will result in RPM receiving a fixed number of 115.8 million common shares of Anooraq and Pelawan, Anooraq's controlling shareholder, receiving a fixed number of 111.6 million common shares.

These preference shares are convertible upon the earlier of the date of receipt of a conversion notice from RPM and 1 July 2018.

A dividend will be declared on the last business day immediately prior to the conversion date, in terms of a formula set out in the preference share subscription agreement.

Ordinary and Deferred Shares

2.26

Helical Bar plc (Mar 2010)

GROUP AND COMPANY BALANCE SHEETS (in part)

As at 31 March 2011

	Group 31.3.11 £000	Group 31.3.10 £000	Company 31.3.11 £000	Company 31.3.10 £000
Equity				
Called-up share capital	1,447	1,339	1,447	1,339
Share premium account	98,678	70,828	98,678	70,828
Revaluation reserve	3,495	—	—	—
Capital redemption reserve	7,478	7,478	7,478	7,478
Other reserves	291	291	1,987	1,987
Retained earnings	143,886	162,547	137,831	152,831
Equity attributable to equity holders of the parent	255,275	242,483	247,421	234,463
Non-controlling interests	122	124	—	—
Total equity	255,397	242,607	247,421	234,463

The financial statements were approved by the Board of Directors on 15 June 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

29. Share Capital

	31.3.11 £000	31.3.10 £000
Authorised	39,577	39,577
	39,577	39,577

The authorised share capital of the Company is £39,576,626.60 divided into ordinary shares of 1p each and deferred shares of 1/8p each.

	31.3.11 £000	31.3.10 £000
Allotted, called up and fully paid		
—118,137,522 ordinary shares of 1p each (2010: 107,407,522)	1,182	1,074
—212,145,300 deferred shares of 1/8p each	265	265
	1,447	1,339

As at 1 April 2010 the Company had 107,407,522 ordinary 1p shares in issue. On 8 December 2010 the Company issued 10,730,000 new ordinary 1p shares to shareholders as a part of the Placing referred to in the Financial Review on page 38. At 31 March 2011 there were 118,137,522 ordinary 1p shares in issue.

	Shares in Issue 31.3.11 Number	Share Capital 31.3.11 £000	Shares in Issue 31.3.10 Number	Share Capital 31.3.10 £000
Ordinary shares				
At 1 April	107,407,522	1,074	107,087,012	1,071
New shares issued	10,730,000	108	320,510	3
At 31 March	118,137,522	1,182	107,407,522	1,074
Deferred shares				
At 1 April	212,145,300	265	212,145,300	265
At 31 March	212,145,300	265	212,145,300	265

The Group's capital management objectives are:

- to ensure the Group's ability to continue as a going concern; and,
- to provide an adequate return to shareholders.

The Group sets the amount of capital in proportion to its overall financing structure. It manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt. Capital is defined as being issued share capital, retained earnings and other reserves. (2011: 247,797,000; 2010: £235,005,000).

The deferred shares were issued on 23 December 2004 to those shareholders electing to receive a dividend, rather than a capital repayment or further I shares in the Company, as part of the Return of Cash approved by shareholders on 20 December 2004. The deferred shares carry no voting rights and have no right to a dividend or capital payment in the event of a winding up of the Company.

The Company's Articles of Association give the Company irrevocable authority to purchase all or any of the deferred shares for a maximum aggregate total of 1 penny for all deferred shares in issue on the date of such purchase.

Current Assets—Prepaid Expenses

2.27

ArcelorMittal (Dec 2010)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (in part)

(In millions of U.S. dollars, except share and per share data)

	December 31	
	2009	2010
Assets		
Current assets:		
Cash and cash equivalents	5,919	6,207
Restricted cash	90	82
Trade accounts receivable and other, including 392 and 616 from related parties at December 31, 2009 and 2010, respectively (note 6 and 14)	5,750	5,725
Inventories (note 7)	16,835	19,583
Prepaid expenses and other current assets (note 8)	4,212	4,160
Assets held for sale and distribution (note 5)	1	6,918
Total current assets	32,807	42,675

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 8: Prepaid Expenses and Other Current Assets

Other current assets consist of advance payments to taxing and other public authorities (including value-added tax ("VAT")), income tax receivable, revaluation of derivative financial instruments, and other, which is made up of advances to employees, prepayments, accrued interest, dividends receivable and other miscellaneous receivables.

	December 31	
	2009	2010
VAT recoverable	1,298	1,694
Income tax receivable	983	434
Revaluation of derivative financial instruments	735	523
Other	1,196	1,509
Total	4,212	4,160

Current Assets—Advances and Progress Payments

2.28

Alcatel-Lucent (Dec 2010)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (in part)

(In Millions)	Notes	Dec 31, 2010[1]	Dec 31, 2010	Dec 31, 2009	Dec 31, 2008	January 1, 2008[2]
Assets						
Inventories and work in progress, net	(18) & (19)	3,045	2,295	1,902	2,390	2,465
Trade receivables and other receivables, net	(18) & (20)	4,862	3,664	3,519	4,693	4,601
Advances and progress payments	(18)	99	75	93	99	110
Other current assets	(21)	1,174	885	960	1,395	1,117
Current income taxes		223	168	157	113	60
Marketable securities, net	(17) & (26)	861	649	1,993	906	894
Cash and cash equivalents	(26)	6,688	5,040	3,577	3,687	4,377
Current assets before assets held for sale		16,952	12,776	12,201	13,283	13,624
Assets held for sale and assets included in disposal groups held for sale	(10)	4	3	51	1,348	35
Total current assets		16,956	12,779	12,252	14,631	13,659

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 18. Operating Working Capital (in part)

Operating Working Capital

(In Millions of Euros)	December 31, 2010	December 31, 2009	December 31, 2008
Inventories and work in progress, net	2,295	1,902	2,390
Trade receivables and other receivables, net	3,664	3,519	4,693
Advances and progress payments	75	93	99
Customers' deposits and advances	(803)	(639)	(993)
Trade payables and other payables	(4,325)	(3,926)	(4,571)
Operating working capital, net	906	949	1,618

As explained in Note 4, the presentation of the working capital items related to construction contracts was amended from January 1, 2010 onwards.

(In Millions of Euros)	As Published in			Reclassification			Restated		
Operating Working Capital-Restated (see Note 4)	Dec 31, 2009	Dec 31, 2008	January 1, 2008[1]	Dec 31, 2009	Dec 31, 2008	January 1, 2008[1]	Dec 31, 2009	Dec 31, 2008	January 1, 2008[1]
Inventories and work in progress, net	1,624	2,196	2,235	278	194	230	1,902	2,390	2,465
Trade receivables and other receivables, net	3,221	4,330	4,163	298	363	438	3,519	4,693	4,601
Advances and progress payments	93	99	110	—	—	—	93	99	110
Customers' deposits and advances	(639)	(929)	(847)	—	(64)	(224)	(639)	(993)	(1,071)
Trade payables and other payables	(3,926)	(4,571)	(4,514)	—	—	—	(3,926)	(4,571)	(4,514)
Amounts due from customers on construction contracts	528	495	704	(528)	(495)	(704)	—	—	—
Amounts due to customers on construction contracts	(66)	(188)	(407)	66	188	407	—	—	—
Operating working capital, net	835	1,432	1,444	114	186	147	949	1,618	1,591

[1] Beginning of the earliest comparative period is presented, as requested by IAS 1 § 39 due to the change in presentation described in Note 4.

The amounts of €114 million as of December 31, 2009, €186 million as of December 31, 2008 and €147 million as of January 1, 2008 represent product sales reserves on construction contracts. They have been reclassified to Provisions in the statement of financial position.

Current and Non-Current Assets—Prepaid Expenses and Prepaid Lease Payments

2.29

China Gold International Resources Corp, Ltd (formerly, Jinshan Gold Mines Inc.) (Dec 2010)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (in part)

At December 31, 2010

	Notes	2010 US$	2009 US$
Current assets			
Cash and cash equivalents	13	301,608,717	23,984,660
Restricted cash	14	6,725,129	—
Accounts receivable	15	9,050,490	1,681,880
Prepaid expenses and deposits	16	3,418,499	1,734,181
Prepaid lease payments	17	137,808	—
Inventory	18	34,154,278	10,166,429
		355,094,921	37,567,150
Assets classified as held for sale	20	54,696	188,971
		355,149,617	37,756,121
Non-current assets			
Prepaid expense and deposits	16	2,395,882	—
Prepaid lease payments	17	6,634,081	—
Amount due from a non-controlling shareholder	19	419,768	—
Long-term receivable		—	49,689
Inventory	18	17,838,819	18,852,686
Property, plant and equipment	20	297,901,855	117,918,672
Intangible assets	21	975,282,711	—
		1,300,473,116	136,821,047
Total assets		1,655,622,733	174,577,168

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

3. Summary of Significant Accounting Policies (in part)

Prepaid Lease Payments

Prepaid lease payments representing land use rights in the PRC are stated at cost and amortized on a straight-line basis over the lease terms. Prepaid lease payments which are to be amortized in the next twelve months or less are classified as current assets.

Leasehold Land and Building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statement of financial position and is amortized over the lease term on a straight-line basis.

16. Prepaid Expenses and Deposits

	2010 US$	2009 US$
Deposits for mine supplies and services	2,006,484	705,420
Deposits for environmental protection (note a)	1,640,902	—
Deposits for spare parts	881,343	133,036
Prepayment for the land use rights (note b)	754,979	—
Insurance	331,621	286,787
Rent deposits	19,272	246,846
Refundable CSH Gold Mine construction deposits	—	192,876
Other	179,780	169,216
Total prepaid expenses and deposits	5,814,381	1,734,181
Less: Amounts that are utilized within one year shown under current assets	(3,418,499)	(1,734,181)
Amounts that are utilized for more than one year shown under non-current assets	2,395,882	—

Notes:

[a] The amount represents deposits paid to the PRC local land administration bureau for undertaking the restoration of land to its present condition when the lease term is expired that are expected to be utilized after one year and therefore shown as a non-current asset.

[b] The amount represents advances to PRC local land administration bureau for acquisition of properties in Tibet, the PRC. The Group is still negotiating the terms with the PRC local land administration bureau as of the date of issue of the financial statements. The amount is shown as non-current asset.

17. Prepaid Lease Payment

	US$
At January 1, 2009, December 31, 2009 and January 1, 2010	—
Acquired on acquisition of subsidiaries (Note 27)	6,730,498
Release to profit or loss	(7,447)
Exchange realignment	48,838
At December 31, 2010	6,771,889

	2010 US$	2009 US$
Analyzed for reporting purpose:		
Current portion	137,808	—
Non-current portion	6,634,081	—
	6,771,889	—

Prepaid lease payments represent payments for medium-term leasehold land of 50 years located in the PRC. The prepaid lease payments are released to profit or loss over the remaining lease terms.

The Group is in the process of obtaining the land use right certificate of a parcel of land included in prepaid lease payment with carrying amount of approximately US$2,407,000 at December 31, 2010.

Current Liabilities—Premiums and Discounts to Suppliers, Sales Commisions, Deferred Revenue and Advances From Customers

2.30

Luxottica Group S.p.A (Dec 2010)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (in part)

For the years ended December 31, 2010 and 2009

(Amounts in Thousands of Euro)	Note Reference	2010	2009
Liabilities and Stockholders' Equity			
Current liabilities:			
Short-term borrowings	14	158,648	148,951
Current portion of long-term debt	15	197,566	166,279
Accounts payable	16	537,742	434,604
Income taxes payable	17	60,067	11,204
Other liabilities	18	549,280	554,136
Total current liabilities		1,503,303	1,315,174

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

18. Other Liabilities

(Amounts in Thousands of Euro)	As of December 31 2010	2009
Premiums and discounts to suppliers	27,507	24,179
Sales commissions	1,135	1,775
Leasing rental	22,370	16,051
Insurance	9,255	9,476
Sales taxes payable	35,994	36,336
Salaries payable	183,559	155,101
Due to social security authorities	26,156	21,483
Sales commissions payable	7,154	3,363
Royalties payable	1,602	1,096
Other financial liabilities	125,858	192,849
Total financial liabilities	440,590	461,709
Deferred income	1,356	1,480
Customers' right of return	27,744	27,334
Advances from customers	53,835	36,680
Other liabilities	25,755	26,933
Total liabilities	108,690	92,427
Total other current liabilities	549,280	554,136

The decrease of other financial liabilities is primarily due to the payment in May 2010 of the purchase price of Euro 61.8 million for the acquisition of the non-controlling interest in the Group's Turkish subsidiary (Luxottica Gözlük Endüstri ve Ticaret Anonim Sirketi).

Other liabilities consist of the current portion of funds set aside for the provision for risks that primarily include:

- provisions for long-term insurance risk of Euro 1.0 million as of December 31, 2010 (Euro 1.9 million as of December 31, 2009);
- provisions for licensing expenses and advertising expenses for licensed designer brands of Euro 6.7 million as of December 31, 2010 (Euro 7.6 million as of December 31, 2009), which are based upon advertising expenses that the Group is required to incur under license agreements; and
- provisions for various legal disputes which have occurred in the ordinary course of business totaling Euro 5.2 million as of December 31, 2010 (Euro 1.0 million as of December 31, 2009).

Current and Non-Current Liabilities—Deferred Income

2.31

British Sky Broadcasting Group plc (Jun 2010)

CONSOLIDATED BALANCE SHEET (in part)

As at 30 June 2010

	Notes	2010 £m	2009 £m
Current liabilities			
Borrowings	22		465
Trade and other payables	20	1,526	1,492
Current tax liabilities		136	173
Provisions	21	27	18
Derivative financial liabilities	23	10	46
		1,699	2,194
Non current liabilities			
Borrowings	22	2,458	2,279
Trade and other payables	22	52	66
Provisions	21	11	12
Derivative financial liabilities	23	17	82
Deferred tax liability	17	7	
		2,545	2,439
Total liabilities		4,244	4,633

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Accounting Policies (in part)

v. Trade and Other Payables

Trade and other payables are non-derivative financial liabilities and are measured at amortised cost using the effective interest method. Trade and other payables with no stated interest rate are measured at the original invoice amount if the effect of discounting is immaterial.

19. Trade and Other Receivables

	2010 £m	2009 £m
Gross trade receivables	303	297
Less: provision for impairment of receivables	(153)	(118)
Net trade receivables	150	179
Amounts receivable from joint ventures and associates	6	5
Amounts receivable from other related parties	3	
Prepayments	197	221
Accrued income	135	116
VAT	18	52
Other	29	40
Current trade and other receivables	538	613
Non current prepayments	18	21
Total trade and other receivables	556	634

Included within current trade and other receivables is nil (2009: £54 million) which is due in more than one year.

The ageing of the Group's net trade receivables which are past due but not impaired is as follows:

	2010 £m	2009 £m
Up to 30 days past due date	50	56
30 to 60 days past due date	6	11
60 to 120 days past due date	5	7
More than 120 days past due date	4	5
	65	79

The Directors consider that the carrying amount of trade and other receivables approximates to their fair values. The Group is exposed to credit risk on its trade and other receivables, however the Group does not have any significant concentrations of credit risk, with exposure spread over a large number of counterparties and customers. Trade receivables principally comprise amounts outstanding from subscribers, advertisers and other customers.

Provisions for Doubtful Debts

	2010 £m	2009 £m
Balance at beginning of year	118	84
Amounts utilised	(5)	(7)
Income statement charge	40	41
Balance at end of year	153	118

20. Trade and Other Payables

	2010 £m	2009 £m
Trade payables[(i)]	419	407
Amounts owed to joint ventures and associates	4	3
Amounts owed to other related parties	70	69
VAT	105	93
Accruals	609	586
Deferred income	251	269
Other	68	65
	1,526	1,492

(i) Included within trade payables are £755 million (2009: £143 million) of US dollar denominated programme payables.

The Directors consider that the carrying amount of trade and other payables approximates to their fair values. Trade payables principally comprise amounts outstanding for programming purchases and ongoing costs.

Liabilities in Liquidity Order—Insurance Liabilities, Unallocated Divisible Surplus

2.32

Aviva plc (Dec 2010)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (in part)

As at 31 December 2010

	Note	2010 £m	2009 £m
Liabilities			
Gross insurance liabilities	J & 36	177,700	171,092
Gross liabilities for investment contracts	K & 37	117,787	110,015
Unallocated divisible surplus	J & 41	3,428	3,866
Net asset value attributable to unitholders	C	9,032	9,894
Provisions	Y, Z & 44	2,943	3,980
Deferred tax liabilities	AA & 43b	1,758	1,038
Current tax liabilities	43a	314	192
Borrowings	AB & 46	14,949	15,000
Payables and other financial liabilities	Q & 47	20,292	20,542
Other liabilities	48	4,179	3,653
Liabilities of operations classified as held for sale	AF & 3c	—	33
Total liabilities		352,382	339,305

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

36—Insurance Liabilities

This note analyses our insurance contract liabilities by type of product and describes how we calculate these liabilities and what assumptions we have used.

(a) Carrying Amount

Insurance liabilities at 31 December comprise:

	2010			2009		
	Long-Term Business £m	General Insurance and Health £m	Total £m	Long-Term Business £m	General Insurance and Health £m	Total £m
Long-term business provisions						
Participating	64,043	—	64,043	64,702	—	64,702
Unit-linked non-participating	21,450	—	21,450	21,268	—	21,268
Other non-participating	75,453	—	75,453	68,088	—	68,088
	160,946	—	160,946	154,058	—	154,058
Outstanding claims provisions	1,078	9,528	10,606	921	9,977	10,898
Provision for claims incurred but not reported	—	2,735	2,735	—	2,719	2,719
	1,078	12,263	13,341	921	12,696	13,617
Provision for unearned premiums	—	4,855	4,855	—	4,781	4,781
Provision arising from liability adequacy tests	—	2	2	—	7	7
Other technical provisions	—	1	1	—	—	—
Total	162,024	17,121	179,145	154,979	17,484	172,463
Less:						
Obligations to staff pension schemes transferred to provisions (note 44a)	(1,445)	—	(1,445)	(1,351)	—	(1,351)
Amounts classified as held for sale	—	—	—	—	(20)	(20)
	160,579	17,121	177,700	153,628	17,464	171,092

During 2010, the Group conducted a review of its classification of linked liabilities, following refinement of our policy which now defines unit-linked liabilities as those where all risks attached to the assets held to back those liabilities are borne by the policyholders. The review resulted in a reclassification of £1,890 million of insurance liabilities previously included as unit-linked non-participating liabilities as at 31 December 2009 to other non-participating liabilities. As a result of this reclassification, assets held to cover linked liabilities have also decreased by £1,890 million (see note 25).

(b) Long-Term Business Liabilities

(i) Business Description

The Group underwrites long-term business in a number of countries as follows:

- In the UK mainly in:
  - New With-Profits sub-fund (NWPSF) of Aviva Life & Pensions UK (UKLAP), where the with-profit policyholders are entitled to at least 90% of the distributed profits, the shareholders receiving the balance. Any surplus or deficit emerging in NWPSF that is not distributed as bonus will be transferred from this sub-fund to the Reattributed Inherited Estate External Support Account (RIEESA) (see below).
  - Old With-Profits sub-fund (OWPSF), With-Profits sub-fund (WPSF) and Provident Mutual sub-fund (PMSF) of UKLAP, where the with-profit policyholders are entitled to at least 90% of the distributed profits, the shareholders receiving the balance.
  - 'Non-profit' funds of Aviva Annuity UK and UKLAP, where shareholders are entitled to 100% of the distributed profits. Shareholder profits on unitised with-profit business written by WPSF and on stakeholder unitised with-profit business are derived from management fees and policy charges, and emerge in the non-profit funds.
  - The RIEESA of UKLAP, which is a non-profit fund where shareholders are entitled to 100% of the distributed profits, but these cannot be distributed until the 'lock-in' criteria set by the Reattribution Scheme have been met. RIEESA will be used to write non-profit business and also to provide capital support to NWPSF.
- In France, where the majority of policyholders' benefits are determined by investment performance, subject to certain guarantees, and shareholders' profits are derived largely from management fees. In addition, a substantial number of policies participate in investment returns, with the balance being attributable to shareholders.
- In the Netherlands, the balance of profits, after providing appropriate returns for policyholders and after tax, accrues for the benefit of the shareholders. The bases for determining returns for policyholders are complex, but are consistent with methods and criteria followed generally in the Netherlands. In addition, a substantial number of policies provide benefits that are determined by investment performance, subject to certain guarantees, and shareholders' profits are derived largely from management fees.

- In the United States, there are two main types of business—protection products and accumulation products. Protection products include interest-sensitive whole life, term life, universal life and indexed life insurance policies. The accumulation product segment includes traditional fixed and indexed deferred annuities for individuals and funding agreements for business customers. In addition, there are two closed blocks of participating contracts arising from demutualisations of subsidiary companies. All products are classified as insurance contracts except for the funding agreements and term certain immediate annuities, which are classified as non-participating investment contracts.
- In other overseas operations.

(ii) Group Practice

The long-term business provision is calculated separately for each of the Group's life operations. The provisions for overseas subsidiaries have generally been included on the basis of local regulatory requirements, modified where necessary to reflect the requirements of the UK Companies Act.

Material judgement is required in calculating the provisions and is exercised particularly through the choice of assumptions where discretion is permitted. In turn, the assumptions used depend on the circumstances prevailing in each of the life operations. Provisions are most sensitive to assumptions regarding discount rates and mortality/morbidity rates.

Bonuses paid during the year are reflected in claims paid, whereas those allocated as part of the bonus declaration are included in the movements in the long-term business provision.

(iii) Methodology and Assumptions

There are two main methods of actuarial valuation of liabilities arising under long-term insurance contracts—the net premium method and the gross premium method—both of which involve the discounting of projected premiums and claims.

Under the net premium method, the premium taken into account in calculating the provision is determined actuarially, based on the valuation assumptions regarding discount rates, mortality and disability. The difference between this premium and the actual premium payable provides a margin for expenses. This method does not allow for voluntary early termination of the contract by the policyholder, and so no assumption is required for persistency. Explicit provision is made for vested bonuses (including those vesting following the most recent fund valuation), but no such provision is made for future regular or terminal bonuses. However, this method makes implicit allowance for future regular or terminal bonuses already earned, by margins in the valuation discount rate used.

The gross premium method uses the amount of contractual premiums payable and includes explicit assumptions for interest and discount rates, mortality and morbidity, persistency and future expenses. These assumptions can vary by contract type and reflect current and expected future experience. Explicit provision is made for vested bonuses and explicit allowance is also made for future regular bonuses, but not terminal bonuses.

(a) UK

With-Profit Business

The valuation of with-profit business uses the methodology developed for the Realistic Balance Sheet, adjusted to remove the shareholders' share of future bonuses. The key elements of the Realistic Balance Sheet methodology are the with-profit benefit reserve (WPBR) and the present value of the expected cost of any payments in excess of the WPBR (referred to as the cost of future policy-related liabilities). The realistic liability for any contract is equal to the sum of the WPBR and the cost of future policy-related liabilities. The WPBR for an individual contract is generally calculated on a retrospective basis, and represents the accumulation of the premiums paid on the contract, allowing for investment return, taxation, expenses and any other charges levied on the contract.

For a small proportion of business, a prospective valuation approach is used, including allowance for anticipated future regular and final bonuses.

The items included in the cost of future policy-related liabilities include:

- Maturity Guarantees;
- Guaranteed Annuity Options;
- GMP underpin on Section 32 transfers; and
- Expected payments under Mortgage Endowment Promise.

In the Provident Mutual and With-Profits sub-funds in UKLAP, this is offset by the expected cost of charges to WPBR to be made in respect of guarantees.

The cost of future policy-related liabilities is determined using a market-consistent approach and, in the main, this is based on a stochastic model calibrated to market conditions at the end of the reporting period. Non-market-related assumptions (for example, persistency, mortality and expenses) are based on experience, adjusted to take into account future trends.

The principal assumptions underlying the cost of future policy-related liabilities are as follows:

Future Investment Return

A 'risk-free' rate equal to the spot yield on UK government securities, plus a margin of 0.1% is used. The rates vary, according to the outstanding term of the policy, with a typical rate as at 31 December 2010 being 3.78% *(2009: 4.35%)* for a policy with ten years outstanding.

Volatility of Investment Return

Volatility assumptions are set with reference to implied volatility data on traded market instruments, where available, or on a best estimate basis where not. These are term-dependent, with specimen values for ten-year terms as follows:

	Volatility	
	2010	2009
Equity returns	26.1%	26.6%
Property returns	15.0%	15.0%
Fixed interest yields	13.2%	14.4%

The table above shows the volatility of fixed interest yields, set with reference to 20 year at-the-money swaption volatilities.

Future Regular Bonuses

Annual bonus assumptions for 2011 have been set consistently with the year-end 2010 declaration. Future annual bonus rates reflect the principles and practices of the fund. In particular, the level is set with regard to the projected margin for final bonus and the change from one year to the next is limited to a level consistent with past practice.

Mortality

Mortality assumptions are set with regard to recent Company experience and general industry trends. The mortality tables used in the valuation are summarised below:

	Mortality Table Used	
	2010	2009
Assurances, pure endowments and deferred annuities before vesting	Nil or Axx00 adjusted	Nil or Axx00 adjusted
Pensions business after vesting and pensions annuities in payment	PCMA00/PCFA00 adjusted plus allowance for future mortality improvement	PCMA00/PCFA00 adjusted plus allowance for future mortality improvement

Non-Profit Business

Conventional non-profit contracts, including those written in the with-profit funds, are valued using gross premium methods which discount projected future cash flows. The cash flows are calculated using the amount of contractual premiums payable, together with explicit assumptions for investment returns, inflation, discount rates, mortality, morbidity, persistency and future expenses. These assumptions vary by contract type and reflect current and expected future experience.

For unit-linked and some unitised with-profit business, the provisions are valued by adding a prospective non-unit reserve to the bid value of units. The prospective non-unit reserve is calculated by projecting the future non-unit cash flows on the assumption that future premiums cease, unless it is more onerous to assume that they continue. Where appropriate, allowance for persistency is based on actual experience.

Valuation discount rate assumptions are set with regard to yields on the supporting assets and the general level of long-term interest rates as measured by gilt yields. An explicit allowance for risk is included by restricting the yields for equities and properties with reference to a margin over long-term interest rates or by making an explicit deduction from the yields on corporate bonds, mortgages and deposits, based on historical default experience of each asset class. A further margin for risk is then deducted for all asset classes.

The provisions held in respect of guaranteed annuity options are a prudent assessment of the additional liability incurred under the option on a basis and method consistent with that used to value basic policy liabilities, and includes a prudent assessment of the proportion of policyholders who will choose to exercise the option.

Valuation discount rates for business in the non-profit funds are as follows:

	Valuation Discount Rates	
	2010	2009
Assurances		
Life conventional non-profit	2.8% to 3.5%	3.0% to 3.8%
Pensions conventional non-profit	3.5% to 3.7%	3.8% to 4.0%
Deferred annuities		
Non-profit—in deferment	3.9%	4.2%
Non-profit—in payment	3.5% to 3.7%	3.8% to 4.0%
Annuities in payment		
Conventional annuity	3.9% to 5.4%	4.2% to 5.7%
Non-unit reserves		
Life	3.1%	3.3%
Pensions	3.8%	4.1%

Mortality assumptions are set with regard to recent Company experience and general industry trends. The mortality tables used in the valuation are summarised below:

	Mortality Tables Used	
	2010	2009
Assurances		
Non-profit	AM00/AF00 or TM00/TF00 adjusted for smoker status and age/sex specific factors	AM00/AF00 or TM00/TF00 adjusted for smoker status and age/sex specific factors
Pure endowments and deferred annuities before vesting	AM00/AF00 adjusted	AM00/AF00 adjusted
Pensions business after vesting	PCMA00/PCFA00 adjusted plus allowance for future mortality improvement	PCMA00/PCFA00 adjusted plus allowance for future mortality improvement
Annuities in payment General annuity business	IML00/IFL00 adjusted plus allowance for future mortality improvement	IML00/IFL00 adjusted plus allowance for future mortality improvement

(b) France

The majority of reserves arise from a single premium savings product and is based on the accumulated fund value, adjusted to maintain consistency with the value of the assets backing the policyholder liabilities. The net premium method is used for prospective valuations, in accordance with local regulation, where the valuation assumptions depend on the date of issue of the contract. The valuation discount rate also depends on the original duration of the contract and mortality rates are based on industry tables.

	Valuation Discount Rates	Mortality Tables Used
	2010 and 2009	2010 and 2009
Life assurances	0% to 4.5%	TD73-77, TD88-90, TH00-02, TGF05/TGH05; H_AVDBS, F_AVDBS, H_SSDBS and F_SSDBS (in 2010)
Annuities	0% to 4.5%	TPRV (prospective table)

(c) Netherlands

On transition to IFRS, the valuation of most long-term insurance and participating investment contracts was changed from existing methods that used historic assumptions to an active basis using current market interest rates. A liability adequacy test is performed in line with IFRS requirements. Where liabilities are based on current market interest rates and assets are valued at market value, the margin in the liability adequacy test is determined by comparison of the liabilities with the present value of best estimate cash flows. The yield curve is constructed from yields on collateralised AAA bonds. Annuitant mortality assumptions were revised in 2010.

	Valuation Discount Rates	Mortality Tables Used
	2010 and 2009	2010 and 2009
Life assurances	Market risk-free yield curves, based on iBoxx index for collateralised AAA bonds	GBM/V 61-65, GBM/V 76-80, GBM 80-85, GBM/V 85-90 and GBM/V 90-95
Annuities in deferment and in payment	Market risk-free yield curves, based on iBoxx index for collateralised AAA bonds	GBM/76-80, GBM/V 85-90, GBM/V 95-00, Coll 1993/2003 and DIL 98, plus further allowance for future mortality improvement; CBS2010 (in 2010)

(d) United States

For the major part of our US business, insurance liabilities are measured in accordance with US GAAP as at the date of acquisition.

The liability for future policy benefits for traditional life insurance is computed using the net level method, based on guaranteed interest and mortality rates as used in calculating cash surrender values. Reserve interest assumptions ranged from 2.00% to 7.50% in 2010 *(2009: 2.00% to 7.50%).* The weighted average interest rate for all traditional life policy reserves in 2010 was 4.50% *(2009: 4.47%).*

Future policy benefit reserves for universal life insurance, deferred annuity products and funding agreements are computed under a retrospective deposit method and represent policy account balances before applicable surrender charges. For the indexed products, the liability held is calculated based on the option budget method and is equal to the host contract and the calculated value of the derivative. The value of the derivative is based on the present value of the difference between the projected fund value and the underlying fund guarantee. The range of interest crediting rates for deferred annuity products, the largest component of the US business, excluding sales inducement payouts, was 1.00% to 5.20% in 2010 *(2009: 2.00% to 6.00%).* An additional liability is established for universal life contracts with death or other insurance benefit features, which is determined using an equally weighted range of scenarios with respect to investment returns, policyholder lapses, benefit election rates, premium payout patterns and mortality. The additional liability represents the present value of future expected benefits based on current product assumptions.

The indexed life and annuity products guarantee the return of principal to the customer, and credit interest based on certain indices. A portion of the premium from each customer is invested in fixed income securities and is intended to cover the minimum guaranteed value. A further portion of the premium is used to purchase derivatives to hedge the growth in interest credited to the customer as a direct result of increases in the related indices. Both the derivatives and the options embedded in the policy are valued at their fair value.

Deferred income reserves are established for fees charged for insurance benefit features which are assessed in a manner that is expected to result in higher profits in earlier years, followed by lower profits or losses in subsequent years. The excess charges are deferred and amortised using the same assumptions and factors used to amortise deferred acquisition costs. Shadow adjustments may be made to deferred acquisition costs, acquired value of in-force business, deferred income reserves and contract liabilities. The shadow adjustments are recognised directly in other comprehensive income so that unrealised gains or losses on investments that are recognised directly in other comprehensive income affect the measurement of the liability, or related assets, in the same way as realised gains or losses.

(e) Other Countries

In all other countries, local generally accepted interest rates and published standard mortality tables are used for different categories of business as appropriate. The tables are based on relevant experience and show mortality rates, by age, for specific groupings of people.

(iv) Movements

The following movements have occurred in the long-term business provisions during the year:

	2010 £m	2009 £m
Carrying amount at 1 January	154,058	156,188
Provisions in respect of new business	12,502	11,105
Expected change in existing business provisions	(9,259)	(7,625)
Variance between actual and expected experience	1,858	2,154
Impact of other operating assumption changes	(520)	(121)
Impact of economic assumption changes	1,959	(404)
Exceptional strengthening of longevity assumptions (see below)	483	—
Other movements	(197)	1,112
Change in liability recognised as an expense	6,826	6,221
Effect of portfolio transfers, acquisitions and disposals	1,117	(67)
Foreign exchange rate movements	(1,055)	(8,284)
Carrying amount at 31 December	160,946	154,058

The variance between actual and expected experience of £1.9 billion in 2010 was primarily driven by favourable movements in investment markets, which had a direct or indirect impact on liability values. Equity markets increased, government bond yields fell in major markets and credit spreads on corporate bonds were broadly unchanged. For many types of long-term business, including unit-linked and participating funds, movements in asset values are offset by corresponding changes in liabilities, limiting the net impact on profit. Minor variances arise from differences between actual and expected experience for persistency, mortality and other demographic factors.

The impact of assumption changes in the above analysis shows the resulting movement in the carrying value of insurance liabilities. A strengthening of longevity assumptions was made in the Netherlands, following the publication of new mortality tables, which is separately identified as an exceptional item. The reduction in liabilities from other operating assumption changes mainly relates to assurance mortality assumptions in the UK and Ireland, with a corresponding reduction made to reassurance assets. The £2.0 billion impact of economic assumption changes reflects reductions in valuation interest rates. For participating business, a movement in liabilities is generally offset by a corresponding adjustment to the unallocated divisible surplus and does not impact on profit. Where assumption changes do impact on profit, these are included in the effect of changes in assumptions and estimates during the year shown in note 40, together with the impact of movements in related non-financial assets.

(c) General Insurance and Health Liabilities

(i) Provisions for Outstanding Claims

Delays occur in the notification and settlement of claims and a substantial measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the statement of financial position date. The reserves for general insurance and health business are based on information currently available. However, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

Provisions for outstanding claims are established to cover the outstanding expected ultimate liability for losses and loss adjustment expenses (LAE) in respect of all claims that have already occurred. The provisions established cover reported claims and associated LAE, as well as claims incurred but not yet reported and associated LAE.

We only establish loss reserves for losses that have already occurred. We therefore do not establish catastrophe equalisation reserves that defer a share of income in respect of certain lines of business from years in which a catastrophe does not occur to future periods in which catastrophes may occur. When calculating reserves, we take into account estimated future recoveries from salvage and subrogation, and a separate asset is recorded for expected future recoveries from reinsurers after considering their collectability.

The table below shows the split of total general insurance and health outstanding claim provisions and IBNR provisions, gross of reinsurance, by major line of business.

	As at 31 December 2010			As at 31 December 2009		
	Outstanding Claim Provisions £m	IBNR Provisions £m	Total Claim Provisions £m	Outstanding Claim Provisions £m	IBNR Provisions £m	Total Claim Provisions £m
Motor	4,419	924	5,343	4,411	753	5,164
Property	1,669	188	1,857	1,697	196	1,893
Liability	2,388	1,303	3,691	2,707	1,379	4,086
Creditor	77	24	101	170	17	187
Other	975	296	1,271	992	374	1,366
	9,528	2,735	12,263	9,977	2,719	12,696

(ii) Discounting

Outstanding claims provisions are based on undiscounted estimates of future claim payments, except for the following classes of business for which discounted provisions are held:

	Rate		Mean Term of Liabilities	
Class	**2010**	**2009**	**2010**	**2009**
Netherlands Permanent health and injury	3.75%	3.48%	7 years	8 years
Reinsured London Market business	3.30%	4.00%	12 years	10 years
Latent claims	0.88% to 4.18%	0.82% to 4.84%	7 to 15 years	8 to 15 years
Structured settlements	3.20%	3.30%	35 years	35 years

The gross outstanding claims provision before discounting was £13,179 million *(2009: £13,576 million)*. The period of time which will elapse before the liabilities are settled has been estimated by modelling the settlement patterns of the underlying claims.

The discount rate that has been applied to latent claims reserves is based on the relevant swap curve in the relevant currency having regard to the expected settlement dates of the claims. The range of discount rates used depends on the duration of the claims and is given in the table above. The duration of the claims span over 35 years, with the average duration being between 7 and 15 years depending on the geographical region.

During 2010, we have continued to experience an increase in the number of bodily injury claims settled by periodic payment orders (PPOs) or structured settlements, especially in the UK, which are reserved for on a discounted basis.

(iii) Assumptions

Outstanding claims provisions are estimated based on known facts at the date of estimation. Case estimates are generally set by skilled claims technicians, applying their experience and knowledge to the circumstances of individual claims. They take into account all available information and correspondence regarding the circumstances of the claim, such as medical reports, investigations and inspections. Claims technicians set case estimates according to documented claims department policies and specialise in setting estimates for certain lines of business or types of claim. Claims above certain limits are referred to senior claims handlers for authorisation.

No adjustments are made to the claims technicians' case estimates included in booked claim provisions, except for rare occasions when the estimated ultimate cost of a large or unusual claim may be adjusted, subject to internal reserve committee approval, to allow for uncertainty regarding, for example, the outcome of a court case. The ultimate cost of outstanding claims is then estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder and Bornhuetter-Ferguson methods. The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident period, although underwriting or notification period is also used where this is considered appropriate.

Claim development is separately analysed for each geographic area, as well as by each line of business. Certain lines of business are also further analysed by claim type or type of coverage. In addition, large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development.

The assumptions used in most non-life actuarial projection techniques, including future rates of claims inflation or loss ratio assumptions, are implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in the future, for example, to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures in order to arrive at a point estimate for the ultimate cost of claims that represents the likely outcome, from a range of possible outcomes, taking account of all the uncertainties involved. The range of possible outcomes does not, however, result in the quantification of a reserve range.

However, the following explicit assumptions are made which could materially impact the level of booked net reserves:

UK Mesothelioma Claims

The level of uncertainty associated with latent claims is considerable due to the relatively small number of claims and the long-tail nature of the liabilities. UK mesothelioma claims account for a large proportion of the Group's latent claims. The key assumptions underlying the estimation of these claims include claim numbers, the base average cost per claim, future inflation in the average cost of claims, legal fees and the life expectancy of potential sufferers.

The best estimate of the liabilities reflects the latest available market information and studies. Many different scenarios can be derived by flexing these key assumptions and applying different combinations of the different assumptions. An upper and lower scenario can be derived by making reasonably likely changes to these assumptions, resulting in an estimate £195 million greater than the best estimate, or £85 million lower than the best estimate. These scenarios do not, however, constitute an upper or lower bound on these liabilities.

Interest Rates Used to Discount Latent Claim Liabilities

The discount rates used in determining our latent claim liabilities are based on the relevant swap curve in the relevant currency at the reporting date, having regard to the duration of the expected settlement of latent claims. The range of discount rates used is shown in section (ii) above and depends on the duration of the claim and the reporting date. At 31 December 2010, it is estimated that a 1% fall in the discount rates used would increase net claim reserves by approximately £70 million, excluding the offsetting effect on asset values as assets are not hypothecated across classes of business. The impact of a 1% fall in interest rates across all assets and liabilities of our general insurance and health businesses is shown in note 54(i).

Allowance for Risk and Uncertainty

The uncertainties involved in estimating loss reserves are allowed for in the reserving process and by the estimation of explicit reserve uncertainty distributions. The reserve estimation basis for non-life claims adopted by the Group at 31 December 2010 requires all non-life businesses to calculate booked claim provisions as the best estimate of the cost of future claim payments, plus an explicit allowance for risk and uncertainty. The allowance for risk and uncertainty is calculated by each business unit in accordance with the requirements of the Group non-life reserving policy, taking into account the risks and uncertainties specific to each line of business and type of claim in that territory. The requirements of the Group non-life reserving policy also seek to ensure that the allowance for risk and uncertainty is set consistently across both business units and reporting periods.

Changes to claims development patterns can materially impact the results of actuarial projection techniques. However, allowance for the inherent uncertainty in the assumptions underlying reserving projections is automatically allowed for in the explicit allowance for risk and uncertainty included when setting booked reserves.

Lump sum payments in settlement of bodily injury claims decided by the UK courts are calculated in accordance with the Ogden Tables. The Ogden Tables contain a discount rate that is set by the Lord Chancellor and that is applied when calculating the present value of loss of earnings for claims settlement purposes.

The Ogden discount rate is currently under review by the Lord Chancellor. The outcome of this review is expected to be announced in 2011 but it is still not clear whether or by how much the rate will change. A reduction in the Ogden discount rates will increase lump sum payments to UK bodily injury claimants.

(iv) Movements

The following changes have occurred in the general insurance and health claims provisions during the year:

	2010 £m	2009 £m
Carrying amount at 1 January	12,696	14,360
Impact of changes in assumptions	26	(106)
Claim losses and expenses incurred in the current year	6,908	7,328
Decrease in estimated claim losses and expenses incurred in prior years	(358)	(541)
Exceptional strengthening of general insurance latent claims provisions	10	60
Incurred claims losses and expenses	6,586	6,741
Less:		
Payments made on claims incurred in the current year	(3,641)	(3,922)
Payments made on claims incurred in prior years	(3,803)	(3,814)
Recoveries on claim payments	271	298
Claims payments made in the year, net of recoveries	(7,173)	(7,438)
Unwind of discounting	64	41
Other movements in the claims provisions	(18)	—
Change in claims reserve recognised as an expense	(541)	(656)
Effect of portfolio transfers, acquisitions and disposals	4	(649)
Foreign exchange rate movements	102	(359)
Other movements	2	—
Carrying amount at 31 December	12,263	12,696

The exceptional strengthening of reserves is in respect of several specific discontinued commercial liability risks written in Canada a significant number of years ago.

The effect of changes in the main assumptions is given in note 40.

(d) Loss Development Tables

(i) Description of Tables

The tables that follow present the development of claim payments and the estimated ultimate cost of claims for the accident years 2001 to 2010. The upper half of the tables shows the cumulative amounts paid during successive years related to each accident year. For example, with respect to the accident year 2002, by the end of 2010 £5,814 million had actually been paid in settlement of claims. In addition, as reflected in the lower section of the table, the original estimated ultimate cost of claims of £6,250 million was re-estimated to be £6,035 million at 31 December 2010.

The original estimates will be increased or decreased, as more information becomes known about the individual claims and overall claim frequency and severity.

The Group aims to maintain strong reserves in respect of its general insurance and health business in order to protect against adverse future claims experience and development. As claims develop and the ultimate cost of claims become more certain, the absence of adverse claims experience will result in a release of reserves from earlier accident years, as

shown in the loss development tables and movements table (c)(iv) above. However, in order to maintain overall reserve adequacy, the Group establishes strong reserves in respect of the current accident year (2010) where the development of claims is less mature and there is much greater uncertainty attaching to the ultimate cost of claims. Releases from prior accident year reserves are also due to an improvement in the estimated cost of claims.

Key elements of the release from prior accident year general insurance and health net provisions during 2009 were:

- £230 million from the UK, including group reinsurance business, mainly due to an improved view of group reinsurance liabilities, and favourable development on personal and commercial motor claims, and commercial property and commercial liability large claims.
- £237 million from Europe mainly due to favourable development of personal motor and commercial property, especially in respect of large claims.
- £79 million from Canada mainly due to favourable experience on motor and personal property.

Key elements of the release from prior accident year general insurance and health net provisions during 2010 were:

- £101 million from the UK, including group reinsurance business, mainly due to an improved view of group reinsurance liabilities, and favourable development on personal property claims, and commercial property and commercial liability large claims.
- £167 million from Europe mainly due to favourable development of personal and commercial property.
- £44 million from Canada mainly due to favourable experience on motor and commercial liability.

(ii) Gross Figures

Before the effect of reinsurance, the loss development table is:

Accident Year	All Prior Years £m	2001 £m	2002 £m	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	Total £m
Gross cumulative claim payments												
At end of accident year		(3,029)	(2,952)	(2,819)	(2,971)	(3,345)	(3,653)	(4,393)	(4,915)	(3,780)	(3,502)	
One year later		(4,766)	(4,486)	(4,190)	(4,561)	(5,011)	(5,525)	(6,676)	(7,350)	(5,464)		
Two years later		(5,303)	(4,921)	(4,613)	(4,981)	(5,449)	(5,971)	(7,191)	(7,828)			
Three years later		(5,701)	(5,233)	(4,972)	(5,263)	(5,784)	(6,272)	(7,513)				
Four years later		(5,966)	(5,466)	(5,258)	(5,448)	(6,001)	(6,531)					
Five years later		(6,121)	(5,618)	(5,409)	(5,617)	(6,156)						
Six years later		(6,223)	(5,715)	(5,527)	(5,725)							
Seven years later		(6,294)	(5,767)	(5,594)								
Eight years later		(6,350)	(5,814)									
Nine years later		(6,389)										
Estimate of gross ultimate claims												
At end of accident year		6,590	6,250	6,385	6,891	7,106	7,533	8,530	9,508	7,364	6,911	
One year later		6,770	6,372	6,172	6,557	6,938	7,318	8,468	9,322	7,297		
Two years later		6,775	6,287	6,124	6,371	6,813	7,243	8,430	9,277			
Three years later		6,798	6,257	6,036	6,178	6,679	7,130	8,438				
Four years later		6,754	6,205	5,932	6,008	6,603	7,149					
Five years later		6,679	6,122	5,853	6,003	6,605						
Six years later		6,630	6,056	5,813	5,953							
Seven years later		6,576	6,044	5,792								
Eight years later		6,600	6,035									
Nine years later		6,577										
Estimate of gross ultimate claims		6,577	6,035	5,792	5,953	6,605	7,149	8,438	9,277	7,297	6,911	
Cumulative payments		(6,389)	(5,814)	(5,594)	(5,725)	(6,156)	(6,531)	(7,513)	(7,828)	(5,464)	(3,502)	
	3,040	188	221	198	228	449	618	925	1,449	1,833	3,409	12,558
Effect of discounting	(747)	(6)	(11)	(29)	(7)	(28)	(27)	(9)	(11)	(24)	(17)	(916)
Present value	2,293	182	210	169	221	421	591	916	1,438	1,809	3,392	11,642
Cumulative effect of foreign exchange movements	—	29	31	47	52	85	122	111	(16)	17	—	478
Effect of acquisitions	—	7	8	50	10	18	15	27	8	—	—	143
Present value recognised in the statement of financial position	2,293	218	249	266	283	524	728	1,054	1,430	1,826	3,392	12,263

(iii) Net of Reinsurance

After the effect of reinsurance, the loss development table is:

Accident Year	All Prior Years £m	2001 £m	2002 £m	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	Total £m
Net cumulative claim payments												
At end of accident year		(2,970)	(2,913)	(2,819)	(2,870)	(3,281)	(3,612)	(4,317)	(4,808)	(3,650)	(3,386)	
One year later		(4,624)	(4,369)	(4,158)	(4,378)	(4,925)	(5,442)	(6,542)	(7,165)	(5,286)		
Two years later		(5,088)	(4,779)	(4,565)	(4,712)	(5,344)	(5,881)	(7,052)	(7,638)			
Three years later		(5,436)	(5,064)	(4,924)	(4,986)	(5,671)	(6,181)	(7,356)				
Four years later		(5,648)	(5,297)	(5,180)	(5,163)	(5,892)	(6,434)					
Five years later		(5,763)	(5,424)	(5,325)	(5,327)	(6,039)						
Six years later		(5,841)	(5,508)	(5,442)	(5,430)							
Seven years later		(5,896)	(5,552)	(5,502)								
Eight years later		(5,954)	(5,598)									
Nine years later		(5,979)										
Estimate of net ultimate claims												
At end of accident year		6,185	6,037	6,218	6,602	6,982	7,430	8,363	9,262	7,115	6,650	
One year later		6,333	6,038	6,093	6,266	6,818	7,197	8,302	9,104	7,067		
Two years later		6,321	5,997	6,037	6,082	6,688	7,104	8,244	9,028			
Three years later		6,329	5,973	5,942	5,882	6,544	6,996	8,249				
Four years later		6,286	5,912	5,851	5,709	6,476	6,980					
Five years later		6,219	5,855	5,772	5,699	6,448						
Six years later		6,173	5,786	5,683	5,639							
Seven years later		6,109	5,754	5,663								
Eight years later		6,130	5,742									
Nine years later		6,090										
Estimate of net ultimate claims		6,090	5,742	5,663	5,639	6,448	6,980	8,249	9,028	7,067	6,650	
Cumulative payments		(5,979)	(5,598)	(5,502)	(5,430)	(6,039)	(6,434)	(7,356)	(7,638)	(5,286)	(3,386)	
	1,750	111	144	161	209	409	546	893	1,390	1,781	3,264	10,658
Effect of discounting	(414)	(3)	(5)	(8)	(3)	(3)	(5)	(9)	(11)	(24)	(16)	(501)
Present value	1,336	108	139	153	205	406	541	884	1,379	1,757	3,248	10,157
Cumulative effect of foreign exchange movements	—	15	27	42	48	80	116	106	(14)	17	—	437
Effect of acquisitions	—	6	7	36	8	13	13	20	8	—	—	111
Present value recognised in the statement of financial position	1,336	129	173	231	262	499	670	1,010	1,373	1,774	3,248	10,705

In the loss development tables shown above, the cumulative claim payments and estimates of cumulative claims for each accident year are translated into sterling at the exchange rates that applied at the end of that accident year. The impact of using varying exchange rates is shown at the bottom of each table. Disposals are dealt with by treating all outstanding and IBNR claims of the disposed entity as 'paid' at the date of disposal.

The loss development tables above include information on asbestos and environmental pollution claims provisions from business written before 2001. The undiscounted claim provisions, net of reinsurance, in respect of this business at 31 December 2010 were £939 million *(2009: £968 million).* The movement in the year reflects exceptional strengthening of provisions by £10 million (*2009: £60 million)* in respect of several specific discontinued commercial liability risks written in Canada a significant number of years ago, other strengthening of £66 million *(2009: £62 million release),* claim payments, reinsurance recoveries and foreign exchange rate movements.

(e) Provision for Unearned Premiums Movements

The following changes have occurred in the provision for unearned premiums (UPR) during the year:

	2010 £m	2009 £m
Carrying amount at 1 January	4,781	5,493
Premiums written during the year	10,469	9,958
Less: Premiums earned during the year	(10,424)	(10,513)
Change in UPR recognised as income	45	(645)
Gross portfolio transfers and acquisitions	(14)	—
Foreign exchange rate movements	43	(67)
Carrying amount at 31 December	4,855	4,781

41—Unallocated Divisible Surplus

An unallocated divisible surplus (UDS) is established where the nature of policy benefits is such that the division between shareholder reserves and policyholder liabilities is uncertain. This note shows the movements in this surplus during the year.

The following movements have occurred in the year:

	2010 £m	2009 £m
Carrying amount at 1 January	3,866	2,325
Change in participating contract assets	(444)	(1,314)
Change in participating contract liabilities	169	3,836
Effect of special bonus to with-profit policyholders (see note 42a)	(58)	(69)
Effect of reattribution of inherited estate (see note 42b)	—	(881)
Other movements	4	(25)
Change in liability recognised as an expense	(329)	1,547
Effect of portfolio transfers, acquisitions and disposals	(3)	(4)
Movement in respect of change in pension scheme deficit (note 45c(i))	18	(24)
Foreign exchange rate movements	(61)	43
Other movements	(63)	(21)
Carrying amount at 31 December	3,428	3,866

In Italy and Spain, the UDS balances were £435 million negative in total at 31 December 2010 *(2009: Italy £92 million negative)* because of an accounting mismatch between participating assets carried at market value and participating liabilities measured using local practice. The negative balance is considered to be recoverable from margins in the existing participating business liabilities.

IAS 2, *INVENTORIES*

IFRS Overview and Comparison to U.S. GAAP

2.33 IAS 2, *Inventories*, defines *inventories* as assets held for sale in the ordinary course of business, assets in the process of production for such sale, and materials or supplies to be consumed in the production or rendering of services.

Recognition and Measurement

IFRSs

2.34 IAS 2 applies to all inventories, except work in process under construction contracts (IAS 11, *Construction Contracts*); financial instruments (IAS 32, *Financial Instruments: Presentation*, and IAS 39); and biological assets (IAS 41, *Agriculture*).

2.35 IAS 16, *Property, Plant and Equipment*, requires an entity to include spare parts and servicing equipment as inventory, except that the entity may include major spare parts and standby equipment in PPE when it expects to use these items for more than one period or when the parts and equipment can only be used with an item of PPE. Entities should classify intangible assets and investment properties as inventory when these items are developed and held for sale in the ordinary course of business.

2.36 To the extent that inventories are measured according to standard industry practice at net realizable value, IAS 2 exempts the following industries from its measurement requirements: producers of agricultural and forest products, agricultural products after harvest, and minerals and mineral products. Measurement requirements also do not apply to commodity broker-dealers who measure their inventories at fair value less cost to sell. In these cases, an entity should recognize changes in carrying value in profit or loss.

2.37 An entity should recognize items that meet the definition of *inventory* when the items also meet the definition of an *asset* and the *recognition criteria*. To meet the recognition criteria, the asset should be a probable source of future economic benefits (probability criteria), and its cost should be measured reliably (measurement reliability criteria). Cost includes all costs, including purchase, conversion, and other incurred costs, necessary to bring the assets to their present condition and location. An entity should exclude from cost (*a*) abnormal waste, storage, and administrative overheads that do not contribute to bringing inventories to their present location and condition and (*b*) selling costs.

2.38 At initial recognition, an entity should measure inventories at cost of production. Production costs consist mainly of direct labor, including supervisory costs and direct overhead. They also include a systematic allocation of fixed and variable production overheads that are incurred. Unallocated overheads are expensed in the period in which they are incurred. Capitalized costs should not include administrative costs, other nonattributable costs, and profit margins. Entities should measure agricultural produce at fair value less cost to sell at the point of harvest, in accordance with IAS 41. Subsequently, unless an entity is exempt as previously explained, the requirements of IAS 2 apply.

2.39 After initial recognition, an entity should measure inventories at the lower of cost or net realizable value. Convenient techniques for measuring cost, such as standard cost or retail methods, can be used if the results approximate actual cost.

2.40 An entity should use one of the following cost flow assumptions to assign costs to inventories and expense:

- Specific identification for assets that are not interchangeable or segregated and produced for specific projects
- First-in, first-out (FIFO)
- Weighted-average cost

IAS 2 requires an entity to apply the same cost flow assumption to inventories of similar nature and use. IAS 2 prohibits the use of the last-in, first-out (LIFO) cost flow assumption.

2.41 An entity should not carry an asset at an amount exceeding the amount it expects to realize from sale or use. When there are indicators that the cost is not recoverable, such as damage or decline in selling price, an entity should write-down inventories to net realizable value. *Net realizable value* is the estimated selling price in the ordinary course of

business less estimated completion costs and costs necessary to make the sale.

2.42 An entity should recognize the carrying amount of inventories sold as an expense in profit or loss in the same period as it recognizes the related revenue.

U.S. GAAP

2.43 As defined in the FASB ASC glossary, *inventory* is the aggregate of those items of tangible personal property that have any of the following characteristics:

- Held for sale in the ordinary course of business
- In process of production for such sale
- To be currently consumed in the production of goods or services to be available for sale

Similar to IFRSs, the term *inventory* applies to goods awaiting sale (the merchandise of a trading concern and the finished goods of a manufacturer), goods in the course of production (work in process), and goods to be consumed directly or indirectly in production (raw materials and supplies). However, this definition specifically excludes from classification as inventory long-term assets subject to depreciation accounting or goods that, when put into use, will be classified as long term. Therefore, under U.S. GAAP, an entity should not classify intangible assets or investment properties held for sale in the normal course of business as inventory, but they could be so classified under IFRSs.

2.44 Two key measurement differences between IFRSs and FASB ASC are the following:

- FASB ASC 330-10-35-1 requires an entity to measure inventories at the lower of cost or market. *Market*, as defined in the FASB ASC glossary, means current replacement cost, with the constraint that market should not exceed net realizable value and should not be lower than net realizable value less an allowance for an approximately normal profit margin.
- FASB ASC 330-10-30-9 permits the use of the LIFO cost flow assumption.

2.45 Unlike IFRSs, FASB ASC 330, *Inventory*, does not permit reversals (or recovery) of write-downs of inventory. A write-down under FASB ASC 330-10-35-14 creates a new cost basis, with the result that no recoveries should be recognized prior to sale or disposal.

Presentation

IFRSs

2.46 An entity should present inventories as a separate line item on the balance sheet, classified as current or noncurrent in accordance with IAS 1.

U.S. GAAP

2.47 Given the scope exclusions noted previously in paragraph 2.43, in accordance with FASB ASC 210-10-45-1, an entity should generally classify inventories as current.

Disclosure

IFRSs

2.48 IAS 2 requires the following disclosures:

- Accounting policies for measuring inventories and the cost flow assumption applied
- Total carrying amount and carrying amounts of classifications appropriate to the entity
- Carrying amount of any inventories held at fair value less cost to sell
- Amount recognized as an expense during the period
- Amounts recognized as write-downs or reversals of write-downs during the period and a recognition of the circumstances that led to the write-down or reversal
- Carrying amount of inventories pledged as security for liabilities

U.S. GAAP

2.49 Required disclosures under FASB ASC are similar to those in IAS 1, except that the SEC requires additional disclosures by entities that use LIFO. Rule 5-02-6(c) of SEC Regulation S-X requires an entity to disclose the excess of replacement or current cost over stated amounts for LIFO inventories, if material. SEC *Codification of Staff Accounting Bulletins* topic 11(F), "LIFO Liquidations," requires disclosures about LIFO liquidations, and topic 5(L), "LIFO Inventory Practices," directs entities to the AICPA issues paper *Identification and Discussion of Certain Financial Accounting and Reporting Issues Concerning LIFO Inventories* for guidance in the absence of authoritative literature.

Presentation and Disclosure Excerpts

First-In, First-Out

2.50

Trinity Biotech plc (Dec 2010)

CONSOLIDATED BALANCE SHEETS (in part)

	Notes	December 31, 2010 US$'000	December 31, 2009 US$'000
Assets			
Current assets			
Inventories	15	17,576	39,198
Trade and other receivables	16	25,529	22,931
Income tax receivable		217	229
Cash and cash equivalents	17	58,002	6,078
Total current assets		101,324	68,436

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Basis of Preparation and Significant Accounting Policies (in part)

i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in, first-out principle and includes all expenditure which has been incurred in bringing the products to their present location and condition, and includes an appropriate allocation of manufacturing overhead based on the normal level of operating capacity. Net realisable value is the estimated selling price of inventory on hand in the ordinary course of business less all further costs to completion and costs expected to be incurred in selling these products.

The Group provides for inventory, based on estimates of the expected realisability of the Group's inventory. The estimated realisability is evaluated on a case-by-case basis and any inventory that is approaching its "use-by" date and for which no further re-processing can be performed is written off. Any reversal of an inventory provision is recognised in the statement of operations in the year in which the reversal occurs.

15. Inventories

	December 31, 2010 US$'000	December 31, 2009 US$'000
Raw materials and consumables	4,516	9,191
Work-in-progress	4,676	10,478
Finished goods	8,384	19,529
	17,576	39,198

All inventories are stated at the lower of cost or net realisable value. Total inventories for the Group are shown net of provisions of US$6,400,000 (2009: US$12,566,000). Note 3 outlines the net inventories which were transferred to Diagnostica Stago during the year as part of the divestiture of the Coagulation business.

The movement on the inventory provision for the three year period to December 31, 2010 is as follows:

	December 31, 2010 US$'000	December 31, 2009 US$'000	December 31, 2008 US$'000
Opening provision at January 1	12,566	16,461	18,234
Charged during the year	3,006	2,064	1,570
Utilised during the year	(8,440)	(4,751)	(2,182)
Released during the year	(732)	(1,208)	(1,161)
Closing provision at December 31	6,400	12,566	16,461

Weighted Average Cost and Specific Identification

2.51

Compagnie Financière Richemont SA (Mar)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (in part)

At 31 March

	Notes	2010 €m	2009 €m
Assets			
Current assets			
Inventories	14	2,260	2,422
Trade and other receivables	15	626	672
Derivative financial instruments	16	13	18
Prepayments and accrued income		84	80
Assets of disposal groups held for sale	28	—	11
Financial assets held at fair value through profit or loss	12	1,339	—
Cash at bank and on hand	17	1,258	2,032
		5,580	5,235

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Summary of Significant Accounting Policies (in part)

2.10. Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Cost is determined using either a weighted average or specific identification basis depending on the nature of the inventory. The cost of finished goods and work in progress comprises raw materials, direct labour, related production overheads and, where applicable, duties and taxes. It excludes borrowing costs.

14. Inventories

	2010 €m	2009 €m
Raw materials and work in progress	740	8,191
Finished goods	1,520	1,603
	2,260	2,422

The cost of inventories recognised as an expense and included in cost of sales amounted to €1,703 million (2009: €1,763 million).

The Group reversed €40 million (2009: €68 million) of a previous inventory write-down during the year as the goods were sold at an amount in excess of the written down value. The amount reversed has been credited to cost of sales.

The Group recognised €158 million (2009: €124 million) in the write-down of inventory as a charge to cost of sales.

Fair Value Less Cost to Sell—Broker Trader Exemption From IAS 2

2.52

Barry Callebaut AG (Aug 2010)

CONSOLIDATED BALANCE SHEET (in part)

As of August 31, in Thousands of CHF	Notes	2010	2009
Assets			
Current assets			
Cash and cash equivalents		17,360	33,993
Short-term deposits		750	2,137
Trade receivables and other current assets	12	587,380	524,847
Inventories	13	1,186,231	1,294,545
Current income tax assets		2,760	5,489
Derivative financial assets	14	370,580	221,649
Total current assets		2,165,061	2,082,660

ACCOUNTING POLICIES (in part)

Unnumbered Note

Inventories

The Group principally acquires cocoa beans, any semi-finished products resulting from cocoa beans (such as cocoa liquor, butter, cake or powder), other raw materials such as sweeteners, dairy and nuts and has industrial chocolate inventories with the purpose of selling them in the near future and generating a profit from fluctuations in price or broker-traders' margin. The Group therefore acts as a broker-trader of such commodities and these inventories are measured at fair value less costs to sell in accordance to the broker-trader exemption per IAS 2.5 (Inventories).

Other inventories, such as finished consumer products and other items related to the Price List Business are stated at the lower of cost and net realizable value. The cost of inventories comprises the costs of materials, direct production costs including labor costs and an appropriate proportion of production overheads and factory depreciation. For movements in inventories, the average cost method is applied. Net realizable value is defined as the estimated selling price less costs of completion and direct selling and distribution expenses.

13. Inventories

As of August 31, in Thousands of CHF	2010	2009
Cocoa bean stocks	369,758	436,754
Semi-finished and finished products	698,243	722,986
Other raw materials and packaging materials	118,230	134,805
Total inventories	1,186,231	1,294,545
Thereof Stocks Carried at Fair Value Less Costs to Sell		
Cocoa bean stocks	351,064	420,179
Semi-finished and finished products	539,752	555,267
Other raw materials	50,998	58,219
Total stocks carried at fair value less costs to sell	941,814	1,033,665

Barry Callebaut applies the broker-trader exemption in accordance with IAS 2.5 for the Contract Business and therefore measures its Contract Business inventories at fair value less costs to sell. Barry Callebaut fulfills the requirement of a broker-trader as it holds inventories with the purpose of generating a profit from short-term fluctuations in price or dealer's margin. All commodities, including industrial chocolate, are valued based on the raw material prices at the balance sheet date.

In the Price List Business Barry Callebaut is committed to sell its products at a fixed price over a certain period of time, i.e. the period of validity of the respective price list. Inventories dedicated to the Price List Business are therefore measured at the lower of cost or net realizable value.

As of August 31, 2010, inventories amounting to CHF 19.1 million (2009: CHF 5.8 million) are pledged as security for financial liabilities.

In fiscal year 2009/10, inventory write-downs of CHF 4.8 million were recognized as expenses (2008/09: CHF 5.5 million).

Specific Identification—Properties Under Development for Resale

2.53

Homburg Invest Inc. (Dec 2010)

CONSOLIDATED BALANCE SHEET (in part)

(CAD $ Thousands Except per Share Amounts)	Note	December 31, 2010	December 31, 2009
Assets			
Current assets			
Cash and cash equivalents		13,617	32,569
Properties under development for resale	9	36,932	73,957
Receivables and other	5	36,025	49,639
		86,574	156,165
Assets classified as held for sale	16	144,247	72,957
		230,821	229,122

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

4. Summary of Significant Accounting Policies (in part)

Properties Under Development for Resale

Properties being developed for resale are accounted for in accordance with IAS 2—Inventories and are carried at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less selling costs and costs to complete development. To the extent that there have been write downs to net realizable value, the reversal of these write downs is recognized in the subsequent period should net realizable value recover.

9. Properties Under Development for Resale

	2010	2009
Balance, beginning of year	$73,957	$194,638
Construction and development costs capitalized	627	80,864
Disposals (Note 23 p)	(8,472)	
Capitalized interest		5,214
Impairment loss	(7,811)	(27,779)
Net transfers to investment properties under development		(21,323)
Cost of properties sold	(21,369)	(157,657)
Balance, end of year	$36,932	$ 73,957

The Company classifies its construction properties under development for resale as current assets. The Company expects these properties to be completed within their normal operating cycle for such properties, which may extend beyond one year. The Company's construction properties under development for resale include condominium developments that have yet to fully realize their cash flow from sales of units. Capitalized interest in the prior year relates to a property classified as a property under development for resale in the prior year which has been reclassified to Investment property under development. There was no capitalized interest in the current year.

TABLE 2-3: CLASSES OF PROPERTY, PLANT & EQUIPMENT

	2010	2009
Land	44	33
Buildings	59	47
Land and buildings	80	84
Production equipment and machinery	105	98
Computer and office equipment	46	41
Construction in progress	86	82
Exploration and evaluation assets	5	6
Furniture and fixtures (equipment)	57	53
Hardware & parts	6	6
Leased Assets	28	28
Leasehold Improvements	25	22
Major overhaul (e.g., drydocking)	1	1
Mineral properties and mining assets	12	13
Motor Vehicles	52	41
Network infrastructure	12	10
Other Transportation (e.g., Aircraft, Vessels)	19	47
Oil & gas properties	5	4
Oil depots, storage tanks and service stations	1	1
Other	70	61

IAS 16

IFRSs Overview and Comparison to U.S. GAAP

2.54 IAS 16 defines items of PPE as tangible items held for use in the production or supply of goods or services, items used for rental or administrative purposes, and items expected to be used over more than one period.

Recognition and Measurement

Author's Note

The requirements for depreciation and impairment in IAS 16 are discussed in section 3.

IFRSs

2.55 IAS 16 applies to all items of PPE, unless another standard permits or requires another treatment. For example, IAS 40, *Investment Property*, prescribes the accounting for land or buildings held for rental, capital appreciation, or both, and provides an alternative measurement option. In addition, the scope of IAS 16 only includes items of PPE used to develop or maintain mineral rights, mineral reserves, and other nonregenerative resources, not the rights, reserves, or resources themselves.

2.56 An entity recognizes an item of PPE when the following probability and measurement reliability recognition criteria are met:

- It is probable that future economic benefits will flow to the entity, and
- The cost can be measured reliably.

2.57 On initial recognition, an entity should capitalize all directly attributable costs incurred in order to bring the asset to its present location and condition and that are necessary for its intended use. Examples of directly attributable costs include the purchase price, freight, employee benefits, site preparation, installation, assembly, and testing costs. IAS 16 specifically excludes the following costs from being capitalized: costs of opening a new facility, training, general administration, overhead, and selling and marketing costs. As soon as an asset is in the location and condition necessary for it to be capable of operating as intended, the entity should stop capitalizing costs. An entity should not capitalize a cost previously expensed and should not capitalize initial operating losses.

2.58 An entity should include the cost of an asset retirement obligation in the cost of the related item(s) of PPE (or inventory when the obligation is caused by inventory production), with measurement of the obligation determined by reference to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. An entity should also record changes in the obligation, except for the effect of unwinding of the discount rate (accretion), as part of the item of PPE. In accordance with International Financial Reporting Interpretations Committee (IFRIC) Interpretation 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, an entity should recognize the increase in the obligation from accretion as interest expense in profit and loss as incurred.

2.59 IAS 16 offers two models for subsequent measurement: cost and revaluation. An entity should select a model for an entire class of assets. Both models require an entity to record depreciation expense and to test and measure individual assets for impairment.

2.60 Under the cost model, an entity should measure the carrying amount of an item of PPE at its cost less subsequent accumulated depreciation and accumulated impairment losses. Under the revaluation model, an entity should measure the carrying amount of an item of PPE at revalued amount, because its fair value can be measured reliably. The *revalued amount* is the fair value of the asset at the date of revaluation less subsequent accumulated depreciation and accumulated impairment losses.

2.61 If the revaluation model is selected for a class of PPE, an entity should revalue the asset with sufficient regularity that its carrying amount at the reporting date is not materially different from fair value. Although an entity should revalue all items in the class at the same time, it should revalue each item of PPE individually. An entity should recognize increases in carrying amount on revaluation in other comprehensive income (accumulated revaluation surplus), unless the increase reverses a revaluation decrease previously recorded to profit or loss. Similarly, an entity should recognize decreases in carrying amount on revaluation in profit or loss, unless the decrease reduces an existing revaluation surplus.

U.S. GAAP

2.62 The requirements in FASB ASC 360-10 for initial recognition and measurement are essentially the same as those in IAS 16. FASB ASC 410-20-25-5 requires an entity to capitalize an asset retirement cost by increasing the amount of the related long-lived asset by the same amount as the liability for an asset retirement obligation upon initial recognition of the liability. However, FASB ASC 360, *Property, Plant, and Equipment*, considers mining rights to be a separate component of PPE and land and buildings to be PPE regardless of use, even when held for sale.

2.63 In contrast to IFRSs, FASB ASC 360-10-35 permits only the use of historical cost less accumulated depreciation and impairment losses for subsequent measurement of PPE.

2.64 Like IFRSs, FASB ASC 410-20-35-8 requires an entity to include changes to an asset retirement obligation that result from subsequent revisions of the timing or amount of the original estimate of undiscounted cash flows in the cost of the asset. However, changes to the liability due to the passage of time are expensed and classified as accretion expense. Unlike IFRSs, FASB ASC 835-20-15-7 does not consider accretion to be interest expense in this case.

Presentation

IFRSs

2.65 IAS 1 requires an entity to present PPE as a separate line item on the balance sheet. An entity should classify PPE as noncurrent, unless it has been classified as held for sale or is part of a disposal group classified as held for sale, in accordance with IFRS 5.

U.S. GAAP

2.66 FASB ASC 210-10-45-4 also requires an entity to exclude land and depreciable assets from classification as a current asset. Thus, it can be inferred that PPE should be classified as noncurrent when a classified balance sheet is presented, except when classified as held for sale. As noted previously, FASB ASC 805-20-55-37 identifies mineral rights as tangible assets to be accounted for according to their nature; hence, such rights are to be presented as a separate component of PPE.

Disclosure

IFRSs

2.67 IAS 16 requires the following disclosures for each class of PPE:

- Measurement bases used to determine gross carrying amount
- Depreciation methods and useful lives or depreciation rates
- Reconciliation of the following carrying amounts at the beginning and end of the period:
  — Gross carrying amount
  — Accumulated depreciation and accumulated impairment losses (may be shown combined)

2.68 The reconciliation discussed in the preceding paragraph should show the following line items, if applicable:

- Additions, with separate disclosure of items acquired in a business combination
- Classifications to held for sale or inclusion in a disposal group classified as held for sale
- Increases or decreases from revaluation or impairment losses or reversals recognized in other comprehensive income
- Impairment losses or reversals recognized in profit or loss
- Depreciation
- Foreign exchange differences, net

2.69 IAS 16 requires an entity to provide general disclosures, including the existence and amounts of title restrictions and pledges of collateral; amounts recognized during construction; contractual commitments to acquire; and, if not disclosed separately in the statement of comprehensive income, any compensation from third parties for PPE impaired, lost, or given up.

2.70 An entity that measures a class of PPE using the revaluation model should provide additional disclosures, including the effective date of the revaluation, whether the entity used an independent appraiser, the methods and significant assumptions used to determine fair value, the extent to which fair value came from observable prices in an active market or other arm's length transactions, and the amount of the revaluation surplus showing the change during the period and any restrictions on distributions to shareholders. In addition, for each class of PPE carried at the revalued amount, an entity should disclose the amount that would have been recognized in the balance sheet if the cost model were used.

2.71 IAS 23, *Borrowing Costs*, requires disclosure of interest capitalized and the capitalization rate used.

U.S. GAAP

2.72 FASB ASC disclosure requirements are essentially the same as IFRSs, except that FASB 360-10-50 does not require a reconciliation by asset class of the beginning and ending balances of the gross carrying amount, accumulated depreciation, and accumulated impairment losses.

TABLE 2-4: ALTERNATIVE MODELS FOR SUBSEQUENT MEASUREMENT OF PROPERTY, PLANT & EQUIPMENT

	2010	2009
Cost	163	155
Revaluation:		
Land	2	3
Buildings	1	1
Property (land and buildings)	4	4
Other asset class	1	1
All asset classes	3	1
Total companies using revaluation for at least one asset class	11	10
Companies not disclosing a model	3	3
Companies using more than one model	(7)	(8)
Total Companies	**170**	**160**

Presentation and Disclosure Excerpts

Cost Model—Buildings and Structures, Production and Other Equipment

2.73

Abu Dhabi Ship Building PJSC (Dec 2010)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (in part)

As at 31 December 2010

	Notes	2010 AED '000	2009 AED '000
Assets			
Non-current assets			
Plant and equipment	5	263,404	245,679
Advances paid to suppliers		186,834	113,965
Goodwill	6	—	8,610
Non-current derivatives in effective hedges	17	4,946	—
		455,184	368,254

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2.4 Summary of Significant Accounting Policies (in part)

Plant and Equipment

Plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing part of the plant and equipment when that cost is incurred, if the recognition criteria are met. Likewise, when a major inspection is performed, its cost is

recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the consolidated income statement as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Buildings and structures	5 to 40 years
Production and other equipment	3 to 30 years

The carrying amounts are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed this estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end and adjusted prospectively if appropriate.

5. Plant and Equipment

Plant and equipment at year end consist of the following:

	2010 AED '000	2009 AED '000
Plant and equipment, at net carrying amount	257,274	241,687
Advances to contractors	6.130	3.992
	263,404	245,679

	Buildings and Structures AED '000	Production and Other Equipment AED '000	Assets Under Construction AED '000	Total AED '000
2010				
Cost:				
At 1 January 2010	218,151	111,861	17,473	347,485
Additions	3,130	3,224	26,849	33,203
Transfers	36,026	5,440	(41,466)	—
At 31 December 2010	257,307	120,525	2,856	380,688
Depreciation:				
At 1 January 2010	54,387	51,411	—	105,798
Charge for the year	8,060	9,556	—	17,616
At 31 December 2010	62,447	60,967	—	123,414
Net carrying amount:				
At 31 December 2010	194,860	59,558	2,856	257,274
2009				
Cost:				
At 1 January 2009	208,473	105,137	1,741	315,351
Additions	4,060	6,570	21,602	32,232
Disposals	—	(98)	—	(98)
Transfers	5,618	252	(5,870)	—
At 31 December 2009	218,151	111,861	17,473	347,485
Depreciation:				
At 1 January 2009	47,316	42,920	—	90,236
Charge for the year	7,071	8,522	—	15,593
Disposals	—	(31)	—	(31)
At 31 December 2009	54,387	51,411	—	105,798
Net carrying amount:				
At 31 December 2009	163,764	60,450	17,473	241,687

The land upon which the buildings and structures are situated has been made available by the Abu Dhabi Municipality at a nominal fee.

Revaluation Model—All Property, Plant and Equipment

2.74

Sasini Limited (Sep 2010)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (in part)

As at 30 September 2010

Assets	Note	2010 KShs'000	2009 KShs'000
Non-current assets			
Property, plant and equipment	4(a)	2,433,720	2,435,962
Capital work-in-progress	4(c)	6,392	78,573
Goodwill	8	39,403	—
Other intangible assets	5	39,791	718
Biological assets	6(a)	5,327,235	4,416,277
Prepaid leases on leasehold land	7	21,038	21,463
Other investments	9	4,229	4,229
		7,871,808	6,957,222

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Significant Accounting Policies

(a) Basis of Preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The financial statements are presented in the functional currency, Kenya Shillings (KShs) and are prepared under the historical cost basis of accounting except for biological assets and financial instruments that have been measured at fair value and property, plant and equipment that have been carried at revaluation amounts.

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. It also requires directors to exercise judgement in the process of applying the Group's accounting policies. Although these estimates are based on the directors' best knowledge of current events and actions, actual results may differ from those estimates. Accounting policies 1(e) and 1(f) below on 'critical accounting estimates and assumptions' and 'critical accounting judgements' highlight the areas that involve a higher level of judgement, or where the estimates or assumptions used are significant to the financial statements.

(e) Critical Accounting Estimates and Assumptions (in part)

Property, Plant and Equipment

Directors make estimates in determining the depreciation rates for property, plant and equipment. The rates used are set out in the accounting policy for property, plant and equipment.

These estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the prevailing circumstances.

The Group measures its property, plant and equipment at revalued amounts with changes in revaluation values being recognized in equity. The Group engages independent valuers to determine fair values of property, plant and equipment. The valuation values are based on the prevailing market prices which are sensitive to economic conditions.

(h) Taxation (in part)

Deferred tax relating to revaluation reserves of property, plant and equipment is recognized in equity.

(k) Property, Plant & Equipment and Depreciation (in part)

A decrease in carrying amount arising out of revaluation is charged as an expense to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset original cost. Additionally, accumulated depreciation at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any surplus remaining in the revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Revaluations are done every 5 years to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

No depreciation is provided on freehold land. Work-in-progress is not depreciated until the assets are completed and brought to use. Other items of property, plant and equipment are depreciated on the straight line basis to write down the cost or revalued amount of each asset to its residual value over its estimated useful life as follows:

Buildings and improvements	12–45 years
Plant, machinery and tools	12.5% p.a
Rolling stock	25.0% p.a
Farm implements and trailers	12.5% p.a
Furniture and fittings	12.5% p.a
Computers	33.3% p.a

Useful life, residual values and depreciation methods are reviewed on an annual basis.

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Statement of comprehensive income in the year the item is de-recognised. The carrying values of the property, plant and equipment are assessed annually and adjusted for impairment where it is considered necessary.

4. Property, Plant and Equipment (in part)

a) The Group

Year Ended 30 September 2010

	Land and Development KShs'000	Buildings and Improvements KShs'000	Plant, Machinery and Tools KShs'000	Rolling Stock and Farm Implements KShs'000	Furniture, Computers and Equipment KShs'000	Total KShs'000
Cost or Valuation						
At start of the year	1,003,000	947,353	424,837	96,752	93,111	2,565,053
Additions and transfers	—	81,419	33,844	40,183	11,770	167,216
Disposals	—	(2,619)	458,681	(7,925)	104,881	(10,544)
At 30 September 2010	1,003,000	1,026,153	—	129,010	—	2,721,725
Comprising:						
At cost	—	251,635	143,834	63,142	89,800	548,411
At valuation	1,003,000	774,518	314,847	65,868	15,081	2,173,314
	1,003,000	1,026,153	458,681	129,010	104,881	2,721,725
Depreciation						
At start of the year	—	68,740	22,386	6,953	31,012	129,091
Charge for the year	—	79,266	39,327	22,322	20,748	161,663
Disposals	—	(537)	—	(2,212)	—	(2,749)
At 30 September 2010	—	147,469	61,713	27,063	51,760	288,005
Net Book Value						
At 30 September 2010	1,003,000	878,684	396,968	101,947	53,121	2,433,720

The Group's property was revalued on 30 September 2008 by Lloyd Masika Limited, registered valuers, on the market value existing use basis.

The Group's plant and equipment was revalued on 30 September 2009 by Lloyd Masika registered valuers, on the market value existing use basis.

The book values of the property, plant and equipment were adjusted to the revaluations and the resultant surplus and deferred tax effect, was recognised in equity as at that date.

Year Ended 30 September 2009

	Land and Development KShs'000	Buildings and Improvements KShs'000	Plant, Machinery and Tools KShs'000	Rolling Stock and Farm Implements KShs'000	Furniture, Computers and Equipment KShs'000	Total KShs'000
Cost or Valuation						
At start of the year	843,000	860,892	537,181	195,241	126,422	2,562,736
Additions and transfers	—	1,417	4,492	2,074	30,637	38,620
Disposals	—	—	—	(3,844)	—	(3,844)
Revaluation surplus	160,000	85,044	(116,836)	(96,719)	(63,948)	(32,459)
At 30 September 2009	1,003,000	947,353	424,837	96,752	93,111	2,565,053
Comprising:						
At cost	—	170,216	109,990	22,959	78,030	381,195
At valuation	1,003,000	777,137	314,847	73,793	15,081	2,183,858
	1,003,000	947,353	424,837	96,752	93,111	2,565,053
Depreciation						
At start of the year	—	2,081	384,295	153,954	80,451	620,781
Charge for the year	—	66,659	19,499	11,937	17,714	115,809
Disposals	—	—	—	(2,822)	—	(2,822)
Eliminated on revaluation	—	—	(381,408)	(156,116)	(67,153)	(604,677)
At 30 September 2009	—	68,740	22,386	6,953	31,012	129,091
Net Book Value						
At 30 September 2009	1,003,000	878,613	402,451	89,799	62,099	2,435,962

14. Reserves (in part)

Revaluation Reserve

The revaluation reserve relates to increases in the fair value of property, plant and equipment and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Revaluation Model—Real Estate Properties and Ducts Infrastructure

2.75

Portugal Telecom, SGPS, S.A. (Dec 2010)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (in part)

31 December 2010 and 2009 and 1 January 2009

Euro	Notes	31 Dec 2010	31 Dec 2009 (Restated)	1 Jan 2009 (Restated)
Assets				
Non-Current Assets				
Accounts receivable—trade		1,451,332	2,594,779	3,384,632
Accounts receivable—other	26	17,661,730	8,845,235	4,856,624
Taxes receivable	28	267,622	196,429,460	140,771,497
Investments in group companies	31	361,517,602	597,210,048	613,179,099
Other investments	32	17,680,614	16,885,925	21,111,478
Intangible assets	33	1,111,692,584	4,074,303,198	3,486,237,730
Tangible assets	34	3,874,613,414	4,843,868,200	4,621,486,868
Post retirement benefits	14	1,927,991	67,588,596	1,557,026
Deferred taxes	19	653,075,198	1,019,511,128	1,032,723,979
Other non-current assets	30	274,640,756	314,203,554	478,954,057
Total non-current assets		6,314,528,843	11,141,440,123	10,404,262,990

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

3. Accounting Policies, Judgments and Estimates (in part)

c) Tangible Assets

In 2008, Portugal Telecom changed the accounting policy regarding the measurement of real estate properties and the ducts infra-structure from the cost model to the revaluation model, since the Company believes the latter better reflects the economic value of those asset classes, given the nature of the assets revalued, which are not subject to technological obsolescence. The increase in tangible assets resulting from the revaluation reserves, which are non-distributable reserves, is being amortised in accordance with the criteria used to amortize the revalued assets. Portugal Telecom has the policy to revise the revalued amount in every 3 years.

The remaining tangible assets are stated at acquisition cost, net of accumulated depreciation, investment subsidies and accumulated impairment losses, if any. Acquisition cost includes: (1) the amount paid to acquire the asset; (2) direct expenses related to the acquisition process; and (3) the estimated cost of dismantling or removal of the assets (Notes 3.g and 39). Under the exception of IFRS 1, revaluation of tangible assets made in accordance with Portuguese legislation applying monetary indices, prior to 1 January 2004, was not adjusted and was included as the deemed cost of the asset for IFRS purposes.

Tangible assets are depreciated on a straight-line basis from the month they are available for use, during its expected useful life. The amount of the asset to be depreciated is reduced by any residual estimated value. The depreciation rates correspond to the following estimated average economic useful lives:

	Years
Buildings and other constructions	3–50
Basic equipment:	
Network installations and equipment	7–40
Ducts infra-structure	40
Telephones, switchboards and other	3–10
Submarine cables	15–20
Satellite stations	5–7
Other telecommunications equipment	4–10
Other basic equipment	4–20
Transportation equipment	4–8
Tools and dies	4–8
Administrative equipment	3–10
Other tangible fixed assets	4–8

Estimated losses resulting from the replacement of equipments before the end of their economic useful lives are recognised as a deduction to the corresponding asset's carrying value, against results of the period, as well as any impairment of these assets. The cost of recurring maintenance and repairs is charged to net income as incurred. Costs associated with significant renewals and betterments are capitalized if any future economic benefits are expected and those benefits can be reliably measured.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the assets, and is recognised in the Consolidated Income Statement under the caption "Gains on disposals of fixed assets, net" when occurred.

f) Impairment of Tangible and Intangible Assets, Excluding Goodwill (in part)

Tangible assets recognized according to the revaluation model are subject to periodic remeasurement and Portugal Telecom intends to revalue these assets at least every three years. Any impairment loss of these assets is recorded as a reduction to the revaluation reserve initially recognized under shareholders' equity. Impairment losses in excess of the initial revaluation reserve are recognized in the Consolidated Income Statement.

34. Tangible Assets

During the years ended 31 December 2010 and 2009, movements in tangible assets were as follows:

Euro	Balance 31 Dec 2009 (Restated)	Increases	Foreign Currency Translation Adjustments	Transfers and Other Movements	Changes in the Consolidation Perimeter	Balance 31 Dec 2010
Cost						
Land	127,806,363	61,325,452	1,825,338	(4,018,787)	(21,893,342)	165,045,024
Buildings and other constructions	661,037,717	198,638,310	9,136,606	3,374,353	(66,831,441)	805,355,545
Basic equipment	13,570,504,676	506,051,400	388,281,961	(192,945,229)	(4,150,214,502)	10,121,678,306
Transportation equipment	76,106,527	18,550,988	487,067	(10,758,853)	(3,433,780)	80,951,949
Tools and dies	28,890,634	1,715,488	999,606	272,302	(6,359,021)	25,519,009
Administrative equipment	1,204,106,756	58,560,167	21,571,543	25,800,934	(247,593,971)	1,062,445,429
Other tangible assets	52,210,185	1,425,664	432,544	219,753	(4,056)	54,284,090
In-progress tangible assets	267,196,605	284,732,803	8,618,833	(266,077,212)	(73,047,062)	221,423,967
Advances to suppliers of tangible assets	258,046	286,798	(18,078)	(15,641)	—	511,125
	15,988,117,509	1,131,287,070	431,335,420	(444,148,380)	(4,569,377,175)	12,537,214,444
Accumulated Depreciation						
Land	9,664,867	—	—	(171,537)	—	9,493,330
Buildings and other constructions	232,518,473	49,285,353	3,549,050	(10,342,185)	(21,246,514)	253,764,177
Basic equipment	9,758,891,480	838,494,142	271,546,107	(426,615,587)	(3,090,239,667)	7,352,076,475
Transportation equipment	45,159,957	13,048,903	231,781	(8,911,117)	(1,976,840)	47,552,684
Tools and dies	23,310,019	1,722,406	494,489	(453,924)	(4,612,563)	20,460,427
Administrative equipment	1,031,598,761	86,163,040	14,726,484	(18,115,030)	(179,597,951)	934,775,304
Other tangible assets	43,105,752	1,643,302	82,305	(25,854)	(326,872)	44,478,633
	11,144,249,309	990,357,146	290,630,216	(464,635,234)	(3,298,000,407)	8,662,601,030
	4,843,868,200	140,929,924	140,705,204	20,486,854	(1,271,376,768)	3,874,613,414

Euro	Balance 1 Jan 2009 (Restated)	Increases	Foreign Currency Translation Adjustments	Transfers and Other Movements	Balance 31 Dec 2009 (Restated)
Cost					
Land	125,840,884	5,834,493	3,721,771	(7,590,785)	127,806,363
Buildings and other constructions	725,181,974	19,889,743	17,148,489	(101,182,489)	661,037,717
Basic equipment	11,954,096,111	533,612,163	860,281,573	222,514,829	13,570,504,676
Transportation equipment	76,118,355	16,540,246	593,257	(17,145,331)	76,106,527
Tools and dies	25,377,080	1,347,121	1,853,257	313,176	28,890,634
Administrative equipment	1,082,255,636	60,403,058	47,868,464	13,579,598	1,204,106,756
Other tangible assets	52,929,865	2,403,902	(91,144)	(3,032,438)	52,210,185
In-progress tangible assets	308,335,009	406,745,683	60,251,812	(508,135,899)	267,196,605
Advances to suppliers of tangible assets	321,739	(3,545)	(60,148)	—	258,046
	14,350,456,653	1,046,772,864	991,567,331	(400,679,339)	15,988,117,509
Accumulated Depreciation					
Land	10,775,062	—	—	(1,110,195)	9,664,867
Buildings and other constructions	251,422,215	46,736,029	5,972,858	(71,612,629)	232,518,473
Basic equipment	8,426,572,350	914,089,945	611,711,852	(193,482,667)	9,758,891,480
Transportation equipment	46,615,120	12,283,538	275,163	(14,013,864)	45,159,957
Tools and dies	20,353,787	2,082,681	994,474	(120,923)	23,310,019
Administrative equipment	925,389,799	89,333,317	32,010,484	(15,134,839)	1,031,598,761
Other tangible assets	47,841,452	1,497,269	28,049	(6,261,018)	43,105,752
	9,728,969,785	1,066,022,779	650,992,880	(301,736,135)	11,144,249,309
	4,621,486,868	(19,249,915)	340,574,451	(98,943,204)	4,843,868,200

TABLE 2-5: GOODWILL AND CLASSES OF INTANGIBLE ASSETS

	2010	2009
Goodwill	131	129
Development costs	40	43
Acquired in-process research and development	5	5
Software	74	72
Information systems	12	6
Future servicing rights	3	3
Brands	37	38
Patents, licenses, trademarks, and similar rights	57	51
Distribution rights	11	9
Water rights	3	2
Customer-related intangibles (e.g., customer lists, relationships)	40	43
Marketing-related intangibles	4	4
Core deposit intangible	3	2
Mining interests	6	7
Exploration and evaluation expenditures	6	6
Concessions	9	7
Contract-related intangibles (including favorable leases)	20	18
Value of business acquired and acquired in-force insurance policies	6	6
Purchased technology	7	6
Order backlog	1	2
Deferred acquisition costs	1	1
Other	89	85

IAS 38, *INTANGIBLE ASSETS*

IFRS 3, *BUSINESS COMBINATIONS*

IFRS Overview and Comparison to U.S. GAAP

2.76 IAS 38, *Intangible Assets*, establishes accounting and disclosure requirements for goodwill and other intangible assets. An *intangible asset* is an identifiable, nonmonetary asset without physical substance. An *identifiable asset* is separable or arises from contractual or legal rights. IFRSs require an intangible asset to be identifiable to distinguish it from goodwill. IAS 38 applies to all intangible assets, except those within the scope of another IFRS, financial assets as defined in IAS 32, exploration and evaluation assets, and assets arising from expenditures on development and extraction of minerals, oil, natural gas, and other nonregenerative resources.

2.77 The revisions to IFRS 3, *Business Combinations*, in 2008 amended IAS 38. Entities should apply these amendments prospectively for annual periods beginning on or after July 1, 2009. If an entity adopts IFRS 3 at an earlier date, the amendments to IAS 38 should also be applied for that earlier period. IFRS 3 is discussed more fully in section 9, "Business Combinations." This section includes illustrations of the ongoing general disclosures required for goodwill in reporting periods subsequent to the business combination itself. *Goodwill* recognized in a business combination is an asset representing the future economic benefits arising from

other assets acquired in a business combination that are not individually identified and separately recognized.

2.78 The revisions to IAS 1 in 2007 also amended IAS 38. These amendments relate primarily to adjustments to an intangible asset's carrying amount as a result of applying the revaluation model and impairment losses recognized or reversed in other comprehensive income, in accordance with IAS 36, *Impairment of Assets*. An entity should apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies the amendments to IAS 1 for an earlier period, the amendments to IAS 38 should also be applied for that earlier period.

Recognition and Measurement

IFRSs

2.79 An entity should recognize an intangible asset if, and only if, it is probable that future economic benefits will flow to the entity and the cost of the asset can be measured reliably. Probability is assessed based on reasonable and supportable assumptions representing management's best estimate of the economic conditions expected to exist over the asset's useful life. The probability recognition criteria are always considered to be satisfied when an entity acquires goodwill and other intangible assets in a business combination.

2.80 At initial recognition, an entity should measure intangible assets, acquired separately, at cost (that is, the purchase price, including duties and taxes, and costs that are directly attributable to getting the asset ready for its intended use). Examples of directly attributable costs include employee benefits arising from getting the asset ready for use, professional fees, and the cost of testing. IAS 38 specifically requires expenditures on advertising and promotional activities (including mail order catalogs), training to operate the asset, start-up costs, reorganization and relocation of all or part of the entity, inefficiencies and operation losses, general overhead, and administrative costs to be recognized as an expense. However, IAS 38 does not preclude recognition of a prepayment as an asset when the entity pays for goods or services in advance of obtaining them.

2.81 In accordance with IFRS 3, if an intangible asset is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date. IAS 38 permits the acquirer to recognize an intangible asset that is separable but only together with a related contract or liability. In this case, the entity recognizes the intangible separately from goodwill but together with the related item. IAS 38 also permits the acquirer to recognize a group of complementary intangible assets as a single asset, provided that the individual assets in the group have similar useful lives.

2.82 IAS 38 also establishes the accounting treatment for research and development (R&D) costs. An entity can incur R&D costs by acquiring an in-process R&D project, either separately or in a business combination, or by incurring these costs internally, either subsequently for an acquired project or independently. An entity should recognize acquired in-process R&D as an intangible asset if it meets the probability and measurement reliability recognition criteria. An entity should expense costs incurred in a project's research phase (for example, the search for knowledge or the evaluation of alternatives for new or improved products or processes). An entity should recognize an intangible asset when it incurs costs in the development phase only if the entity can demonstrate all of the following:

- Technical feasibility of completing the intangible asset so that it will be available for sale
- Intention and ability to both complete and use or sell the asset
- How the intangible asset will generate probable future economic benefits (for example, demonstrate the existence of a market for the asset's output or the asset's usefulness to the entity if for internal use)
- Availability of adequate resources to complete development and use or sell the asset
- Ability to measure reliably the expenditures directly attributable to the asset during development (for example, cost of materials or services used, employee benefits, fees, and amortization of patents or licenses)

2.83 IAS 38 specifically prohibits recognition of internally generated brands, mastheads, publishing titles, customer lists, and similar items as intangible assets.

2.84 An entity should recognize expenditures on intangible items as an expense in profit and loss, unless the expenditure is a cost of either an intangible asset meeting the recognition criteria or an item acquired in a business combination that is not recognized separately. In the latter case, the cost forms part of the amount recognized as goodwill, in accordance with IFRS 3. An entity should not capitalize an expenditure previously expensed.

2.85 IAS 38 includes two alternative models for subsequent measurement of intangible assets: cost and revaluation. An entity should select a model for an entire class of assets, not for individual assets. However, the revaluation model is only available for those intangible assets that are traded in an active market.

2.86 Under the cost model, an entity should measure the intangible asset at cost less accumulated amortization, if any, and accumulated impairment losses.

2.87 Under the revaluation model, an entity should measure an intangible asset at the *revalued amount*, which is the fair value as of the date of the revaluation, less subsequent accumulated amortization and subsequent accumulated impairment losses. An entity should determine fair value of individual assets by reference to an active market. An entity should conduct revaluations with sufficient regularity so the carrying value of the asset at the reporting date is not materially different from its fair value at that date.

2.88 The revaluation model is only available for intangible assets that are traded in an active market. Therefore, if an active market for an asset is no longer available, an entity should measure the asset at cost less accumulated amortization and impairments. IAS 38 reminds entities that the fact that an active market no longer exists may be an indicator of impairment and that the asset needs to be tested in accordance with IAS 36.

2.89 An entity should recognize increases in the carrying amount from revaluation in other comprehensive income and in equity (accumulated revaluation surplus), but the entity should recognize the increase in profit or loss to the extent that the increase reverses a previous decrease. Similarly, an entity should recognize a decrease in carrying value in profit

or loss, but the entity should recognize the decrease in equity to the extent that the decrease reverses a previous increase.

2.90 SIC 32, *Intangible Assets—Web Site Costs*, specifically addresses costs incurred in developing and maintaining an entity's own website. An entity should treat the development of the website similarly to development costs of an R&D project (that is, an entity only capitalizes expenditures when the criteria for capitalizing development costs are met). However, SIC 32 requires an entity to expense all costs associated with website activities for advertising and promotional purposes.

Author's Note

Amortization and impairment are discussed in section 3.

U.S. GAAP

2.91 The FASB ASC glossary defines an *intangible asset* as an asset (not including a financial asset) without physical substance. Although this definition is similar to that in IAS 38, it does not specifically include the requirement that the asset is identifiable. FASB ASC 350-30-25-1 states that an entity should recognize intangible assets acquired individually or in a group of assets. FASB ASC 805-20-25-10 requires an entity to recognize identifiable intangible assets acquired in a business combination separately from goodwill. The definition in the FASB ASC glossary explains that the term intangible asset is used to refer to intangible assets other than goodwill.

2.92 On initial recognition, FASB ASC 350-30-25-2 requires an entity to allocate cost to intangible assets acquired in a group of assets in a transaction other than through a business combination, based on relative fair values, and not recognize goodwill. However, when an asset is acquired separately, cost and fair value are likely to be the same. As discussed in FASB ASC 820, *Fair Value Measurements and Disclosures*, an entity should determine fair value based on assumptions market participants would use in pricing the asset. FASB ASC 350-30-05-1 refers entities to FASB ASC 805-20 for guidance on recognition and measurement of intangible assets acquired in a business combination.

2.93 Like IFRSs, FASB ASC 805-20-30-1 requires an entity to measure identifiable assets, including intangible assets, acquired in a business combination at their acquisition-date fair value on initial recognition. However, IFRS 3 offers an option to measure the noncontrolling interest at its proportion of the fair value of the net identifiable assets acquired, rather than at fair value. Therefore, an entity could measure goodwill at a different amount under FASB ASC than under IFRSs if it elected this option.

2.94 Unlike IFRSs, FASB ASC 805-10-35-1 states, in general, that an acquirer should subsequently measure and account for assets acquired, liabilities assumed or incurred, and equity instruments issued in a business combination in accordance with other applicable U.S. GAAP for those items, depending on their nature. Therefore, as explained by FASB ASC 350-30-35, an entity should measure an intangible asset at cost less accumulated amortization, if applicable, and accumulated impairment losses. An entity should amortize intangible assets with finite useful lives, including defensive intangible assets acquired to prevent others from obtaining access to the asset, over their expected useful lives. An entity should not amortize an intangible asset with an indefinite useful life or goodwill in accordance with FASB ASC 350-30-35-15 or 350-20-35-1

2.95 The definitions of *R&D* in the FASB ASC glossary differ from those under IFRSs. However, with the exception of certain internally developed software, FASB ASC 350-30-25-3 requires an entity to expense as incurred all internally developing, maintaining, or restoring intangibles that are not specifically identifiable, that have indeterminate lives, or that are inherent in a continuing business activity and related to an entity as a whole, including R&D costs. Like IFRSs, and consistent with the measurement principle in FASB ASC 805-20-30-1, in-process R&D acquired in a business combination is recognized as an intangible asset and measured at the acquisition-date fair value. FASB ASC 350-30-35-17A states that an entity should consider intangible assets acquired in a business combination or an acquisition by a not-for-profit entity that are used in R&D activities to have an indefinite life until the completion or abandonment of the associated R&D efforts. Therefore, such assets are not amortized but are subject to impairment testing annually.

2.96 FASB ASC 985-20 and 350-40 contain specific guidance on the treatment of software developed for sale and internal-use software, respectively, whereas IFRSs do not treat software differently than any other intangible asset. Unlike the treatment in SIC 32, FASB ASC 350-40 and 350-50 have separate guidance regarding costs incurred for software to operate the website, unless the entity has a plan to market the software externally, and other costs, depending upon the stage of development of the website.

2.97 Like IFRSs, FASB ASC 720-15 requires an entity to expense training and start-up costs as incurred. Unlike IFRSs, paragraphs 2–4 of FASB ASC 340-20-25 contain specific criteria that permit capitalization of direct response advertising costs.

Presentation

IFRSs

2.98 An entity should present intangible assets as a separate line item on the balance sheet, classified as current or noncurrent, in accordance with IAS 1. An entity should also present additional line items, headings, and subtotals when they are relevant to an understanding of the entity's financial position.

U.S. GAAP

2.99 FASB ASC 350-30-45-1 states, at a minimum, that all intangible assets should be aggregated and presented as a separate line item in the statement of financial position. Similar to IFRSs, the requirement does not preclude the presentation of individual intangible assets or classes of intangible assets as separate line items.

Disclosure

IFRSs

2.100 An entity should identify major classes of intangible assets and distinguish, at a minimum, between internally generated and other intangible assets. For each identified class of intangible asset, the entity should disclose the following information:

- Whether the assets in the class have a finite or indefinite useful life
- Useful lives or amortization rates and amortization methods for assets with finite lives
- Gross carrying amount and combined accumulated amortization and impairment losses at the beginning and end of the period
- Line items of comprehensive income in which amortization is included
- Reconciliation of the beginning and ending balances in the gross carrying amount and combined accumulated amortization and impairment, indentifying reasons for changes in these accounts (for example, additions, classification to held for sale, revaluations, disposals, amortization, impairment losses, and foreign exchange effects)

2.101 For each intangible asset with an indefinite life, an entity should also disclose the asset's carrying amount and reasons why an indefinite life is supported, including factors that made a significant difference in that decision.

2.102 Like indefinite life intangibles, an entity should not amortize goodwill. IFRS 3 requires a reconciliation of the carrying amount of goodwill and accumulated impairment losses showing the following, separately:

- Additional goodwill, except that goodwill related to a disposal group immediately classified as held for sale should be shown separately
- Adjustments due to recognition of deferred tax assets
- Related goodwill derecognized on sale of the disposal group
- Impairment losses
- Foreign exchange adjustments

2.103 An entity should describe any individually material intangible asset and disclose its carrying amount and remaining amortization period. For assets acquired by government grant and initially recognized at fair value, the entity should disclose the fair value initially recognized, the current carrying value, and whether the cost or revaluation model is used subsequently. The entity should also disclose information about carrying amounts of assets with title restrictions or pledged as collateral and information about impaired assets.

2.104 IAS 38 requires additional disclosures about assets measured using the revaluation model.

Author's Note

No survey company selected the revaluation model for a class of intangible assets.

2.105 An entity should disclose the aggregate amount of R&D expenditures recognized as an expense in profit or loss.

2.106 IAS 8 requires an entity to disclose the nature and amount of any change in accounting estimate having a material impact in the current period or expected to have a material impact subsequently.

U.S. GAAP

2.107 FASB ASC requires fewer disclosures than IAS 38. However, FASB ASC 350-30-50-1 does require an entity to identify major classes of intangible assets and specifies required disclosures, including disclosure of any significant residual value, in total, for each class.

2.108 FASB ASC 350-30-50-1 requires an entity to disclose the weighted average amortization period, rather than useful lives or amortization rates, as required by IFRSs, in total and by asset class.

2.109 FASB ASC 350-20-50-2 requires an entity to disclose the gross carrying amount and accumulated amortization and amortization expense for the period, not the comprehensive reconciliation of these carrying amounts as required by IFRSs.

2.110 FASB ASC 340-20-50 requires specific disclosures related to direct response advertising costs, including the accounting policy (expense or capitalization) selected, a description of any advertising costs recognized as an asset, and the amounts charged to expense for each income statement presented or reported as an asset for each balance sheet presented.

Presentation and Disclosure Excerpts

Goodwill

2.111

Unilever N.V. and Unilever plc (Dec 2010)

CONSOLIDATED BALANCE SHEET (in part)

As at 31 December

	€ Million 2010	€ Million 2009
Goodwill 9	13,178	12,464
Intangible assets 9	5,100	4,583
Property, plant and equipment 10	7,854	6,644
Pension asset for funded schemes in surplus 19	910	759
Deferred tax assets 17	607	738
Other non-current assets 11	1,034	1,017
Total non-current assets	28,683	26,205

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

1 Accounting Information and Policies (in part)

Goodwill

Goodwill arises on business combinations. It is calculated as the excess of the total fair value of consideration transferred plus the amount of any non-controlling interest in the acquiree plus the acquisition-date fair value of any previous equity interest in the acquiree, less the fair value of the Group's share of the identifiable net assets acquired. Goodwill is capitalised and is not subject to amortisation. It is carried at cost but subject to impairment testing annually, or more frequently if events or circumstances indicate this is necessary. Any impairment is charged to the income statement as it arises.

Goodwill acquired in a business combination is allocated to the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination. These might not always be precisely the same as the cash generating units that the assets or liabilities of the acquired business are assigned to. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment.

Critical Accounting Estimates and Judgements (in parts)

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The preparation of financial statements requires management to make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Goodwill and Intangible Assets

The Group recognises goodwill and intangible assets which have arisen through acquisitions. The most significant balances of goodwill and intangible assets relate to the regional savoury and dressings sub-product groups.

These assets are subject to impairment reviews to ensure that the assets are not carried above their recoverable amounts: for goodwill and indefinite-lived intangible assets, reviews are performed at least annually or more frequently if events or circumstances indicate that this is necessary; for other intangible assets, reviews are performed if events or circumstances indicate that this is necessary.

Impairment reviews are performed by comparing the carrying value of the cash generating unit concerned to that cash generating unit's recoverable amount, being the higher of value in use and fair value less costs to sell. Value in use is a valuation derived from the discounted future cash flows of cash generating units. The most important estimates in these forecast cash flows are the long-term growth rates used to calculate revenue growth in perpetuity and the discount rates which are applied to the future cash flows. These estimates are reviewed at least annually and are believed to be appropriate. However, changes in these estimates could change the outcomes of the impairment reviews and therefore affect future financial results. The effects would be recognised in the income statement, through operating profit.

The Group has reviewed the carrying value of the cash generating units by considering expected future cash flows based on historical experience and planned growth rates and margins for the product groups.

Please refer also to note 9 on pages 87 and 88.

9. Goodwill and Intangible Assets

Indefinite-lived intangible assets principally comprise those trademarks for which there is no foreseeable limit to the period over which they are expected to generate net cash inflows. These are considered to have an indefinite life, given the strength and durability of our brands and the level of marketing support. Brands that are classified as indefinite-lived have been in the market for many years, and the nature of the industry we operate in is such that brand obsolescence is not common, if appropriately supported by advertising and marketing spend. Finite-lived intangible assets, which primarily comprise patented and non-patented technology, know-how, and software, are capitalised and amortised in operating profit on a straight-line basis over the period of their expected useful lives, none of which exceeds ten years. The level of amortisation for finite-lived intangible assets is not expected to change materially over the next five years.

At Cost Less Amortisation and Impairment	**€ Million 2010**	**€ Million 2009**
Goodwill	13,178	12,464
Intangible assets:	5,100	4,583
Indefinite-lived intangible assets	4,532	4,050
Finite-lived intangible assets	104	153
Software	464	380
	18,278	17,047

Movements During 2010	€ Million Goodwill	€ Million Indefinite-Lived Intangible Assets	€ Million Finite-Lived Intangible Assets	€ Million Software	€ Million Total
Cost					
1 January 2010	13,408	4,269	611	687	18,975
Acquisitions of group companies	259	256	1	—	516
Disposals of group companies	(222)	(1)	—	—	(223)
Reclassed to held for disposal	(82)	—	—	—	(82)
Additions	—	1	1	180	182
Disposals	(1)	(8)	—	(16)	(25)
Currency retranslation	823	250	31	48	1,152
31 December 2010	14,185	4,767	644	899	20,495
Amortisation and Impairment					
1 January 2010	(944)	(219)	(458)	(307)	(1,928)
Disposal of group companies	—	—	—	—	—
Amortisation for the year	—	—	(58)	(116)	(174)
Disposals	—	—	—	6	6
Currency retranslation	(63)	(16)	(24)	(18)	(121)
31 December 2010	(1,007)	(235)	(540)	(435)	(2,217)
Net book value 31 December 2010	13,178	4,532	104	464	18,278

Movements During 2009	€ Million Goodwill	€ Million Indefinite-Lived Intangible Assets	€ Million Finite-Lived Intangible Assets	€ Million Software	€ Million Total
Cost					
1 January 2009	12,617	4,107	598	580	17,902
Acquisitions of group companies	350	105	1	—	456
Disposals of group companies	—	(1)	—	—	(1)
Additions	—	1	—	149	150
Disposals	—	—	—	(72)	(72)
Currency retranslation	441	57	12	30	540
31 December 2009	13,408	4,269	611	687	18,975
Amortisation and Impairment					
1 January 2009	(952)	(221)	(392)	(246)	(1,811)
Disposal of group companies	—	—	—	—	—
Amortisation for the year	—	—	(58)	(110)	(168)
Disposals	—	—	—	62	62
Currency retranslation	8	2	(8)	(13)	(11)
31 December 2009	(944)	(219)	(458)	(307)	(1,928)
Net book value 31 December 2009	12,464	4,050	153	380	17,047

There are no significant carrying amounts of goodwill and intangible assets that are allocated across multiple cash generating units (CGUs).

Impairments Charge in the Year

There were no material impairments in either 2010 or 2009.

Significant CGUs

The goodwill and indefinite-lived intangible assets (predominantly Knorr and Hellmann's) held in the regional Savoury, Dressings and Spreads CGUs are considered significant in comparison to the total carrying amounts of goodwill and indefinite-lived intangible assets at 31 December 2010. No other CGUs are considered significant in this respect.

The goodwill and indefinite-lived intangible assets held in the regional Savoury and Dressings CGUs are:

	€ Billion 2010 Goodwill	€ Billion 2010 Indefinite-Lived Intangibles	€ Billion 2009 Goodwill	€ Billion 2009 Indefinite-Lived Intangibles
Western Europe	5.2	1.4	5.2	1.3
The Americas	4.2	1.5	3.9	1.3
Asia Africa CEE	1.8	0.6	1.9	0.6

During 2010, we conducted an impairment review of the carrying value of these assets. Value in use in the regional Savoury, Dressings and Spreads CGUs has been calculated as the present value of projected future cash flows. A pre-tax discount rate of 10% was used.

The following key assumptions were used in the discounted cash flow projections for the regional Savoury, Dressings and Spreads CGUs:

- a longer-term sustainable growth rate of 2% to 3% for Western Europe, 3% to 5% for The Americas and 8% to 9% for Asia Africa CEE;
- average near-term nominal growth rates for the major product groups within the CGUs of 2% Western Europe, 4% The Americas, 10% for Asia Africa CEE; and
- average operating margins for the major product groups within the CGUs ranging from 18% to 21% Western Europe, 17% to 23% The Americas and 10% to 14% Asia Africa CEE.

The growth rates and margins used to estimate future performance are based on past performance and our experience of growth rates and margins achievable in our key markets. We believe that the assumptions used in estimating the future performance of the regional Savoury, Spreads and Dressings CGUs are consistent with past performance.

The projections covered a period of ten years as we believe this to be a suitable timescale over which to review and consider annual performance before applying a fixed terminal value multiple to the final year cash flows of the detailed projection. Stopping the detailed projections after five years and applying a terminal value multiple thereafter would not result in a value in use that would cause impairment.

The growth rates used to estimate future performance beyond the periods covered by our annual planning and strategic planning processes do not exceed the long-term average rates of growth for similar products.

We have performed sensitivity analyses around the base case assumptions and have concluded that no reasonable possible changes in key assumptions would cause the recoverable amount of the regional Savoury, Spreads and Dressings CGUs to be less than the carrying amount.

Brand Names and Customer Lists

2.112

Ashtead Group plc (Apr 2010)

CONSOLIDATED BALANCE SHEET (in part)

At 30 April 2010

	Notes	2010 £m	2009 £m
Non-current assets			
Property, plant and equipment			
—rental equipment	12	969.7	1,140.5
—other assets	12	131.9	153.5
		1,101.6	1,294.0
Intangible assets—brand names and other acquired intangibles	13	3.3	5.9
Goodwill	13	373.6	385.4
Deferred tax asset	18	7.8	12.3
Other financial assets—derivatives	23	5.7	—
Defined benefit pension fund surplus	22	—	0.3
		1,492.0	1,697.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Accounting Policies (in part)

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated.

Intangible Assets (in part)

Other Intangible Assets

Other intangible assets acquired as part of a business combination are capitalised at fair value as at the date of acquisition. Internally generated intangible assets are not capitalised. Amortisation is charged on a straight-line basis over the expected useful life of each asset. Contract related intangible assets are amortised over the life of the contract.

Amortisation rates for other intangible assets are as follows:

	Per Annum
Brand names	8.3%
Customer lists	10% to 20%

13. Intangible Assets Including Goodwill

		Other Intangible Assets				
	Goodwill £m	Brand Names £m	Customer Lists £m	Contract Related £m	Total £m	Total £m
Cost or Valuation						
At 1 May 2008	291.9	10.7	1.7	9.2	21.6	313.5
Recognised on acquisition	—	—	—	0.2	0.2	0.2
Disposals	—	—	—	(1.4)	(1.4)	(1.4)
Exchange differences	93.5	3.0	—	2.8	5.8	99.3
At 30 April 2009	385.4	13.7	1.7	10.8	26.2	411.6
Recognised on acquisition	—			0.1	0.1	0.1
Exchange differences	(11.8)	(0.4)	—	(0.3)	(0.7)	(12.5)
At 30 April 2010	373.6	13.3	1.7	10.6	25.6	399.2
Amortisation						
At 1 May 2008	—	9.5	0.3	3.8	13.6	13.6
Charge for the period	—	0.1	0.3	3.0	3.4	3.4
Disposals	—	—	—	(1.4)	(1.4)	(1.4)
Exchange differences	—	3.0	—	1.7	4.7	4.7
At 30 April 2009	—	12.6	0.6	7.1	20.3	20.3
Charge for the period	—	0.1	0.2	2.2	2.5	2.5
Exchange differences	—	(0.4)	—	(0.1)	(0.5)	(0.5)
At 30 April 2010	—	12.3	0.8	9.2	22.3	22.3
Net Book Value						
At 30 April 2010	373.6	1.0	0.9	1.4	3.3	376.9
At 30 April 2009	385.4	1.1	1.1	3.7	5.9	391.3

Goodwill acquired in a business combination was allocated, at acquisition, to the reporting units that benefited from that business combination, as follows:

	2010 £m	2009 £m
Sunbelt	359.3	371.1
A-Plant	14.3	14.3
	373.6	385.4

For the purposes of determining potential goodwill impairment, recoverable amounts are determined from value in use calculations using cash flow projections based on financial plans covering a three year period which were adopted and approved by the Board in April 2010. The growth rate assumptions used in the plans reflect management's expectations of market developments and take account of past performance. The annual growth rate used to determine the cash flows beyond the three year period is 2% and does not exceed the average long-term growth rates for the relevant markets. The pre-tax rate used to discount the projected cash flows is 9%.

A sensitivity analysis has been undertaken by changing the key assumptions used for both Sunbelt and A-Plant. Based on this sensitivity analysis, no reasonably possible change in the assumptions resulted in the carrying value of the goodwill in Sunbelt or A-Plant being reduced to the recoverable amount.

Software Development Costs (Internal and External) and Software

2.113

British Sky Broadcasting Group plc (Jun 2010)

CONSOLIDATED BALANCE SHEET (in part)

As at 30 June 2010

	Notes	2010 £m	2009 £m
Non current assets			
Goodwill	12	852	852
Intangible assets	13	336	345
Property, plant and equipment	14	899	799
Investments in joint ventures and associates	15	149	135
Available for sale investments	16	182	261
Deferred tax assets	17		17
Trade and other receivables	19	18	21
Derivative financial assets	23	382	202
		2,818	2,632

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in parts)

1. Accounting Policies (in part)

e) Intangible Assets and Property, Plant and Equipment ("PPE")

i. Intangible Assets

Research expenditure is recognised in operating expense in the income statement as the expenditure is incurred. Development expenditure (relating to the application of research knowledge to plan or design new or substantially improved products for sale or use within the business) is recognised as an intangible asset from the point at which it is probable that the Group has the intention and ability to generate future economic benefits from the development expenditure, that the development is technically feasible and that the subsequent expenditure can be measured reliably. Any other development expenditure is recognised in operating expense as incurred.

Other intangible assets, which are acquired by the Group separately or through a business combination, are initially stated at cost or fair value, respectively, less accumulated amortisation and impairment losses, other than those that are classified as held for sale, which are stated at the lower of carrying amount and fair value less costs to sell.

Amortisation of an intangible asset begins when the asset is available for use, and is charged to the income statement through operating expense on a straight-line basis over the intangible asset's estimated useful life, principally being a period between three and ten years, unless the asset life is judged to be indefinite. If the useful life is indefinite or the asset is not yet available for use, no amortisation is charged and an impairment test is carried out at least annually. Other intangible assets are tested for impairment in line with accounting policy j below.

v) Critical Accounting Policies and the Use of Judgment (in part)

(iv) Intangible Assets and Property, Plant and Equipment (See Notes 13 and 14)

- The assessment of the useful economic lives of these assets requires judgment. Depreciation and amortisation is charged to the income statement based on the useful economic life selected. This assessment requires estimation of the period over which the Group will benefit from the assets.
- Determining whether the carrying amount of these assets has any indication of impairment also requires judgment. If an indication of impairment is identified, further judgment is required to assess whether the carrying amount can be supported by the net present value of future cash flows forecast to be derived from the asset. This forecast involves cash flow projections and selecting the appropriate discount rate.
- Assessing whether assets meet the required criteria for initial capitalisation requires judgment. This requires a determination of whether the assets will result in future benefits to the Group. In particular, internally generated intangible assets must be assessed during the development phase to identify whether the Group has the ability and intention to complete the development successfully.

13. Intangible Assets

	Internally Generated Intangible Assets £m	Software Development (External) £m	Software Licences £m	Other Intangible Assets £m	Internally Generated Intangible Assets Not Yet Available for Use £m	Other Intangible Assets Not Yet Available for Use £m	Total £m
Cost							
At 1 July 2008	91	237	89	41	4	102	564
Foreign exchange movements			1				1
Additions	34	20	19	35	13	39	160
Disposals	(5)	(5)	(8)	(5)			(23)
Transfers	4	50		1		(55)	
At 30 June 2009	124	302	101	72	17	86	702
Foreign exchange movements			(1)				(1)
Additions	51	12	19	41	18	38	179
Disposals	(6)	(10)				(22)	(38)
Transfers	5	1	1		(3)	(3)	1
At 30 June 2010	174	305	120	113	32	99	843
Amortisation							
At 1 July 2008	35	160	54	12			261
Foreign exchange movements			1				1
Amortisation for the year	27	50	15	25			117
Impairments	1						1
Disposals	(5)	(5)	(8)	(5)			(23)
At 30 June 2009	58	205	62	32	—	—	357
Foreign exchange movements			(1)				(1)
Amortisation for the year	37	59	20	47			163
Impairments	3	1				22	26
Disposals	(6)	(10)				(22)	(38)
At 30 June 2010	92	255	81	79	—	—	507
Carrying Amounts							
At 1 July 2008	56	77	35	29	4	102	303
At 30 June 2009	66	97	39	40	17	86	345
At 30 June 2010	82	50	39	34	32	99	336

The Group's internally generated intangible assets relate to software development associated with our customer management systems and set-top boxes. The Group's other intangible assets mainly include copyright licences, customer lists and relationships, and patents and brands acquired in business combinations.

The estimated future amortisation charge on intangible assets with finite lives for each of the next five years is set out below. It is likely that future amortisation will vary from the figures below as the estimate does not include the impact of any future investments, disposals or capital expenditure.

	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m
Estimated amortisation charge	112	90	58	31	21

For intangible assets acquired in business combinations the average amortisation period is 3 years (2009: 3 years).

Acquired R&D, Trademarks, Technology, and Brand Name

2.114

Novartis AG (Dec 2010)

CONSOLIDATED BALANCE SHEETS (in part)

(At December 31, 2010 and 2009)

$ Millions	Note	2010	2009
Assets			
Non-current assets			
Property, plant & equipment	10	15,840	14,075
Goodwill	11	29,692	12,039
Intangible assets other than goodwill	11	35,231	10,331
Investments in associated companies	4	8,385	17,791
Deferred tax assets	12	5,240	4,615
Financial assets	13	1,840	2,635
Other non-current non-financial assets		405	328
Total non-current assets		96,633	61,814

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Accounting Policies (in part)

Intangible Assets (in part)

Other Intangible Assets

All identifiable intangible assets acquired in a business combination are recognized at their fair value. Furthermore, all acquired Research & Development assets, including upfront and milestone payments on licensed or acquired compounds, which are deemed to enhance the intellectual property of Novartis, are capitalized at cost as intangible assets, when it is probable that future economic benefits will arise, even though some uncertainties exist as to whether the R&D projects will ultimately be successful in producing a commercial product.

All Novartis intangible assets are allocated to cash-generating units. In-Process Research & Development (IPR&D) and the Alcon brand name are the only classes of separately identified intangible assets that are not amortized. Both are tested for impairment on an annual basis or when facts and circumstances warrant an impairment test. Any impairment charge is recorded in the consolidated income statement under "Research & Development expenses" for IPR&D and under "Other Expense" for the Alcon brand name. Once a project included in IPR&D has been successfully developed and is available for use, it is amortized over its useful life in the income statement under "Cost of Goods Sold," where any related impairment charges are also recorded.

All other intangible assets are amortized over their estimated useful lives once they are available for use. The useful lives assigned to acquired intangible assets are based on the period over which they are expected to generate economic benefits, commencing in the year in which they first generate sales or are used in development. Acquired intangible assets are amortized on a straight-line basis over the following periods:

Trademarks	Over their estimated economic or legal life with a maximum of 20 years
Currently marketed products and marketing know-how	5 to 20 years
Technology	10 to 30 years
Software	3 to 5 years
Others	3 to 5 years
Alcon brand name	Indefinite useful life, not amortized

Amortization of trademarks, product and marketing rights is charged in the income statement to "Cost of Goods Sold" over their useful lives. Technology, which represents identified and separable acquired know-how used in the research, development and production process, is amortized in the income statement under "Cost of Goods Sold" or "Research & Development." Any impairment charges are recorded in the income statement in the same functional cost lines as the related amortization charges.

Intangible assets, other than the Alcon brand name and IPR&D, are reviewed for impairment whenever facts and circumstances indicate their carrying value may not be recoverable. When evaluating an intangible asset for a potential impairment, the Group estimates the recoverable amount based on the intangible asset's "fair value less costs to sell" using the estimated future cash flows a market participant could generate with that asset or, in certain circumstances, the "value in use" of the intangible asset to the Group, whichever is higher. If the carrying amount of the asset exceeds the recoverable amount, an impairment loss for the difference is recognized. For purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash-generating units. Considerable management judgment is necessary to estimate the discounted future cash flows and appropriate discount rates used to make these calculations. Accordingly, actual cash flows and values could vary significantly from forecasted cash flows and related values derived using discounting techniques.

Research & Development

Internal Research & Development (R&D) costs are fully charged to the consolidated income statement in the period in which they are incurred. The Group considers that regulatory and other uncertainties inherent in the development of new products preclude the capitalization of internal development expenses as an intangible asset until marketing approval from a regulatory authority is obtained in a relevant major market such as for the US, the EU, Switzerland or Japan.

Payments made to third parties in compensation for subcontracted R&D that is deemed not to enhance the intellectual property of Novartis such as contract research and development organizations are expensed as internal R&D expenses in the period in which they are incurred. Such payments are only capitalized if they meet the criteria for recognition of an internally generated intangible asset, usually when marketing approval has been achieved from a regulatory authority in a major market.

Payments made to third parties in order to in-license or acquire intellectual property rights, compounds and products (In-Process Research & Development assets, "IPR&D"), including initial upfront and subsequent milestone payments, are capitalized as are payments for other assets, such as technologies to be used in R&D activities. If additional payments are made to the originator company to continue to perform R&D activities, an evaluation is made as to the nature of the payments. Such additional payments will be expensed if such additional payments are deemed to be compensation for subcontracted R&D services not resulting in an additional transfer of intellectual property rights to Novartis. By contrast, such additional payments will be capitalized if these additional payments are deemed to be compensation for the transfer to Novartis of additional intellectual property developed at the risk of the originator company. Subsequent internal R&D costs in relation to IPR&D and other assets are expensed since the technical feasibility of the internal R&D activity can only be demonstrated by the receipt of marketing approval for a related product from a regulatory authority in a major market.

Costs for post-approval studies performed to support the continued registration of a marketed product are recognized as marketing expenses. Costs for activities that are required by regulatory authorities as a condition for obtaining marketing approval are charged as development expenses as they are incurred in cases where it is anticipated that the related product will be sold over a longer period than the activities required to be performed to obtain the marketing approval. In the rare cases where costs related to the conditional approval need to be incurred over a period beyond that of the anticipated product sales, then the expected costs of these activities will be expensed over the shorter period of the anticipated product sales. As a result, all activities necessary as a condition to maintain a received approval, whether conditional or not, are expensed.

IPR&D assets are amortized once the related project has been successfully developed and regulatory approval for a product launch obtained and acquired technologies included in intangible assets are amortized in the consolidated income statement over their estimated useful lives.

Laboratory buildings and equipment included in property, plant & equipment are depreciated in the consolidated income statement over their estimated useful lives.

11. Goodwill and Intangible Asset Movements

2010 $ Millions	Goodwill	Acquired Research & Development	Alcon Brand Name	Technologies	Currently Marketed Products & Marketing Know-How	Other Intangible Assets	Total of Intangible Assets Other Than Goodwill
Cost							
January 1	12,624	3,216		1,271	11,737	954	17,178
Impact of business combinations	17,986	1,418	2,980	5,460	16,521	44	26,423
Reclassifications[1]		(474)			474		
Additions		344			62	89	495
Disposals		(24)			(184)	(13)	(221)
Currency translation effects	(349)	147		(32)	90	61	266
December 31	30,261	4,627	2,980	6,699	28,700	1,135	44,141
Accumulated Amortization							
January 1	(585)	(547)		(273)	(5,395)	(632)	(6,847)
Reclassifications[1]				(16)		16	
Amortization charge				(91)	(970)	(74)	(1,135)
Amortization on disposals		22			95	12	129
Impairment charge		(991)			(14)	(13)	(1,018)
Reversal of impairment charge		2			105		107
Currency translation effects	16	(51)		10	(75)	(30)	(146)
December 31	(569)	(1,565)		(370)	(6,254)	(721)	(8,910)
Net book value at December 31	29,692	3,062	2,980	6,329	22,446	414	35,231

[1] Reclassifications between various asset categories as a result of product launches of acquired In-Process Research & Development.

2009 $ Millions	Goodwill	Acquired Research & Development	Technologies	Currently Marketed Products	Other Intangible Assets	Total of Intangible Assets Other Than Goodwill
Cost						
January 1	11,976	3,028	754	10,599	942	15,323
Impact of business combinations	548	161	427	241	—	829
Reclassifications[(1)]	—	(790)	60	724	6	—
Additions	57	758	—	104	48	910
Disposals	(128)	(21)	(1)	(52)	(59)	(133)
Currency translation effects	171	80	31	121	17	249
December 31	12,624	3,216	1,271	11,737	954	17,178
Accumulated Amortization						
January 1	(691)	(477)	(201)	(4,561)	(550)	(5,789)
Reclassifications[(1)]	—	—	(6)	6	—	—
Amortization charge	—	—	(51)	(875)	(99)	(1,025)
Amortization on disposals	122	21	—	34	59	114
Impairment charge	—	(71)	—	(33)	(28)	(132)
Reversal of impairment charge	—	6	—	100	—	106
Currency translation effects	(16)	(26)	(15)	(66)	(14)	(121)
December 31	(585)	(547)	(273)	(5,395)	(632)	(6,847)
Net book value at December 31	12,039	2,669	998	6,342	322	10,331

(1) Reclassifications between various asset categories as a result of product launches of acquired In-Process Research & Development.

Segmentation of Goodwill and Intangible Assets

The net book values at December 31, 2010 of goodwill and intangible assets are allocated to the Group's segments as summarized below:

$ Millions	Goodwill	Acquired Research & Development	Alcon Brand Name	Technologies	Currently Marketed Products & Marketing Know-How	Other Intangible Assets	Total of Intangible Assets other Than Goodwill
Pharmaceuticals	2,862	1,812	—	—	1,841	181	3,834
Vaccines and Diagnostics	1,111	123	—	238	1,351	150	1,862
Sandoz	7,184	508	—	743	1,878	23	3,152
Consumer Health	605	4	—	—	855	1	860
Alcon	17,923	615	2,980	5,348	16,521	46	25,510
Corporate	7	—	—	—	—	13	13
Total	29,692	3,062	2,980	6,329	22,446	414	35,231
Potential impairment charge, if any, if discounted cash flows fell by 5%		3			8		11
Potential impairment charge, if any, if discounted cash flows fell by 10%		7			16		23

Goodwill, the Alcon brand name and acquired In-Process R&D are tested for possible impairment annually and whenever events or changes in circumstances indicate the value may not be fully recoverable. If the initial accounting for an intangible asset acquired in the reporting period is only provisional, it is not tested for impairment unless an impairment indicator exists, and not included in the calculation of the net book values at risk from changes in the amount of discounted cash flows. An impairment is recognized when the consolidated balance sheet carrying amount is higher than the greater of "fair value less costs to sell" and "value in use."

Novartis has adopted a uniform method for assessing goodwill for impairment and any other intangible asset indicated as possibly impaired. Under this method, the "fair value less costs to sell" of the related cash-generating unit is calculated and only if it is lower than the consolidated balance sheet carrying amount is the value in use determined. Novartis uses the Discounted Cash Flow (DCF) method to determine the "fair value less costs to sell" of a related cash-generating unit, which starts with a forecast of all expected future net cash flows. Generally, for intangible assets Novartis uses cash flow projections for the whole useful life of these assets, and for goodwill cash flow projections for the next five years are utilized based on a range of management forecasts, with a terminal value using sales projections in line or lower than inflation thereafter. Three probability-weighted scenarios

are typically used. These cash flows, which reflect the risks and uncertainties associated with the asset, are discounted at an appropriate rate to net present value. The net present values involve highly sensitive estimates and assumptions specific to the nature of the Group's activities with regard to:

- the amount and timing of projected future cash flows;
- the tax and discount rate selected;
- the outcome of R&D activities (compound efficacy, results of clinical trials, etc.);
- the amount and timing of projected costs to develop the IPR&D into commercially viable products;
- the probability of obtaining regulatory approval;
- long-term sales forecasts for periods of up to 20 years;
- sales price erosion rates after the end of patent protection and timing of the entry of generic competition; and
- the behavior of competitors (launch of competing products, marketing initiatives, etc.).

Factors that could result in shortened useful lives or impairment include entry into the market of generic or alternative products, lower than expected sales for acquired products or for sales associated with patents and trademarks; or lower than anticipated future sales resulting from acquired IPR&D. Changes in the discount rates used for these calculations also could lead to impairments. Additionally, impairments of IPR&D and product and marketing rights may also result from events such as the outcome of R&D activity, obtaining regulatory approval and the launch of competing products.

The discount rates used are based on the Group's weighted average cost of capital which is considered to be a good proxy for the capital cost of a market participant, which is adjusted for specific country and currency risks associated with the cash flow projections.

Due to the above factors, actual cash flows and values could vary significantly from the forecasted future cash flows and related values derived using discounting techniques.

The recoverable amount of a cash-generating unit and related goodwill is based on the higher of fair value less costs to sell or value in use. The following assumptions are used in the calculations:

	Pharmaceuticals %	Vaccines and Diagnostics %	Sandoz %	Consumer Health %
Sales growth rate assumptions after forecast period	0.6	2.0	0 to 2.0	(10.0) to 2.0
Discount rate	7.0	7.0	7.0	7.0

There has been no triggering event concerning Alcon between the date of acquisition of majority ownership of August 25, 2010 and December 31, 2010 that indicates that an impairment is necessary of any values determined as part of the final allocation of the purchase price as of August 25, 2010.

In 2010, Novartis recorded impairment charges totaling $1.0 billion. These relate to impairment charges of $356 million for *Mycograb*, $250 million for PTZ601, $228 million for albinterferon alfa-2b and $120 million for ASA404 as Novartis decided to discontinue the related development projects. Additionally, $40 million were recorded for various other impairment charges in the Pharmaceuticals Division. Novartis also recorded various impairment charges of $24 million in the Sandoz and Consumer Health Divisions.

In 2009, impairment charges of $132 million were recorded, mainly for terminated development projects or for where the anticipated cash flows from future sales no longer supported the carrying value of the intangible assets. These related to various impairment charges of $88 million, mainly for upfront and milestone payments in the Pharmaceuticals Division and $44 million in the Vaccines and Diagnostics, Sandoz and Consumer Health Divisions.

Changes in circumstances of products impaired in prior years led to reversals in 2010 that amounted to $107 million mainly relating to *Famvir* product rights (2009: $106 million).

In 2008, Novartis recorded impairment charges totaling $344 million. These relate to an impairment charge of $223 million for *Aurograb* and $97 million for various other impairments of upfront and milestone payments and product rights in the Pharmaceuticals Division. Additionally, Novartis recorded various impairment charges of $24 million for product rights in the Sandoz and Vaccines and Diagnostics Divisions.

Core Deposit Intangibles, Other Acquired Intangibles, and Computer Software

2.115

National Westminster Bank Plc (Dec 2010)

BALANCE SHEETS (in part)

As at 31 December 2010

		Group		
	Note	2010 £m	2009 £m	2008 £m
Assets				
Intangible assets	18	683	748	815
Property, plant and equipment	19	3,191	3,300	1,970
Deferred tax	23	574	568	496
Prepayments, accrued income and other assets	20	1,579	1,876	2,018
Total assets		366,532	350,728	321,219

ACCOUNTING POLICIES (in part)

5. Intangible Assets and Goodwill

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to profit or loss over the assets' estimated economic lives using methods that best reflect the pattern of economic benefits and is included in depreciation and amortisation. The estimated useful economic lives are as follows:

Core deposit intangibles	6 to 10 years
Other acquired intangibles	5 to 10 years
Computer software	3 to 5 years

Expenditure on internally generated goodwill and brands is written-off as incurred. Direct costs relating to the development of internal-use computer software are capitalised once technical feasibility and economic viability have been established. These costs include payroll, the costs of materials and services, and directly attributable overheads. Capitalisation of costs ceases when the software is capable of operating as intended. During and after development, accumulated costs are reviewed for impairment against the projected benefits that the software is expected to generate. Costs incurred prior to the establishment of technical feasibility and economic viability are expensed as incurred as are all training costs and general overheads. The costs of licences to use computer software that are expected to generate economic benefits beyond one year are also capitalised.

Acquired goodwill, being the excess of the cost of an acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary, associate or joint venture acquired, is initially recognised at cost and subsequently at cost less any accumulated impairment losses. Goodwill arising on the acquisition of subsidiaries and joint ventures is included in the balance sheet category 'Intangible assets' and that on associates within their carrying amounts. The gain or loss on the disposal of a subsidiary, associate or joint venture includes the carrying value of any related goodwill.

18. Intangible Assets (in part)

	Group				
	Goodwill £m	**Core Deposit Intangibles £m**	**Other Purchased Intangibles £m**	**Internally Generated Software £m**	**Total £m**
2010					
Cost					
At 1 January 2010	901	31	46	2,259	3,237
Currency translation and other adjustments	15	(1)	(1)	(2)	11
Additions	—	—	—	58	58
Disposal of subsidiaries	(78)	—	—	—	(78)
At 31 December 2010	838	30	45	2,315	3,228
Accumulated Amortisation and Impairment					
At 1 January 2010	538	31	41	1,879	2,489
Currency translation and other adjustments	(16)	(1)	(1)	(1)	(19)
Charge for the year	—	—	2	73	75
At 31 December 2010	522	30	42	1,951	2,545
Net book value at 31 December 2010	316	—	3	364	683
2009					
Cost					
At 1 January 2009	973	35	49	2,195	3,252
Currency translation and other adjustments	(72)	(2)	(3)	(6)	(83)
Additions	—	—	—	70	70
Disposals and write-off of fully amortised assets	—	(2)	—	—	(2)
At 31 December 2009	901	31	46	2,259	3,237
Accumulated Amortisation and Impairment					
At 1 January 2009	579	24	41	1,793	2,437
Currency translation and other adjustments	(41)	(2)	(2)	(5)	(50)
Disposals and write-off of fully amortised assets	—	(1)	—	—	(1)
Charge for the year	—	10	2	91	103
At 31 December 2009	538	31	41	1,879	2,489
Net book value at 31 December 2009	363	—	5	380	748

(continued)

	Group				
	Goodwill £m	Core Deposit Intangibles £m	Other Purchased Intangibles £m	Internally Generated Software £m	Total £m
2008					
Cost					
At 1 January 2008	773	27	32	2,028	2,860
Currency translation and other adjustments	247	8	10	8	273
Additions	—	—	8	159	167
Disposal of subsidiaries	(47)	—	—	—	(47)
Disposals and write-off of fully amortised assets	—	—	(1)	—	(1)
At 31 December 2008	973	35	49	2,195	3,252
Accumulated Amortisation and Impairment					
At 1 January 2008	—	14	13	1,589	1,616
Currency translation and other adjustments	—	7	4	1	12
Disposals and write-off of fully amortised assets	—	—	(1)	—	(1)
Charge for the year	—	3	4	99	106
Write down of goodwill and other intangible assets	579	—	21	104	704
At 31 December 2008	579	24	41	1,793	2,437
Net book value at 31 December 2008	394	11	8	402	815

Impairment Review

The Group's goodwill acquired in business combinations is reviewed annually at 30 September for impairment by comparing the recoverable amount of each cash generating unit (CGU) to which goodwill has been allocated with its carrying value. The CGUs of the Group, where the goodwill is significant are as follows:

	Significant Acquisition	Recoverable Amount Based on	Goodwill at 30 September 2010 £m	Goodwill at 30 September 2009 £m
Global Banking & Markets	Greenwich	Fair value less cost to sell	120	117
Wealth	Bank Von Ernst	Value in use	184	170

	Significant Acquisition	Recoverable Amount Based on	Goodwill Prior to Write-Down £m	Write-Down £m	Goodwill at 31 December 2008 £m
Global Banking & Markets	Greenwich	Fair value less cost to sell	128	—	128
Europe & Middle East Retail & Commercial Banking	First Active	Value in use	576	(576)	—
Asia Retail & Commercial Banking	Bank Von Ernst	Value in use	182	—	182

The analysis of goodwill by operating segment is shown in Note 36.

The Group has adopted value in use test for Wealth based upon management's latest five year forecasts. For the value in use test, the long-term growth rates have been based on respective country GDP rates adjusted for inflation. The risk discount rates are based on observable market long-term government bond yields and average industry betas adjusted for an appropriate risk premium based on independent analysis. Fair value less costs to sell test has been adopted for Global Banking & Markets.

The goodwill in Global Banking & Markets arose from the Group's interest in Greenwich Capital. The recoverable amount exceeds the carrying value by £1.0 billion (2009—more than 100%). The earnings multiples, validated against independent analyst information, or the earnings would have to reduce by a quarter to cause the recoverable amount to equal the carrying value.

In Wealth there was no impairment recognised in respect of the goodwill arising on the acquisition of Bank von Ernst. The recoverable amount, based on a 5% (2009—5%) terminal growth rate and 11.3% (2009—11%) pre-tax discount rate, exceeded its carrying amount by £120 million (2009—£1.0 billion). A 1% change in the discount rate or the terminal growth rate would change the recoverable amount by approximately £200 million (2009—£250 million) and £170 million (2009—£200 million) respectively. In addition, a 5% change

in forecast pre-tax earnings would change the recoverable amount by £70 million (2009—£100 million).

In 2008, a goodwill write down was recorded in Europe & Middle East Retail & Commercial Banking.

Development Costs

2.116

Trinity Biotech plc (Dec 2010)

CONSOLIDATED BALANCE SHEETS (in part)

	Notes	December 31, 2010 US$'000	December 31, 2009 US$'000
Assets			
Non-current assets			
Property, plant and equipment	11	5,999	12,174
Goodwill and intangible assets	12	37,248	44,822
Deferred tax assets	13	4,680	5,801
Other assets	14	11,623	1,212
Total non-current assets		59,550	64,009

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Basis of Preparation and Significant Accounting Policies (in part)

g) Intangibles, Including Research and Development (Other than Goodwill)

An intangible asset, which is an identifiable non-monetary asset without physical substance, is recognised to the extent that it is probable that the expected future economic benefits attributable to the asset will flow to the Group and that its cost can be measured reliably. The asset is deemed to be identifiable when it is separable (that is, capable of being divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability) or when it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the Group or from other rights and obligations.

The technical feasibility of a new product is determined by a specific feasibility study undertaken at the first stage of any development project. The majority of our new product developments involve the transfer of existing product know-how to a new application. Since the technology is already proven in an existing product which is being used by customers, this facilitates the proving of the technical feasibility of that same technology in a new product. The results of the feasibility study are reviewed by a design review committee comprising senior managers. The feasibility study occurs in the initial research phase of a project and costs in this phase are not capitalized.

The commercial feasibility of a new product is determined by preparing a discounted cash flow projection. This projection compares the discounted sales revenues for future periods with the relevant costs. As part of preparing the cash flow projection, the size of the relevant market is determined, feedback is sought from customers and the strength of the proposed new product is assessed against competitors' offerings. Once the technical and commercial feasibility has been established and the project has been approved for commencement, the project moves into the development phase.

Intangible assets acquired as part of a business combination are capitalised separately from goodwill if the intangible asset meets the definition of an asset and the fair value can be reliably measured on initial recognition. Subsequent to initial recognition, these intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses (note 1(h)). Definite lived intangible assets are reviewed for indicators of impairment annually while indefinite lived assets and those not yet brought into use are tested for impairment annually, either individually or at the cash generating unit level.

Research and Development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the statement of operations as an expense as incurred. Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete the development. The expenditure capitalised includes the cost of materials, direct labour and attributable overheads and third party costs. Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other development expenditure is expensed as incurred. Subsequent to initial recognition, the capitalised development expenditure is carried at cost less any accumulated amortisation and any accumulated impairment losses (note 1(h)).

Expenditure on internally generated goodwill and brands is recognised in the statement of operations as an expense as incurred.

Amortisation

Amortisation is charged to the statement of operations on a straight-line basis over the estimated useful lives of intangible assets, unless such lives are indefinite. Intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- Patents and licences 6-15 years
- Capitalised development costs 15 years
- Other (including acquired customer and supplier lists) 6-15 years

The Group uses a useful economic life of 15 years for capitalized development costs. This is a conservative estimate of the likely life of the products. The Group is confident that products have a minimum of 15 years life given the inertia that characterizes the medical diagnostics industry and the barriers to entry into the industry. The following factors have

been considered in estimating the useful life of developed products:

(a) once a diagnostic test becomes established, customers are reluctant to change to new technology until it is fully proven, thus resulting in relatively long product life cycles. There is also reluctance in customers to change to a new product as it can be costly both in terms of the initial changeover cost and as new technology is typically more expensive.

(b) demand for the diagnostic tests is enduring and robust within a wide geographic base. The diseases that the products diagnose are widely prevalent (HIV, diabetes and Chlamydia being just three examples) in many countries. There is a general consensus that these diseases will continue to be widely prevalent in the future.

(c) there are significant barriers to new entrants in this industry. Patents and/or licenses are in place for many of our products, though this is not the only barrier to entry. There is a significant cost and time to develop new products, it is necessary to obtain regulatory approval and tests are protected by proprietary know-how, manufacturing techniques and trade secrets.

Certain trade names acquired are deemed to have an indefinite useful life.

Where amortisation is charged on assets with finite lives, this expense is taken to the statement of operations through the 'selling, general and administrative expenses' line.

Useful lives are examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

12. Goodwill and Intangible Assets

	Goodwill US$'000	Development Costs US$'000	Patents and Licences US$'000	Other US$'000	Total US$'000
Cost					
At January 1, 2009	79,599	34,212	10,093	26,078	149,982
Additions	—	7,845	—	407	8,252
Disposals/retirements	—	—	—	(25)	(25)
Exchange adjustments	—	13	—	4	17
At December 31, 2009	79,599	42,070	10,093	26,464	158,226
At January 1, 2010	79,599	42,070	10,093	26,464	158,226
Additions	—	5,887	8	407	6,302
Disposals/retirements	(32,345)	(20,113)	(3,675)	(7,169)	(63,302)
Exchange adjustments	—	(13)	—	(4)	(17)
At December 31, 2010	47,254	27,831	6,426	19,698	101,209
Accumulated Amortisation and Impairment Losses					
At January 1, 2009	(59,546)	(28,874)	(8,808)	(14,229)	(111,457)
Charge for the year	—	(401)	(149)	(1,409)	(1,959)
Disposals/retirements	—	—	—	25	25
Exchange adjustments	—	(10)	—	(3)	(13)
At December 31, 2009	(59,546)	(29,285)	(8,957)	(15,616)	(113,404)
At January 1, 2010	(59,546)	(29,285)	(8,957)	(15,616)	(113,404)
Charge for the year	—	(297)	(86)	(1,206)	(1,589)
Disposals/retirements	30,120	11,824	3,184	5,904	51,032
Exchange adjustments	—	—	—	—	—
At December 31, 2010	(29,426)	(17,758)	(5,859)	(10,918)	(63,961)
Carrying Amounts					
At December 31, 2010	17,828	10,073	567	8,780	37,248
At December 31, 2009	20,053	12,785	1,136	10,848	44,822

Included within disposals/retirements in 2010 are intangible assets with a net book value of US$12,270,000, which were disposed of as part of the divestiture of the Coagulation business in May 2010 (see Note 3).

Included within development costs are costs of US$8,682,000 which were not amortised in 2010 (2009: US$4,564,000). These development costs are not being amortised as the projects to which the costs relate were not fully complete at December 31, 2010 or at December 31, 2009. As at December 31, 2010 these projects are expected to be completed during the period from January 1, 2011 to December 31, 2013 at an expected further cost of approximately US$6.5 million.

The following represents the costs incurred during each period presented for each of the principal development projects:

Product Name	2010 US$'000	2009 US$'000
Premier Hb 9210 Instrument for Haemoglobin A1c testing	2,569	1,023
Destiny Max coagulation instrument(*)	956	3,234
Bordetella Pertussis Western Blot test	337	156
Tristat point of care instrument	318	1,072
Coagulation assays and intermediates(*)	312	1,010
HIV Ag-Ab rapid test	247	—
Legionella Urinary Antigen	198	—
Syphilis Rapid point-of-care test	185	—
Unigold Recombigen HIV Rapid enhancement	142	456
Lyme assays	—	629
Trinblot Scanner	—	72
Other projects with spend less than $150,000	623	193
Total capitalized development costs	5,887	7,845

(*) Note that these projects ceased in May 2010 following the divestiture of the Coagulation Business.

All of the development projects for which costs have been capitalized are judged to be technically feasible, commercially viable and likely to produce future economic benefits. In reaching this conclusion, many factors have been considered including the following:

(a) The Group only develops products within its field of expertise. The R&D team is experienced in developing new products in this field and this experience means that only products which have a high probability of technical success are put forward for consideration as potential new products.
(b) A technical feasibility study is undertaken in advance of every project. The feasibility study for each project is reviewed by the R&D team leader, and by other senior management depending on the size of the project. The feasibility study occurs in the initial research phase of the project and costs in this phase are not capitalized.
(c) Nearly all of our new product developments involve the transfer of our existing product know-how to a new application. The Group does not engage in pure research. Every development project is undertaken with the intention of bringing a particular new product to market for which there is a known demand.
(d) The commercial feasibility of each new product is established prior to commencement of a project by ensuring it is projected to achieve an acceptable income after applying appropriate discount rates.

Other intangible assets consist primarily of acquired customer and supplier lists, trade names, website and software costs.

Amortisation is charged to the statement of operations through the selling, general and administrative expenses line.

Included in other intangibles are the following indefinite lived assets:

	December 31, 2010 US$'000	December 31, 2009 US$'000
Fitzgerald trade name	970	970
RDI trade name	560	560
Primus trade name	670	670
	2,200	2,200

The trade name assets purchased as part of the acquisition of Primus and RDI in 2005 and Fitzgerald in 2004 were valued by an external valuer using the relief from royalty method and based on factors such as (1) the market and competitive trends and (2) the expected usage of the name. It was considered that these trade names will generate net cash inflows for the Group for an indefinite period.

Impairment Testing for Intangibles Including Goodwill and Indefinite Lived Assets

Goodwill and other intangibles with indefinite lives are tested annually for impairment at each balance sheet date at a cash-generating unit ("CGU") level, i.e. the individual legal entities. For the purpose of these annual impairment reviews goodwill is allocated to the relevant CGU.

The recoverable amount of goodwill and intangible assets contained in each of the Group's CGU's is determined based on the greater of the fair value less cost to sell and value in use calculations. The Group operates in one market sector (namely diagnostics) and accordingly the key assumptions are similar for all CGU's. The value in use calculations use cash flow projections based on the 2011 budget and projections for a further four years using projected revenue and cost growth rates of between 3% and 5%. At the end of the five year forecast period, terminal values for each CGU, based on a long term growth rate are used in the value in use calculations. The cashflows and terminal values for the CGU's are discounted using pre-tax discount rates which range from 18% to 32%.

The value in use calculation is subject to significant estimation, uncertainty and accounting judgements and are particularly sensitive in the following areas. In the event that there was a variation of 10% in the assumed level of future growth in revenues, which would represent a reasonably likely range of outcomes, the following impairment loss/write back would be recorded at December 31, 2010:

- No impairment loss or reversal of impairment in the event of a 10% increase in the growth in revenues.
- No impairment loss or reversal of impairment in the event of a 10% decrease in the growth in revenues.

Similarly if there was a 10% variation in the discount rate used to calculate the potential impairment of the carrying values, which would represent a reasonably likely range of outcomes, there would be the following impairment loss/write back would be recorded at December 31, 2010:

- No impairment loss or reversal of impairment in the event of a 10% decrease in the discount rate
- No impairment loss or reversal of impairment in the event of a 10% increase in the discount rate

Domains, Brands, Water Rights, Easement Rights, IT Programs

2.117

Vina Concha y Toro S.A. (Dec 2010)

Author's Note

Vina Concha y Toro S.A. implemented IFRSs effective December 31, 2010, with a date of transition of January 1, 2009. The excerpt that follows reflects the initial application of IAS 38.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (in part)

	Note N°	As of December 31, 2010 Th$	As of December 31, 2009 Th$	As of January 1, 2009 Th$
Assets				
Non-current assets				
Other non-current financial assets	(8)	5,765,933	3,943,612	—
Other non-financial assets, non-current	—	2,442,581	2,779,252	3,244,011
Investments accounted for using the equity method	(12)	9,627,465	9,626,139	9,121,449
Intangible assets other than goodwill	(13)	8,863,353	8,379,752	8,417,493
Property, plant and equipment	(14)	225,070,491	229,469,990	226,652,653
Non-current biological assets	(15)	53,672,218	52,529,942	50,621,435
Deferred tax assets	(21)	5,295,823	4,015,976	3,376,166
Total non-current assets		310,737,864	310,744,663	301,433,207
Total assets		584,915,714	576,773,649	564,466,883

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 2. Bases of Preparation and Presentation Used for These Financial Statements

2.11 Intangible Assets

2.11.1 Industrial Brand Rights

Viña Concha y Toro trade its products through the registration of its own brands with a finite useful life, duly recorded and completely in-force. Those brands include Concha y Toro and sub brands Don Melchor, Amelia, Terrunyo, Trio, Casillero del Diablo, Sunrise, Frontera, Tocornal and Maipo. The subsidiaries have registered their brands Cono Sur, Isla Negra, Maycas del Limarí and Trivento.

- Registered in Chile.

Viña Concha y Toro, has a portfolio of its own industrial brands registered in Chile for a ten-year period, renewable. These are valued at brand registration historic cost. This value is amortized in the period of time in which the register is in-force.

- Registered abroad.

The Company also registers its brands abroad in locations where it operates in the wine business. Normally, these registration rights have an in-force period from 5 to 10 years. The registration amounts are amortized in the in-force period of the related brand registration certificate pursuant to regulations of each country. These are recorded at historic cost net of amortization.

Viña Concha y Toro, value the related Industrial Brand Rights at its registration cost value. Disbursements incurred in developments of brands are recorded as operating expenses when incurred.

Brands acquired prior to the date in which Viña Concha y Toro adopted its transition to IFRS are presented at its value revalued by inflation and lessen by the related accumulated amortization.

2.11.2 Domain Rights

Correspond to the use rights for a unique internet address to which users can access. These domains can be domestic or foreign, to which its in-force period will correspond to that indicated by the law of each country and in general not higher than 5 renewable years.

2.11.3 IT Programs

Licenses for IT programs acquired are recorded at historic cost net of amortization. These costs are amortized using its estimated useful lives, generally 3 to 8 years.

Expenses related to the development or maintenance of IT programs are recognized as expense when incurred.

2.11.4 Research and Development

Research and development expenses are recognized as expenses when incurred. The Company has no significant material disbursements for these concepts during the years ended as of December 31, 2010 and December 31, 2009.

2.11.5 Water Rights

Water rights acquired by the Company correspond to the exploitation right of water existing in natural sources associated to agricultural land which are recorded at historic cost. These are recognized at its purchase value, and given that they are perpetual rights, these are not amortizable. However, the Company evaluates these water rights with respect to impairment on a yearly basis.

Water rights prior to the date in which Viña Concha y Toro, adopted its transition to IFRS are presented at its value restated by inflation and reduced by the related accumulated depreciation.

2.11.6 Easement Rights

Rights related to easement correspond to the amounts in acquisition of rights of way for use of service, between several co-owners from the area (access to allotments, aqueduct transit, and power lines), on agricultural land of Viña Concha y Toro, in addition to those of its subsidiary Viña Cono Sur S.A. These rights are indefinite therefore, are not amortized but subject to "impairment test" on an annual basis, restating the value in case the related market value were lower, based on the last transactions performed by the Company.

Rights acquired prior to the date in which Viña Concha y Toro adopted its transition to IFRS are presented at its value restated by inflation and reduced by the related accumulated depreciation.

2.11.7 Identification of Classes of Intangibles With Finite and Undefined Useful Life

Description of Classes of Intangible	Useful Life Definition Finite or Indefinite
Domains	Finite
Industrial brands, domestic (acquired)	Finite
Industrial brands rights, registered abroad	Finite
Water rights	Indefinite
Easement rights	Indefinite
IT Programs	Finite

2.11.8 Minimum and Maximum Useful Lives for Amortization of Intangibles

Useful Life by Class of Intangible Assets	Minimum	Maximum
Licenses, Registered brands and other rights	5	10
IT Programs	3	8
Other identifiable intangible assets	3	10

Note 13. Intangible Assets

a) Classes of Intangible Assets

Balances of different classes of intangible assets as of December 31, 2010, December 31, 2009 and January 1, 2009, are detailed as follows:

Description of Classes on Intangible Assets	12-31-2010 Th$	12-31-2009 Th$	01-01-2009 Th$
Net intangible assets	8,863,353	8,379,752	8,417,493
Net Intangible asset with finite life	3,505,854	3,589,477	3,799,353
Net intangible assets with indefinite life			
Water right, net	5,339,431	4,772,631	4,599,713
Easement right, net	18,068	17,644	18,427
Net identifiable intangible assets	8,863,353	8,379,752	8,417,493
Licenses, registered brands and other rights, net	7,112,438	6,727,818	6,283,532
IT programs, net	1,750,915	1,651,934	2,133,961
Gross intangible assets	15,548,474	14,244,316	13,217,510
Gross intangible assets identifiable	15,548,474	14,244,316	13,217,510
Licenses, registered brands and other rights, gross	8,546,719	7,884,591	7,281,414
IT programs, gross	7,001,755	6,359,725	5,936,096
Total, accumulated amortization and value impairment on intangible assets	6,685,121	5,864,564	4,800,017
Accumulated amortization and value impairment on identifiable intangible assets	6,685,121	5,864,564	4,800,017
Licenses, registered brands and other rights	1,434,281	1,156,773	997,882
IT programs	5,250,840	4,707,791	3,802,135

As of December 31, 2010, the Company has no restrictions on intangible assets and does maintain acquisition commitments.

The book value of intangible with indefinite useful life was assigned to the cash generating unit (CGU) which corresponds to agricultural land, within the Wines segment.

Changes of intangible assets as of December 31, 2010 are detailed as follows:

Changes in Identifiable Intangible Assets	Licenses, Registered Brands and Other Rights, Net in Th$	IT Programs, Net in Th$	Identifiable Intangible Assets, Net in Th$
Beginning balance	6,727,818	1,651,934	8,379,752
Changes:			
Additions	700,483	651,487	1,351,970
Withdrawals	(47,812)	—	(47,812)
Amortization	(268,051)	(552,507)	(820,557)
Total changes	384,621	98,981	483,601
Final balance as of December 31, 2010	7,112,438	1,750,915	8,863,353

The amount due to amortization for the year amounts to Th$ 820,557 which is reflected in the statement of income in item "depreciation and amortization," within the line "administrative expenses" and in the line "costs of sales" corresponding to the portion which forms part of the inventories cost.

Changes of intangibles as of December 31, 2009 are detailed as follows:

Changes in Identifiable Intangible Assets	Licenses, Registered Brands and Other Rights, Net in Th$	IT Programs, Net in Th$	Identifiable Intangible Assets, Net in Th$
Beginning balance	6,283,532	2,133,961	8,417,493
Changes:			
Additions	674,331	423,629	1,097,960
Withdrawals	(71,155)	—	(71,155)
Amortization	(158,891)	(905,656)	(1,064,547)
Total changes	444,286	(482,027)	(37,741)
Final balance as of December 31, 2009	6,727,818	1,651,934	8,379,752

IAS 40

IFRSs Overview and Comparison to U.S. GAAP

2.118 *Investment property*, as defined in IAS 40, is land or buildings (in whole or part) held for rental or capital appreciation, or both, and is a separate asset class. An entity may own an investment property or hold it under a finance (capital) lease. Under certain circumstances, as described subsequently, lessees holding property interests under operating leases may also classify the property interest as an investment property under IAS 40.

2.119 An entity should account for land or buildings held for sale in the ordinary course of business as inventory and account for it in accordance with IAS 2. Land or buildings held for use in the production or supply of goods or services or for administrative purposes is considered *owner occupied* and should be accounted for as PPE, in accordance with IAS 16; otherwise, accounting for those assets should be in accordance with IAS 40.

2.120 The scope of IAS 40 includes investment property under construction and excludes biological assets related to agricultural activity (see IAS 41) and mineral rights and mineral reserves, such as oil, natural gas, and similar nonregenerative resources.

Recognition and Measurement

IFRSs

2.121 On initial recognition, an entity should recognize an investment property as an asset when, and only when

- it is probable that the future economic benefits that are associated with the investment property will flow to the entity, and
- the cost of the investment property can be measured reliably.

Cost should include transaction costs to acquire the investment property and costs incurred subsequently to add to, replace part of, or service the property. An entity should measure the cost of investment property assets held under a finance lease at the lower of the property's fair value and the

present value of the minimum lease payments and recognize an equivalent amount as a liability.

2.122 As it would for PPE, an entity should allocate the cost to the components of the property that it expects to replace over the asset's useful life. At the time the component is replaced, an entity should derecognize any remaining carrying amount. Examples of components of investment property are interior walls, elevators, and heating and air conditioning systems.

2.123 IAS 40 has two alternative models for subsequent measurement: cost and fair value. If the entity chooses the cost model, it should account for the asset in accordance with IAS 16 and test the asset for impairment in accordance with IAS 36. However, investment properties that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) should be measured in accordance with IFRS 5.

Author's Note

See paragraph 2.60 for a description of the cost model.

2.124 An entity may choose one of the two alternative models separately for each of the following groups of investment properties:

- All investment property backing liabilities that pay a return linked directly to the fair value of, or returns from, specific assets, including the property
- All other investment property

2.125 Lessees who hold property interests under an operating lease can also classify and account for such interests as an investment property if, and only if, the property would otherwise meet the definition of an *investment property* and the entity chooses the fair value model for subsequent measurement.

2.126 Under the fair value model, an entity should measure all of its investment property at fair value, except in the exceptional case when fair value cannot be determined reliably. IAS 38 states that there is a rebuttable presumption that, if an entity chooses the fair value model, it can reliably determine fair values for its properties. Fair values should reflect market conditions at the end of the reporting period and the entity should report changes in fair value in profit or loss.

2.127 If an entity has previously measured an investment property at fair value, it should continue to measure that investment property at fair value until disposal or transfer to inventory or owner-occupied PPE. For a transfer from investment property carried at fair value to owner-occupied property or inventories, the property's deemed cost for subsequent accounting in accordance with IAS 2 or IAS 16, should be its fair value at the date of change in use. An entity should consider the change in fair value when the asset is transferred from PPE to investment property held at fair value as a revaluation increase or decrease under IAS 16.

2.128 An entity derecognizes an investment property on disposal or when the property is permanently retired (that is, no further economic benefits are expected). An entity should recognize gains or losses on disposal or retirement in profit or loss.

2.129 Entities should recognize compensation from third parties for impairments or losses in profit or loss only when the compensation is receivable.

U.S. GAAP

2.130 FASB ASC does not provide specific guidance on accounting for investment properties. FASB ASC 360, *Property, Plant, and Equipment*, requires an entity to account for land and buildings as PPE, even when held for sale in the ordinary course of business, but the entity should not depreciate a long-lived asset while it is classified as held for sale. Accordingly, the entity should measure the investment property using the cost model. Unlike IFRSs, neither FASB ASC 360 nor FASB ASC 840, *Leases*, discusses whether a property held by a lessee under a lease classified as an operating lease could be accounted for as PPE (effectively, as a capital lease) by the lessee.

Author's Note

FASB ASC does not recognize investment properties as a separate asset class. Such properties are included in PPE. See paragraphs 2.52–.70 for a more comprehensive comparison between FASB ASC and IFRSs related to PPE, including presentation and disclosure.

Presentation

IFRSs

2.131 IAS 1 requires an entity to include a line item for investment properties, and it should present items with different measurement bases separately.

Disclosure

IFRSs

2.132 Regardless of the model chosen, entities should disclose the following:

- Accounting policy (cost or fair value)
- If the fair value model is used, whether and under what circumstances property interests held under operating leases are classified and accounted for as investment property
- When classification is difficult, the criteria used to distinguish investment property from owner-occupied properties and from property held for sale in the ordinary course of business
- Methods and significant assumptions applied in measuring fair values, including a statement regarding the relative weight of market-related evidence and other factors
- Extent to which the fair value of investment property is based on a valuation by independent valuers, with recognized credentials and recent experience, or the fact that no such valuation was done
- Amounts recognized in profit or loss, including rental income, direct operating expenses (generating and not generating rental income), and the cumulative change in fair value recognized in profit or loss when sales occurred between pools of asset under different models

2.133 When an entity applies the fair value model, it should provide a reconciliation of the beginning and ending balance in investment properties, disclosing the following:

- Additions disaggregating individual property acquisitions from expenditures on existing properties
- Additions due to business combinations
- Classification to held for sale or as part of a disposal group classified as held for sale
- Changes in fair value
- Net foreign exchange differences
- Transfers to or from inventory or PPE
- Other changes

2.134 In the exceptional case that fair value can no longer be measured reliably and the cost model is used, an entity should present information about the property separately in the relevant reconciliation disclosure. The entity should also provide a description of the property and the circumstances that led to the determination that fair value was not reliable.

2.135 For investment properties held under the cost model, an entity should provide the same disclosures as required by IAS 16, including the depreciation methods used and useful lives or depreciation rates used. At a minimum, an entity should show investment properties as a separate asset class when the entity includes the required reconciliation with other assets using the cost model. The entity should disclose the aggregated fair value of investment properties measured at cost, except in the rare case when fair value cannot be measured reliably.

TABLE 2-6: ALTERNATIVE MODELS FOR SUBSEQUENT MEASUREMENT OF INVESTMENT PROPERTY

	2010	2009
Cost	18	14
Fair Value	19	17
Fair value only for investment properties backing liabilities paying a return linked to the fair value of the investment property otherwise, cost model	1	1
No model disclosed	2	2
Survey companies that do not report investment properties	13	126
Companies disclosing both models	(1)	0
Total Companies	**170**	**160**

Presentation and Disclosure Excerpts

Investment Property Carried at Cost

2.136

Adecoagro S.A. (Dec 2010)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (in part)

As of December 31, 2010, 2009 and 2008

(All amounts in US$ thousands, except shares and per share data and as otherwise indicated)

	Note	2010	2009	2008
Assets				
Non-current assets				
Property, plant and equipment, net	6	751,992	682,878	571,419
Investment property	7	21,417	21,246	—
Intangible assets, net	8	28,653	21,859	18,108
Biological assets	9	104,216	170,347	75,701
Investments in joint ventures	10	6,271	6,506	7,508
Deferred income tax assets	21	67,463	45,113	18,713
Trade and other receivables, net	11,12	30,752	22,065	8,612
Other assets		26	34	87
Total non-current assets		1,010,790	970,048	700,148

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Summary of Significant Accounting Policies (in part)

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.7. Investment Property

Investment property consists of farmland held to earn rentals or for capital appreciation and not used in production or for administrative purposes. Investment property is measured at cost less any impairment losses. Rental income from investment property is recorded in the Group's net sales.

2.24. Revenue Recognition (in part)

In December 2009, the Group began leasing owned farmland property to third parties under operating lease agreements. The leased assets are included within investment property on the Group's statement of financial position. Rental income is recognized on a straight-line basis over the period of the lease.

7. Investment Property

Changes in the Group's investment property in 2010, 2009 and 2008 were as follows:

	2010	2009	2008
Beginning of the year	21,246	—	—
Acquisition of subsidiary (Note 31)	7,935	—	—
Transfers[(i), (ii)]	(6,767)	21,246	—
Exchange difference	(997)	—	—
End of the year	21,417	21,246	—

[(i)] Transferred from property, plant and equipment in 2009. Relates to farmland rented out to third parties. See Note 30 for details.
[(ii)] Transferred to property, plant and equipment in 2010. Relates to finalization of contracts with third parties.

The following amounts have been recognized in the statement of income in the line "Sales of manufactured products and services rendered":

	2010	2009	2008
Rental income	3,718	172	—

As of December 31, 2010, the fair value of investment property is US$ 96.4 million.

Investment Property Carried at Fair Value

2.137

Homburg Invest Inc. (Dec 2010)

Author's Note

Homburg Invest Inc. is an investment property (real estate) company. Only the effects of the use of the fair value model on the statement of financial position are illustrated in the excerpt below. The effects of accounting for investment property at fair value on Homburg Invest's statement of comprehensive income, statement of shareholder's equity, and statement of cash flows are illustrated in the relevant parts of Sections 3, 4, and 5 respectively

CONSOLIDATED BALANCE SHEET (in part)

(CAD $ Thousands Except per Share Amounts)	Note	December 31, 2010	December 31, 2009
Assets			
Non-current assets			
Investment properties	10,27	$1,401,727	$2,739,415
Investment properties under development	10	217,363	245,896
Investments, at fair market value	6	8,864	27,942
Investment in an associate, at equity	7	191,702	
Restricted cash	8	4,088	23,159
Deferred tax assets	15	8,316	26,715
		1,832,060	3,063,127

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

4. Summary of Significant Accounting Policies (in part)

Investment Properties

The Company applies IAS 40—Investment Property and has chosen the fair value method of presenting its investment properties in the financial statements. Fair value represents the amount at which the properties could be exchanged between a knowledgeable and willing buyer and a knowledgeable and willing seller in an arm's length transaction at the date of valuation. The fair value of investment properties is based on valuations by a combination of independent appraisers and management estimates plus any capital additions since the date of the most recent appraisal. Management regularly undertakes a review of its investment property revaluation between appraisal dates to assess the continuing validity of the underlying assumptions such as cash-flow and capitalization rates. These assumptions are tested against market information obtained from independent industry experts. Where increases or decreases are warranted, the Company adjusts the carrying values of its investment properties. Property interests held under operating leases are not treated as investment properties.

Investment Properties Under Development

The Company has adopted the amended IAS 40—Investment Property, which now includes, within its scope, properties being constructed or developed for future use as an investment property. Investment properties under development are carried at fair value, to the extent that fair value is reliably determinable. To the extent that fair value is not reliably determinable, the property is carried at cost until either the fair value becomes reliably determinable or construction is completed, whichever is earlier. Changes to the carrying value are recognized through the consolidated income statement.

Capitalization of Costs

The Company capitalizes investment property acquisition costs incurred at the time of purchase. For properties being developed for future use as an investment property and construction properties being developed for resale, the Company capitalizes all direct expenditures incurred in connection with the acquisition, development and construction. These expenditures consist of all direct costs and borrowing costs on debt directly attributable to a specific property, including borrowing costs incurred on the debt prior to the full utilization of the debt for the project. Borrowing costs are offset by any interest earned by the Company on borrowed funds prior to utilization. The development period commences when expenditures are being incurred and activities necessary to prepare the asset for its intended use are in progress. Capitalization ceases when the asset is ready for its intended use.

Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the date of the financial statements. Uncertainty about these assumptions and estimates could

result in outcomes that require a material adjustment to the carrying amount of assets or liabilities in future periods.

Estimates and Assumptions

In the process of applying the Company's accounting policies, management has made the following estimates and assumptions which have the most significant effect on the amounts recognised in the consolidated financial statements:

i) Valuation of investment properties. Investment properties comprises real estate (land or buildings or both) held by the Company in order to earn rentals or for capital appreciation, or both, rather than for use in the production or supply of goods or services or for administrative purposes or in the ordinary course of business. Investment properties are presented at fair value at the reporting date. Any change in fair value is determined by using a combination of management's internal valuations and valuations from independent real estate valuation experts, each in accordance with recognised valuation techniques. The techniques used comprise both the capitalized net operating income method and the discounted cash flow method and include estimating, among other things, capitalization rates and future net operating income and discount rates and future cash flows applicable to investment properties, respectively. Management's internal assessments of fair value are based upon internal financial information and are corroborated by capitalization rates obtained from independent industry experts. Management's internal valuations and independent appraisal values obtained are both subject to significant judgment, estimates and assumptions about market conditions in effect at the reporting date.

ii) Valuation of investment properties under development. Investment properties being constructed or developed are carried at fair value, to the extent that fair value is reliably determinable, with changes in fair value recognized in the Consolidated income statement. To the extent that fair value is not reliably determinable, the property is carried at cost until either the fair value becomes reliably determinable or construction is completed, whichever is earlier. Fair value is determined by using a combination of management's internal valuations and valuations from independent real estate valuation experts, each in accordance with recognised valuation techniques. The techniques used comprise both the capitalized net operating income method and the discounted cash flow method and include estimating, among other things, capitalization rates, future net operating income, project costs to complete, discount rates and future cash flows applicable to investment properties, respectively. The fair value of land to be developed for future use as an investment property is based on recent comparable market transactions, plus costs incurred that enhance the land value.

iii) Valuation of properties under development for resale. Properties under development for resale are carried at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less selling costs and costs to complete development. Estimated selling prices are supported by recent comparable market transactions.

10. Investment Properties

	Investment Properties		Investment Properties Under Development	
	2010	**2009**	**2010**	**2009**
Balance, beginning of year	$ 2,739,415	$ 3,549,744	$ 245,896	$ 224,285
Acquisition through purchases				4,150
Capital expenditure	4,948	34,299	27,615	31,857
Capitalized interest			16,953	12,988
Deferred rental receipts	5,286	5,208		
Disposals and transfers to assets held for resale (Note 19 & 23p)	(1,117,939)	(111,297)	(56,324)	
Currency translation adjustment	(198,871)	(293,578)		
Net transfers from properties under development for resale				21,323
Unrealized fair value adjustment	(31,112)	(444,961)	(16,777)	(48,707)
Balance, end of year	$ 1,401,727	$ 2,739,415	$ 217,363	$245,896

Investment properties are stated at fair value using the following methods, estimates and key assumptions:

(i) External appraisals
At December 31, 2010 external appraisals were obtained for investment properties with an aggregate fair value of $1,296 million (2009—$2,281 million) representing 92.5% (2009—83.3%) of the fair value at that date, and for an aggregate fair value of $98 million (2009—$186 million) for investment properties under development, representing 45.1% (December 31, 2009—75.6%) of the fair value at that date.

(ii) Discounted Cash Flow Method of Valuation
Under this method, discount rates are applied to the annual operating cash flow (property revenue less property operating expenses). The key assumption is the discount rate for each specific property. The Company received capitalization rate reports from external knowledgeable property valuators and discount rates were derived from these reports. The discounted cash flow method of valuation was reconciled to the capitalized net operating income method using capitalization rates to ensure valuation accuracy and reasonableness. To the extent that the externally provided capitalization rates or discount rates change from one reporting period to the next; or should another rate within the provided ranges be more appropriate than the rate previously used, the fair value of the investment properties would increase or decrease accordingly. The Company utilized the following weighted average capitalization rates or discount rates and has

determined that an increase (decrease) in the applied capitalization rate or discount rate of 0.10% in any of its geographic segments would result in an increase or decrease in the fair value of the Investment properties, as follows:

	As at December 31, 2010			As at December 31. 2009		
	Average	Impact of 0.10% Change		Average	Impact of 0.10% Change	
	Capitalization Rate	Increase	Decrease	Capitalization Rate	Increase	Decrease
Germany	6.33%	$11,685	$12,061	5.84%	$14,673	$15,184
The Netherlands	7.46%	5,221	5,353	7.75%	6,568	6,739
The Baltic States	7.89%	2,607	2,674	8.44%	2,748	2,814
Canada	%			7.28%	13,163	13,530
USA	8.61%	251	256	8.56%	1,669	1,709
Overall	7.08%	$19,764	$20,344	7.08%	$38,821	$39,976

The Company has determined, based on the capitalization rates used, that an increase (decrease) in the net operating income of $1,000 in any geographic segment would result in an increase (decrease) in the fair value for that segment ranging between $11,614 and $15,809 (December 31, 2009—between $11,683 and $17,112).

Investment properties include one property (December 31, 2009—one property) with a fair value of $592,540 (December 31, 2009—$676,850) where there is a purchase option exercisable by the tenant in 2020 for EUR €282 million.

2.138

Brookfield Asset Management, Inc. (Dec 2010)

Author's Note

Brookfield Asset Management, Inc. is an investment management company. Investments in investment properties (real estate) comprise only a portion of its investment portfolio. Only the effects of the use of the fair value model for investment properties on the statement of financial position are illustrated in the excerpt below. The effects of accounting for investment property at fair value on Brookfield Asset Management's statement of comprehensive income, statement of shareholder's equity, and statement of cash flows are illustrated in the relevant parts of Sections 3, 4, and 5 respectively.

Author's Note

Brookfield Asset Management implemented IFRSs effective December 31, 2010, with a date of transition of January 1, 2009. The excerpt that follows reflects the initial application of IAS 40.

CONSOLIDATED BALANCE SHEETS (in part)

(Millions)	Note	Dec. 31, 2010	Dec. 31, 2009[1]	Jan. 1, 2009[1]
Assets				
Cash and cash equivalents		$1,713	$ 1,309	$ 1,169
Other financial assets	5	4,419	5,146	4,506
Accounts receivable and other	6	7,869	4,709	3,803
Inventory	7	5,849	5,560	4,752
Investments	8	6,629	4,466	4,646
Property, plant and equipment	9	18,148	16,723	15,597
Investment properties	10	22,163	19,219	16,719
Timber	11	3,206	2,968	2,839
Intangible assets	12	3,805	1,048	619
Goodwill	13	2,546	2,363	1,992
Deferred income tax asset	14	1,784	1,454	984
		$78,131	$64,965	$57,626

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Significant Accounting Policies (in part)

(f) Operating Assets (in part)

(ii) Investment Properties

The company uses the fair value method to account for real estate classified as investment property. A property is determined to be an investment property when it is principally held to earn rental income or for capital appreciation, or both. Investment property also includes properties that are under development for future use as investment property. Investment property is initially measured at cost including transaction costs. Subsequent to initial recognition, investment properties are carried at fair value. Gains or losses arising from changes in fair value are included in net income during the period in which they arise. Fair values are primarily determined by discounting the expected future cash flows of each property, generally over a term of 10 years, using a discount and terminal capitalization rate reflective of the characteristics, location and market of each property. The future cash flows of each property are based upon, among other things, rental income from current leases and assumptions about rental income from future leases reflecting current conditions, less future cash outflows relating to such current and future leases. The company determines fair value using both internal and external valuations.

(p) Critical Judgements and Estimates (in part)

The preparation of financial statements requires management to make critical judgements, estimates and assumptions that affect the carried amounts of certain assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses recorded during the period. Actual results could differ from those estimates.

In making estimates and judgements, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. These estimates and judgements have been applied in a manner consistent with prior periods and there are no known trends, commitments, events or uncertainties that we believe will materially affect the methodology or assumptions utilized in making these estimates and judgements in these financial statements.

The estimates and judgements used in determining the recorded amount for assets and liabilities in the financial statements include the following:

(i) Investment Property

The critical assumptions and estimates used when determining the fair value of commercial properties are: the timing of rental income from future leases reflecting current market conditions, less assumptions of future cash flows in respect of current and future leases; maintenance and other capital expenditures; discount rates; terminal capitalization rates; and terminal valuation dates. Commercial properties under development are recorded at fair value using a discounted cash flow model which includes estimates in respect of the timing and cost to complete the development. Further information on investment property estimates is provided in Note 10.

10. Investment Properties

(Millions)	2010	2009
Fair value at beginning of year	$19,219	$16,719
Additions	689	1,480
Acquisitions through business combinations	1,416	321
Disposals	(859)	(360)
Fair value adjustments	835	(888)
Foreign currency translation	863	1,947
Fair value at end of year	$22,163	$19,219

The fair value of investment properties is generally determined by discounting the expected cash flows of the properties based upon internal or external valuations. All properties are externally valued on a three year rotation plan. Certain adjustments have been made to external valuations conducted by third parties as follows:

(Millions)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Properties where fair value is determined by external valuators	$ 5,161	$ 7,177	$ 3,587
Adjustment for straight-line rentals	(1)	87	12
	5,160	7,264	3,599
Internal appraisals	17,003	11,955	13,120
Fair value recorded in financial statements	$22,163	$19,219	$16,719

The key valuation metrics of our commercial office properties are presented in the following table:

	United States		Canada		Australia	
	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
Discount rate	8.1%	8.8%	6.9%	7.4%	9.1%	9.3%
Terminal capitalization rate	6.7%	6.9%	6.3%	6.7%	7.4%	7.8%
Investment horizon (years)	10	10	11	10	10	10

IAS 28, *INVESTMENTS IN ASSOCIATES*

IFRSs Overview and Comparison to U.S. GAAP

Author's Note

IAS 28, *Investments in Associates*, was revised in May 2011, concurrently with the issuance of IFRS 11, *Joint Arrangements*, and IFRS 12, *Disclosure of Interests in Other Entities*, and renamed IAS 28, *Investments in Associates and Joint Ventures*. IAS 28, as revised in 2011, expands the scope of IAS 28 to include investors with joint control, as well as significant influence, over an investee and requires the use of the equity method to account for such investments, unless the entity is exempt from applying the equity method, in accordance with the standard. Entities will no longer be permitted to use proportionate consolidation. The revised standard is effective for annual periods beginning on or after 1 January 2013, with early application permitted.

Because the revised IAS 28, IFRS 11, and IFRS 12 were not issued until May 2011, no survey entity could apply the new requirements in its 2010 financial statements. Therefore, the following commentary only describes the requirements in IAS 28 (2011).

2.139 An *associate*, as defined in IAS 28 (2011), is an entity, including an unincorporated entity (for example, a partnership), over which the investor has significant influence and is neither a subsidiary (controlled entity) nor an interest in a jointly controlled entity (joint venture). An investor has significant influence over its investee when it has the power to participate in the investee's financial and operating policy decisions but does not have control or joint control over those policies.

2.140 IAS 28 applies to investments in which the investor has significant influence. IAS 28 does not apply to the following investments held by

- venture capital entities, or
- mutual funds, trusts, and other similar entities (including investment-linked insurance funds)

that, upon initial recognition, are designated as at fair value through profit or loss or are classified as held for trading and accounted for in accordance with IAS 39. IAS 28 states that these entities are to measure such investments at fair value in accordance with IAS 39 and to recognize changes in fair value in profit or loss in the period of the change. However, IAS 28 does not exempt these entities from some disclosures, including the nature and extent of any restrictions on the ability of the associate to transfer funds to the investor in the form of cash dividends, loan repayments, or advances.

Recognition and Measurement

IFRSs

2.141 IFRSs presume that an investor has significant influence if it holds 20 percent or more of the voting or potential voting shares of the associate directly or indirectly and that it does not have significant influence if it holds less. If the investor holds 50 percent or more of the voting or potential voting shares, it must determine whether it has control, in accordance with IAS 27.

2.142 IAS 28 provides guidance to investors in determining whether they have significant influence over an investee and identifies various circumstances that provide evidence that significant influence exists. These circumstances include the following:

- The investor is represented on the board of directors (governing body) of the investee.
- The investor participates in policymaking decisions, including those concerning dividend and other distributions.
- The investor and investee engage in material transactions.
- The investor provides the investee with essential technical information.

2.143 An investor should use the equity method to account for investments in associates, except when the associate is classified as held for sale in accordance with IFRS 5. IAS 27 exempts an entity from preparing consolidated financial statements if certain criteria are met. Similarly, IAS 28 exempts an investor from using the equity method for its investment in an associate if the investor is a parent that is exempt from consolidated financial statements in accordance with IAS 27, or the entity itself meets those same criteria.

2.144 The equity method requires the entity to initially recognize the investment at cost. The investor should include any difference in the cost and the investor's proportionate share of the fair value of the associate's net identifiable assets (referred to as *goodwill*) in the carrying value of the associate. IAS 28 prohibits amortization of this difference. The investor should also include any excess as income in determining the investor's proportionate share of the associate's profit or loss in the period in which the investment is acquired. Subsequently, the investor should adjust the carrying value of the investment for its share in the net profit or loss of the associate and should recognize the same amount in the investor's profit or loss. The investor should also recognize its share of changes in the net assets of the associate recognized in other comprehensive income in its own other comprehensive income.

2.145 An investor should discontinue the equity method when it no longer has significant influence. At that point, the investor should measure any remaining investment at fair value and recognize the change in the carrying value of the investment in profit or loss. Subsequent accounting for the investment should be in accordance with IAS 39.

2.146 An investor should use the most recent financial statements of the associate to apply the equity method. When the investor's and associate's reporting dates differ, the associate should prepare a set of financial statements as of the investor's fiscal year-end for the investors use, unless it is impracticable. When the associate's financial statements are prepared as of a different date, the investor should make appropriate adjustments for the effect of significant transactions that occur between the two dates. IAS 28 does not permit the difference in reporting dates to be greater than three months.

2.147 The investor should prepare financial statements based on application of the same accounting policies for similar transactions and circumstances. When the associate applies

different accounting policies for transactions similar to those of the investor, the investor should make adjustments to the associate's financial statements in order to conform to its own accounting policies.

2.148 An investor's interest in an associate includes the carrying value of the equity method investment plus any other long-term interests that, in substance, form part of the investment (for example, preference shares, unsecured loans, and long-term receivables). The investor should recognize its share of the associate's losses up to the carrying value of its interest. After writing its investment in the associate to zero, the investor should apply any excess losses to the other components in the order of reverse seniority. If the investor's share in losses of the associate exceeds its interest in the associate, the investor should discontinue recognizing further losses. An investor should recognize liabilities only to the extent that it incurs a legal or constructive obligation in accordance with IAS 37.

2.149 After applying the equity method, an investor should test its investment in accordance with the requirements of IAS 39 to determine whether to recognize an impairment loss. When application of IAS 39 indicates that an impairment loss should be recognized, an investor should measure the loss in accordance with IAS 36.

2.150 An investor preparing separate, unconsolidated financial statements (for example, parent-only financial statements), either voluntarily or for regulatory purposes, should account for investments in associates in accordance with IAS 27.

U.S. GAAP

2.151 Like IFRSs, paragraphs 3–5 of FASB ASC 323-10-15 require an investor to use the equity method to account for investments in common stock that give the investor the ability to exercise significant influence over the operating and financial policies of an investee even when the investor holds 50 percent or less of the common stock or in-substance common stock (that is, an investment that gives the entities the same risks and rewards as common stock ownership, as defined in the FASB ASC glossary) of the investee. However, FASB ASC 323, *Investments—Equity Method and Joint Ventures*, includes a number of scope exceptions exceeding those in IAS 28. FASB ASC 323-10-15-4 states that following investments are excluded from the guidance in FASB ASC 323:

- An investment that is accounted for in accordance with guidance on derivatives and hedging in FASB ASC 815-10.
- An investment in common stock held by an investment company registered with the SEC under the Investment Company Act of 1940; one that would be registered except that it has limited stockholders and the securities are not offered publicly; or a nonbusiness entity, such as an estate, trust or individual.
- An investment in common stock consolidated under FASB ASC 810, *Consolidation*.

In addition, unlike IFRSs, FASB ASC 323-10-15-5 provides more targeted guidance to the following investments that are excluded from the overall guidance in FASB ASC 323-10:

- Partnership or unincorporated joint venture (see FASB ASC 323-30)
- Limited liability company that maintains specific ownership accounts for each investor (see FASB ASC 272-10)

2.152 FASB ASC 323-10-15-3 also explicitly includes investments that are in-substance common stock.

2.153 FASB ASC 323-10-15-6 includes indicators similar to those in IAS 28 of an investor's ability to exercise significant influence, including representation on the board of directors, participation in the policymaking processes, material intra-entity transactions, the interchange of managerial personnel, technological dependency, and the extent of ownership by an investor in relation to the concentration of other shareholdings.

2.154 Like IFRSs, FASB ASC 323-10-15-8 states that there is a presumption that, in the absence of predominate evidence to the contrary, an investor has the ability to exercise significant influence over an investee if the investment (direct or indirect) in an investee's voting stock is 20 percent or more. FASB ASC 323-10-15-8 also requires an entity to demonstrate its ability to exercise significant influence when its investment is less than 20 percent. Unlike IFRSs, FASB ASC 323-10-15-9 precludes investors taking into account potential voting shares when making their assessment of significant influence.

2.155 FASB ASC 323-10-35-4 explains that under the equity method, an investor should recognize its share of the earnings or losses of the investee in the same period the investee reports earnings or losses, rather than in the period the investee declares a dividend. An investor should adjust the carrying amount of its investment and recognize in income its share of the investee's earnings or losses. Similar to IFRSs, FASB ASC 323-10-35-18 also requires an investor to recognize its proportionate share of the investee's equity adjustment for other comprehensive income items as an adjustment to the carrying amount of the investment, with a corresponding adjustment in equity. Unlike IFRS, U.S. GAAP does not explicitly constrain the difference in reporting dates of the investor and investee to no more than three months. When there is a lag in reporting by the investee, FASB ASC 323-10-35-6 states that the investor would ordinarily use the investee's most recent financial statements and that the lag in reporting should be consistent from period to period.

2.156 Like IFRSs, FASB ASC 323-10-35-19 states that an investor's share of losses of an investee may equal or exceed the carrying amount of the investment accounted for by the equity method plus advances made by the investor. FASB ASC 323-10-35-19 requires the investor to continue to report losses up to the carrying amount of its investment, including any additional financial support provided or committed by the investor, which may take the form of capital contributions to the investee, investments in additional common stock of the investee, investments in preferred stock or debt securities of the investee, and loans or advances to the investee. See paragraph 3.208 in section 3 for coverage of impairments of equity method investments under FASB ASC.

Presentation

IFRSs

2.157 IAS 28 requires investors to classify investments in associates as noncurrent assets, unless they are classified as held for sale, in accordance with IFRS 5.

2.158 IAS 1 requires investors to present investments in associates as a separate line item on the balance sheet and the investor's share in the associates' profit or loss as a separate line item on the statement of comprehensive income. An entity should also present additional line items, headings, and subtotals when they are relevant to an understanding of the entity's financial position.

U.S. GAAP

2.159 Like IFRSs, FASB ASC 323-10-45-1 also requires an entity to present its equity method investments as a single amount in a separate line item on the balance sheet and, consistent with FASB ASC 210-10, classify equity method investments as noncurrent when a classified balance sheet is prepared.

2.160 Paragraphs 1–2 of FASB ASC 323-10-45 require an investor to show its share of the associate's profit or loss as a single amount on the income statement, except for the investor's share of extraordinary items and accounting changes reported in the financial statements of the investee, which should be shown separately, in accordance with income statement presentation guidance under FASB ASC 225-20. IFRSs do not permit an entity to present extraordinary items. With respect to the investor's share of an investee's items of other comprehensive income, FASB ASC 323-10-45-3 permits an entity to combine its proportionate share of those amounts with its own other comprehensive income items. In contrast, IFRSs require the investor to present its share of the other comprehensive income of an associate as a separate line item.

Disclosure

IFRSs

2.161 IAS 28 requires investors to provide the following disclosures about its equity method investments in associates:

- Fair value of associates when there are published price quotes
- Summary financial information of associates, including total assets, total liabilities, total revenues, and profit or loss
- Share of profit or loss of each investment, including separate disclosure of its share of discontinued operations, and the investments' carrying amounts
- Investor's share of changes in the net assets of the associate recognized in other comprehensive income
- Unrecognized share of losses of an associate for the period and cumulatively if an investor has discontinued recognition of its share of losses of an associate
- Investor's share of the contingent liabilities of an associate incurred jointly with other investors
- Any contingent liabilities that arise because the investor is severally liable for all or part of the liabilities of the associate

2.162 When an investor does not use the equity method, it should disclose that fact and summary financial information about the investment, including total assets, total liabilities, total revenues, and profit or loss.

2.163 When the presumption of significant influence at 20 percent ownership is rebutted, investors should explain the rationale for overcoming the presumption. When the investor concludes it has significant influence with less than 20 percent ownership, IAS 28 requires a similar disclosure.

2.164 Investors should also disclose the nature and extent of significant restrictions on the associate's ability to transfer funds to the investor and separately disclose any contingent liabilities incurred jointly and those for which it is severally liable.

U.S. GAAP

2.165 The disclosures required by FASB ASC 323 for equity method investments are less comprehensive than those required by IFRSs. Like IFRSs, FASB ASC 323-10-50-3 states that investors should usually disclose the aggregate fair value of equity method investments in common stock when there are published price quotes.

2.166 Unlike IFRSs, FASB ASC 323-10-50-3 explains that, for equity method investments in common stock, investors should disclose, among other things, the name of each investee; the percentage of ownership of common stock; and the difference, if any, between the carrying amount of an investment and the amount of underlying equity in net assets and how the difference is accounted for. Also unlike IFRSs, FASB ASC 323-10-50-3(d) states that conversion of outstanding convertible securities, the exercise of outstanding options and warrants, and other contingent issuances of an investee may have a significant effect on an investor's share of reported earnings or losses and material effects should be included in notes to the financial statements of an investor.

Presentation and Disclosure Excerpts

Author's Note

IAS 28 permits an entity to designate on initial recognition investments in associates and account for them in accordance with IAS 39 at fair value through profit and loss. Excerpts illustrating investments in associates accounted for at fair value through profit and loss are provided in section 8.

Significant Influence—Less Than 50% Voting Power

2.167

Rio Tinto Limited and Rio Tinto plc (Dec 2010)

GROUP STATEMENT OF FINANCIAL POSITION (in part)

At 31 December

	Note	2010 US$m	2009 US$m
Non-current assets			
Goodwill	11	15,296	14,268
Intangible assets	12	5,700	5,730
Property, plant and equipment	13	56,024	45,803
Investments in equity accounted units	14	6,503	6,735
Loans to equity accounted units		227	170
Inventories	16	375	284
Trade and other receivables	17	1,826	1,375
Deferred tax assets	18	1,863	2,231
Tax recoverable		89	85
Other financial assets	20	1,334	841
		89,237	77,522
Current assets			
Inventories	16	4,756	4,889
Trade and other receivables	17	5,582	4,447
Loans to equity accounted units		110	168
Tax recoverable		542	501
Other financial assets	20	521	694
Cash and cash equivalents	21	9,948	4,233
		21,459	14,932
Assets of disposal groups held for sale	19	1,706	4,782
Total assets		112,402	97,236

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

(b) Basis of Consolidation (in part)

Associates: An associate is an entity, that is neither a subsidiary nor a joint venture, over whose operating and financial policies the Group exercises significant influence. Significant influence is presumed to exist where the Group has between 20 per cent and 50 per cent of the voting rights, but can also arise where the Group holds less than 20 per cent if it has the power to be actively involved and influential in policy decisions affecting the entity. The Group's share of the net assets, post tax results and reserves of associates are included in the financial statements using the equity accounting method. This involves recording the investment initially at cost to the Group, which therefore includes any goodwill on acquisition, and then, in subsequent periods, adjusting the carrying amount of the investment to reflect the Group's share of the associates' post-acquisition profits or losses, which is recognised in the income statement, and its share of post-acquisition comprehensive income, which is recognised within the line item 'share of other comprehensive income of equity accounted units' in the Group statement of comprehensive income. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates.

7. Interest Receivable and Payable

	Note	2010 US$m	2009 US$m	2008 US$m
Interest receivable and similar income from:				
—Equity accounted units		33	36	43
—Interest income from bank deposits		81	45	72
—Interest income from other financial assets		21	21	35
		135	102	150
Other interest receivable		28	18	54
Total interest receivable and similar income		163	120	204
Interest payable and similar charges[a]		(853)	(1,127)	(1,821)
Net refinancing charge[b]	1	(107)	—	—
Amounts capitalised	3	182	198	203
Total interest payable and similar charges		(778)	(929)	(1,618)

[a] Interest payable and similar charges relates to interest on bank loans and other borrowings. This includes a fair value gain on interest rate swaps designated as hedges of US$186 million and an offsetting fair value loss on bank borrowings attributable to interest rate risk of US$196 million (2009: fair value loss on the interest rate swaps of US$59 million and an offsetting fair value gain on bank borrowings attributable to interest rate risk of US$59 million; 2008: fair value gain on the interest rate swaps of US$669 million and a US$655 million fair value loss on bank borrowings attributable to interest rate risk).

[b] Net charge on the refinancing of bonds in October 2010 includes premium of US$252 million, offset by mark to market hedge fair value adjustments of US$167 million (note 33).

12. Intangible Assets (in part)

Year Ended 31 December 2009	Exploration and Evaluation[a] US$m	Trademarks Patented and Non Patented Technology US$m	Contract Based Intangible[b] Assets US$m	Other Intangible Assets US$m	Total[c] US$m
Net book value					
At 1 January 2009	133	444	5,208	500	6,285
Adjustment on currency translation	10	6	2	71	89
Expenditure during the year	2	—	—	53	55
Amortisation for the year	—	(25)	(188)	(174)	(387)
Impairment charges	—	(23)	(156)	—	(179)
Subsidiaries now equity accounted	—	—	—	(2)	(2)
Subsidiaries no longer consolidated	—	(113)	(54)	—	(167)
Disposals, transfers and other movements	—	—	(10)	46	36
At 31 December 2009	145	289	4,802	494	5,730
—Cost	145	398	5,445	1,062	7,050
—Accumulated amortisation and impairment	—	(109)	(643)	(568)	(1,320)

[a] Exploration and evaluation: useful life not determined until transferred to property, plant and equipment.

[b] The Group benefits from certain intangible assets acquired with Alcan including power supply contracts, customer contracts and water rights. The water rights are expected to contribute to the efficiency and cost effectiveness of operations for the foreseeable future: accordingly, these rights are considered to have indefinite lives and are not subject to amortisation. These water rights constitute the majority of the amounts in the column of the above table entitled "Contract based intangible assets." The water rights have been allocated to cash generating units within Aluminium.

In 2010, the recoverable amount of these cash-generating units was determined based on fair value less costs to sell, using a methodology and assumptions consistent with those described in note 1(i) and note 11. No impairment of these indefinite-lived intangible assets was recognised during 2010 (2009: no impairment), as the fair value less costs to sell of the related cash-generating units was in excess of their carrying amounts.

[c] There are no intangible assets either pledged as security or held under restriction of title.

14. Investments in Equity Accounted Units

Summary Statement of Financial Position (Rio Tinto Share)	2010 US$m	2009 US$m
Rio Tinto's share of assets		
—Non-current assets	9,737	9,707
—Current assets	2,576	2,329
	12,313	12,036
Rio Tinto's share of liabilities		
—Current liabilities	(1,394)	(1,089)
—Non-current liabilities	(4,416)	(4,212)
	(5,810)	(5,301)
Rio Tinto's share of net assets[a]	6,503	6,735

[a] Further details of investments in jointly controlled entities and associates are set out in notes 38 and 39.

At 31 December 2010, the quoted value of the Group's share in associates having shares listed on recognised stock exchanges was US$5,280 million (2009: US$1,230 million).

15. Net Debt of Equity Accounted Units (Excluding Amounts Due to Rio Tinto)

	Group Interest 2010 %	Rio Tinto Share of Net Debt 2010 US$m	Group Interest 2009 %	Rio Tinto Share of Net Debt 2009 US$m
Jointly Controlled Entities				
Sohar Aluminium Company LLC	20.0	330	20.0	343
Minera Escondida Limitada	30.0	163	30.0	226
Richards Bay Minerals	37.0	94	37.0	199
Halco Mining Inc.	45.0	27	45.0	37
Queensland Alumina Limited (QAL)	80.0	11	80.0	18
Associates				
Ivanhoe Mines Ltd.[a]	40.3	(404)	19.7	(58)
Port Waratah Coal Services	27.6	305	27.6	225
Mineração Rio do Norte S.A.	12.0	39	12.0	36
Cloud Peak Energy Resources LLC	—	—	48.3	170
Other equity accounted units	—	(86)	—	(99)
		479		1,097

[a] Ivanhoe Mines Ltd. owns 66 per cent of Oyu Tolgoi LLC, which is consolidated by Rio Tinto. Net debt of Ivanhoe Mines Ltd. excludes its share of the net debt of Oyu Tolgoi LLC. Refer to note 41 for further information relating to the consolidation of Oyu Tolgoi LLC.

In accordance with IAS 28 and IAS 31, the Group includes its net investment in equity accounted units in its consolidated statement of financial position. This investment is net of the Group's share of the net debt of such units, which is set out above. Further details of investments in jointly controlled entities and associates are set out in notes 38 and 39.

Some of the debt of equity accounted units is subject to financial and general covenants. US$12 million of the debt shown above is with recourse to Rio Tinto at 31 December 2010 (2009: nil).

17. Trade and Other Receivables (in part)

	Non-Current 2010 US$m	Current 2010 US$m	Non-Current 2009 US$m	Current 2009 US$m
Trade receivables	10	3,939	14	3,442
Provision for doubtful debts[(a)]	—	(37)	—	(62)
Trade receivables—net	10	3,902	14	3,380
Amounts due from equity accounted units	337	217	320	197
Other receivables	300	1,017	247	641
Pension surpluses (note 50)	110	—	15	2
Prepayment of tolling charges to jointly controlled entities[(b)]	787	—	424	—
Other prepayments	282	446	355	227
	1,826	5,582	1,375	4,447

(a) At 31 December 2010, trade and other receivables of US$37 million (2009: US$62 million) were impaired. The majority of these receivables were more than 90 days overdue.

(b) Rio Tinto Alcan has made certain prepayments to jointly controlled entities for toll processing of bauxite and alumina. These prepayments will be charged to Group operating costs as processing takes place.

Significant Influence—Between 20% and 50% Voting Power, Contingent Liabilities

2.168

Alumina Limited (Dec 2010)

Author's Note

One of the Alumina Limited's associates is an investment in Alcoa World Alumina and Chemicals (AWAC). The audited combined financial statements of the entities forming ASWC are prepared in accordance with US GAAP and are adjusted to convert to Australian Accounting Standards, which are equivalent to IFRSs. The excerpt that follows includes details about the principal adjustments made.

CONSOLIDATED BALANCE SHEETS (in part)

As at 31 December 2010

		US$ Million		
	Notes	2010	2009	1 January 2009[(*)]
Non-current assets				
Investments accounted for using the equity method	12	3,415.6	3,189.7	2,597.0
Property, plant and equipment	13	0.2	0.2	0.1
Deferred tax assets	17	—	—	1.5
Total non-current assets		3,415.8	3,189.9	2,598.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Summary of Significant Accounting Policies (in part)

(ii) Associates

Associates are those entities over which the consolidated entity exercises significant influence but not control over the financial and operating policies, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the cost method and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The consolidated entity's investment in associates includes goodwill identified on acquisition.

The Group's share of its associates' post acquisition profits or losses is recognised in profit or loss, and its share of other comprehensive income, is recognised in reserves after aligning back to Group accounting policies. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates reduce the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

3. Critical Accounting Estimates and Judgements (in part)

Estimated Impairment of Investment in Associates

The Group tests annually whether the investment in associates has suffered any impairment, in accordance with the accounting policy stated in note 1(h). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. The key assumptions used in the calculation were those relating to future aluminium prices, oil, electricity and gas prices and exchange rates. Additionally a discount rate is applied to determine the NPV of future cashflows.

12. Investments in Associates

(a) Securities Not Quoted on a Prescribed Stock Exchange

Securities in Entities Forming Alcoa World Alumina and Chemicals (AWAC) With Alcoa Inc.

The investment in AWAC is accounted for in the consolidated financial statements using the equity method of accounting.

		US $Million		
	Notes	2010	2009	1 January 2009
Securities at cost:				
Balance brought forward		3,021.9	2,349.9	1,885.3
Additional funding/capitalisation in AWAC entities		161.6	440.6	645.7
Return of capital		(13.8)	(0.4)	—
Foreign currency revaluation		234.9	231.8	(181.1)
Equity accounted cost of AWAC		3,404.6	3,021.9	2,349.9
Equity in retained profits of AWAC	12(c)	8.5	166.1	245.8
Equity in reserves of AWAC		2.5	1.7	1.3
Equity accounted carrying value of AWAC		3,415.6	3,189.7	2,597.0

(b) Equity Accounted Share of Profits and Dividends

(i) AWAC

		US $Million		
	Notes	2010	2009	1 January 2009
Equity share of profits/(losses) before tax		140.4	(7.6)	326.9
Equity share of tax		(55.9)	9.2	(144.1)
Equity accounted share of profit after tax		84.5	1.6	182.8
Dividends received/receivable by the Group		(242.1)	(140.5)	(303.3)
Surplus of dividends/distributions received over equity share of profits		(157.6)	(138.9)	(120.5)

(c) Share of Retained Profits

(i) AWAC

		US $Million		
	Notes	2010	2009	1 January 2009
Surplus of dividends/distributions received over equity share of profits		(157.6)	(138.9)	(120.5)
Foreign exchange impact of change in presentation currency		—	59.2	18.0
Balance brought forward		166.1	245.8	348.3
Total equity share in retained profits carried forward		8.5	166.1	245.8

(d) Accounting Policies

The audited combined financial statements of the entities forming AWAC are prepared in accordance with US Generally Accepted Accounting Principles (US GAAP). Adjustments are made to convert the accounting policies under US GAAP to Australian Accounting Standards. The principal adjustments are to the valuation of inventories from last-in-first-out basis to a basis equivalent to weighted average cost, create an additional asset retirement obligation for dismantling, removal and restoration of certain refineries, valuation of certain long term energy purchase contracts which include an aluminium price component in the energy price and to differences in the recognition of actuarial gains and losses on certain defined benefit plans and the reversal of tax credits and fixed asset uplifts included in Alcoa World Alumina Brasil Ltda.

(e) Additional Information on Associated Entities

AWAC has a governing strategic council of five members of which Alumina appoints two members, including the Deputy Chairman.

Name	Principal Activities	Country of Incorporation	Percentage Equity	
(i) Entities Forming AWAC			**2010**	**2009**
Alcoa of Australia Ltd	Bauxite, alumina & aluminium production	Australia	40	40
Alcoa World Alumina LLC	Bauxite and alumina production	America	40	40
Alumina Espanola S.A.	Alumina production	Spain	40	40
Alcoa World Alumina Brasil Ltda.	Bauxite and alumina production	Brazil	40	40
AWA Saudi Ltda.	Bauxite and alumina production	Hong Kong	40	40
(ii) Equity Accounted Partnerships				
Enterprise Partnership[1]	Finance lender	Australia	40	40

[1] Alcoa Australia Holdings Pty Ltd and Alumina Limited are shareholders of Alcoa of Australia Limited and other Enterprise Companies for certain activities of AWAC.

(f) Expenditure Commitments and Contingent Liabilities

	US$ Million	
	2010	**2009**
—other expenditure commitments contracted for, including long term commitments for gas and electricity entered into by AWAC	2,214.4	2,431.2

Unascertainable Unsecured Contingent Liabilities

Various lawsuits and claims and proceedings have been, or may be, instituted or asserted against entities within AWAC, including those pertaining to environmental, product liability, and safety and health matters. While the amounts claimed may be substantial, the ultimate liability cannot now be determined because of the considerable uncertainties that exist. Therefore, it is possible that results of operations or liquidity in a particular period could be materially affected by certain contingencies. However, based on facts currently available, management believes that the disposition of matters that are pending or asserted will not have a materially adverse effect on the financial position or liquidity of AWAC.

Pursuant to the terms of the AWAC Formation Agreement, Alcoa and Alumina Limited have agreed to remain liable for Extraordinary Liabilities (as defined in the agreement) as well as for certain other pre-formation liabilities, such as existing environmental conditions, to the extent of their pre-formation ownership of the company or asset with which the liability is associated.

On 27 February 2008, Alcoa Inc. received notice that Aluminium Bahrain B.S.C. ("Alba") had filed suit against Alcoa Inc. and Alcoa World Alumina LLC (collectively, "Alcoa"), and others, in the U.S. District Court for the Western District of Pennsylvania (the "Court"), Civil Action number 08-299, styled Aluminium Bahrain B.S.C. v. Alcoa Inc., Alcoa World Alumina LLC, William Rice, and Victor Dahdaleh. The complaint alleges that certain Alcoa entities and their agents, including Victor Phillip Dahdaleh, have engaged in a conspiracy over a period of 15 years to defraud Alba. The complaint further alleges that Alcoa and its employees or agents (1) illegally bribed officials of the government of Bahrain and (or) officers of Alba in order to force Alba to purchase alumina at excessively high prices, (2) illegally bribed officials of the government of Bahrain and (or) officers of Alba and issued threats in order to pressure Alba to enter into an agreement by which Alcoa would purchase an equity interest in Alba, and (3) assigned portions of existing supply contracts between Alcoa and Alba for the sole purpose of facilitating alleged bribes and unlawful commissions. The complaint alleges that Alcoa and the other defendants violated the Racketeer Influenced and Corrupt Organizations Act ("RICO") and committed fraud. Alba's complaint seeks compensatory, consequential, exemplary, and punitive damages, rescission of the 2005 alumina supply contract, and attorney's fees and costs. Alba seeks treble damages with respect to its RICO claims. No member of the Alumina Group, nor any of its employees, is a defendant in the litigation.

On February 26, 2008, Alcoa Inc. had advised the U.S. Department of Justice (the "DOJ") and the Securities and Exchange Commission (the "SEC") that it had recently become aware of these claims, had already begun an internal investigation, and intended to cooperate fully in any investigation that the DOJ or the SEC may commence. On March 17, 2008, the DOJ notified Alcoa that it had opened a formal investigation and Alcoa has been cooperating with the government.

In response to a motion filed by the DOJ on March 27, 2008, the Court ordered the suit filed by Alba to be administratively closed and that all discovery be stayed to allow the DOJ to fully conduct an investigation without the interference and distraction of ongoing civil litigation. The Court further ordered that the case will be reopened at the close of the DOJ's investigation. Alcoa is unable to reasonably predict an outcome or to estimate a range of reasonably possible loss.

In September 1998, Hurricane Georges struck the U.S. Virgin Islands, including the St. Croix Alumina, L.L.C. (SCA) facility on the island of St. Croix. The wind and rain associated with the hurricane caused material at the location to be blown into neighbouring residential areas. Various cleanup and remediation efforts were undertaken by or on behalf of SCA. A Notice of Violation was issued by the Division of Environmental Protection (DEP), of the Department of Planning and Natural Resources (DPNR) of the Virgin Islands Government, and has been contested by Alcoa. A civil suit was commenced in the Territorial Court of the Virgin Islands by certain residents of St. Croix in February 1999 seeking compensatory and punitive damages and injunctive relief for alleged personal injuries and property damages associated with "bauxite or red dust" from the SCA facility. The company

is unable to reasonably predict an outcome or to estimate a range of reasonably possible loss.

In May 2005, Alcoa World Alumina LLC (AWA) and SCA were among the defendants listed in a lawsuit brought by the Commissioner of the DPNR, as Trustee for Natural Resources of the Territory of the United States Virgin Islands in the District Court of the Virgin Islands, Division of St. Croix. The complaint seeks damages for alleged injuries to natural resources caused by alleged releases from an alumina refinery facility in St. Croix that was owned by SCA from 1995 to 2002. Also listed in the lawsuit are previous and subsequent owners of the alumina refinery and the owners of an adjacent oil refinery. Claims are brought under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), U.S. Virgin Islands law, and common law. The plaintiff has not specified in the complaint the amount it seeks in damages. At this stage of the proceeding, the company is unable to reasonably predict an outcome or to estimate a range of reasonably possible loss.

In December 2006, SCA was sued by the Commissioner of DPNR, U.S. Virgin Islands, in the Superior Court of the Virgin Islands, Division of St. Croix. The plaintiff alleges violations of the Coastal Zone Management Act and a construction permit issued thereunder. The complaint seeks civil fine of $10,000 under the Coastal Zone Management Act, civil penalties of $10,000 per day for alleged intentional and knowing violations of the Coastal Zone Management Act, exemplary damages, costs, interest and attorney's fees, and "other such amounts as may be just and proper." At this stage of the proceeding, the company is unable to reasonably predict an outcome or to estimate a range of reasonably possible loss.

In December 2006, SCA, along with unaffiliated prior and subsequent owners, were sued by the Commissioner of the DPNR, U.S. Virgin Islands, in the Superior Court of Virgin Islands, Division of St. Croix. This second suit alleges violations by the defendants of certain permits and environmental statutes said to apply to the facility. The complaint seeks the completion of certain actions regarding the facility, a civil fine from each defendant of $10,000 under the Coastal Zone Management Act, civil penalties of $50,000 per day for each alleged violation of the Water Pollution Control Act, $10,000 per day for alleged intentional and knowing violations of the Coastal Zone Management Act, exemplary damages, costs, interest and attorney's fees, and "other such amounts as may be just and proper." At this stage of the proceeding, the company is unable to reasonably predict an outcome or to estimate a range of reasonably possible loss.

DPNR has filled a CERCLA cost recovery suit against SCRG. SCRG filed a third-party complaint for contribution and other relief against several third-party defendants. The case is set for trial in March 2011. At this stage of the proceeding, the company is unable to reasonably predict an outcome or to estimate a range of reasonably possible loss.

On January 14, 2010, Alcoa was served with a complaint involving approximately 2,900 individual persons claimed to be residents of St. Croix who are alleged to have suffered personal injury or property damage from Hurricane Georges or winds blowing material from the property since the time of the hurricane. This complaint, Abednego, et al. v. Alcoa, et al. was filed in the Superior Court of the Virgin Islands, St. Croix Division. The complaint names as defendants the same entities as were sued in the February 2010, Alcoa and SCA removed the case to the federal court for the District of Virgin Islands. Subsequently, plaintiffs have filed a motion to remand the case to territorial court as well as a third amended complaint, and defendants have moved to dismiss the case for failure to state a claim upon which relief can be granted. The company is unable to reasonably predict an outcome or to estimate a range of reasonably possible loss.

Refer also to Note 33 for further details in relation to St. Croix.

(g) Alumina Limited's Share of Aggregate Associates:

	Notes	US$ Million		
		2010	2009	1 January 2009
Current assets		712.9	687.4	651.3
Non-current assets		3,766.5	3,407.0	2,780.5
Current liabilities		(655.5)	(611.3)	(580.6)
Non-current liabilities		(704.6)	(591.8)	(485.8)
Net assets		3,119.3	2,891.3	2,365.4
Mineral rights and bauxite assets		120.5	122.6	95.9
Goodwill		175.8	175.8	135.7
Carrying value	12(a)	3,415.6	3,189.7	2,597.0
Revenues		2,182.4	1,637.2	2,506.5
Expenses		(2,042.0)	(1,644.8)	(2,179.6)
Profit/(loss) before income tax		140.4	(7.6)	326.9
Income tax (charge)/credit		(55.9)	9.2	(144.1)
Profit after income tax		84.5	1.6	182.8

IAS 31, *INTERESTS IN JOINT VENTURES*

IFRSs Overview and Comparison to U.S. GAAP

Author's Note

IFRS 11 and IFRS 12 were issued in May 2011, concurrently with a revised and renamed IAS 28. IFRS 11 requires all entities that are parties to a joint arrangement to determine the type of joint arrangement in which they are involved by assessing their rights and obligations arising from the arrangement. A *joint arrangement* is an arrangement of which two or more parties have joint control. IFRS 11 defines *joint control* as the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (that is, activities that significantly affect the returns of the arrangement) require the unanimous consent of the parties sharing control.

IFRS 11 also requires an entity to classify its joint arrangements into either joint operations or joint ventures. A *joint operation* is one in which the parties that have joint control of the arrangement (joint operators) have rights to the assets and obligations for the liabilities of the arrangement. In contrast, a *joint venture* is one in which the parties that have joint control of the arrangement (joint venturers) have rights to the net assets of the arrangement. Joint operators account for the assets, liabilities, revenue, and expenses of the arrangement in accordance with relevant IFRSs.

IFRS 11 provides guidance on distinguishing joint operations from joint ventures by considering the rights and obligations it has under the arrangement, assessing the arrangement's structure and legal form, the contractual terms of the arrangement, and other relevant facts and circumstances. Joint venturers account for their investment in the joint arrangement using the equity method, in accordance with IAS 28, as revised in 2011. IFRS 11 does not permit an entity to use proportionate consolidation to account for jointly controlled entities.

IFRS 12 prescribes the disclosure requirements for all entities that have interests in other entities.

IFRS 11 and IFRS 12 are effective for annual periods beginning on or after 1 January 2013, with early application permitted. Because the revised IAS 28, IFRS 11, and IFRS 12 were not issued until May 2011, no survey entity could apply the new requirements in its 2010 financial statements. Therefore, the following commentary only describes the requirements in IAS 31, *Interests in Joint Ventures*.

2.169 A *joint venture*, as defined in IAS 31, is a contractual arrangement in which two or more parties undertake an economic activity that is subject to joint control. *Joint control* is the contractually agreed sharing of control over an economic activity among the parties (investors). Joint control exists only when the strategic financing and operating decisions related to the activity require unanimous consent of the parties sharing control.

2.170 IAS 31 identifies three broad forms of joint ventures: jointly controlled operations, jointly controlled assets, and jointly controlled entities. A jointly controlled operation involves the use of the investors' assets and other resources without the venturers forming a separate legal entity or financial structure. A jointly controlled asset involves joint control or ownership of one or more assets acquired or contributed to the joint venture and dedicated to its purpose. Investors share in the output of the asset and obligate themselves to an agreed upon share of the expenses. A *jointly controlled entity* is a separate legal entity (for example, corporation or partnership) in which the investors have an interest. Jointly controlled entities operate in the same way as other entities, except that a contractual arrangement gives the investors joint control.

2.171 IAS 31 establishes the accounting for interests in a joint venture, regardless of form, and the reporting of the joint venture's assets, liabilities, income, and expenses in an investor's financial statements. Investors in joint ventures should account for these investments in accordance with IAS 31. However, IAS 31 makes an exception for venture capital organizations and mutual funds, trusts, and similar entities (including investment-linked insurance funds) whose interests in jointly controlled entities are, upon initial recognition, designated as at fair value through profit or loss or are classified as held for trading and accounted for in accordance with IAS 39. Such entities should measure these investments at fair value in accordance with IAS 39, with changes in fair value recognized in profit or loss in the period of the change. Venturers with such interests should make certain disclosures required by IAS 31. Investors in joint ventures that do not have joint control should recognize their investment in accordance with IAS 28 or IAS 39, as appropriate.

Recognition and Measurement

IFRSs

2.172 IAS 31 requires an investor in jointly controlled operations to recognize only the assets it controls, liabilities and expenses it incurs, and its share of income it earns from sales of goods or services generated by the operations. An investor in jointly controlled assets should recognize its share of the jointly controlled assets classified by nature, liabilities and expenses it incurs, its share of liabilities and expenses incurred jointly, and the income from sale or use of its share of the asset's output. For both jointly controlled operations and jointly controlled assets, an investor should recognize only the assets it controls, the liabilities and expenses it incurs, and its share of the income. No adjustments or intercompany eliminations are required in respect of these items when the venturer presents consolidated financial statements.

2.173 An investor in a jointly controlled entity, however, should account for its investment using either the proportionate consolidation or equity method. When it loses joint control, an investor should cease to use the selected method.

Author's Note

See paragraphs 2.139–.152 for a discussion of accounting for investments using the equity method, including a comparison with FASB ASC requirements.

2.174 When an investor applies the proportionate consolidation method, it should include its share of the assets and liabilities of the jointly controlled entity in its balance sheet and its share of income, expenses, and items of other comprehensive income in its statement of comprehensive income. Investors should apply procedures similar to those for full consolidation as described in IAS 27.

2.175 An investor who uses the proportionate consolidation method to account for its interest in a jointly controlled entity should include its share of the assets, liabilities, income, and expenses of the jointly controlled entity in its financial statements using one of two alternative reporting formats:

- Combined on a line-by-line basis with its other assets, liabilities, income and expenses, or
- Presented in separate line items.

2.176 IAS 31 states that investors should not offset assets and liabilities or income and expenses unless a legal right of offset exists and the net presentation represents the expected realization of the asset or settlement of the liability.

2.177 When the investment in the joint venture is classified as held for sale in accordance with IFRS 5, IAS 31 exempts the investor from using the proportionate consolidation or the equity method. IAS 27 exempts an entity from preparing consolidated financial statements if certain criteria are met. IAS 31 exempts an entity from using the proportionate consolidation method and equity method for its investment in joint ventures if the investor is a parent that is exempt from consolidated financial statements, in accordance with IAS 27, or the investor itself meets those same criteria.

2.178 When an investor ceases to have joint control, it should account for its interest in a jointly controlled entity in accordance with IAS 39. If the jointly controlled entity becomes a subsidiary, an investor should apply both the requirements of IAS 27 and IFRS 3. If the jointly controlled entity becomes an associate, an investor should apply the requirements of IAS 28. At the point the investor in a jointly controlled entity loses joint control, the investor should measure its investment at fair value and recognize the difference between fair value and the joint venture's carrying amount in profit or loss.

U.S. GAAP

2.179 The FASB ASC glossary defines a *corporate joint venture* as a corporation owned and operated by a small group of entities (venturers) as a separate and specific business or project for the mutual benefit of the members of the group. A government may also be a member of the group. Frequently, the purpose of a corporate joint venture is to share risks and rewards in developing a new market, product, or technology; to combine complementary technological knowledge; or to pool resources in developing production or other facilities. A corporate joint venture also usually provides an arrangement under which each joint venture may participate, directly or indirectly, in the overall management of the joint venture. Thus, joint venturers have an interest or relationship other than as passive investors. An entity that is a subsidiary of one of the joint ventures is not itself a corporate joint venture. Although ownership of a corporate joint venture seldom changes, and its stock is usually not traded publicly, FASB ASC does not preclude a corporation from being a corporate joint venture when there is a minority public ownership. The guidance in FASB ASC 323 applies to investments in common or in-substance common stock, or both, including investments in common stock of corporate joint ventures, according to FASB ASC 323-10-15-3. However, in accordance with FASB ASC 323-10-15-4(c), the guidance in FASB ASC 323-10 does not apply to an investment in common stock within the scope of FASB ASC 810, which may include variable interest entities (see paragraphs 13–17 of FASB ASC 810-10-15). In contrast, IAS 31 does not exclude joint ventures in the form of variable interest entities from its scope.

2.180 IAS 31 requires joint ventures to be contractual arrangements in which investors have joint control. As illustrated by the definition of *corporate joint venture* in the FASB ASC glossary, FASB ASC does not require that the agreement among the investors be contractual, but it does include the concept of joint control. In contrast to a passive investment, the definition in the FASB ASC glossary states that investors usually have the ability to participate in the venture's decision-making activities.

2.181 FASB ASC 323-30 also requires the entity to use the equity method to account for partnerships, unincorporated joint ventures, and limited liability companies. However, FASB ASC 810-10-45-14 explains that unincorporated entities in the construction or extractive industries may use a proportionate consolidation method when its use is industry practice (see FASB ASC 932-323-45-1 with respect to the oil and gas industry).

2.182 The FASB ASC glossary does not define *jointly controlled operations* or *assets* but does define a *collaborative arrangement* as a contractual arrangement that involves a joint operating activity involving two (or more) parties that meet both of the following requirements:

- They are active participants in the activity.
- They are exposed to significant risks and rewards dependent on the commercial success of the activity.

FASB ASC 808-10-45 establishes the accounting for such arrangements. Consistent with the requirements of IAS 31 for jointly controlled assets and operations, FASB ASC 808-10-45 explains that participants in such arrangements should account for the costs incurred and revenue generated from third parties (that is, an entity that is not one of the parties to the arrangement) in each entity's respective income statement and should not apply the equity method. FASB ASC 808-10-45 directs entities to FASB ASC 605-45 for additional guidance on whether to report revenue gross (as a principal) or net (as an agent). FASB ASC 970-323 also provides guidance on real estate projects and joint ventures.

2.183 Unlike IAS 31, which contains criteria for exemption from its requirements (similar to the exemption in IAS 27 and IAS 28), FASB ASC does not provide any criteria that could exempt an entity from using the equity method when required.

Presentation

IFRSs

2.184 In accordance with IAS 1, an investor should present investments accounted for under the equity method as a separate line item on the balance sheet and its share of profit or loss from the investment separately on the statement of comprehensive income. In IFRSs, there is no requirement to distinguish between investments in associates and interests in joint ventures. However, an entity should also present additional line items, headings, and subtotals when they are relevant to an understanding of the entity's financial position.

U.S. GAAP

2.185 Investors should apply the same presentation requirements as for other equity method investments, as discussed in FASB ASC 323-10-45.

Disclosure

IFRSs

2.186 An investor should disclose a listing and description of its interests in significant joint ventures, the proportion of its interest in jointly controlled entities, and the method used to account for its interests in jointly controlled entities. If it uses the line-by-line format for proportionate consolidation, the investor should disclose separately the aggregate amounts of current assets, long-term assets, current liabilities, long-term liabilities, income, and expenses related to the proportionately consolidated interests.

2.187 An investor should also disclose information about contingent liabilities and commitments related to its interests in joint ventures separately from its other contingent liabilities and commitments. With respect to contingent liabilities, an investor should disclose not only its contingent liabilities but also those shared jointly with other investors, its share of contingent liabilities of the venture for which it is contingently liable, and contingent liabilities that arise because it is contingently liable for liabilities of other investors. Similar disclosures are required for commitments.

U.S. GAAP

2.188 IFRSs require more disclosures than FASB ASC about joint ventures, particularly disclosures about contingent liabilities and commitments. When the joint venture is accounted for using the equity method, FASB ASC 323 requires specific equity method disclosures. In particular, FASB ASC 323-10-50-3(c) states that when the equity method investments of a venturer are, in the aggregate, material in relation to its financial position or results of operations, it may be necessary for an investor to disclose summarized information about the joint venture's assets, liabilities, and results of operations in the notes or separate statements.

TABLE 2-7: ACCOUNTING TREATMENT FOR JOINTLY CONTROLLED ENTITIES[1]

	2010	2009	2008
Survey entities using proportionate consolidation	40	38	26
Survey entities using equity method	61	58	43
Survey entities designating an investment "at fair value through profit or loss"	1	1	0
Survey entities with a jointly controlled entity, but no method disclosed	13	13	0
Survey entities with no jointly controlled entities disclosed	56	51	31
Survey entities included in more than one category	(1)	(1)	0
Total	**170**	**160**	**100**

[1] IAS 31, *Joint Ventures*, identifies three broad types of joint ventures—jointly controlled operations, jointly controlled assets, and jointly controlled entities. A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership, or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.

Presentation and Disclosure Excerpts

Jointly Controlled Entities—Proportionate Consolidation

Author's Note

As previously explained, in May 2011, the IASB issued IFRS 11 and IFRS 12. Effective for annual periods beginning on or after 1 January 2013, entities will no longer have the option of accounting for interests in joint ventures by proportionate consolidation.

2.189

Harmony Gold Mining Company Limited (Jun 2010)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2 Accounting Policies (in part)

2.2 Consolidation (in part)

(iii) Joint venture entities are those entities in which the group holds an interest and shares joint control over strategic, financial and operating decisions with one or more other ventures under a contractual arrangement. The group's interest in jointly controlled entities is accounted for by proportionate consolidation. Under this method, the group includes its share of the joint venture's individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the group's financial statements.

The group recognises the portion of gains or losses on the sale of assets by the group to the joint venture that is attributable to the other ventures. The group does not recognise its share of profits or losses from the joint venture that result from the purchase of assets by the group from the joint venture until it resells the assets to an independent party. However, if a loss on the transaction provides evidence of a reduction in the net realisable value of current assets or an impairment loss, the loss is recognised immediately.

Joint venture operations and assets: The group and company has contractual arrangements with other participants to engage in joint activities or invest in joint assets other than through a separate entity. The group and company includes its assets, liabilities and share of income and expenditure in such joint venture operations with similar items in its financial statements.

22 Investment in Joint Venture

Morobe Mining Joint Ventures (MMJV) Partnership Agreement (50%)

The group has a 50% interest in gold and copper assets located in the Morobe province, PNG. Newcrest owns the remaining 50% interest in these assets. This partnership was formed during the 2009 financial year through a range of transactions, which are discussed below.

On 22 April 2008, Morobe Consolidated Goldfields Limited and Wafi Mining Limited, subsidiaries of Harmony Australia, entered into a Master Purchase and Farm-in Agreement with Newcrest. This agreement provided for Newcrest to purchase a 30.01% participating interest (stage 1) and a further farm-in of an additional 19.99% participating interest in Harmony's Morobe gold and copper assets, giving them a 50% interest. The total value of the transaction was estimated at US$530 million.

On 16 July 2008, the conditions to the Master Purchase and Farm-in agreement were finalised, which included regulatory and statutory approvals by the PNG Government. Stage 1 completion took place on 31 July 2008, and a total consideration of R1 792 million (US$229.8 million) was received on 7 August 2008, of which R390 million (US$50.0 million) was placed in a jointly controlled escrow account. This amount was subsequently released to Harmony following confirmation of approval of an exploration license during September 2008 by the PNG mining authorities.

Harmony recognised a profit of R416 million (US$58 million) on the completion of stage 1, which represented a sale of a 30.01% undivided interest of Harmony's Morobe gold and copper assets and liabilities comprising the joint venture.

During the farm-in period, Harmony agreed to transfer a further 19.99% interest to Newcrest in consideration for an agreement by Newcrest to meet certain expenditure which would otherwise have to be undertaken by Harmony. The interest to be transferred was conditional on the level of capital expenditures funded by Newcrest at certain milestones, and by the end of February 2009, Newcrest acquired another 10% through the farm-in arrangement. The final 9.99% was acquired by 30 June 2009.

At the date of completion of each party's obligations under the farm-in arrangement, Harmony derecognised the proportion of the mining assets and liabilities in the joint venture that it had sold to Newcrest, and recognised its interest in the capital expenditure at fair value. The difference between the net disposal proceeds and the carrying amounts of the asset disposed of during the farm-in arrangement amounted to a gain of R515 million (US$54 million), which has been included in the consolidated income statement for 2009.

The following are the group's effective share of income, expenses, assets and liabilities, which are included in the 2010 consolidated financial statements:

SA Rand			US Dollar	
2009	2010	Figures in Millions	2010	2009
50%	50%		50%	50%
—	79	Revenue	10	—
—	(63)	Production costs	(8)	—
—	16	Gross profit	2	—
(108)	(302)	Other costs	(40)	(12)
(108)	(286)	Net loss	(38)	(12)
1,427	2,910	Non-current assets	382	185
343	364	Current assets	48	44
1,770	3,274	Total assets	430	229
1,241	168	Non-current liabilities	22	161
281	148	Current liabilities	19	36
1,522	316	Total liabilities	41	197

Jointly Controlled Entities—Equity Method, Jointly Controlled Operations

2.190

Sims Metal Management Limited (Jun 2010)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (in part)

As at 30 June 2010

	Note	2010 A$M	2009 A$M
Non-current assets			
Receivables	9	7.9	17.6
Investments accounted for using the equity method	29	369.5	400.2
Other financial assets		21.4	—
Property, plant and equipment	12	925.8	947.7
Deferred tax assets	8	74.1	71.6
Goodwill	13	1,151.7	1,146.8
Other intangible assets	14	195.2	238.8
Total non-current assets		2,745.6	2,822.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1—Summary of Significant Accounting Policies (in part)

(C) Principles of Consolidation (in part)

(III) Joint Ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to

joint control. Joint control is the contractually agreed sharing of control such that significant operating and financial decisions require the unanimous consent of the parties sharing control. In some situations, joint control exists even though the Group has an ownership interest of more than 50% because of the veto rights held by joint venture partners. The Group has two types of joint ventures:

Jointly Controlled Entities

A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venture has a long-term interest. Jointly controlled entities are accounted for using the equity method. In addition, for both associates and jointly controlled entities, the carrying value will include any long-term debt interests that in substance form part of the Group's net investment.

Joint Venture Operations

A joint venture operation is a joint venture in which the venturers have joint control over assets contributed to or acquired for the purpose of the joint venture. A joint venture operation does not involve the establishment of a corporation, partnership or other entity. This includes situations where the participants derive benefit from the joint activity through a share of the production, rather than by receiving a share of the results of trading. The Group's proportionate interest in the assets, liabilities, revenues, expenses and cash flows of joint venture operations are incorporated into the Group's financial statements under the appropriate headings.

Note 29—Investments in Associates and Jointly Controlled Entities (in part)

(A) Carrying Amounts of Associates and Jointly Controlled Entities

Name of Associate or Jointly Controlled Entity	Country of Incorporation	Ownership Interest %		Carrying Amount	
		2010	2009	2010 A$M	2009 A$M
SA Recycling LLC	USA	50%	50%	314.3	329.9
Metal Management Nashville LLC	USA	50%	50%	14.0	22.4
Rondout Iron & Metal LLC	USA	50%	50%	0.9	0.6
Port Albany Ventures LLC[(1)]	USA	100%	50%	—	6.6
Richmond Steel Recycling Ltd	Canada	50%	50%	19.8	21.6
LMS Generation Pty Ltd	Australia	50%	50%	19.9	18.5
Australia Refined Alloys Pty Ltd	Australia	50%	50%	—	—
Extruded Metals Ltd	New Zealand	33%	33%	0.6	0.6
				369.5	400.2

(1) On 18 November 2009, the Group obtained control of Port Albany by acquiring the remaining 50% of the joint venture. As a result, the Group's equity interest in Port Albany increased from 50% to 100%.

(B) Movements in Carrying Amounts

	2010 A$M	2009 A$M
Balance at 1 July	400.2	332.2
Share of profit before tax	17.5	57.6
Associates share of income tax expense	(2.4)	(2.6)
Accretion of deferred gain to equity accounted profit	2.7	3.2
Dividends received	(19.6)	(41.5)
Return of capital from jointly controlled entities	(0.4	(3.6)
Purchase of remaining 50% interest in Port Albany	(5.6)	—
Impairment of investment in Metal Management Nashville LLC	(5.7)	—
Other	—	1.7
Foreign exchange differences	(17.2)	53.2
Balance at 30 June	369.5	400.2
(c) Share of associates' and jointly controlled entities' profit		
Profit before income tax	14.5	60.8
Associates' share of income tax expense	(2.4)	(2.6)
Profit after income tax recognised in equity accounted investment	12.1	58.2
Jointly controlled entities income tax[(1)]	(2.4)	(19.2)
Associates' and jointly controlled entities' profit after tax	9.7	39.0

(1) The jointly controlled entities to which this relates are "pass-through" entities for taxation purposes. As such, the Group incurs the income tax expense and associated tax liability on its share of the profit and includes this amount as part of its income tax expense. Refer to Note 8.

(C) Port Albany

At 30 June 2009, the Group held a 50% interest in Port Albany. This jointly controlled entity was accounted for using the equity method. On 18 November 2009, the Group purchased the remaining 50% ownership interest in Port Albany that it previously did not own. In accordance with the revised AASB 3 (IFRS 3) and AASB 127 (IAS 27), the Group was required to remeasure its previously held equity interest in Port Albany at its acquisition-date fair value and recognise the resulting gain or loss in profit or loss. This transaction resulted in the recognition of a gain calculated as follows:

	A$M
Fair value of 50% interest in Port Albany	14.3
Carrying amount of Port Albany investment	(5.6)
Gain recognised on acquisition	8.7

(D) SA Recycling LLC

On 1 September 2007, the Group completed the merger of its Southern Californian metal recycling assets with those of Adams Steel LLC. The jointly controlled entity, SA Recycling LLC, operates within a territory encompassing Southern California, Arizona, Southern Nevada and Northern Mexico. In accordance with AASB 128 (IAS 28) *Investments in Associates* and AASB 131 (IAS 31) *Interests in Joint Ventures,* the SA Recycling LLC is a jointly controlled entity accounted for under the equity method.

The fair values of assets and liabilities contributed to SA Recycling LLC at 1 September 2007 were as follows:

	Book Value A$M	Fair Value A$M	Non-Cash Gain A$M
Property, plant and equipment	71.4	79.8	(8.4)
Goodwill and intangible assets	196.5	265.7	(69.2)
Non-current provisions	(3.2)	(3.2)	—
	264.7	342.3	(77.6)

In accordance with UIGI 113 (SIC 13) *Jointly Controlled Entities—Non-Monetary Contributions by Venturers,* the portion of the non-cash gain attributable to the equity interest of the other venturer, in this instance 50%, was recognised immediately on contribution of assets to the SA Recycling LLC jointly controlled entity. This has been recognised in other income as disclosed in Note 6. The remaining 50% of the non-cash gain for intangibles has been allocated to reduce the cost of the equity accounted investment and will be recognised progressively over the remaining useful life of the assets to which it relates. The remaining 50% of the non-cash gain for property, plant and equipment has been allocated to reduce the cost of the equity accounted investment and will be recognised if the land to which the gain relates is sold.

(E) Summarised Financial Information of Associates and Jointly Controlled Entities

Group's Share of Assets and Liabilities	2010 A$M	2009 A$M
Current assets	104.0	92.1
Non-current assets	289.8	313.4
Total assets	393.8	405.5
Current liabilities	30.0	34.1
Non-current liabilities	100.0	102.2
Total liabilities	130.0	136.3
Net assets	263.8	269.2

Group's Share of Revenue, Expenses and Results	2010 A$M	2009 A$M	2008 A$M
Revenues	596.3	814.2	699.9
Expenses	(578.8)	(756.6)	(637.6)
Profit before income tax	17.5	57.6	62.3

(F) Contingent Liabilities and Capital Commitments

The Group's share of the contingent liabilities of associates and jointly controlled entities is disclosed in Note 22. The Group's share of the capital commitments and other expenditure commitments of associates and jointly controlled entities is disclosed in Note 23.

(G) Jointly Controlled Operations

The Group accounts for its 50% interest in Sims Pacific Metals joint venture under the proportionate consolidation method. Sims Pacific Metals is an unincorporated joint venture based in New Zealand and its principal activity is metal recycling.

The Group's interest in the jointly controlled operation is included in the statement of financial position under the classifications shown below:

	2010 A$M	2009 A$M
Current assets	17.0	10.2
Non-current assets	6.9	7.6
Total assets	23.9	17.8
Current liabilities	18.9	10.2
Non-current liabilities	0.1	3.2
Total liabilities	19.0	13.4
Net assets	4.9	4.4

The Group's share of the jointly controlled operations' contingent liabilities and capital expenditure commitments is included in Notes 22 and 23, respectively.

Jointly Controlled Assets

2.191

Aquarius Platinum Limited (Jun 2010)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

5. Significant Accounting Policies (in part)

(v) Interest in Jointly Controlled Entities

The Group's interest in jointly controlled entities is accounted for by proportionate consolidation, which involves recognising a proportionate share of the joint venture's assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis.

In respect of the Group's interest in jointly controlled assets, the following are recognised in the financial statements:

(i) the Group's share of the jointly controlled assets, classified according to the nature of the assets;
(ii) any liabilities that the Group has incurred;
(iii) the Group's share of any liabilities incurred jointly with the other venturers in relation to the joint venture;
(iv) any income from the sale or use of the Group's share of the output of the joint venture, together with the Group's share of any expenses incurred by the joint venture; and
(v) any expenses that the Group has incurred in respect of its interest in the joint venture.

IAS 41

IFRSs Overview and Comparison to U.S. GAAP

2.192 IAS 41 establishes the accounting for biological assets, agricultural produce at the point of harvest, and certain government grants that relate to agricultural activity. Examples of biological assets include farm animals, trees, grapevines, and other plants. After the point of harvest, IAS 2 or another applicable IFRS is applied. Accordingly, IAS 41 does not apply to the processing of agricultural produce after harvest or to land (found in IAS 16 or IAS 40) or intangible assets (found in IAS 38) related to agricultural activity.

Recognition and Measurement

IFRSs

2.193 IAS 41 states that an entity should recognize *biological assets* (living animal or plant) or *agricultural produce* (harvested product of the biological asset) on the balance sheet only when the following criteria are met:

- The entity controls the biological asset or agricultural produce as a result of past events.
- It is probable that future economic benefits from the asset will flow to the entity.
- The fair value (or cost) of the asset can be measured reliably.

2.194 On initial recognition and at the end of each reporting period, an entity should measure both biological assets and agricultural produce at the point of harvest at fair value less cost to sell. When there is an active market for the agricultural produce or biological asset in its present condition and location, IAS 41 states that the quoted market price in that market is the only appropriate basis for determining fair value. When market-determined prices or values are not available for the asset in its present condition, the entity should use the present value of expected future cash flows discounted at a market-determined rate. In making this calculation, an entity should include the net cash flows that market participants would expect the asset to generate in its most relevant market.

2.195 At initial recognition of a biological asset, an entity can only rebut the presumption that fair value can be measured reliably when there are no market-determined prices or values available and alternative estimates of fair value are clearly unreliable. In this case, an entity should only measure biological assets at cost less accumulated depreciation and impairment losses.

2.196 An entity should recognize gains or losses on initial recognition of biological assets or agricultural produce and changes in fair value of biological assets less cost to sell in profit or loss.

2.197 IAS 41 requires an entity to recognize unconditional government grants related to biological assets that are measured at fair value less cost to sell in profit or loss when the grant becomes receivable. When a government grant is conditional, an entity should recognize the grant only when these conditions are met.

U.S. GAAP

2.198 FASB ASC 905, *Agriculture*, contains industry specific guidance applicable to accounting by agricultural producers and agricultural cooperatives, rather than to accounting for biological assets by all entities. However, FASB ASC 905-10-15-4 excludes the following producers from the scope of this guidance:

- Growers of timber, pineapple, and sugarcane in tropical regions,
- Raisers of animals for competitive sports, and
- Merchants or noncooperative processors of agricultural products that purchase commodities from growers, contract harvesters, or others serving agricultural producers.

2.199 However, unlike IFRSs, FASB ASC 905 does not require an entity within the scope of this guidance to account for all types of biological assets in the same way.

2.200 FASB ASC 905-330-25 explains that an entity should account for growing crops (for example, a field, row, tree, bush, or vine crop before harvest) as inventory. For growing crops accounted for as inventory, an entity should capitalize all direct and indirect costs until the time of harvest. An entity should defer and allocate some costs incurred before planting (such as soil preparation) to the cost of the growing crop. Further, an entity should estimate, accrue, and allocate other costs (such as clearing residue of harvest) to the harvested crop (agricultural produce). FASB ASC 905-330-30-1 states that in exceptional cases, it may be impracticable for an entity to determine an appropriate cost basis for these inventories.

FASB ASC 905-330 permits an entity to use realizable value, calculated on the basis of quoted market prices, less estimated costs of disposal for these inventories only when all of the following criteria are met:

- The products have immediate marketability at quoted market prices that cannot be influenced by the producer.
- The products have characteristics of unit interchangeability.
- The products have relatively insignificant costs of disposal.

Subsequently, in accordance with FASB ASC 905-330-35-1, an entity should measure inventories of growing crops at the lower of cost or market. FASB ASC 905-330-25-3 explains that an entity is permitted to classify animals with short productive lives (for example, poultry) as inventory. Subsequently, an entity would also measure these animals at the lower of cost or market.

2.201 Unlike IFRSs and in contrast to FASB ASC 905-330 for growing crops, paragraphs 2–3 of FASB ASC 905-360-25 explains that an entity should recognize trees, vines, orchards, groves, and vineyards as fixed assets (PPE). The aforementioned FASB ASC guidance also notes that an entity should capitalize limited-life land development costs and direct and indirect development costs of orchards, groves, vineyards, and *intermediate-life plants* (defined in the FASB ASC glossary as plants having growth and production cycles of more than one year but less than those of trees and vines) during the development period. In accordance with FASB ASC 905-360-25-4, except for animals with short productive lives classified as inventory, an entity should recognize breeding animals, livestock, and production animals as fixed assets. FASB ASC 905-360-35-2 states that when breeding and production animals reach maturity and are transferred to a productive function, an entity should depreciate the accumulated development costs, less any estimated salvage value, over the animals' estimated productive lives. Unlike IFRSs, FASB ASC 905-360-30 also contains additional guidance on other costs to be included as production costs with respect to the end product from these animals.

2.202 Unlike IFRSs, paragraphs 1–2 of FASB ASC 905-360-30 explain that for animals raised for sale, an entity should capitalize all direct and indirect development costs of developing animals and measure them at the lower of cost or market until available for sale. Animals available and held for sale should be measured at the lower of cost or market or sales price, less estimated costs of disposal, when there are reliable, readily determinable, and realizable market prices for the animals; the costs of disposal are relatively insignificant and predictable; and the animals are available for immediate delivery.

Presentation

IFRSs

2.203 An entity should present biological assets as a separate line item on the balance sheet, classified as current or noncurrent, in accordance with IAS 1. An entity should also present additional line items, headings, and subtotals when they are relevant to an understanding of the entity's financial position. This guidance applies to all entities with assets subject to the requirements of IAS 41, not just those in the agriculture industry.

U.S. GAAP

2.204 Unlike IFRSs, FASB ASC 905-205, *Agriculture—Presentation of Financial Statements*, is applicable only for entities in the agriculture industry and agricultural cooperatives and provides no guidance on the separate presentation in the statement of financial position of biological assets, distinguished from other types of inventory or PPE.

Disclosure

IFRSs

2.205 Entities should disclose a description of each group of biological assets and any aggregate gain or loss from initial recognition or change in fair value, less cost to sell, of biological assets and agricultural produce.

2.206 When not disclosed elsewhere in information published with the financial statements (that is, the information may be outside the audited financial statements), an entity should disclose the following:

- Nature of activities for each group of biological assets
- Nonfinancial measures or estimates of the physical quantities of each group of biological assets at the end of the period and the output of agricultural product during the period

2.207 IAS 41 states that entities should disclose a reconciliation of the beginning and ending balance in biological assets, including the following changes, if applicable:

- Changes in fair value during the period
- Increases from purchases
- Decreases from sales and classification to held for sale, whether alone or as part of a disposal group
- Decreases due to harvest
- Increases from business combinations
- Foreign exchange differences

2.208 IAS 41 also requires an entity to disclose the methods and significant assumptions applied in determining fair value less cost to sell for each group of agricultural produce and biological asset during the period.

2.209 An entity should also disclose the following general information: title restrictions, commitments, and financial risk strategies. Additional disclosures are required for government grants and when the fair value less cost to sell of biological assets cannot be measured reliably.

U.S. GAAP

2.210 FASB ASC does not include special disclosure requirements for biological assets or agricultural produce at the point of harvest. Depending upon the asset category in which the asset appears on the balance sheet (for example, inventory), other U.S. GAAP disclosure requirements apply. However, FASB ASC 905-330-50-1 does state that agricultural cooperatives should disclose the amounts assigned to members' products. In addition, FASB ASC 905-360-50-1 also states that an entity should make financial statement disclosure of the accumulated costs and estimated useful life of intermediate-life plants.

Presentation and Disclosure Excerpts

Current and Non-current Assets—Growing Crops, Sugarcane, Coffee, Growing Herd, and Cattle Held for Sale

2.211

Adecoagro S.A. (Dec 2010)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (in part)

As of December 31, 2010, 2009 and 2008
(All amounts in US$ thousands, except shares and per share data and as otherwise indicated)

	Note	2010	2009	2008
Assets				
Non-current assets				
Property, plant and equipment, net	6	751,992	682,878	571,419
Investment property	7	21,417	21,246	—
Intangible assets, net	8	28,653	21,859	18,108
Biological assets	9	104,216	170,347	75,701
Investments in joint ventures	10	6,271	6,506	7,508
Deferred income tax assets	21	67,463	45,113	18,713
Trade and other receivables, net	11,12	30,752	22,065	8,612
Other assets		26	34	87
Total non-current assets		1,010,790	970,048	700,148
Current assets				
Biological assets	9	82,541	60,107	50,247
Inventories	13	57,170	57,902	61,221
Trade and other receivables, net	11,12	119,205	106,212	75,928
Derivative financial instruments	11	876	99	2,019
Cash and cash equivalents	11,14	70,269	74,806	93,360
Total current assets		330,061	299,126	282,775
Spin-off assets	15	—	—	45,311
Total assets		1,340,851	1,269,174	1,028,234

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Summary of Significant Accounting Policies (in part)

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1. Basis of Preparation (in part)

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) and the Interpretations of the International Financial Reporting Interpretations Committee (IFRIC). All IFRS issued by the IASB, effective at the time of preparing these consolidated financial statements have been applied.

The consolidated financial statements have been prepared under the historical cost convention as modified by financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss and biological assets measured at fair value.

2.13. Biological Assets

Biological assets comprise growing crops (mainly corn, wheat, soybeans, sunflower and rice), sugarcane and coffee and livestock (growing herd and cattle for sale).

The Group distinguishes between consumable and bearer biological assets, and between mature and immature biological assets. "Consumable" biological assets are those assets that may be harvested as agriculture produce or sold as biological assets, for example livestock intended for the production of meat and/or livestock held for sale. "Bearer" biological assets are those assets capable of producing more than one harvest, for example sugarcane or livestock from which raw milk is produced. "Mature" biological assets are those that

have attained harvestable specifications (for consumable biological assets) or are able to sustain regular harvests (for bearer biological assets). “Immature” biological assets are those assets other than mature biological assets.

Costs are capitalized as biological assets if, and only if, (a) it is probable that future economic benefits will flow to the entity, and (b) the cost can be measured reliably. The Group capitalizes costs such as: planting, harvesting, weeding, seedlings, irrigation, agrochemicals, fertilizers and a systematic allocation of fixed and variable production overheads that are directly attributable to the management of biological assets, among others. Costs that are expensed as incurred include administration and other general overhead and unallocated production overhead, among others.

Biological assets, both at initial recognition and at each subsequent reporting date, are measured at fair value less costs to sell, except where fair value cannot be reliably measured. Cost approximates fair value, when little biological transformation has taken place since the costs were originally incurred or the impact of biological transformation on price is not expected to be material.

Gains and losses that arise on measuring biological assets at fair value less costs to sell and measuring agricultural produce at the point of harvest at fair value less costs to sell are recognized in the statement of income in the period in which they arise.

Where there is an active market for a biological asset or agricultural produce, quoted market prices in the most relevant market are used as a basis to determine the fair value. Otherwise, when there is no active market or market-determined prices are not available, fair value of biological assets is determined through the use of valuation techniques. Therefore, the fair value of biological assets is generally derived from the expected discounted cash flows of the related agricultural produce. The fair value of our agricultural produce at the point of harvest is generally derived from market determined prices. A general description of the determination of fair values based on the Company’s business segments follows:

- *Growing crops:*

Growing crops, for which biological transformation is not significant, are measured at cost, which approximates fair value. Expenditure on growing crops includes land preparation expenses and other direct expenses incurred during the sowing period including labor, seedlings, agrochemicals and fertilizers among others.

Otherwise, biological assets are measured at fair value less estimated point-of-sale costs at initial recognition and at any subsequent period. Point-of-sale costs include all costs that would be necessary to sell the assets. Gains and losses arising from such measurements are included in the statement of income in the period in which they arise under the line item “Initial recognition and changes in fair value of biological assets and agricultural produce.”

The fair value of growing crops excluding sugarcane and coffee is measured based on a formula, which takes into consideration the estimated crop yields, estimated market prices and costs, and discount rates. Yields are determined based on several factors including location of farmland, environmental conditions and other restrictions and growth at the time of measurement. Yields are multiplied by sown hectares to determine the estimated tons of crops to be obtained. The tons are then multiplied by a net cash flow determined as the actual crop prices less the direct costs to be incurred. This amount is discounted at a discount rate, which reflects current market assessments of the assets involved and the time value of money.

- *Growing herd and cattle:*

Livestock are measured at fair value less estimated point-of-sale costs, with any changes therein recognized in the statement of income, on initial recognition as well as subsequently at each reporting period. Gains and losses arising from animal growth and changes in livestock numbers are included in the statement of income in the period in which they arise, under the line item “Initial recognition and changes in fair value of biological assets and agricultural produce.” The fair value of livestock is determined based on the actual selling prices less estimated point-of-sale costs on the markets where the Group operates.

- *Coffee:*

The coffee trees are accounted for as plantations and are generally felled after their optimum economic age for use has expired, generally 18 years.

Coffee trees, for which biological growth is not significant, are valued at cost, which approximates fair value. Expenditure on coffee trees planting includes land preparation expenses and other direct expenses incurred during the sowing period including labor, seedlings, agrochemicals and fertilizers among others.

Coffee trees which have attained significant biological growth are valued through a discounted cash flow model. Revenues are based on yearly coffee production volumes and the price is calculated as the average of daily prices for coffee future contracts (Coffee ICE-NY contracts) for a six month period. Projected costs include maintenance, pruning, land leasing, harvesting and coffee treatment.

These projections generate cash flows for each productive year, which, after being adjusted to present value at an appropriate discount rate, are the basis to determine the fair value of coffee.

- *Sugarcane:*

The fair value of sugarcane depends on the variety, location and maturity of the plantation. The sugarcanes are accounted for as plantations and are felled after their optimum economic age for use has expired, generally five years.

Sugarcane, for which biological growth is not significant, is valued at cost, which approximates fair value. Expenditure on sugarcane consists mainly in land preparation expenses and other direct expenses incurred during the sowing period including labor, seedlings, agrochemicals and fertilizers among others.

Sugarcane which has attained significant biological growth is measured at fair value. The fair value considers estimated revenues based on yearly production volume (which will be destined to sugar, ethanol, energy and raw cane production) and the price is calculated as the average of daily prices for sugar future contracts (Sugar #11 ICE-NY contracts) for a six month period. Projected costs include maintenance, land leasing, harvesting and transportation.

The operating cash flows are discounted at a discount rate, which reflects current market assessment of the time value of money and risks involved.

4. Critical Accounting Estimates and Judgments (in part)

(c) Biological Assets

The nature of the Group's biological assets and the basis of determination of their fair value are explained under Note 2.13. The discounted cash flow model requires the input of highly subjective assumptions including observable and unobservable data. Generally the estimation of the fair value of biological assets is based on models or inputs that are not observable in the market and the use of unobservable inputs is significant to the overall valuation of the assets. Unobservable inputs are determined based on the best information available, for example by reference to historical information of past practices and results, statistical and agronomical information, and other analytical techniques. Key assumptions include future market prices, estimated yields at the point of harvest, estimated production cycle, future cash flows, future costs of harvesting and other costs, and estimated discount rate.

Market prices are generally determined by reference to observable data in the principal market for the agricultural produce. Harvesting costs and other costs are estimated based on historical and statistical data. Yields are estimated based on several factors including the location of the farmland and soil type, environmental conditions, infrastructure and other restrictions and growth at the time of measurement. Yields are subject to a high degree of uncertainty and may be affected by several factors out of the Group's control including but not limited to extreme or unusual weather conditions, plagues and other crop diseases, among other factors.

The key assumptions discussed above are highly sensitive. Reasonable shifts in assumptions including but not limited to increases or decreases in prices, costs and discount factors used would result in a significant increase or decrease to the fair value of biological assets. In addition, cash flows are projected over a number of years and based on estimated production. Estimates of production in themselves are dependent on various assumptions, in addition to those described above, including but not limited to several factors such as location, environmental conditions and other restrictions. Changes in these estimates could materially impact on estimated production, and could therefore affect estimates of future cash flows used in the assessment of fair value.

The valuation models and their assumptions are reviewed annually, or quarterly if warranted, and, if necessary, adjusted. During the year ended December 31, 2009, the Group made no changes to the models and assumptions. During the year ended December 31, 2010, new information has been gained and accordingly the Group introduced an adjustment to the valuation model for sugarcane. Projected revenues are now calculated based on the average of daily prices for sugar future contracts (Sugar # 11 ICE-NY contract) during the six-month period ended at period end rather than the single price for sugar future contracts at year end used during 2009. The Group determined that the use of 6-month average of daily prices of future contracts was a more appropriate estimate for price inputs in the valuation model than the single price for sugar future contracts at period-end, as it would mitigate any additional variability that a single-day price may have on the sugarcane valuation model and was necessary to properly measure the fair value of the related biological assets given changes in market conditions in 2010. The effect of this change in the valuation model recognized in the line item "Initial recognition and changes in fair value of biological assets and agricultural produce" was an increase in the loss before income tax for US$ 90.9 million for the year ended December 31, 2010.

5. Segment Information (in part)

Segment Analysis for the Year Ended December 31, 2010

	Farming									
	Crops	Rice	Dairy	Coffee	Cattle	Farming Subtotal	Sugar, Ethanol and Energy	Land Trans-formation	Corporate	Total
Sales of manufactured products and services rendered	344	59,280	—	2,709	3,718	66,051	228,478	—	—	294,529
Cost of manufactured products sold and services rendered	—	(52,017)	—	(2,546)	—	(54,563)	(164,638)	—	—	(219,201)
Gross profit from manufacturing activities	344	7,263	—	163	3,718	11,488	63,840	—	—	75,328
Sales of agricultural produce and biological assets	107,818	2,305	14,297	4,863	2,407	131,690	48	—	—	131,738
Cost of agricultural produce sold and direct agricultural selling expenses	(107,818)	(2,305)	(14,297)	(4,863)	(2,407)	(131,690)	(48)	—	—	(131,738)
Initial recognition and changes in fair value of biological assets and agricultural produce	38,879	9,360	9,129	(2,630)	737	55,475	(86,003)	—	—	(30,528)
Gain from changes in net realizable value of agricultural produce after harvest	7,482	—	—	517	—	7,999	—	—	—	7,999
Gross profit/(loss) from agricultural activities	46,361	9,360	9,129	(2,113)	737	63,474	(86,003)	—	—	(22,529)
Margin on manufacturing and agricultural activities before operating expenses	46,705	16,623	9,129	(1,950)	4,455	74,962	(22,163)	—	—	52,799
General and administrative expenses	(7,087)	(3,773)	(2,910)	(983)	(350)	(15,103)	(19,080)	—	(22,379)	(56,562)
Selling expenses	(1,522)	(8,154)	(333)	(655)	(175)	(10,839)	(41,689)	—	—	(52,528)
Other operating income, net	(6,194)	345	—	(2,165)	70	(7,944)	5,305	20,837	26	18,224
Share of loss of joint ventures	—	—	(50)	—	—	(50)	—	—	—	(50)
Profit/(loss) from operations before financing and taxation	31,902	5,041	5,836	(5,753)	4,000	41,026	(77,627)	20,837	(22,353)	(38,117)
Depreciation and amortization	1,711	2,080	423	449	333	4,996	32,567	—	—	37,563
Initial recognition and changes in fair value of biological assets (unrealized)	8,719	6,273	3,610	(2,450)	(36)	16,116	(96,795)	—	—	(80,679)
Initial recognition and changes in fair value of agricultural produce (unrealized)	7,229	742	—	(71)	—	7,900	405	—	—	8,305
Initial recognition and changes in fair value of biological assets and agricultural produce (realized)	22,931	2,345	5,519	(109)	773	31,459	10,387	—	—	41,846
Gain from changes in net realizable value of agricultural produce after harvest (unrealized)	2,050	—	—	(523)	—	1,527	—	—	—	1,527
Gain from changes in net realizable value of agricultural produce after harvest (realized)	5,432	—	—	1,040	—	6,472	—	—	—	6,472
Property, plant and equipment, net	204,454	50,899	4,202	25,265	18,831	303,650	448,342	—	—	751,992
Investment property	—	1,168	—	—	20,249	21,417	—	—	—	21,417
Goodwill	4,931	7,023	—	1,115	319	13,388	13,106	—	—	26,494
Biological assets	31,247	21,555	7,130	21,577	401	81,910	104,847	—	—	186,757
Investment in joint ventures	—	—	6,271	—	—	6,271	—	—	—	6,271
Inventories	22,926	8,422	883	7,023	61	39,315	17,855	—	—	57,170
Total segment assets	263,299	89,066	19,063	54,980	39,542	465,950	584,151	—	—	1,051,101
Borrowings	(59,339)	(41,050)	(10,262)	(13,651)	—	(124,302)	(265,170)	—	—	(389,472)
Total segment liabilities	(59,339)	(41,050)	(10,262)	(13,651)	—	(124,302)	(265,170)	—	—	(389,472)

9. Biological Assets

Changes in the Group's biological assets in 2010, 2009 and 2008 were as follows:

	2010	2009	2008
Beginning of the year	230,454	125,948	102,562
Increase due to purchases	681	296	3,276
Disposal of subsidiary (Note 15)	—	(86)	(376)
Initial recognition and changes in fair value of biological assets(i)	(30,528)	71,668	61,000
Decrease due to harvest	(237,465)	(84,990)	(54,709)
Decrease due to sales	(2,138)	(37,014	(6,382)
Costs incurred during the year	224,969	136,625	49,949
Exchange differences	784	18,007	(29,372)
End of the year	186,757	230,454	125,948

(i) Biological asset with a production cycle of more than one year (that is, sugarcane, coffee, dairy and cattle) generated 'Initial recognition and changes in fair value of biological assets' amounting to US$ (78,767) for the year ended December 31, 2010 (2009: US$ 52,935; 2008: US$ 25,141). In 2010, an amount of US$ (60,146) (2009: US$ 29,834; 2008: US$ 29,576) was attributable to price changes, and an amount of US$ (18,621) (2009: US$ 23,101; 2008: US$ (4,435)) was attributable to physical changes.

Biological assets in 2010, 2009 and 2008 were as follows:

	2010	2009	2008
Non-current			
Cattle for dairy production(i)	7,130	4,313	4,732
Breeding cattle(i)	—	—	11,858
Other cattle(ii)	39	66	267
Sown land—coffee(iii)	18,600	18,540	24,763
Sown land—sugarcane(iii)	78,447	147,428	34,081
	104,216	170,347	75,701
Current			
Breeding cattle(i)	—	—	3,543
Other cattle(iv)	362	749	3,961
Sown land—coffee(v)	2,977	3,094	690
Sown land—sugarcane(v)	26,400	17,273	14,086
Sown land—crops(ii)	31,247	27,467	21,059
Sown land—rice(ii)	21,555	11,524	6,908
	82,541	60,107	50,247
Total biological assets	186,757	230,454	125,948

(i) Classified as bearer and mature biological assets.
(ii) Classified as consumable and immature biological assets.
(iii) Classified as bearer and immature biological assets.
(iv) As of December 31, 2010, an amount of US$ 186 (2009: 493; 2008: 2,718) was classified as consumable and mature biological assets, and an amount of US$ 176 (2009: 256; 2008: 1,243) was classified as consumable an immature biological assets.
(v) As of December 31, 2010, and amount of US$ nil (2009: nil; 2008: nil) was classified as bearer and mature biological assets, and an amount of US$ 29,378 (2009: 20,367; 2008: 14,776) was classified as bearer and immature biological assets.

The fair value less estimated point of sale costs of agricultural produce at the point of harvest amounted to US$ 241,762 for the year ended December 31, 2010 (2009: US$ 88,113; 2008: US$ 57,457).

Commencing during the middle of 2008 and lasting until the middle of 2009, the areas in which the Group operates suffered one of the worst droughts of the last 50 to 70 years, which resulted in a reduction in its agricultural production per hectare compared with historical average yields.

As a result of the drought, actual yields for crops in 2008/2009 decreased as compared with historical average yields, generating a negative impact in 'Initial recognition and changes in fair value of biological assets and agricultural produce' of U$S nil for the year ended December 31, 2010 (2009: US$ 16.4; million 2008: US$ 2.0 million). Additionally, actual yields for rice in 2008/2009 decreased as compared with historical average yields, generating a negative impact in 'Initial recognition and changes in fair value of biological assets and agricultural produce' of nil for the year ended December 31, 2010 (2009: US$ 4.2 million; 2008: nil).

Current Assets—Biological Assets, No Reliable Fair Value, Pledged as Guarantee

2.212

Vina Concha y Toro S.A. (Dec 2010)

Author's Note

Vina Concha y Toro S.A. implemented IFRSs effective December 31, 2010, with a date of transition of January 1, 2009. The excerpt that follows reflects the initial application of IAS 41.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (in part)

Assets	Note N°	As of December 31, 2010 Th$	As of December 31, 2009 Th$	As of January 1, 2009 Th$
Current assets				
Cash and cash equivalent	(7)	16,757,549	6,997,300	3,949,865
Other current financial assets	(8)	10,721,894	10,903,083	5,126,520
Other non-financial current assets	—	4,616,263	3,703,965	3,380,234
Trade and other accounts receivable, current	(9)	108,358,712	102,981,228	110,532,628
Accounts receivable from related parties, current	(10)	609,117	220,820	240,155
Inventories	(11)	107,233,780	118,196,897	111,600,565
Current biological assets	(15)	10,944,784	10,368,684	12,822,074
Current tax assets	(22)	14,853,251	12,657,009	15,381,635
Total current assets other than assets or groups of assets for disposition classified as maintained for sale or as maintained to distribute to owners		274,095,350	266,028,986	263,033,676
Assets held for sale	(16)	82,500	—	—
Total current assets		274,177,850	266,028,986	263,033,676
Non-current assets				
Other non-current financial assets	(8)	5,765,933	3,943,612	—
Other non-financial assets, non-current	—	2,442,581	2,779,252	3,244,011
Investments accounted for using the equity method	(12)	9,627,465	9,626,139	9,121,449
Intangible assets other than goodwill	(13)	8,863,353	8,379,752	8,417,493
Property, plant and equipment	(14)	225,070,491	229,469,990	226,652,653
Non-current biological assets	(15)	53,672,218	52,529,942	50,621,435
Deferred tax assets	(21)	5,295,823	4,015,976	3,376,166
Total non-current assets		310,737,864	310,744,663	301,433,207
Total assets		584,915,714	576,773,649	564,466,883

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 2. Bases of Preparation and Presentation Used for These Financial Statements (in part)

2.13 Biological Assets

Within Biological Assets, Viña Concha y Toro includes all grapevine plantations. The agricultural product (Grapes) derived from plantations under production is purposed to be a supply for the wine production process.

In conformity with IAS 41, for those assets for which it is not possible to reliably determine the fair market value, the Company has concluded to value the grapevine plantations at its historic cost less accumulated depreciation and accumulated losses due to impairment.

The Company depreciates its biological assets following the straight-line method in function of the estimated useful lives of grapevines and subjecting the value to impairment test in each year. Useful lives applied are as follows:

	Useful Lives
Plantations vineyard	20–25

For agricultural product (grapes) which are in a growing process up to the grape harvest date, costs are accumulated up to the harvest date and then forms part of the inventory cost in the following processes.

Note 15. Biological Assets

The Company includes as a part of these assets, the grapevine plantations, both in the growing stage and in production and also the grape product.

As contemplated in IAS 41, biological assets must be measured at fair value less the estimated costs to sell except for those in which the fair value cannot be measurable in a reliable way.

Based on the information and analysis prepared by Viña Concha y Toro, the biological asset valuation (planted grapevines in growing/production) at "reasonable value or fair value" is not feasible to determine in a reliable way in Chile, given that there is no active market in Chile for planted grapevines both in growing stage and in production.

Considering the valuation alternatives of IAS 41, which are summarized in *Market Prices Net*, Present value *of net cash flows expected of assets* and Historic Costs, the main reasons which support this conclusion relate to the fact that in Chile there is no active market for planted grapevines in growing/production stage, given that these are not an asset commonly traded in our grapevine industry. There is not enough experience in the market with respect to the number of transactions on these goods which allow identifying reference prices for its valuation. Given the high degree of subjectivity to qualify the quality of grapes associated to the grapevine, for certain grapes plantations there is no objective market.

Also it is not possible to apply the cash flow present value, given that the grapevines in development and productive stage have no demand, and by itself, do not generate flows.

Flows must be related with the realization of the agricultural product (grape) which will generate the biological asset. In the actual business, the grape coming from vineyards will be used to produce wine that subsequently will be traded, not for sale, thus, there is no reference on the grape price in the market.

In addition, the main variables of all flow models are *quantity* and *price*, these variables depend on the efficiency levels of each company when handling its vineyards, which in turn will depend on: adopted technology and know-how what makes difficult identifying the proper combination of variables to be considered (quantity and cost involved) and to be reliable.

After analyzing this matter, we may conclude that any methodology used is not fully reliable due to the fact that the basic variables which feed these, have no support in objective information which will finally allow measurable and reliable results. Consequently, today we have concluded that the use of flow models does not deliver a reliable fair value for biological assets.

As per the information and objective indicators analyzed so far, we have concluded that there are no valuation methods as appropriate as the cost. Valuation through the cost value method seems a better estimator on the biological asset value (grapevines) given the reality of our winegrowing industry and the market peculiarity as commented above.

The depreciation of grapevines in production is performed on a linear basis and is based on the production estimated useful life, which is evaluated on a regular basis. Grapevines in growing stage are not depreciated until entering into production, which occurs the fifth year after planting when the vines begin to produce commercial grapes for the grapevine process. Costs incurred in acquisition and plantation of new grapevines is capitalized.

The agricultural products (grape) coming from grapevines in production are valued at its harvest value (cost) less the accumulated losses due to impairment, if any. This valuation is the best estimate of fair value. Grape acquired from third-parties, which is present in finished and semi-finished products, is reflected by the Company at the value established in the purchase contract entered into with third-parties.

15.1 Detail on Groups of Biological Assets

Biological assets maintained by Viña Concha y Toro S.A. and subsidiaries consist of grapevines in production and grapevines in growing stage.

Reconciliation of Changes in Biological Assets:

Reconciliation of Changes in Biological Assets	**Current Th$**	**Non-Current Th$**
Biological Assets, beginning balance as of December 31, 2009	10,368,684	52,529,942
Biological Assets, gross at beginning of the period	—	68,105,195
Biological Assets, accumulated amortization and impairment at beginning of the period	—	(15,575,253)
Net Biological Assets at beginning of the period	10,368,684	52,529,942
Increases other than those coming from business combinations, Biological Assets	17,310,697	4,197,308
Acquisitions performed through business combinations, Biological Assets	—	—
Increases (decreases) for exchange difference (net), Biological Assets	—	(392,873)
Depreciation of Biological Assets	—	(2,388,185)
Profit (loss) of fair value adjustment, Biological Assets	—	—
Other decreases	—	(273,974)
Increases (decreases) of transfers and other changes, Biological Assets	—	—
Decreases due to harvests or pickup, Biological Assets	(16,734,597)	—
Total Biological Assets as of December 31, 2010	10,944,784	53,672,218
Biological Assets, gross as of December 31, 2010	—	71,635,656
Biological Assets, Amortization and impairment accumulated as of December 31, 2010	—	(17,963,438)

(*) The other decreases correspond to vine pull ups.

Reconciliation of Changes in Biological Assets	Current Th$	Non-Current Th$
Biological Assets, beginning balance as of January 1, 2009	12,822,074	50,621,435
Biological Assets, gross at beginning of the period	—	68,416,086
Biological Assets, accumulated amortization and impairment at beginning of the period	—	(17,794,651)
Net Biological Assets at beginning of the period	12,822,074	50,621,435
Increases other than those coming from business combinations, Biological Assets	10,157,670	5,876,452
Acquisitions performed through business combinations, Biological Assets	—	—
Increases (decreases) for exchange difference (net), Biological Assets	(12,611,060)	(1,543,505)
Depreciation of Biological Assets	—	(2,219,398)
Profit (loss) of fair value adjustment, Biological Assets	—	—
Other increases (decreases)	—	—
Increases (decreases) of transfers and other changes, Biological Assets	—	(205,042)
Decreases due to harvests or pickup, Biological Assets.	—	—
Total Biological Assets as of December 31, 2009	10,368,684	52,529,942
Biological Assets, gross at beginning of period	—	68,105,195
Biological Assets, accumulated amortization and impairment at beginning of the period	—	(15,575,253)

a) Biological Assets Pledged as Guarantee

The grapevines of Viña Concha y Toro S.A. and subsidiaries, either in production stage or in growing stage, are not subjet any restrictions, nor have they been constituted as guarantees of financial liabilities.

b) Government Subsidies Related to the Agricultural Activity

Government subsidies have been received as of December 31, 2010 which amounted to Th$69,845.

c) Commitments to Develop or Acquire Biological Assets

As of December 31, 2010, there are no commitments to develop or acquire biological assets.

d) Distribution of Hectares as of December 31, 2010 (Unaudited):

	Vineyards in Production	Vineyards in Development	Total Planted Vineyards	Land in Turnover	Fruit Trees	Total Agricultural Area
Limarí	556	340	896	451	113	1,460
Casablanca	384	32	415	11	—	426
Leyda	130	—	130	—	—	130
Maipo	892	82	974	22	—	997
Cachapoal	1,054	252	1,306	462	60	1,828
Colchagua	1,327	430	1,757	13	—	1,770
Curicó	466	200	666	45	—	711
Maule	1,812	489	2,300	247	—	2,547
Total Chile	6,621	1,824	8,445	1,251	173	9,870
Argentina						
Mendoza	901	167	1,068	142	—	1,210
Total Holding	7,522	1,992	9,513	1,392	173	11,079

Distribution of Hectares as of December 31, 2009 (Unaudited):

	Vineyards in Production	Vineyards in Development	Total Planted Vineyards	Land in Turnover	Fruit Trees	Total Agricultural Area
Limarí	548	325	873	430	113	1,416
Casablanca	388	27	415	12	—	427
Leyda	—	130	130	—	—	130
Maipo	945	59	1,004	2	—	1,006
Cachapoal	800	476	1,276	539	71	1,886
Colchagua	1,323	273	1,596	67	—	1,663
Curicó	505	237	742	77	—	819
Maule	1,757	446	2,203	193	—	2,396
Total Chile	6,267	1,973	8,239	1,319	185	9,744
Argentina						
Mendoza	780	281	1,061	151	—	1,212
Total Holding	7,047	2,254	9,300	1,470	185	10,956

The total vines planted include certain long-term leases that the Company has in Valle de Casablanca, del Maipo, and Colchagua.

The total agricultural area does not include the Company's land which are not usable for plantations as hills, roads, etc.

Non-Current Assets—Crops and Nurseries

2.213

REA Vipingo Plantations Limited (Sep 2010)

COMPANY STATEMENT OF FINANCIAL POSITION (in part)

As at 30 September 2010

	Notes	2010 Shs'000	2009 Shs'000
Assets			
Non-current assets			
Property, plant and equipment	13	74,337	123,741
Biological assets	14	41,502	49,446
Prepaid operating lease rentals	15	62,218	17,288
Investment in subsidiaries	16	571,458	575,415
Deferred tax asset	23	53,054	39,495
		802,569	805,385

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Accounting Policies (in part)

Biological Assets

Biological assets are measured on initial recognition and at the end of each reporting period at fair value less estimated selling costs. Gains and losses arising on the initial recognition of biological assets and from subsequent changes in fair value less estimated selling costs are recognised in profit or loss in the accounting period in which they arise.

All costs of planting, upkeep and maintenance of biological assets are recognised in profit or loss in the accounting period in which they are incurred.

3. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (in part)

(b) Key Sources of Estimation Uncertainty (in part)

Biological Assets

In determining the fair value of biological assets, the group uses the present value of expected cash flows from the asset discounted at a current market determined pre tax rate. The objective of a calculation of the present value of expected net cash flows is to determine the fair value of a biological asset in its present location and condition. The group considers this in determining an appropriate discount rate to be used and in estimating net cash flows. Management uses estimates based on historical data relating to yields and market prices. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed to reduce any differences between estimates and actual experience. The significant assumptions are set out in note 14.

14. Biological Assets (in part)

Group	Sisal Plants and Nurseries Shs'000	Horticultural Crops Shs'000	Total Shs'000
At 1 October 2008			
Mature crops	201,203	—	201,203
Immature crops	126,533	—	126,533
	327,736	—	327,736
Gain arising from changes in fair value attributable to physical changes	2,243	—	2,243
Gain arising from changes in fair value attributable to price changes	60,643	—	60,643
Gain arising from changes in fair value attributable to changes in exchange rate	26,136	—	26,136
Net fair value gain	89,022	—	89,022
Translation adjustment	(15,376)	—	(15,376)
	401,382	—	401,382
At 30 September 2009			
Mature crops	294,441	—	294,441
Immature crops	106,941	—	106,941
	401,382	—	401,382

Group	Sisal Plants and Nurseries Shs'000	Horticultural Crops Shs'000	Total Shs'000
At 1 October 2009			
Mature crops	294,441	—	294,441
Immature crops	106,941	—	106,941
	401,382	—	401,382
Purchases	25,065	—	25,065
(Loss)/gain arising from changes in fair value attributable to physical changes	(75,334)	2,522	(72,812)
(Loss) arising from changes in fair value attributable to price changes	(9,622)	—	(9,622)
Gain arising from changes in fair value attributable to changes in exchange and discount rates	85,259	—	85,259
Net fair value gain	303	2,522	2,825
Translation adjustment	(11,823)	—	(11,823)
	414,927	2,522	417,449
At 30 September 2010			
Mature crops	317,642	1,651	319,293
Immature crops	97,285	871	98,156
	414,927	2,522	417,449

Short-term horticultural crops at the year end comprised of baby corn, fine beans and chillies. Baby corn and fine beans are harvested after a period of approximately 12 to 14 weeks. Chillies have three harvesting cycles of approximately 8 weeks each over the lifespan of the plant of approximately 48 weeks.

Significant assumptions made in determining the fair value of biological assets are:

- Sisal plants will have an average productive life of 8 years.
- Future production and sales estimates are based on budgets approved by the directors and which are reviewed and amended on a regular basis to reflect changes in operational and market conditions.
- The expected market price of sisal fibre will remain constant based on the average price and exchange rates realised over a number of years.
- Current market prices are used to determine the fair value of short-term crop.
- A discount rate of between 14% per annum in Kenya (2009: 15%) and 15% per annum in Tanzania (2009: 20%) is applied to the anticipated net cash flows arising from the asset. The costs of production and selling costs used in the calculation of future cash flows are based on the latest budgeted costs approved by the directors. Assumed annual rates of inflation of 5% and 7.5% for Kenya and Tanzania respectively have been incorporated for periods beyond the initial budget period of one year.
- Based on the biological transformation which sisal plants undergo, 42% of fair value is assigned to the regeneration of sisal leaf.
- Costs incurred on new plantations in the year approximate to their fair value.

Non-Current Assets—Timber

2.214

Brookfield Asset Management, Inc. (Dec 2010)

Author's Note

Brookfield Asset Management implemented IFRSs effective December 31, 2010, with a date of transition of January 1, 2009. The excerpt that follows reflects the initial application of IAS 41.

CONSOLIDATED BALANCE SHEETS (in part)

(Millions)	Note	Dec. 31, 2010	Dec. 31, 2009[1]	Jan. 1, 2009[1]
Assets				
Cash and cash equivalents		$ 1,713	$ 1,309	$ 1,169
Other financial assets	5	4,419	5,146	4,506
Accounts receivable and other	6	7,869	4,709	3,803
Inventory	7	5,849	5,560	4,752
Investments	8	6,629	4,466	4,646
Property, plant and equipment	9	18,148	16,723	15,597
Investment properties	10	22,163	19,219	16,719
Timber	11	3,206	2,968	2,839
Intangible assets	12	3,805	1,048	619
Goodwill	13	2,546	2,363	1,992
Deferred income tax asset	14	1,784	1,454	984
		$ 78,131	$ 64,965	$ 57,626

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Significant Accounting Policies (in part)

(f) Operating Assets (in part)

(iii) Timber

Standing timber is measured at fair value after deducting estimated selling costs and is recorded as Timber on the Consolidated Balance Sheets. Estimated selling costs include commissions, levies, delivery costs, transfer taxes and duties. The fair value of standing timber is calculated as the present value of anticipated future cash flows for standing timber before tax. Fair value is determined based on existing, sustainable felling plans and assessments regarding growth, timber prices and felling and silviculture costs. Changes in fair value are recorded in net income in the period of change. The company determines fair value using external valuations on an annual basis.

Harvested timber is included in inventory and is measured at the lower of fair value less estimated costs to sell at the time of harvest and net realizable value.

Land under standing timber is accounted for using the revaluation method and included in property, plant and equipment.

(p) Critical Judgements and Estimates (in part)

(iii) Timber

The fair value of timber is based on the following critical estimates and assumptions: the timing of forecasted revenues and timber prices; estimated selling costs; sustainable felling plans; growth assumptions; silviculture costs; discount rates; terminal capitalization rates; and terminal valuation dates. Further information on estimates used for timber is provided in Note 11.

11. Timber

(Millions)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Timber	$2,807	$2,610	$2,604
Other agricultural assets	399	358	235
Total	$3,206	$2,968	$2,839

The company held 1,447 million acres of consumable freehold timber at December 31, 2010 (December 31, 2009—1,445 million), of which approximately 854 million (December 31, 2009—855 million) acres were classified as mature and available for harvest.

The following table presents the change in the balance of standing timber within the company's timber business:

(Millions)	2010	2009
Balance at beginning of year	$2,610	$2,604
Additions	52	—
Fair value adjustments	282	54
Decrease due to harvest	(139)	(88)
Foreign currency changes	2	40
Balance at end of year	$2,807	$2,610

The carrying values are based on external appraisals that are completed annually. Key valuation assumptions include a weighted average discount and terminal capitalization rate of 6.6% (2009—6.5%) and an average terminal valuation date of 75 years. Timber prices were based on a combination of forward prices available in the market and the price forecasts of each appraisal firm.

IAS 17, *LEASES*

Author's Note

In July 2008, the IASB added the project on lease accounting to its agenda as part of its overall convergence activities with the FASB. In March 2009, the boards jointly published a discussion paper, *Leases: Preliminary Views,* with a comment deadline of July 2009. In August 2010, the boards jointly published an exposure draft on accounting for leases proposing a "right of use" approach that both lessees and lessors would apply. This approach would require in entities to recognize all leases in the statement of financial position and, therefore, provide consistent, more complete, and useful information to the users of financial statements. The comment period on the exposure draft ending December 2011. The boards began to redeliberate these proposals in January 2011 and has conducted extensive outreach programs during and after the comment period.

Some of the IASB's decisions with respect to the scope of the leasing standard are the following:

- The boards unanimously agreed that the following assets would be within the scope of the new standard:
  - —right-of-use assets in a sublease
  - —leases of non-core assets
  - —long-term leases of land
- The boards unanimously agreed on the following scope exclusions:
  - —Leases for the right to explore for or use minerals, oil, natural gas and similar nonregenerative resources
  - —Leases of biological assets (IFRSs)
  - —Leases of service concession arrangements within the scope of IFRIC 12 *Service Concession Arrangements*
  - —The boards tentatively agreed to add leases of intangibles to the scope exclusions.

In June 2011, the IASB staff published a document showing how the board's tentative decisions to date would affect the proposals in the exposure draft. This document is available on the IASB's website.

In July 2011, the IASB and FASB announced that their tentative decisions to date were sufficiently different from the proposals in the exposure draft to warrant reexposure of revised proposals. Consequently, they would aim to complete their redeliberations in the third quarter of 2011 and publish the revised proposals shortly thereafter.

Author's Note

In IFRSs, the term *finance lease* has the same meaning as *capital lease* in FASB ASC. Both terms identify a lease that transfers substantially all significant risks and rewards of ownership of an asset to the lessee. The term *finance lease* is used in the paragraphs that follow when discussing accounting under IFRSs, and the term *capital lease* is used when discussing accounting under U.S. GAAP. Similarly, the term *finance cost or expense* is interchangeable with *interest cost or expense*. IFRSs use both terms.

IFRSs Overview and Comparison to U.S. GAAP

2.215 A *lease*, as defined in IAS 17, *Leases*, is an agreement whereby the lessor conveys to the lessee the right to use an asset for an agreed period of time in return for a payment or series of payments. IAS 17 identifies two types of leases: finance and operating. A finance lease transfers substantially all significant risks and rewards incidental to ownership of the asset to the lessee, although the lessor may or may not eventually transfer title to the lessee. All other leases are considered operating leases.

2.216 IAS 17 establishes the accounting and disclosure requirements for leases for both the lessor and lessee. These recognition and disclosure requirements apply to all leases, except those to explore for and use nonregenerative resources (for example, minerals, oil, and gas) and licensing arrangements for films, video recordings, plays, manuscripts, copyrights, and patents. IAS 17 measurement requirements also apply to all lessees and lessors, except the following:

- Lessees who hold property classified as investment property or lessors who provide investment property under operating leases should account for the investment property in accordance with IAS 40.
- Lessees who hold biological assets under finance leases and lessors who provide biological assets under finance leases should account for the biological assets in accordance with IAS 41.

Although IAS 17 excludes biological assets from the measurement principles of IAS 17, the recognition and disclosure requirements of IAS 17 still apply.

2.217 IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, establishes criteria that an entity should apply when evaluating whether an arrangement that does not take the legal form of a lease is in substance a lease and should be, in whole or in part, accounted for in accordance with IAS 17.

IFRIC 4 identifies two criteria that indicate an arrangement contains a lease: fulfillment of the arrangement depends on the use of one or more specific assets and the arrangement conveys a right of use.

Recognition and Measurement

IFRSs

2.218 IAS 17 requires both lessors and lessees to classify lease arrangements as finance leases or operating leases. When the arrangement transfers substantially all risks and rewards incidental to ownership of the asset, an entity should classify the lease as a finance lease. Otherwise, an entity should classify the lease as an operating lease. Whether the lease is a finance lease should depend on the substance of the arrangement. IAS 17 provides both examples and indicators of circumstances that could lead to classification as a finance lease. However, the standard also states that the identified indicators are not conclusive, and if it is clear from other features of the lease that the risks and rewards of ownership are not borne by the lessee, the lessee should classify the lease as an operating lease. Lessors and lessees should classify leases in the same way.

2.219 IAS 17 provides the following examples of situations that, when considered separately or combined, would normally lead to classifying the lease as a finance lease:

- Agreement transfers ownership of the asset to the lessee at the end of the lease term
- Lessee has a bargain purchase option to acquire the asset at an amount sufficiently below its fair value that the option's exercise is reasonably certain.
- Lease term is for a major part of the economic life of the asset, even if title is not transferred.
- Present value of the minimum lease payments amounts to at least substantially all of the asset's fair value at the inception of the lease.
- Assets are of such specialized nature that only the lessee can use the assets without major modifications.

2.220 Indicators that the agreement is a finance lease include agreements in which the lessors' losses are borne by the lessee if the lease is cancelled, gains or losses from changes in the fair value of the residual value accrue to the lessee, and the lessee has the ability to renew the lease for a second term at a price substantially below market.

2.221 When a lease is classified as a finance lease, a lessee should recognize a leased asset and a corresponding lease liability at the inception of the lease, measured at the lower of the fair value of the leased asset or the present value of the minimum lease payments. In determining present value, a lessee should use the discount rate implicit in the lease, or when the implicit rate is impracticable to determine, the lessee should use its incremental borrowing rate. The lessee should include incremental direct costs in the cost of the asset.

2.222 Subsequently, a lessee should allocate the minimum lease payments to finance cost (interest expense) and a reduction of the liability using the effective interest method. Lessees should charge any contingent rents to expense in the period they are incurred.

2.223 Lessees should recognize depreciation expense on the leased asset and select an accounting policy consistent with its policy for similar owned assets. An entity should calculate depreciation expense in accordance with IAS 16 or IAS 38, as appropriate. Unless it is reasonably certain that it will obtain ownership by the end of the lease term, a lessee should depreciate the asset fully by the shorter of the lease term or the asset's useful life.

2.224 A lessee recognizes operating lease payments as an expense in profit or loss on a straight-line basis over the lease term, unless another systematic method is more representative of the pattern of benefits received, even when the amounts of the payments and the expense differ.

2.225 A lessor should recognize and present assets held by the lessee under finance leases as receivables in the balance sheet, measured at an amount equal to the net investment in the lease. A lessor should recognize finance income in profit or loss using the effective interest method. A lessor should exclude initial direct costs from the carrying value of the receivable and expense these costs when the profit on sale is recognized, normally at the beginning of the lease term.

2.226 A manufacturer or dealer lessor should recognize the seller's profit or loss in the period, in accordance with its policy for regular sales. If artificially low rates of interest are quoted, IAS 17 restricts the amount of selling profit to an amount that would apply if normal market interest rates are charged. The lessor should expense the costs of negotiating and arranging the lease at the same time as the related profit or loss is recognized.

2.227 In its balance sheet, a lessor should present assets held by lessees under operating leases by their nature. Generally, lessors should recognize lease income on a straight-line basis over the lease term.

2.228 The timing of income recognition by the lessor on a sale and leaseback depends on whether the transaction results in a finance or operating lease. Only when the transaction results in an operating lease and it is clear that the transaction is at fair value should the lessor recognize income immediately. When a sale and leaseback transaction results in a finance lease, IAS 41 establishes criteria for the timing and amount of gain or loss recognition.

U.S. GAAP

2.229 The FASB ASC glossary defines a *lease* as an agreement conveying the right to use PPE (land or depreciable assets, or both), usually for a stated period of time. In contrast, IAS 17 does not restrict to PPE the type of asset that can be the subject of a lease. Both IFRSs and FASB ASC 840 have specific scope exclusions, some of which are the same or produce similar results. For example, FASB ASC 840-10-15-15 excludes lease agreements concerning the rights to explore for or exploit natural resources, such as oil, gas, minerals, precious metals, timber, or other natural resources. Similarly, IFRSs also exclude nonregenerative resources (oil, gas, and minerals). In addition, both IFRSs and FASB ASC 840-10-15-15 exclude licensing agreements for items such as motion picture films, plays, manuscripts, patents, and copyrights.

2.230 Paragraphs 6–15 of FASB ASC 840-10-15 provide more guidance than IFRSs for determining whether the arrangement does or does not qualify as a lease (that is, conveys the right to control the use of the underlying PPE). For example, FASB ASC 840-10-15-10 excludes contracts for services that do not transfer the right to use PPE. This paragraph also states that even when an arrangement identifies a specific

item of PPE, an entity should not consider the arrangement a lease unless fulfillment is dependent on the use of that specific item of PPE. This constraint would exclude most arrangements that call for delivery of an asset with quoted market prices available in an active market because these arrangements are generally not dependent on using specific PPE. However, contractual provisions that permit the lessor to substitute other PPE on or after a specified date do not preclude application of lease accounting before substitution occurs.

2.231 Like IFRSs, FASB ASC 840-10-15-9 includes agreements that, although not nominally identified as leases, meet the definition of a *lease* and, therefore, are within the scope of the lease standards.

2.232 Like IFRSs, FASB ASC 840-10-15-3 explains that in determining whether to apply the lease accounting requirements of FASB ASC 840, lessors and lessees should evaluate, at the inception of an arrangement based on the facts and circumstances, whether that arrangement contains a lease. Both IFRSs and FASB ASC include criteria for reassessment after inception.

2.233 Like IFRSs, in accordance with paragraphs 16–19 of FASB ASC 840-10-15, lessors and lessees should evaluate arrangements consisting of separate contracts with the same entity or related parties entered into at or near the same time. FASB ASC presumes that the entity negotiated such arrangements as a package. FASB ASC refers to these arrangements as *multiple element arrangements*. If an arrangement has both lease and nonlease elements, both the lessor and lessee must apply the lease accounting requirements of FASB ASC 840 to that lease.

2.234 Like IFRSs, FASB ASC 840-10-5-2 requires the lessee and lessor to classify a lease as either capital or operating. FASB ASC 840-10-25-1 has specific criteria, similar to those in IFRSs, which an entity should apply in evaluating whether the lease should be accounted for as a capital lease. FASB ASC 840-10-25-29 states that when any one of the four criteria is met, both the lessor and lessee should classify the lease as a capital lease. As described in paragraphs 42–43 of FASB ASC 840-10-25, the lessor should consider all four lease classification criteria and two additional incremental criteria when classifying the lease. However, only the following two criteria are identical to those in IAS 17:

- The lease transfers ownership of the property to the lessee by the end of the lease term.
- The lease contains a bargain purchase option.

In addition, unlike IFRSs, FASB ASC does not address leased assets of a specialized nature.

2.235 Although the concepts underlying the remaining two criteria for capital lease classification are the same in both standards, FASB ASC 840-10-25-1 has explicit quantitative thresholds to be assessed at the inception of the lease and IFRSs do not. These thresholds are the following:

- Lease term is equal to 75 percent or more of the estimated economic life of the leased property.
- Present value of the minimum lease payments, excluding executory costs (including any profit thereon), equals or exceeds 90 percent of the excess of the fair value of the leased property to the lessor at lease inception over any related investment tax credit retained by the lessor.

Neither of these criteria should be applied if the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property.

2.236 Paragraphs 2–27 of FASB ASC 840-10-25 also include specific criteria and guidance for the following issues: fiscal funding clauses, minimum lease payments criterion, guarantees and indemnifications, obligations to retire the leased asset, classification of leases involving real estate or between related parties, and classification of a lease acquired in a business combination.

2.237 Like IFRSs, in accordance with paragraphs 1–4 of FASB ASC 840-30-30, at the inception of a lease classified as a capital lease, lessees should recognize a leased asset and a corresponding lease liability measured at the lower of the present value of the minimum lease payments and the fair value of the asset. FASB ASC 840-10-25 includes more guidance on the payments that should be included in the present value calculation than IAS 17. Both GAAPs establish guidance requiring the calculation to include initial direct costs and exclude indirect (IFRSs) or executory (FASB ASC) costs.

2.238 Both IFRSs and FASB ASC 840 specify the discount rate to be used in the present value calculation. IFRSs specify use of the lessor's implicit interest rate, unless impracticable to determine; otherwise, the lessee's incremental borrowing rate should be used. FASB ASC 840-10-25-31 imposes an additional constraint that the lessee should use the lower of its incremental borrowing rate and the implicit rate, when the latter is known to the lessee.

2.239 Like IFRSs, FASB ASC 840-20-35-3 requires recognized leased assets to be depreciated using the same accounting policy used for owned assets. FASB ASC 840 includes guidance for, and IFRSs do not address, determining residual value when there is a guaranteed residual value and the lessee is entitled to its appreciation.

2.240 In accordance with FASB ASC 840-20-25-1, a lessee should normally recognize operating lease payments as expense on a straight-line basis. However, a lessee is permitted to use another systematic and rational basis if it is more representative of the benefits derived from use.

2.241 Accounting for capital leases by the lessor is more complex under FASB ASC 840 than IFRSs. Lessors should classify leases that do not meet any of the four criteria previously mentioned as operating leases. Although a lessee need only meet one of the four criteria mentioned in FASB 840-10-25-1 for capital lease classification, paragraphs 42–43 of FASB ASC 840-10-25 require the lessor to meet two additional criteria to determine whether it should classify the capital lease as a sales type, direct financing, or leveraged lease. These lessor criteria are the following:

- The lessor can reasonably predict collectability of the minimum lease payments (that is, can estimate uncollectable accounts).
- No important uncertainties surround the amount of unreimbursable costs yet to be incurred by the lessor under the lease.

If the lessor meets both of these additional criteria, FASB ASC 840-10-25-43 provides additional guidance for selecting among the lessor capital lease classifications. The specific lessor classification determines whether a sale or financing transaction has occurred and the timing and amounts of revenue and gains (losses) from sales. Otherwise, FASB ASC 840-10-25-43(d) explains that the lessor should classify the lease as an operating lease. Therefore, under FASB ASC

840, unlike IFRSs, a lessor and lessee may have different classifications for the same lease.

Presentation

IFRSs

2.242 IAS 1 does not require an entity to present leased assets, lease liabilities, or related revenues or expenses as separate line items in the relevant financial statement. However, lessees and lessors should apply the other requirements of IAS 1 (for example, classify amounts as current or noncurrent on the balance sheet). An entity should also present additional line items, headings, and subtotals when they are relevant to an understanding of the entity's financial position.

U.S. GAAP

2.243 Paragraphs 1–2 of FASB ASC 840-30-45 require lessees to separately identify assets held under capital leases and the related accumulated depreciation and obligations under capital leases within the balance sheet or footnotes. FASB ASC further states that capital lease obligations are subject to the same considerations as other obligations in classifying them with current and noncurrent liabilities.

2.244 Paragraphs 2–3 of FASB 840-20-45 require lessors to include leased property classified as an operating lease within or near PPE in the balance sheet and to deduct accumulated depreciation from their investment in the property. FASB ASC 840-30-45-4 states that, in sales-type and direct financing leases, lessors should present lease receivables at the net investment in the lease and allocate these receivables, utilizing the same considerations as other assets, between current and noncurrent classifications when preparing a classified balance sheet. FASB ASC 840-30-45-5 states that in a leveraged lease, lessors should present deferred taxes related to the investment separately from the remainder of the net investment.

Disclosure

IFRSs

2.245 Whether leases are classified as finance or operating, IAS 17 requires a lessee to disclose a general description of the lessee's material leasing arrangements, including the basis for contingent rent payments, the existence and terms of renewal or purchase options or escalation clauses, and any restrictions imposed by the leasing arrangements (for example, restrictions on dividends, additional debts, or further leasing).

2.246 For finance leases, in addition to disclosures required by IFRS 7, *Financial Instruments: Disclosures*, a lessee should disclose the following:

- Net carrying amount at the end of the reporting period by class of asset
- Reconciliation of the total and present value of future minimum lease payments at the end of the reporting period and for each of the following periods: not later than one year, later than one year but not later than five years, and later than five years
- Contingent rents recognized as expense
- Total future minimum sublease payments expected to be received under noncancellable leases at the end of the reporting period

2.247 Depending on the nature of the leased asset, IAS 17 explains that lessees should disclose all information required by the related standard for owned assets (for example, IAS 16 for a leased building).

2.248 For operating leases, a lessee should disclose the following:

- Total future minimum lease payments at the end of the reporting period and for each of the following periods: not later than one year, later than one year but not later than five years, and later than five years
- Total future minimum sublease payments expected to be received under noncancellable leases at the end of the reporting period
- Lease and sublease payment recognized as expense during the period, separately reporting minimum lease payments, sublease payments, and contingent rents

2.249 All lessors, in addition to providing required IFRS 7 disclosures, should disclose a general description of material leasing arrangements and contingent rents recognized as income. Lessors recognizing receivables in respect of a finance lease should disclose a reconciliation of gross investment in the lease and the present value of the future minimum lease payments receivable (similar to that required for lessees), unearned finance income, the amounts of unguaranteed residual values accruing to the lessor, and the amount of the accumulated allowance for uncollectible receivables. Lessors with assets held by lessees under operating leases should disclose the future minimum lease payments for the same periods as the lessee.

2.250 IAS 17 requires the same disclosures for lessees and lessors in sale and leaseback transactions. Sale and leasebacks may require separate disclosure under IAS 1.

U.S. GAAP

2.251 Unlike IFRSs, FASB ASC 840 does not address whether entities should also provide any additional disclosures required by FASB ASC about financial instruments for any recognized lease receivables.

2.252 Like IFRSs, paragraphs 2–3 of FASB ASC 840-10-50 require a lessee to disclose, either in the financial statements or notes, a description of its leasing arrangements, including, but not limited to, the basis on which contingent rental payments are determined; the existence and terms of renewal and purchase options and escalation clauses; and restrictions imposed by lease agreements, such as those on dividend payments, additional debt, and further leasing. FASB ASC 460, *Guarantees,* also requires disclosures about guarantees.

2.253 FASB ASC 840-30-50-1 states that lessees should disclose the gross carrying amount of assets recorded under capital leases separately either on the balance sheet or in the notes. Lessees should separately report related lease liabilities on the balance sheet. FASB ASC 840-30-45-3 explains that depreciation expense on leased assets is not required to be shown separately, but if it is not included with other depreciation and amortization expense, the charge should be disclosed either on the face of the income statement or in the notes.

2.254 Like IFRSs, FASB ASC 840-30-50-1 requires lessees to disclose the following, either in the financial statements or notes:

- Gross amount of assets held under capital leases by major classes (according to nature or function), which may be combined with the comparable information for owned assets
- Future minimum lease payments as of the date of the current balance sheet both in the aggregate and for each of the five succeeding fiscal years
- Contingent rent expense incurred for each period for which an income statement is presented

FASB ASC 840-30-50-1 also requires lessees to disclose separately deductions for executory costs included in the minimum lease payments, imputed interest, and total future minimum lease payments from noncancelable subleases.

2.255 In accordance with paragraphs 4–5 of FASB ASC 840-10-50, exclusive of leveraged leasing, lessors should disclose a description of their leasing arrangements when leasing is a significant portion of their business activities. Lessors should also disclose their accounting policy for contingent rental income. If a lessor accrues contingent rental income before the lessee's achievement of the specified target (provided that achievement of that target is probable), lessors should disclose the impact on rental income.

2.256 For leases classified as operating, FASB ASC 840-20-50-4 requires lessors to provide disclosures similar to IFRSs. Lessors should disclose the following:

- Cost and carrying amount, if different, of property on lease or held for leasing by major classes of property according to nature or function and the total amount of accumulated depreciation as of the current balance sheet date
- Minimum future lease payments on noncancelable leases as of the balance sheet date, both in the aggregate and for each of the five succeeding fiscal years
- Total contingent rents included in income for each period presented

2.257 Unlike IFRSs, FASB ASC 840-30-50-4 requires specific disclosures by lessors for sales-type and direct financing leases, including the components of the net investment in the lease, minimum lease payments, and contingent rents. Paragraphs 5–6 of FASB ASC 840-30-50 require disclosure by lessors of the net investment in leveraged leases when such leasing is a significant part of the lessor's business activities.

2.258 With respect to sale and leaseback transactions, FASB ASC 840-40-50-1 requires similar disclosures to IAS 17 for the seller-lessee to describe the contract terms, including future commitments, obligations, provisions, or other circumstances that would require its continuing involvement. These disclosures are in addition to general lease disclosures addressed in FASB ASC 840-10-50, as well as disclosure requirements addressed under real estate sales in FASB ASC 360-20-50.

Presentation and Disclosure Excerpts

Author's Note

See paragraphs 3.240–.241 in section 3 for excerpts of disclosures required by lessees holding assets under operating leases.

Lessee—Operating and Finance Leases

2.259

Copa Holdings, S.A. (Dec 2010)

Author's Note

Copa Holdings, S.A. implemented IFRSs effective December 31, 2010, with a date of transition of January 1, 2009. The excerpt that follows reflects the initial application of IAS 17.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (in part)

(In US$ thousands)

	Notes	As of December 31, 2010	As of December 31, 2009	As of January 1, 2009
Assets				
Property, plant and equipment:				
Flight equipment	11	1,782,070	1,451,312	1,375,042
Other		59,426	45,126	41,415
		1,841,496	1,496,438	1,416,457
Less: Accumulated depreciation	11	(274,940)	(214,963)	(168,802)
		1,566,556	1,281,475	1,247,655
Purchase deposits for flight equipment	12	205,972	198,697	84,861
Total property and equipment		1,772,528	1,480,172	1,332,516

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Summary of Significant Accounting Policies (in part)

2.4 Significant Accounting Judgments, Estimates and Assumptions (in part)

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, at the reporting date. Actual results could differ from those estimates. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the related asset or liability in the future.

a) Judgments

In the process of applying the Company's accounting policies, management has made judgment, apart from those involving estimations. The judgments that have the most significant effect on the amounts recognized in the consolidated financial statements are operating lease commitments.

The Company has entered into lease contracts on the aircraft it operates. The Company has determined, based on the terms and conditions of the arrangements, that all the significant risks and rewards of ownership of the aircraft it operates are not transferred, so it accounts for the contracts as operating leases.

2.10 Property, Plant and Equipment

Property, plant and equipment comprise mainly airframe, engines and other related flight equipments. All property, plant and equipment is shown at cost, less subsequent depreciation and impairment, if any. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance expenditures are charged to the statement of income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life as follows:

• Airframe and engines	30 years
• Aircraft components	30 years
• Ground equipment	10 years
• Furniture, fixture, equipment and other	5 to 10 years
• Major maintenance events	1 to 8 years
• Leasehold improvements	lesser of remaining lease term or useful life

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The carrying value of equipment and leasehold improvements are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are included in the income statement.

2.13 Maintenance Deposit

Under lease agreement with aircraft lessors, Copa pays maintenance deposits, for two aircrafts, to lessors to be applied to future maintenance event costs, calculated based on a performance measure, such as flight hours, and are specifically to be used to reimburse 3rd-party maintenance providers. If amounts on deposit are insufficient, Copa must cover the shortfall since Copa is legally responsible for maintaining the leased aircraft. If there are excess amounts on deposit at expiration of the lease, the lessor is entitled to retain any excess amounts. Maintenance deposits paid under lease agreements do not transfer either the obligation to maintain the aircraft or cost risk associated with maintenance activities to lessors.

The Company also makes payments for engine overhauls under power by the hour agreements ("PBH"). Payments related to engine overhauls under PBH agreements as well as the maintenance deposits under aircraft leases are capitalized as prepaid assets until the maintenance event occurs and are then amortized over the expected period until the next event. Management performs regular reviews of the recovery of maintenance deposits and believes that the values reflected in the consolidated statement of financial position are recoverable.

2.16 Provisions

For certain operating leases, the Company is contractually obliged to return aircraft in a defined condition. The Company accrues for restitution costs related to aircraft held under operating leases at the time the asset does not meet the return conditions criteria and throughout the remaining duration of the lease. Provisions for costs, including restitution, restructuring and legal claims and assessments are recognized when:

- The Company has a present legal or constructive obligation as a result of past events;
- It is more likely than not that an outflow of resources will be required to settle the obligation; and
- The amount has been reliably estimated.

2.20 Leases

Leases where lessor effectively retains substantially all the risks and benefits of ownership of the leased item, are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term.

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the agreement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement. A reassessment is made after inception of the lease only if one of the following applies:

- There is a change in contractual terms, other than a renewal or extension of the arrangement;

- A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- There is a change in the determination of whether fulfillment is dependent on a specified asset; or
- There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment. When a renewal option is exercised or extension granted, lease accounting shall commence or cease at the date of renewal or extension period.

10. Other Assets

Other assets as of December 31, 2010, December 31, 2009 and January 1, 2009, are summarized as follows:

	As of December 31, 2010	As of December 31, 2009	As of January 1, 2009
Guaranty deposits	$ 11,130	$12,149	$10,016
Deposits for litigation	16,347	12,291	6,679
Maintenance deposits	69,475	63,036	48,051
Other assets	8,813	10,855	9,204
	$105,765	$98,331	$73,950

Guaranty deposits are amounts paid to fuel suppliers and lessors of monthly lease payments, as required at the inception of the agreements.

Deposit for litigation is paid into escrow account until the related dispute is settled. (see note 25)

Maintenance deposits mainly refer to payments made by the Company for overhaul covered by power by the hour arrangements to be used in future engines maintenance events, and for payments to lessors to be applied to future maintenance events cost. Maintenance deposits paid do not transfer either obligation to maintain aircraft or cost risk associated with maintenance activities to lessors or providers.

11. Property, Plant and Equipment, Net (in part)

A summary of equipment and leasehold improvements as of December, 31 2010, are as follows:

	Aircraft Components	Ramp and Miscellaneous Flight Equipment	Airframe	Engines	Furniture, Fixtures, Equipment and Other	Leasehold Improvements	Construction in Progress	Total
At January 1, 2010, net of accumulated depreciation and amortization	$ 62,787	$ 8,009	$ 725,758	$463,697	$ 4,851	$ 8,296	$ 8,077	$1,281,475
Additions	12,008	3,924	196,836	127,687	2,561	54	10,411	353,481
Reclassifications	25	(25)	—	—	—	2,170	(2,170)	0
Disposals	(331)	(389)	0	0	(488)	—	(7,215)	(8,423)
Disposals depreciation	54	397	—	—	351	—	—	802
Depreciation and amortization	(2,516)	(2,335)	(35,422)	(16,295)	(2,243)	(1,968)	—	(60,779)
At December 31, 2010, net of accumulated depreciation and amortization	$ 72,027	$ 9,581	$ 887,172	$575,089	$ 5,032	$ 8,552	$ 9,103	$1,566,556
At January 1, 2010								
At cost	$ 74,206	$23,746	$ 837,217	$522,507	$ 17,023	$13,662	$ 8,077	$1,496,438
Accumulated depreciation and amortization	(11,419)	(15,737)	(111,459)	(58,810)	(12,172)	(5,366)	—	(214,963)
Net carrying amount	$ 62,787	$ 8,009	$ 725,758	$463,697	$ 4,851	$ 8,296	$ 8,077	$1,281,475
At December 31, 2010								
At cost	$ 85,908	$27,256	$1,034,054	$650,194	$ 19,099	$15,882	$ 9,103	$1,841,496
Accumulated depreciation and amortization	(13,881)	(17,675)	(146,882)	(75,105)	(14,067)	(7,330)	—	(274,940)
Net carrying amount	$ 72,027	$ 9,581	$ 887,172	$575,089	$ 5,032	$ 8,552	$ 9,103	$1,566,556

20. Operating Leases

The Company leases the aircraft it operates and other assets under long-term lease arrangements. Other leased assets include real property, airport and terminal facilities, sales offices, maintenance facilities, training centers and general offices. Most contract leases include renewal options; a few have escalation clauses, but no purchase options. Non-aircraft related leases, primarily held with local governments, generally have renewable terms of one year. In certain cases, the rental payments during the renewal periods would be greater than the current payments. Because the lease renewals are not considered to be reasonably assured, the rental payments that would be due during the renewal periods are not included in the determination of rent expense until the leases are renewed. Leasehold improvements are amortized over the contractually committed lease term, which does not include the renewal periods.

At December 31, 2010, the scheduled future minimum lease rental payments required under aircraft and non-aircraft operating leases that have initial or remaining non-cancelable lease terms in excess of one year are as follows:

	Aircraft	Engines and Other
Up to one year	$ 55,231	$10,270
One to five years	204,761	19,147
Over five years	100,110	2,640
Total minimum lease rental payments	$360,102	$32,057

Total rent expense was $72.8 million and $61.7 million for the years ended December 31, 2010 and 2009, respectively.

Lessee and Lessor—Operating and Finance Leases, Lease Commitments

2.260

Millicom International Cellular S.A. (Dec 2010)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (in part)

As at December 31, 2010 and 2009

	Notes	2010 US$'000	2009 US$'000
Assets			
Non-current assets			
Intangible assets, net	15	2,282,845	1,044,837
Property, plant and equipment, net	16	2,767,667	2,710,641
Investments in associates	17	18,120	872
Pledged deposits	18, 26	49,963	53,333
Deferred taxation	13	23,959	19,930
Other non-current assets		17,754	7,965
Total non-current assets		5,160,308	3,837,578
Current assets			
Inventories		62,132	46,980
Trade receivables, net	19	253,258	224,708
Amounts due from joint venture partners		99,497	52,590
Prepayments and accrued income		89,477	65,064
Current income tax assets		10,748	17,275
Supplier advances for capital expenditure		36,189	49,165
Other current assets	20	72,205	58,159
Time deposit	21	3,106	50,061
Cash and cash equivalents	22	1,023,487	1,511,162
Total current assets		1,650,099	2,075,164
Assets held for sale	6	184,710	78,276
Total assets		6,995,117	5,991,018

(continued)

	Notes	2010 US$'000	2009 US$'000
Liabilities			
Non-current liabilities			
10% Senior Notes	26	—	454,477
Other debt and financing	26	1,796,572	1,458,423
Derivative financial instruments	33	18,250	—
Provisions and other non-current liabilities	27	79,767	88,142
Deferred taxation	13	195,919	66,492
Total non-current liabilities		2,090,508	2,067,534
Current liabilities			
Other debt and financing	26	555,464	433,987
Payables and accruals for capital expenditure	—	278,063	276,809
Other trade payables	—	202,707	194,691
Amounts due to joint venture partners	—	97,919	52,180
Accrued interest and other expenses	—	228,360	173,609
Current income tax liabilities	—	79,861	93,364
Dividend payable	28	—	134,747
Provisions and other current liabilities	27	242,457	210,385
Total current liabilities		1,684,831	1,569,772
Liabilities directly associated with assets held for sale	6	60,767	43,582
Total liabilities		3,836,106	3,680,888
Total equity and liabilities		6,995,117	5,991,018

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Summary of Consolidation and Accounting Policies (in part)

2.18 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Where a finance lease results from a sale and leaseback transaction, any excess of sales proceeds over the carrying amount of the assets is deferred and amortised over the lease term.

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets, or the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognized as expenses in the consolidated income statement on a straight-line basis over the lease term.

26. Borrowings (in part)

Borrowings comprised the following:

	2010 US$'000	2009 US$'000
Corporate debt:		
10% Senior Notes	—	454,477
Other debt and financing	2,352,036	1,892,410
Total borrowings	2,352,036	2,346,887

The following table provides details of net debt change for the years 2010, 2009 and 2008:

	2010 US$'000	2009 US$'000	2008 US$'000
Net debt at the beginning of the year	722,935	1,483,831	659,694
Cash items			
Proceeds from issuance of debt and other financing	1,147,585	627,872	1,206,607
Repayment of debt and other financing	(1,396,997)	(506,588)	(664,294)
Net (increase) decrease in cash and cash equivalents	487,675	(836,967)	500,402
(Purchase) disposal of time deposits	46,953	(50,061)	—
(Purchase) disposal of pledged deposits	2,462	(45,652)	4,027
Non-cash items			
Vendor financing and finance leases (see note 30)	90,779	45,399	48,632
Interest accretion	31,825	20,908	30,532
10% Senior Notes adjustment	—	—	(28,545)
Conversion of the 4% Convertible Notes	—	—	(176,247)
Debt acquired in acquisition of subsidiaries	—	25,962	3,387
Other	77,249	(95,637)	(19,469)
Exchange movement on debt and other financing	57,753	53,868	(80,895)
Net debt at the end of the year	1,268,219	722,935	1,483,831

(vi) Ghana

In December 2007 Millicom (Ghana) Limited, Millicom's operation in Ghana, entered into a $60 million local 5 year Facility. The loan bears interest at $ LIBOR plus 2%. In parallel a $80 million offshore 7 year DFI (Development Finance Institution) financing which bears interest at $ LIBOR plus 2.25% was arranged. As at December 31, 2010, $102 million (2009: $132 million) was outstanding under these facilities.

In December 2009 the operation entered into a 3.5 year $22 million Ericsson arranged financing with EKN and Nordea priced at $ LIBOR + 0.85% fully guaranteed by the Company. As at December 31, 2010, $15 million was outstanding under this facility (2009: $6 million).

In January 2010, the operation signed a sale and lease-back agreement with Helios Towers Ghana, a direct subsidiary of Helios Towers Africa, for most of its cell sites, to be transferred to Helios Towers in 2010 and 2011. As at December 31, 2010, $41 million was outstanding on the finance lease as part of the lease back agreement.

31. Commitments and Contingencies (in part)

Lease Commitments

Operating Leases:

The Group has the following annual operating lease commitments as of December 31, 2010 and 2009.

	2010 US$'000	2009 US$'000
Operating Lease Commitments		
Within: one year	63,375	66,223
Between: one to five years	235,195	226,289
After: five years	143,390	139,894
Total	441,960	432,406

Operating leases comprise mainly of lease agreements relating to land and buildings. The operating lease terms and conditions reflect normal market conditions. Total operating lease expense from continuing operations was $83 million in 2010 (2009: $73 million, 2008: $59 million—see note 10).

Finance Leases:

The Group's future minimum payments on finance leases were $120 million at December 31, 2010 and mainly comprised leased towers in Ghana under 12 year leases (see note 16). Other financial leases are not material and mainly consist of lease agreements relating to vehicles used by the Group.

The Group has the following tower finance lease liabilities as of December 31, 2010 and 2009.

	2010 US$'000	2009 US$'000
Finance Lease Commitments		
Within: one year	6,874	—
Between: one to five years	33,438	—
After: five years	79,430	—
Total	119,742	—

33. Financial Risk Management (in part)

Liquidity Risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group has incurred significant indebtedness but also has significant cash balances. Millicom evaluates its ability to meet its obligations on an ongoing basis using a recurring liquidity planning tool. This tool considers the operating net cash flows generated from its operations and the future cash needs for borrowing and interest payments and capital and operating expenditures required in maintaining and developing local business.

The Group manages its liquidity risk through use of bank overdrafts, bank loans, vendor financing, Export Credit Agencies and Direct Financial Institutions ("DFI") and finance leases. Millicom believes that there is sufficient liquidity

available in our markets to meet ongoing liquidity needs. Additionally, Millicom is able to arrange offshore funding through the use of Export Credit Agency guarantees and DFIs (IFC, PROPARCO, DEG and FMO), who have been established specifically to finance development in our markets. Millicom is diversifying its financing with commercial banks representing about 70% of its gross financing, Direct Financial Institutions 15%, suppliers 2% and partners 13%. The Group is therefore not dependent on a few sources of financing but is relying on various financing opportunities.

IAS 37

IFRSs Overview and Comparison to U.S. GAAP

2.261 IAS 37 establishes the accounting for most liabilities. A *provision*, as stated in IAS 37, is a liability of uncertain timing or amount. To be recognized as a provision, an obligation must meet the definition of a *liability* (that is, be a present obligation resulting from past transactions or events, settlement of which is probable, and resulting in an outflow of resources embodying economic benefits) and the entity should estimate the amount of the obligation reliably. In IAS 37, *probable* means more likely than not.

2.262 A *contingent liability* is defined as either a possible obligation only confirmed by the occurrence or nonoccurrence of a future event not wholly in the control of the entity or a present obligation that fails to meet either the probability or measurement reliability criteria. A *contingent asset* is a possible asset only confirmed by the occurrence or nonoccurrence of a future event not wholly in the control of the entity.

2.263 IAS 37 also establishes the accounting for onerous contracts and restructuring programs. An *onerous contract* is defined as a contract in which the unavoidable costs of fulfilling the contract terms exceed the expected benefits to be received. A *restructuring program* is a program planned and controlled by management that materially changes either the scope of an entity's business activities or the manner in which it conducts that business.

2.264 Provisions, contingent liabilities, and contingent assets resulting from executory contracts that are not onerous and those covered by another standard are excluded from the scope of IAS 37. Examples of provisions covered by another standard are deferred tax liabilities (IAS 12), postemployment benefits (IAS 19, *Employee Benefits*), construction contracts (IAS 11), and leases (see IAS 17, with the exception of operating leases that have become onerous).

2.265 IFRSs require an entity to recognize the cost of a decommissioning, environmental remediation, and similar liability as a liability in accordance with IAS 37 and to include this cost in the cost of the related asset.

2.266 Accounting and disclosure requirements for financial liabilities are covered in IAS 32, IAS 39, and IFRS 7.

Author's Note

As evidenced by the findings from a review of the survey companies, diversity in practice exists in the use of the term *provision*. Almost all survey companies used *provision* to refer not only to liabilities that meet the IAS 37 definition but also to such items as valuation allowances (for example, provision for estimated uncollectible receivables) and expenses (for example, provision for income taxes). The IASB recognizes this diversity in practice and, in response, addressed this issue in two exposure drafts, first in 2005 and the second in January 2010. Among other significant proposed changes, the exposure draft does not use *provision* as a defined term; instead, it proposes to use the term *nonfinancial liability*, which includes items previously described as provisions, as well as other liabilities. It would also clarify that IAS 37, except in specified cases, should be applied to all nonfinancial liabilities that are not within the scope of other standards. In November 2010, the IASB and FASB decided to amend the timetable for some projects that are important but less urgent than others to allow the boards to focus on the projects they aim to complete by 30 June, 2011. The project to revise IAS 37, now titled *Liabilities*, is one of the projects that the boards do not expect to readdress until late in 2011.

Recognition and Measurement

IFRSs

2.267 An entity should recognize a provision (liability) only when it has a present obligation, either legal or constructive, as a result of a past transaction or event, and the probability and measurement reliability recognition criteria are met. IAS 37 acknowledges that there may be rare cases when it is unclear whether a present obligation exists. In these cases, the entity should recognize a liability if, taking all of the evidence into account, the existence of a present obligation is more likely than not.

2.268 An entity should not recognize contingent liabilities or contingent assets. Once the relevant probability and measurement reliability recognition criteria are met, the asset or liability is no longer considered contingent.

2.269 In some circumstances (for example, warranty obligations), an entity should evaluate the probability recognition criterion with respect to a class of, rather than individual, obligations. IAS 37 states that the use of estimates is known to be an essential part of financial statement preparation; therefore, an entity's use of estimates does not invalidate measurement reliability. However, when an entity concludes that a liability should not be recognized, it should disclose the obligation as a contingent liability, unless the possibility of an outflow of resources is remote.

2.270 An entity should measure provisions at the best pretax estimate of the expenditure required to settle the liability at the balance sheet date, taking into account the risks and uncertainties incorporated into that estimate. When no

estimate in a range is better than another, an entity should use the midpoint in the range.

2.271 IAS 37 also requires an entity to calculate the present value of the liability when this would result in a material difference from the sum of the gross outflows. An entity should use a pretax interest rate(s) incorporating current market expectations of the time value of money and risks associated with this liability. An entity should adjust either future cash flows or the interest rate for a specific risk, but not both.

2.272 An entity should reflect the effects of expected events only when there is sufficient evidence that these events will occur. For example, an entity should only incorporate possible changes in legislation when it is virtually certain that the legislation will be passed. An entity should not include any expected gains from asset disposals in measuring a provision.

2.273 An entity should recognize a reimbursement as a separate asset, and not a reduction of the liability, only when receipt of the reimbursement is probable and the amount can be measured reliably. An entity should not measure a reimbursement for more than the amount of the related liability. However, on the statement of comprehensive income, an entity may show the expense related to the liability net of the reimbursement income. An entity should review its provisions at each balance sheet date and adjust them to its current best estimate of the settlement amount. When it is no longer probable that a settlement will occur, the entity should reverse the provision.

2.274 An entity should not use a provision for expenditures, other than those originally intended.

2.275 IAS 37 includes specific requirements for future operating losses and onerous contracts. An entity should not recognize a liability for future operating losses. When a contract becomes onerous, an entity should recognize a liability and measure it in accordance with this standard. However, before recognizing this liability, the entity should test any assets related to the contract for impairment and recognize an impairment loss when necessary.

2.276 IAS 37 requires an entity to satisfy additional criteria before recognizing provisions for a restructuring program. An entity should have a detailed formal plan, and the plan must include, at a minimum, the business concerned, affected locations, location, function, approximate number of employees to receive compensation under the plan, planned expenditures, and timing of implementation. The entity should also have created a valid expectation in the employees affected either by announcing the plan or starting implementation. An entity should not consider management or board decisions that occurred before the balance sheet date to be sufficient by themselves to create a constructive obligation and, therefore, should not recognize restructuring provisions under those circumstances.

2.277 Only when there is a binding sales agreement should an entity recognize a provision for the sale of an operation. In addition, an entity should recognize provisions only for direct expenditures required by the restructuring and not those connected to continuing operations. For example, an entity should not recognize provisions for retraining employees for other positions in the entity, for marketing, or for acquisition or development of new systems or technology.

U.S. GAAP

2.278 Unlike IFRSs, FASB ASC does not consolidate its guidance on accounting for a wide variety of liabilities in one topic. Recognition, measurement, and disclosure requirements are dispersed across many topics. In addition, unlike IFRSs, FASB ASC provides transaction-specific guidance on accounting for noncash payments, restructurings, foreclosures, unclaimed wages, deposits on returnable containers, advance sales, dealer reserves, coupons and similar promotions, and energy trading contracts.

2.279 FASB ASC 405-20-40-1 prescribes the following criteria for derecognition (extinguishment) of a liability:

- Debtor pays the creditor and is relieved of its obligation.
- Debtor is legally released as the primary obligor under the liability, either judicially or by the creditor.

Therefore, it can be inferred that like IFRSs, an entity can only charge against the liability (provision) expenditures related to its original nature. Netting expenditures against a liability (provision) that was originally recognized for another purpose would conceal the impact of two different liabilities.

2.280 Although the accounting results may be similar, the FASB ASC glossary and IFRSs definitions of, and approaches to, a contingency are different. IFRSs address the issue from the perspective of asset or liability recognition on the balance sheet, and FASB ASC 450, *Contingencies*, addresses the issue from the perspective of gain or loss recognition in the income statement. As defined by the FASB ASC glossary, a *contingency* is an existing condition, situation, or set of circumstances involving uncertainty concerning possible gain (gain contingency) or loss (loss contingency) to an entity that will ultimately be resolved when one or more future events occur or fail to occur.

2.281 FASB ASC 450-20-25-2 requires an entity to recognize an estimated loss from a loss contingency in income only when the following two conditions are met:

- Information is available before the financial statements are issued or are available to be issued indicating it is probable (that is, the future event(s) are likely to occur, as defined in the FASB ASC glossary) that an asset has been impaired or liability incurred as of the balance sheet date, with the implicit understanding that it is probable that a future event(s) will occur to confirm the loss.
- Amount of the loss can be reasonably estimated.

Despite the similarity in these conditions to those in IAS 37, IFRSs recognize that financial statements deal with the financial position of an entity at the end of its reporting period and not its possible position in the future. Therefore, under IFRSs, a liability should not be recognized for costs that an entity needs to incur to operate in the future. The only liabilities that an entity should recognize in its statement of financial position are those that exist at the end of the reporting period.

2.282 FASB ASC 450-20-50-5 also expresses a preference for disclosure when the amount cannot be reasonably estimated (see discussion of disclosure requirements starting with paragraph 2.298).

2.283 In accordance with FASB ASC 450-20-30-1, when one estimate within a range is better than others, an entity should measure the loss and liability at that amount. When

no estimate is better than another, an entity should use the minimum in the range, whereas IFRSs require the entity to use the midpoint.

2.284 Unlike IFRSs, FASB ASC 460-10-25-5 considers warranties a contingency. Therefore, an entity should meet the two conditions described in paragraph 2.281 before recognizing a loss and related liability. FASB ASC 460-10 contains additional guidance concerning the items that an entity should consider in order to meet the probability recognition criteria, including references to the entity's own and others' experience. FASB ASC also provides more specific guidance for extended warranties and product maintenance contracts, which are not discussed in IFRSs.

2.285 FASB ASC 450-30-25-1 usually does not permit recognition of gain contingencies because to do so might be to recognize revenue before its realization. Unlike IFRSs, FASB ASC 450-30-50-1 does not contain a probability threshold that an entity should meet before disclosure.

2.286 FASB ASC 410, *Asset Retirement and Environmental Obligations*, contains extensive guidance on accounting for asset retirement obligations, including scope, recognition and measurement rules, and disclosures that far exceed those in IFRSs.

2.287 IAS 37 includes specific conditions that must be met before an entity can recognize restructuring liabilities. FASB ASC refers to these liabilities as *exit and disposal activities*, and with the exception of one-time liabilities for employee termination benefits, FASB ASC 420-10-25-1 requires an entity to recognize a liability for a cost associated with these activities in the period that the liability is incurred, measured at fair value. When fair value cannot be reasonably estimated, an entity should defer recognition until it can make a reasonable estimate. Paragraphs 2–3 of FASB ASC 420-10-30 express a preference for quoted market prices followed by present value techniques to make the estimate; however, it does not preclude the use of other techniques and computational shortcuts when consistent with fair value measurements.

2.288 However, in the case of one-time employee termination benefits, paragraphs 4–10 of FASB ASC 420-10-25 explain that such an arrangement exists only when the entity has communicated the arrangement to the affected employees and the date of the termination plan meets several conditions, including management approval. Many are similar to the conditions in IAS 37. However, FASB ASC 420-10-25 contains additional conditions that affect the timing of measurement of the termination benefit liability, including a minimum retention period not exceeding the legal notification period or, in its absence, 60 days. For example, FASB ASC 420-10-25-9 explains that when an entity requires employees to render services until termination in order to receive benefits and the retention period exceeds the minimum, it recognizes the liability at the communication date but measures fair value as of the termination date. The entity should then recognize the termination benefits ratably over the future service period. In all other cases, the entity recognizes and measures the fair value of the liability at the communication date. IFRSs do not include this specific guidance.

2.289 Like IFRSs, FASB ASC 420-10-25-3 does not permit recognition of anticipated future operating losses because such losses do not meet the definition of a *liability*. An entity should recognize such losses only in the period in which they occur.

Presentation

IFRSs

2.290 IAS 1 requires entities to present trade and other payables and provisions as a separate line item on the balance sheet, disaggregated into their current and noncurrent components. An entity should also present additional line items, headings, and subtotals when they are relevant to an understanding of the entity's financial position.

2.291 IFRS 5 requires an entity to present separately liabilities associated with disposal groups classified as held for sale and discontinued operations.

U.S. GAAP

2.292 U.S. GAAP has more specific guidance than IFRSs on presentation of current liabilities. SEC guidance in Regulation S-X permits aggregation on the financial statements and requires more disaggregated disclosures either on the face of the financial statements or in the notes. (See, for example, sections 210.5-01 through 210.5-04 of SEC Regulation S-X for guidance relevant to commercial and industrial companies.)

2.293 FASB ASC 210-20 contains similar criteria to IFRSs permitting offsetting of assets and liabilities only when the entity has both a legal right to settle net and the intention to do so. See section 8 for further discussion on offsetting arrangements.

Disclosure

IFRSs

2.294 For each class of provision, IAS 37 requires an entity to disclose a description of the nature of the provision and the expected timing of settlements. An entity should also discuss any uncertainties in these estimates, including major assumptions about future events. An entity should disclose the amount of expected reimbursements, including any amount recognized as an asset.

2.295 An entity should also provide reconciliations of the beginning and ending balance for each class of provision. Changes in the provision should include the following changes to the accounts: additions to, and increases in, provisions; charges against the provision; reversals; and unwinding of the discount rate when provisions have been measured at present value. Comparative information is not required.

2.296 Unless the possibility of an outflow is remote, an entity should disclose a brief description of each class of contingent liability. When practicable, this disclosure should include an estimate of financial impact, a discussion of uncertainties relating to possible outflows, and the possibility of reimbursement. Only when the probability of an inflow of benefits is probable should an entity disclose information about contingent assets and, when practicable, an estimate of the expected financial impact. When the impracticability exception is used, an entity should disclose that fact.

2.297 Finally, IAS 37 recognizes that disclosure of some of the required information on contingent liabilities can have a prejudicial effect on litigation or other disputes. In those cases, the entity need not disclose all of the required information. However, the general nature of the contingency should be disclosed and described, together with the reason why the entity has not provided the remaining information.

U.S. GAAP

2.298 FASB ASC 210-10-45-5 requires an entity to present the total amounts of current liabilities on a classified balance sheet. An entity has considerable discretion concerning how much disaggregation to present on the face of the statement or in the notes. Regulation S-X contains requirements for disaggregating different types of obligations and classification as current or noncurrent. As previously noted, Regulation S-X requires specific disaggregation of balance sheet line items either on the face of the relevant financial statements or in the notes.

2.299 Several FASB ASC topics discuss asset retirement costs and obligations: FASB ASC 360, 410-20, and 450. With respect to asset retirement obligations, see disclosure guidance within FASB ASC 410-20-50 and SEC *Codification of Staff Accounting Bulletins* topic 5(Y), "Accounting and Disclosures Related to Loss Contingencies." For example, an entity should disclose whether the liability has been measured at present value and, if so, it should disclose information about the present value technique used, in accordance with FASB ASC 820-10-50.

2.300 When the asset retirement obligation is a loss contingency, an entity should disclose the same information that it would disclose for all loss contingencies, including the nature of the contingency, the amount of any accruals, and the reasons why an accrual has not been made, as described in FASB ASC 450-20-50. As noted previously, FASB ASC 450-30-50-1 does not prohibit disclosure of a contingency that might result in a gain, but it does state that an entity should exercise caution so as not to be misleading about the likelihood of realization.

2.301 Like IFRSs, FASB ASC 420-10-50-1 requires an entity to disclose a description of exit and disposal activities. However, although it is likely that a restructuring would constitute a major class of provision, unlike FASB ASC, IFRSs do not specifically require separate reconciliations of the major costs in a restructuring. FASB ASC 420-10-50-1 also requires disclosure of information about these activities by reportable operating segment and the line item(s) on the income statement that contains these costs.

Author's Note

See also the discussion in paragraph 2.350 of the requirement to disclose a reconciliation of liabilities recognized for termination benefits that are a major part of exit and disposal activities.

Presentation and Disclosure Excerpts

Warranty, Restructuring, Product Infringement, Project Loss and Tax Provisions

2.302

Nokia Corporation (Dec 2010)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (in part)

		December 31	
	Notes	2010 EURm	2009 EURm
Assets			
Current liabilities			
Current portion of long-term loans	16,35	116	44
Short-term borrowings	16,35	921	727
Other financial liabilities	16,17,35	447	245
Accounts payable	16,35	6,101	4,950
Accrued expenses and other liabilities	26	7,365	6,504
Provisions	27	2,590	2,718
		17,540	15,188

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Accounting Principles (in part)

Provisions (in part)

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as an asset only when the reimbursement is virtually certain. At each balance sheet date, the Group assesses the adequacy of its pre-existing provisions and adjusts the amounts as necessary based on actual experience and changes in future estimates.

Warranty Provisions

The Group provides for the estimated liability to repair or replace products under warranty at the time revenue is recognized. The provision is an estimate calculated based on historical experience of the level of volumes, product mix and repair and replacement cost.

Intellectual Property Rights (IPR) Provisions

The Group provides for the estimated future settlements related to asserted and unasserted past alleged IPR infringements based on the probable outcome of potential infringement.

Tax Provisions

The Group recognizes a provision for tax contingencies based upon the estimated future settlement amount at each balance sheet date.

Restructuring Provisions

The Group provides for the estimated cost to restructure when a detailed formal plan of restructuring has been completed and the restructuring plan has been announced by the Group.

Other Provisions

The Group recognizes the estimated liability for non-cancellable purchase commitments for inventory in excess of forecasted requirements at each balance sheet date.

The Group provides for onerous contracts based on the lower of the expected cost of fulfilling the contract and the expected cost of terminating the contract.

Use of Estimates and Critical Accounting Judgments

The preparation of financial statements in conformity with IFRS requires the application of judgment by management in selecting appropriate assumptions for calculating financial estimates, which inherently contain some degree of uncertainty. Management bases its estimates on historical experience, expected outcomes and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the reported carrying values of assets and liabilities and the reported amounts of revenues and expenses that may not be readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Set forth below are areas requiring significant judgment and estimation that may have an impact on reported results and the financial position.

Warranty Provisions

The Group provides for the estimated cost of product warranties at the time revenue is recognized. The Group's warranty provision is established based upon best estimates of the amounts necessary to settle future and existing claims on products sold as of each balance sheet date. As new products incorporating complex technologies are continuously introduced, and as local laws, regulations and practices may change, changes in these estimates could result in additional allowances or changes to recorded allowances being required in future periods.

Provision for Intellectual Property Rights, or IPR, Infringements

The Group provides for the estimated future settlements related to asserted and unasserted past alleged IPR infringements based on the probable outcome of potential infringement. IPR infringement claims can last for varying periods of time, resulting in irregular movements in the IPR infringement provision. The ultimate outcome or actual cost of settling an individual infringement may materially vary from estimates.

Income Taxes

Management judgment is required in determining current tax expense, tax provisions, deferred tax assets and liabilities and the extent to which deferred tax assets can be recognized. Each reporting period they are assessed for realizability and when circumstances indicate it is no longer probable that deferred tax assets will be utilized, they are adjusted as necessary. If the final outcome of these matters differs from the amounts initially recorded, differences may impact the income tax expense in the period in which such determination is made.

27. Provisions

	Warranty EURm	Restructuring EURm	IPR Infringements EURm	Project Losses EURm	Tax EURm	Other EURm	Total EURm
At January 1, 2009	1,375	356	343	245	460	813	3,592
Exchange differences	(13)	—	—	—	—	—	(13)
Additional provisions	793	268	73	269	139	344	1,886
Change in fair value	—	—	—	—	—	(1)	(1)
Changes in estimates	(178)	(62)	(9)	(63)	(325)	(174)	(811)
Charged to profit and loss account	615	206	64	206	(186)	169	1,074
Utilized during year	(1,006)	(378)	(17)	(254)	0	(280)	(1,935)
At December 31, 2009	971	184	390	197	274	702	2,718

	Warranty EURm	Restructuring EURm	IPR Infringements EURm	Project Losses EURm	Tax EURm	Other EURm	Total EURm
At January 1, 2010	971	184	390	197	274	702	2,718
Exchange differences	40	—	—	—	—	—	40
Additional provisions	888	228	106	239	40	238	1,739
Changes in estimates	(43)	(44)	(15)	(52)	(13)	(87)	(254)
Charged to profit and loss account	845	184	91	187	27	151	1,485
Utilized during year	(928)	(173)	(32)	(177)	(5)	(338)	(1,653)
At December 31, 2010	928	195	449	207	296	515	2,590

	2010 EURm	2009 EURm
Analysis of total provisions at December 31:		
Non-current	837	841
Current	1,753	1,877

Outflows for the warranty provision are generally expected to occur within the next 18 months. Timing of outflows related to tax provisions is inherently uncertain. In 2009, tax provisions decreased due to the positive development and outcome of various prior year items.

The restructuring provision is mainly related to restructuring activities in Devices & Services and Nokia Siemens Networks segments. The majority of outflows related to the restructuring is expected to occur during 2011.

In 2010, Devices & Services recognized restructuring provisions of EUR 85 million mainly related to changes in Symbian Smartphones and Services organizations as well as certain corporate functions that are expected to result in a reduction of up to 1,800 employees globally. In 2009, Devices & Services recognized restructuring provisions of EUR 208 million mainly related to measures taken to adjust our business operations and cost base according to market conditions.

Restructuring and other associated expenses incurred in Nokia Siemens Networks in 2010 totaled EUR 316 million (EUR 310 million in 2009) including mainly personnel related expenses as well as expenses arising from the elimination of overlapping functions, and the realignment of product portfolio and related replacement of discontinued products in customer sites. These expenses included EUR 173 million (EUR 151 million in 2009) impacting gross profit, EUR 19 million (EUR 30 million in 2009) research and development expenses, EUR 21 million reversal of provision (EUR 12 million in 2009) in selling and marketing expenses, EUR 76 million (EUR 103 million in 2009) administrative expenses and EUR 27 million (EUR 14 million in 2009) other operating expenses. EUR 510 million was paid during 2010 (EUR 514 million during 2009).

Provisions for losses on projects in progress are related to Nokia Siemens Networks' onerous contracts. Utilization of provisions for project losses is generally expected to occur in the next 18 months.

The IPR provision is based on estimated future settlements for asserted and unasserted past IPR infringements. Final resolution of IPR claims generally occurs over several periods.

Other provisions include provisions for non-cancelable purchase commitments, product portfolio provisions for the alignment of the product portfolio and related replacement of discontinued products in customer sites and provision for pension and other social security costs on share-based awards. In 2010, usage of other provisions mainly relates to product portfolio provisions. Most of those contracts were signed in 2008 and contract fullfillment occurred primarily in 2009 and 2010.

Onerous Contracts, Store Closings, and Insurance Provisions

2.303

Delhaize Brothers and Co "The Lion" (Delhaize Group) SA (Dec 2010)

CONSOLIDATED BALANCE SHEET (in part)

Consolidated Liabilities and Equity (in part)

(In Millions of EUR)	Note	2010	2009	2008
Long-term debt	18.1	1,966	1,904	1,766
Obligations under finance leases	18.3	684	643	643
Deferred tax liabilities	22	543	227	215
Derivative instruments	19	16	38	—
Provisions	20, 21	233	228	226
Other non-current liabilities		68	57	68
Total non-current liabilities		3,510	3,097	2,918
Short-term borrowings	18.2	16	63	152
Long-term debt—current portion	18.1	40	42	326
Obligations under finance leases	18.3	57	44	44
Derivative instruments	19	—	2	—
Provisions	20, 21	52	52	49
Income tax payable		17	65	98
Accounts payable		1,574	1,436	1,383
Accrued expenses	23	393	397	378
Other current liabilities		174	141	154
		2,323	2,242	2,584
Liabilities associated with assets held for sale	5.2	—	—	3
Total current liabilities		2,323	2,242	2,587
Total liabilities		5,833	5,339	5,505

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2.3. Summary of Significant Accounting Policies (in part)

Provisions (in part)

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at the balance sheet date using management's best estimate of the expenditures expected to be required to settle the obligation, discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risk specific on the liability, if material. Where discounting is used, the increase in the provision due to the passage of time ("unwinding of the discount") is recognized within "Finance costs" (Note 29.1).

Store closing costs: Delhaize Group regularly reviews its stores' operating performance and assesses the Group's plans for certain store closures. Closing stores results in a number of activities required by IFRS in order to appropriately reflect the value of assets and liabilities and related store closing costs, such as a review of net realizable value of inventory or review for impairment of assets or cash-generating units (for both activities see accounting policies described above). In addition, Delhaize Group recognizes "Closed store provisions," which consist primarily of provisions for onerous contracts and severance ("termination") costs (for both see further below). Costs recognized as part of store closings are included in "Other operating expenses" (Note 28), except for inventory write-downs, which are classified as "Cost of sales" (Note 25). If appropriate (see accounting policy for "Non-Current Assets/Disposal Groups and Discontinued Operations" above), stores are accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Onerous contracts: IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* requires the recognition of a provision for a present obligation arising under an onerous contract, which is defined as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. Judgment is required in determining if a present obligation exists, taking into account all available evidence. Once the existence has been established, at the latest upon actual closing, Delhaize Group recognizes provisions for the present value of the amount by which the unavoidable costs to fulfill the agreements exceeds the expected benefits from such agreements, which comprises the estimated non-cancellable lease payments, including contractually required real estate taxes, common area maintenance and insurance costs, net of anticipated subtenant income. The adequacy of the closed store provision is dependent upon the economic conditions in which stores are located which will impact the Group's ability to realize estimated sublease income. Owned and finance leased stores that are closed and rented out to third-parties are reclassified as investment property (Note 9).

When *termination costs* are incurred in connection with a store closing, a liability for the termination benefits is recognized in accordance with IAS 19 *Employee Benefits*, when the Group is demonstrably committed to the termination for the estimated settlement amount, which is when the implementation of a formal plan has started or the main features have been announced to those affected (see also "Employee Benefits" below).

Store closing provisions are reviewed regularly to ensure that accrued amounts appropriately reflect management's best estimate of the outstanding commitments and that additional expenses are provided for or amounts that are no longer needed for their originally intended purpose are released.

Self-insurance: Delhaize Group is self-insured for workers' compensation, general liability, vehicle accidents, pharmacy claims, health care and property insurance in the United States. The self-insurance liability is determined actuarially, based on claims filed and an estimate of claims incurred but not reported. Excess loss protection above certain maximum retained exposures is provided by external insurance companies.

Critical Accounting Estimates (in part)

Self Insurance

As explained in Note 20.2 to our consolidated financial statements, included under Item 18 of this document, in the United States we are self-insured for workers' compensation, general liability, vehicle accident and pharmacy claims up to a certain retention and we hold excess-insurance contracts with external insurers for any costs in excess of these retentions.

Our self-insurance liability is determined actuarially, based on claims filed and an estimate of claims incurred but not reported ("IBNR"). The significant assumptions used in the development of the actuarial estimates are based upon our historical claims data, including the average monthly claims and the average duration between incurrence and payment.

In addition, our property insurance in the United States includes self-insured retentions per occurrence of $10 million for named windstorms, $5 million for Zone A flood losses and $2.5 million for all other losses.

We are also self-insured in the United States for health care which includes medical, pharmacy, dental and short-term disability. The self-insurance liability for IBNR claims is estimated quarterly by management based on available information and considers an annual actuarial evaluation based on historical claims experience, claims processing procedures and medical cost trends.

Actuarial estimates are subject to a high degree of uncertainty due to, among other things, changes in claim reporting patterns, claim settlement patterns, judicial decisions, legislation and economic conditions. We believe that the actuarial estimates are reasonable and represent our best estimate of the total exposure. However, it lays in the nature of such estimates that significant differences between actual and estimates could materially affect our self-insurance obligations.

Closed Store Provisions

We regularly review the operational performance of our retail stores and make assessments of the future developments of the various stores. In some cases, we decide to close stores, which results in a number of accounting activities in order to ensure that assets and liabilities resulting from these decisions are appropriately reflected in our financial statements. This involves testing assets for impairment, see above, but also the recognition of closed store and severance ("termination") provisions.

The provision for closed stores expenditures is estimated based on remaining lease obligations, expected sub-lease income and exit costs associated with store closing commitments. Other exit costs include estimated utilities, real estate taxes, common area maintenance and insurance costs to be incurred after the store closes, all of which are contractually required payments under the lease agreements, over the remaining lease term.

The estimates are based on past experience and are reviewed regularly to ensure that accrued amounts continue to reflect our best estimate of the outstanding commitments. It is in the nature of such estimates that actual amounts differ from the estimates. Adjustments to closed store provisions and other exit costs primarily relate to changes in subtenant income and actual exit costs differing from original estimates. Such adjustments are made in the period in which the change becomes known. Any excess store closing provision remaining upon settlement of the obligation is reversed in the period that such settlement is determined.

Calculating the estimated store closing losses requires significant judgments and estimates that could be impacted by factors such as the extent of interested buyers, the ability to obtain subleases, the creditworthiness of sublessees, and our success at negotiating early termination agreements with lessors. These factors are significantly dependent on general economic conditions and resulting demand for commercial property. Finally, applying an appropriate discount rate on long-term cash flow projection requires the application of judgment.

Varying the discount rate applied by 200 basis points would have resulted in an immaterial increase/decrease of expenses charged to profit or loss for 2010 store closing activities and increased/decreased the total closed store provision by €4 million.

20.1. Closed Store Provisions

As explained in Note 2.3, Delhaize Group records closed store provisions for present obligations in connection with store closing activities, which consist primarily of provisions for onerous contracts and severance (“termination”) costs. The amounts recognized reflect management’s best estimate of the expected expenditures required to settle the present obligation at balance sheet date and requires the application of judgment and estimates that could be impacted by factors such as the discount rate applied, the ability to sub-lease, the creditworthiness of the sub-lessee or the success when negotiating any early termination of lease agreements. Most of the factors are significantly dependent on general economic conditions and the interrelated demand for commercial property. Consequently, the cash flows projected, and the risk reflected in those, might change, if applied assumptions change.

Most obligations recognized relate to onerous lease contracts, predominately for stores located in the United States, with remaining lease terms ranging from one to 18 years. The average remaining lease term for closed stores was 5.2 years at December 31, 2010. During 2010, 2009 and 2008, only minor amounts relate to termination benefits.

The following table reflects the activity related to closed store provisions:

(In Millions of EUR)	2010	2009	2008
Closed store provision at January 1	54	51	51
Additions:			
Store closings—lease obligations	1	10	6
Store closings—other exit costs	—	2	2
Update of estimates	1	5	1
Interest expense (unwinding of discount)	4	4	4
Utilization:			
Lease payments made	(14)	(14)	(11)
Lease terminations	(5)	(1)	(3)
Payments made for other exit costs	(2)	—	(2)
Transfer to other accounts	—	(1)	—
Currency translation effect	5	(2)	3
Closed store provision at December 31	44	54	51

During 2010, 2009 and 2008, Delhaize Group recorded additions to the closed store provision of EUR 1 million, EUR 12 million and EUR 8 million respectively, primarily related to 7, 32 and 19 store closings, respectively, made in the ordinary course of business.

The following table presents a reconciliation of the number of closed stores included in the closed store provision:

	Number of Closed Stores
Balance at January 1, 2008	168
Store closings added	19
Stores sold/lease terminated	(38)
Balance at December 31, 2008	149
Store closings added	32
Stores sold/lease terminated	(35)
Balance at December 31, 2009	146
Store closings added	7
Stores sold/lease terminated	(49)
Balance at December 31, 2010	104

Expenses relating to closed store provisions were recorded in the income statement as follows:

(In Millions of EUR)	Note	2010	2009	2008
Other operating expenses	28	2	17	9
Interest expense included in “Finance costs”	29.1	4	4	3
Results from discontinued operations	5.3	—	—	1
Total		6	21	13

20.2. Self-Insurance Provision

Delhaize Group’s U.S. operations are self-insured for their workers’ compensation, general liability, vehicle accident and pharmacy claims up to certain retentions and holds excess-insurance contracts with external insurers for any costs in

excess of these retentions. The self-insurance liability is determined actuarially, based on claims filed and an estimate of claims incurred but not reported. The assumptions used in the development of the actuarial estimates are based upon historical claims experience, including the average monthly claims and the average lag time between incurrence and payment.

The maximum retentions, including defense costs per occurrence, are:

- USD 1.0 million per accident for workers' compensation;
- USD 3.0 million per occurrence for general liability,
- USD 3.0 million per accident for vehicle accident, and
- USD 5.0 million per occurrence for pharmacy claims.

Our property insurance in the United States includes self-insured retentions per occurrence of USD 10 million for named windstorms, USD 5 million for Zone A flood losses and USD 2.5 million for all other losses.

Delhaize Group is also self-insured in the U.S. for health care, which includes medical, pharmacy, dental and short-term disability. The self-insurance liability for claims incurred but not reported is based on available information and considers annual actuarial evaluations of historical claims experience, claims processing procedures and medical cost trends.

The movements of the self-insurance provision can be summarized as follows:

(In Millions of EUR)	2010	2009	2008
Self-insurance provision at January 1	108	122	111
Expense charged to earnings	179	158	153
Claims paid	(174)	(169)	(148)
Currency translation effect	8	(3)	6
Self-insurance provision at December 31	121	108	122

Actuarial estimates are judgmental and subject to uncertainty, due to, among many other things, changes in claim reporting patterns, claim settlement patterns or legislation. Management believes that the assumptions used to estimate the self-insurance provision are reasonable and represent management's best estimate of the expenditures required to settle the present obligation at the balance sheet date. Nonetheless, it is in the nature of such estimates that the final resolution of some of the claims may require making significant expenditures in excess of the existing provisions over an extended period and in a range of amounts that cannot be reasonably estimated.

Environmental Rehabilitation and Decommissioning Provisions

2.304

Royal Dutch Shell plc (Dec 2010)

CONSOLIDATED BALANCE SHEET (in part)

($ Million)	Notes	Dec 31, 2010	Dec 31, 2009
Liabilities			
Non-current liabilities			
Debt	16	34,381	30,862
Deferred tax	17	13,388	13,838
Retirement benefit obligations	18	5,924	5,923
Other provisions	19	14,285	14,048
Other	20	4,250	4,586
		72,228	69,257
Current liabilities			
Debt	16	9,951	4,171
Accounts payable and accrued liabilities	21	76,550	67,161
Taxes payable	17	10,306	9,189
Retirement benefit obligations	18	377	461
Other provisions	19	3,368	3,807
		100,552	84,789
Total liabilities		172,780	154,046

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Accounting Policies (in part)

Property, Plant and Equipment and Intangible Assets (in part)

A—Recognition

Property, plant and equipment, including expenditure on major inspections, and intangible assets are initially recognised in the Consolidated Balance Sheet at cost where it is probable that they will generate future economic benefits. This includes capitalisation of decommissioning and restoration costs associated with provisions for asset retirement (see "Provisions"), certain development costs (see "Research and development") and the effects of associated cash flow hedges (see "Derivative contracts") as applicable. The accounting for exploration costs is described separately below (see "Exploration costs"). Intangible assets include goodwill, capitalised software costs and trademarks. Interest is capitalised, as an increase in property, plant and equipment, on major capital projects during construction.

Property, plant and equipment and intangible assets are subsequently carried at cost less accumulated depreciation, depletion and amortisation (including any impairment). Gains and losses on disposals are determined by comparing disposal proceeds with the carrying amounts of assets sold and recognised in income, within interest and other income.

Provisions

Provisions are recognised at the balance sheet date at Shell's best estimate, using risk-adjusted future cash flows, of the present value of the expenditure required to settle the present obligation. Non-current amounts are discounted using the risk-free rate. Specific details for decommissioning and restoration costs and environmental remediation are described below. The carrying amounts of provisions are regularly reviewed and adjusted for new facts or changes in law or technology.

Provisions for decommissioning and restoration costs, which are primarily in respect of hydrocarbon production facilities, are measured on the basis of current requirements, technology and price levels; the present value is calculated using amounts discounted over the useful economic life of the assets. The liability is recognised (together with a corresponding amount as part of the related property, plant and equipment) once an obligation crystallises in the period when a reasonable estimate can be made. The effects of changes resulting from revisions to the timing or the amount of the original estimate of the provision are reflected on a prospective basis, generally by adjustment to the carrying amount of the related property, plant and equipment.

Provisions for environmental remediation resulting from ongoing or past operations or events are recognised in the period in which an obligation arises and the amount can be reasonably estimated. Provisions are measured based on current legal requirements and existing technology. Recognition of any joint and several liability is based upon Shell's best estimate of the final pro rata share of the liability. Provisions are determined independently of expected insurance recoveries. Recoveries are recognised and reported as separate events and brought into account when virtually certain of realisation.

3. Key Accounting Estimates and Judgements (in part)

Decommissioning and Restoration Costs

Provisions are recognised for the future decommissioning and restoration of hydrocarbon production facilities and pipelines at the end of their economic lives. The estimated cost is recognised in income over the life of the proved developed reserves on a unit-of-production basis or on a straight-line basis, as applicable. Changes in the estimates of costs to be incurred, proved developed reserves or in the rate of production will therefore impact income, generally over the remaining economic life of oil and gas assets.

Estimates of the amounts of provisions recognised are based on current legal and constructive requirements, technology and price levels. Because actual outflows can differ from estimates due to changes in laws, regulations, public expectations, technology, prices and conditions, and can take place many years in the future, the carrying amounts of provisions are regularly reviewed and adjusted to take account of such changes. The interest rate used to discount the risk-adjusted cash flows is reviewed annually, although it has been stable in recent years.

Information about decommissioning and restoration provisions is presented in Note 19.

17. Taxation (in part)

C—Deferred Taxation

Movements in deferred tax liabilities and assets during the year, taking into consideration the offsetting balances within the same tax jurisdiction, are as follows:

Deferred Tax Liabilities

($ Million)	Property, Plant and Equipment	Retirement Benefits	Decommissioning and Other Provisions	Other	Total
At January 1, 2010	17,768	1,257	(5,185)	(2)	13,838
(Credited)/charged to income	(281)	350	(217)	(454)	(602)
Other movements	(1,505)	38	1,764	6	303
Currency translation differences	(73)	(106)	121	(93)	(151)
At December 31, 2010	15,909	1,539	(3,517)	(543)	13,388
At January 1, 2009	16,022	1,382	(4,494)	(392)	12,518
Charged/(credited) to income	641	(360)	(433)	(196)	(348)
Other movements	(304)	109	64	594	463
Currency translation differences	1,409	126	(322)	(8)	1,205
At December 31, 2009	17,768	1,257	(5,185)	(2)	13,838

Deferred Tax Assets

($ million)	Losses Carried Forward	Decommissioning and Other Provisions	Property, Plant and Equipment	Other	Total
At January 1, 2010	1,360	1,606	(915)	2,482	4,533
(Charged)/credited to income	(242)	953	30	171	912
Other movements	(131)	1,743	(1,502)	(126)	(16)
Currency translation differences	(8)	9	(76)	7	(68)
At December 31, 2010	979	4,311	(2,463)	2,534	5,361
At January 1, 2009	881	1,145	(808)	2,200	3,418
Credited/(charged) to income	224	307	157	(41)	647
Other movements	200	53	(228)	294	319
Currency translation differences	55	101	(36)	29	149
At December 31, 2009	1,360	1,606	(915)	2,482	4,533

Other movements in deferred tax assets and liabilities relate mainly to acquisitions, divestments, reclassifications between assets and liabilities and amounts recognised in other comprehensive income and directly in equity (see Note 25).

19. Other Provisions

	Current		Non-Current		Total	
($ Million)	Dec 31, 2010	Dec 31, 2009	Dec 31, 2010	Dec 31, 2009	Dec 31, 2010	Dec 31, 2009
Decommissioning and restoration	1,006	653	12,011	11,633	13,017	12,286
Environmental	325	365	797	891	1,122	1,256
Redundancy	746	1,492	204	157	950	1,649
Litigation	175	201	382	499	557	700
Other	1,116	1,096	891	868	2,007	1,964
Total	3,368	3,807	14,285	14,048	17,653	17,855

Movements in provisions are as follows:

($ Million)	Decommissioning and Restoration	Environmental	Redundancy	Litigation	Other	Total
At January 1, 2010	12,286	1,256	1,649	700	1,964	17,855
Additional provisions	224	89	142	103	662	1,220
Amounts charged against provisions	(350)	(223)	(890)	(236)	(586)	(2,285)
Accretion expense	656	31	—	15	45	747
Reclassifications and other movements	361	(28)	93	(19)	(67)	340
Currency translation differences	(160)	(3)	(44)	(6)	(11)	(224)
At December 31, 2010	13,017	1,122	950	557	2,007	17,653
At January 1, 2009	10,496	1,163	310	958	2,094	15,021
Additional provisions	265	192	1,535	196	680	2,868
Amounts charged against provisions	(424)	(189)	(171)	(489)	(776)	(2,049)
Accretion expense	638	26	—	9	55	728
Reclassifications and other movements	488	13	(27)	8	(155)	327
Currency translation differences	823	51	2	18	66	960
At December 31, 2009	12,286	1,256	1,649	700	1,964	17,855

The timing and amounts settled in respect of these provisions are uncertain and dependent on various factors that are not always within management's control.

Of the decommissioning and restoration provision at December 31, 2010, an estimated $4,082 million is expected to be utilised within one to five years, $4,059 million within six to ten years, and the remainder in later periods.

Reviews of estimated decommissioning and restoration costs are carried out annually, which in 2010 resulted in an increase of $1,297 million (2009: $477 million) in both the provision, reported within "Reclassifications and other movements," and the corresponding property, plant and equipment assets reported within "Sales, retirements and other movements" in Note 9. Offsetting this increase in 2010 was a reduction resulting from disposals of assets, primarily in Norway and the USA, of $924 million.

Provisions for environmental remediation costs relate to a number of events in different locations, none of which is individually significant.

The amounts charged against provisions for redundancy in 2010 mainly relate to payments made to staff leaving Shell as a result of the restructuring programme announced in 2009.

Provisions for litigation costs at December 31, 2010, relate to a number of cases, none of which is individually significant. Further information is given in Note 27. In 2009, Shell concluded the settlement of claims arising from the 2004 recategorisation of certain hydrocarbon reserves.

Included in other provisions at December 31, 2010, are $753 million (2009: $750 million) relating to employee end-of-service benefits.

Environmental and Litigation Provisions

2.305

ArcelorMittal (Dec 2010)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (in part)

(Millions of U.S. dollars, except share and per share data)

	December 31	
	2009	2010
Liabilities and Equity		
Current liabilities:		
Short-term debt and current portion of long-term debt (note 15)	4,135	6,716
Trade accounts payable and other, including 337 and 465 to related parties at December 31, 2009 and 2010, respectively (note 14)	10,676	13,256
Short-term provisions (note 20)	1,433	1,343
Accrued expenses and other liabilities (note 21)	6,922	6,900
Income tax liabilities	314	471
Liabilities held for sale and distribution (note 5)	11	2,037
Total current liabilities	23,491	30,723
Non-current liabilities:		
Long-term debt, net of current portion (note 15)	20,677	19,292
Deferred tax liabilities (note 19)	5,144	4,006
Deferred employee benefits (note 23)	7,583	7,180
Long-term provisions (note 20)	2,121	1,738
Other long-term obligations	3,244	1,865
Total non-current liabilities	38,769	34,081
Total liabilities	62,260	64,804

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 2: Summary of Significant Accounting Policies (in part)

Significant Accounting Policies (in part)

Provisions and Accruals

ArcelorMittal recognizes provisions for liabilities and probable losses that have been incurred when it has a present legal or constructive obligation as a result of past events and it is probable that the Company will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a financing cost. Provisions for onerous contracts are recorded in the statement of operations when it becomes known that the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received.

Provisions for restructuring relate to the estimated costs of initiated reorganizations that have been approved by the Group Management Board "GMB," and which involve the realignment of certain parts of the industrial and commercial organization. When such reorganizations require discontinuance and/or closure of lines or activities, the anticipated costs of closure or discontinuance are included in restructuring provisions. A liability is recognized for those costs only when the Company has a detailed formal plan for the restructuring and has raised a valid expectation with those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Environmental Costs

Environmental costs that relate to current operations are expensed or capitalized as appropriate. Environmental costs that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation or cost reduction, are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are probable and the cost can be reasonably estimated based on ongoing engineering studies, discussions with the environmental authorities and other assumptions relevant to the nature and extent of the remediation that may be required. The ultimate cost to ArcelorMittal is dependent upon factors beyond its control such as the scope and methodology of the remedial action requirements to be established by environmental and public health authorities, new laws or government regulations, rapidly changing technology and the outcome of any potential related litigation. Environmental liabilities are discounted if the aggregate amount of the obligation and the amount and timing of the cash payments are fixed or reliably determinable.

Note 20: Provisions

The movements of provisions were as follows:

	Balance at December 31, 2008	Additions	Deductions/ Payments and Other Releases	Acquisitions	Effects of Foreign Exchange and Other Movements	Balance at December 31, 2009
Environmental (see note 24)	769	72	(131)	—	33	743
Asset retirement obligations	278	49	(2)	—	11	336
Restructuring	566	78	(131)	1	(183)	331
Voluntary separation plans[1]	935	280	(685)	—	(218)	312
Litigation (see note 24) and other[3]	1,601	296	(803)	2	125	1,221
Tax claims	480	125	(183)	—	22	444
Competition/Antitrust claims	640	2	(400)	—	26	268
Other legal claims	387	169	(220)	2	77	415
Other unasserted claims	94	—	—	—	—	94
Commercial agreements and onerous contracts	855	471	(1,150)	—	(2)	174
Other[2]	631	266	(321)	3	(142)	437
	5,635	1,512	(3,223)	6	(376)	3,554
Short-term provisions	3,292	—	—	—	—	1,433
Long-term provisions	2,343	—	—	—	—	2,121
	5,635	—	—	—	—	3,554

	Balance at December 31, 2009	Additions	Deductions/ Payments and Other Releases	Acquisitions	Effects of Foreign Exchange and Other Movements[*]	Balance at December 31, 2010
Environmental (see note 24)	743	95	(104)	—	(4)	730
Asset retirement obligations	336	24	(30)	—	12	342
Restructuring	331	92	(118)	—	(68)	237
Voluntary separation plans[1]	312	69	(268)	—	(32)	81
Litigation (see note 24) and other[3]	1,221	327	(280)	—	(197)	1,071
Tax claims	444	41	(52)	—	(159)	274
Competition/Antitrust claims	268	28	(21)	—	(41)	234
Other legal claims	415	52	(207)	—	3	263
Other unasserted claims	94	206	—	—	—	300
Commercial agreements and onerous contracts	174	240	(221)	—	20	213
Other[2]	437	238	(143)	—	(125)	407
	3,554	1,085	(1,164)	—	(394)	3,081
Short-term provisions	1,433	—	—	—	—	1,343
Long-term provisions	2,121	—	—	—	—	1,738
	3,554	—	—	—	—	3,081

[*] A movement of (167) is related to the transfer of provisions to liabilities held for sale and distribution.

[1] Voluntary separation plans were announced at the end of 2008 by the Group Management Board and were largely completed in 2009 and 2010. In 2010, new voluntary separation plans were announced in Mexico, Kazakhstan, Ukraine and France. As of December 2010, the outstanding provision relates to remaining plans primarily in USA, France, Poland, Germany, Bosnia, Mexico, Romania and Czech Republic.

[2] Other includes provisions for technical warranties, guarantees as well as other disputes.

[3] In previously filed financial statements the caption litigation and other was presented as a single line item. In order to provide further clarity to the class of provisions for litigation, amounts relating to tax claims, competition/antitrust claims, other legal claims, and other unasserted claims, have been presented separately in the tabular disclosure. The provision presented as "other unasserted claims" relates to a commercial dispute in respect of which no legal action has commenced.

There are uncertainties regarding the timing and amount of the provisions above. Changes in underlying facts and circumstances for each provision could result in differences in the amounts provided for and the actual outflows. In general, provisions are presented on a non-discounted basis due to the uncertainties regarding the timing or the short period of their expected consumption.

Environmental provisions have been estimated based on internal and third-party estimates of contaminations, available remediation technology, and environmental regulations. Estimates are subject to revision as further information develops or circumstances change. These provisions are expected to be consumed over a period of 20 years.

Restructuring provisions are mainly related to reorganizations in France and are expected to be settled within the next year.

Provisions for litigation related to probable losses that have been incurred due to a present legal or constructive obligation are expected to be settled in a period of one to four years. Discussion regarding legal matters is provided in note 24.

Provisions for onerous contracts related to unavoidable costs of meeting obligations exceeding expected economic benefits under certain contracts.

In addition to existing labor agreements, voluntary separation plans which provide incentives for early retirement or separation from the Company in exchange for cash benefits, were announced at the end of 2008 and were largely completed in 2009. As of December 31, 2010, the outstanding provision relates to remaining plans primarily in France and Belgium which are expected to be settled over a period of one to four years.

Other includes provisions for technical warranties, guarantees as well as other disputes.

Note 24: Contingencies (in part)

ArcelorMittal may be involved in litigation, arbitration or other legal proceedings. Provisions related to legal and arbitration proceedings are recorded in accordance with the principles described in note 2.

Most of these claims involve highly complex issues, actual damages and other matters. Often these issues are subject to substantial uncertainties and, therefore, the probability of loss and an estimation of damages are difficult to ascertain. Consequently, for a large number of these claims, the Company is unable to make a reasonable estimate of the expected financial effect that will result from ultimate resolution of the proceeding. In those cases, the Company has disclosed information with respect to the nature of the contingency. The Company has not accrued a reserve for the potential outcome of these cases.

In the cases in which quantifiable fines and penalties have been assessed, the Company has indicated the amount of such fine or penalty or the amount of provision accrued that is the estimate of the probable loss.

In a limited number of ongoing cases, the Company is able to make a reasonable estimate of the expected loss or range of possible loss and has accrued a provision for such loss, but believe that publication of this information on a case-by-case basis would seriously prejudice the Company's position in the ongoing legal proceedings or in any related settlement discussions. Accordingly, in these cases, the Company has disclosed information with respect to the nature of the contingency, but has not disclosed the estimate of the range of potential loss.

These assessments can involve a series of complex judgments about future events and can rely heavily on estimates and assumptions. These assessments are based on estimates and assumptions that have been deemed reasonable by management. The Company believes that the provisions recorded for the above matters are adequate based upon currently available information. However, given the inherent uncertainties related to these cases and in estimating contingent liabilities, the Company could, in the future, incur judgments that could have a material adverse effect on its results of operations in any particular period. The Company considers it highly unlikely, however, that any such judgments could have a material adverse effect on its liquidity or financial condition.

Environmental Liabilities

ArcelorMittal's operations are subject to a broad range of laws and regulations relating to the protection of human health and the environment at its multiple locations and operating subsidiaries. As of December 31, 2010, ArcelorMittal had established reserves of 730 for environmental remedial activities and liabilities (see note 20), including 300 in provisions relating to Europe, 213 in provisions relating to the United States, 185 in provisions relating to South Africa and 26 in provisions relating to Canada. ArcelorMittal and the previous owners of its facilities have expended substantial amounts to achieve or maintain ongoing compliance with applicable environmental laws and regulations. ArcelorMittal expects to continue recording provisions in this respect in the future.

Disclosure—Contingent Liability and Contingent Asset

2.306

Veolia Environnement (Dec 2010)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Accounting Principles and Methods (in part)

1.13 Provisions

Pursuant to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, a provision is recorded when, at the year end, the Group has a current legal or implicit obligation to a third party as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be reliably estimated.

As part of its obligations under public services contracts, Veolia Environnement generally assumes responsibility for the maintenance and repair of the installations it manages. The resulting maintenance and repair costs are analyzed in accordance with IAS 37 on provisions and, where necessary, a provision for contractual commitments is recorded where there is outstanding work to be performed.

In the event of a restructuring, an obligation exists if, prior to the period end, the restructuring has been announced and a detailed plan produced or implementation has commenced. Future operating costs are not provided.

In the case of provisions for rehabilitation of landfill facilities, Veolia Environnement accounts for the obligation to restore a site as waste is deposited, recording a non-current asset component and taking into account inflation and the date on which expenses will be incurred (discounting). The asset is amortized based on its depletion.

Provisions giving rise to an outflow after more than one year are discounted if the impact is material. Discount rates reflect current assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recorded in the Consolidated Income Statement in "Other financial income and expenses."

2. Use of Management Estimates in the Application of Group Accounting Standards (in part)

Veolia Environnement may be required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the disclosures of contingent assets and liabilities. Future results may be different from these estimates.

Underlying estimates and assumptions are determined based on past experience and other factors considered as reasonable given the circumstances. They act as a basis for making judgments necessary to the determination of the carrying amount of assets and liabilities, which cannot be obtained directly from other sources. Future values could differ from these estimates.

Underlying estimates and assumptions are reviewed on an ongoing basis. The impact of changes in accounting estimates is recognized in the period the change is made if it affects this period only and in the period the change is made and prior periods if they are also affected by the change.

All these estimates are based on organized procedures for the collection of forecast information on future flows, validated by operating management, and on expected market data based on external indicators and used in accordance with consistent and documented methodologies.

The calculation methodology for discount rates adopted as of December 31, 2008 was analyzed with respect to the financial crisis. Following the stabilization of the financial context in 2009 and 2010, these rates were analyzed again taking account of current conditions and using the following procedures:

- Application of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*: the discount rates used consist of a risk-free interest rate and a risk premium specific to the underlying assets and liabilities. The adjustment applied to this risk premium in December 2008 to limit market volatility in this period, was not considered necessary at the 2010 or 2009 year-ends

37. Contingent Assets and Liabilities

In accordance with IAS 37 criteria, management does not consider it appropriate to record a provision or recognize deferred income in respect of these legal or arbitration proceedings as of December 31, 2010, due to the uncertain nature of their outcome.

The main contingent assets and liabilities relating to legal or arbitration proceedings are presented below:

Veolia Eau Bruxelles

Since 2008, Aquiris, a 99% subsidiary of the Company, holds a concession pursuant to which it is responsible for operating the Brussels-North wastewater treatment plant. As a result of extensive obstruction of the plant's security chambers following the arrival of abnormal and extraordinary quantities of rubble and other solid waste through the public sewer lines, Aquiris decided to suspend operation of the plant from December 8 to December 19, 2009 due to significant safety risks to persons and to the plant. This suspension permitted a partial return to normal, but has resulted in several disputes regarding liability for the disruption and the possible environmental consequences of the suspension in wastewater treatment services. An expert's report on the causes of the disruption was delivered on January 13, 2011. The report concludes, in error according to Aquiris, that there was no legitimate reason to suspend operations at the station. In addition, during the course of 2010, Aquiris instituted legal proceedings against SBGE, the grantor authority, with a view to showing that the Brussels-North treatment plant is faced with sizing issues that are attributable to the grantor authority. Aquiris is claiming compensation for its loss of business and requesting confirmation that the significant upgrading costs that will be required should be borne by the grantor authority. Aquiris and the SBGE have asked a panel of experts to render a technical opinion concerning these matters. A preliminary report is expected to be delivered in mid-May 2011. Pending the resolution of this dispute, Aquiris must bear additional operating costs. At this point, the Company believes that these disputes will not have a significant impact on its financial position, results of operations or liquidity.

Veolia Propreté Italie

On April 16, 2008, Termo Energia Calabria S.p.a. (TEC), a company specialized in waste incineration and a 98.76% subsidiary of Veolia Servizi Ambientali Tecnitalia S.p.a. (VSAT), which is in turn a subsidiary of Veolia Propreté, filed a claim with the administrative court of the region of Calabria in Italy for the payment of subsidies in an updated amount of €26.9 million, allegedly owed under a concession agreement entered into on October 17, 2000 with the region of Calabria. On August 11, 2008, the administrative court ordered the region to respond to this claim. At the end of November 2008, the region announced its refusal to pay the subsidies claimed. In addition, on May 16, 2008, TEC filed a claim with an Italian arbitration tribunal against the Extraordinary Commissioner of Calabria seeking reimbursement of €62.2 million for various additional operating fees and costs incurred since 2005 and claiming breach of the price indexation provision included in the concession agreement. The arbitration proceedings began and, on October 24, 2008, the Extraordinary Commissioner of Calabria filed a counterclaim against TEC seeking the termination of the concession agreement and the payment of the sum of €62.3 million as compensation for construction delays. The arbitration award, which was filed on July 26, 2010 with the Arbitration Chamber of Rome, awards a total amount of €39.8 million to TEC, and fully dismisses the counterclaim of the Extraordinary Commissioner of Calabria as well as his application for termination of the concession agreement. On September 17, 2010, this decision was held to be enforceable by the Civil Court of Rome. The State and the Extraordinary Commissioner of Calabria have filed an appeal of this decision with the Court of Appeals of Rome, and a hearing is scheduled to take place in May 2011.

In addition, VSAT has been accused of manipulating the software that monitors carbon monoxide emissions in its incineration facilities in Falascaia (Tuscany), Vercelli (Piedmont) and Brindisi (Puglia). In all three cases, VSAT filed a "John Doe" complaint in June 2008, August 2008 and February 2009, respectively, which are currently being investigated.

For all of these reasons, in early 2009 Veolia Propreté decided to initiate negotiations with the Italian company Termomeccanica Ecologia S.p.a. pursuant to the seller's guarantee granted by Termomeccanica Ecologia S.p.a. in the agreement pursuant to which VSAT was sold to Veolia Propreté in 2007. In light of the repeated refusal of Termomeccanica Ecologia S.p.a. to compensate VSAT pursuant to its guarantee, on May 19, 2009, Veolia Propreté and Veolia Servizi Ambientali S.p.a., the parent companies of VSAT, filed a request for arbitration with the International Chamber of Commerce (ICC). The arbitration tribunal was formed in August 2009 and has set a schedule calling for a final hearing in the end of December 2011 and an award at the end of April 2012 at the earliest.

Moreover, SIEE, which is the 25% shareholder and former owner of VSAT, filed suit against VSAT's "Veolia" directors with a view to their removal on grounds of mismanagement

and the appointment of an administrator by the court. On February 17, 2010, the Genoa Court of Appeals fully reversed the judgment of the Civil Tribunal of La Spezia, removed the current directors and appointed an *ad hoc* administrator whose duties were to manage and direct the company for 6 months from the acceptance of his appointment (that is until September 4, 2010), to verify, if need be with the assistance of a technical expert, the discharges from the facilities operated by VSAT in Falascaia, Vercelli and Brindisi, verify the validity of the 2008 balance sheet and lastly to issue a report at the close of this period. The administrator's appointment was extended until May 31, 2011.

Finally, following an order issued by the Public Prosecutor's Office of Lucca on July 1, 2010, operations at the Falascaia facility were suspended on the alleged grounds of an improper administrative operating authorization and discharges of polluted wastewater. A temporary solution was submitted to the Province of Lucca by the VSAT subsidiary owning the facility with a view to resumption of operations.

At this point, the Company is not in a position to predict whether the outcome of these actions will have an additional significant impact on its financial position, results of operations or liquidity.

Veolia Transport—Metrolink (USA)

On September 12, 2008, a suburban train operated by Connex Railroad LLC, a Veolia Transport subsidiary, on behalf of the Southern California Regional Rail Authority (SCRRA), collided with a Union Pacific freight train in Chatsworth, California. This accident resulted in 25 fatalities and a significant number of injuries. The National Transportation Safety Board (NTSB), a federal agency, with which Connex Railroad LLC has been cooperating, reached a preliminary conclusion that the two causes of the accident were, first, lack of attention by the engineer, who failed to stop for a red light (a fact that continues to be contested), and, second, the failure of the SCRRA to have installed an automatic train braking system in compliance with prior recommendations of the NTSB. Lawsuits seeking an undetermined amount of total damages have been filed by the heirs of the deceased passengers and by all of the injured passengers, in the courts of the state of California in Los Angeles, against Connex Railroad LLC, its parent company, Veolia Transportation LLC, the SCRRA and the Los Angeles County Metropolitan Transportation Authority (LACMTA). These actions have been consolidated into a single case. At the same time, Connex Railroad LLC and the SCRRA brought before the federal courts in California their disputes concerning their respective contractual liability in connection with the suits filed as a result of this accident. A U.S. federal statute limits the total amount of damages that may be awarded for injuries and property damage arising from a single passenger rail accident to U.S. $200 million.

In July 2010, the SCRRA and Connex Railroad LLC entered into a settlement agreement concerning their respective contractual liabilities in connection with the accident, pursuant to which the parties made demands upon their insurers to create a settlement fund for the victims of the accident and their families up to the $200 million federal damages cap. As a result of this agreement, the proceeding between Connex Railroad LLC and the SCRRA before the federal courts in California was stayed. On August 25, 2010, Connex Railroad LLC, Veolia Transportation, the SCRRA and LACMTA filed a federal interpleader action in federal court to create a settlement fund.

Following respective demands upon insurers, the Interpleader Fund was funded with $200 million and a Final Discharge Order was entered by Judge Wu (the relevant judge appointed to hear this matter within the federal court) on January 3, 2011. This discharge order released Connex Railroad LLC, Veolia Transportation, SCRRA from all and any claims arising out of the collision. The 30 day appeal period in respect of this discharge order expired on February 3, 2011 and thus Connex (and related affiliates) has no further liability in respect of this matter. On March 24, 2011, the state court presiding over the consolidated claims of the heirs of the deceased passengers and the injured passengers entered an order dismissing all claims against Connex Railroad LLC, Veolia Transportation and the other defendants in accordance with the judgment and order of the federal court.

Furthermore, the Group is subject to several other litigations in the normal course of its business (see Item 8). At this point, the Company considers that these disputes should not have a significant impact on its financial position or results.

Reimbursement Asset for Environmental Costs

2.307

BP plc (Dec 2010)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Significant Accounting Policies (in part)

Provisions, Contingencies and Reimbursement Assets

Provisions are recognized when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where appropriate, the future cash flow estimates are adjusted to reflect risks specific to the liability.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax risk-free rate that reflects current market assessments of the time value of money. Where discounting is used, the increase in the provision due to the passage of time is recognized within finance costs. Provisions are split between amounts expected to be settled within 12 months of the balance sheet date (current) and amounts expected to be settled later (non-current).

Contingent liabilities are possible obligations whose existence will only be confirmed by future events not wholly within the control of the group, or present obligations where it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of economic resources is considered remote.

Where the group makes contributions into a separately administered fund for restoration, environmental or other obligations, which it does not control, and the group's right to the assets in the fund is restricted, the obligation to contribute to

the fund is recognized as a liability where it is probable that such additional contributions will be made. The group recognizes a reimbursement asset separately, being the lower of the amount of the associated restoration, environmental or other provision and the group's share of the fair value of the net assets of the fund available to contributors.

Amounts that BP has a contractual right to recover from third parties are contingent assets. Such amounts are not recognized in the accounts unless they are virtually certain to be received.

2. Significant Event—Gulf of Mexico Oil Spill

As a consequence of the Gulf of Mexico oil spill, as described on pages 34 to 39, BP has incurred costs during the year and has recognized liabilities for future costs. Liabilities of uncertain timing or amount and contingent liabilities have been accounted for and/or disclosed in accordance with IAS 37 'Provisions, contingent liabilities and contingent assets'. These are discussed in further detail in Note 37 for provisions and Note 44 for contingent liabilities. BP's rights and obligations in relation to the $20-billion trust fund which was established during the year have been accounted for in accordance with IFRIC 5 'Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds'. Key aspects of the accounting for the oil spill are summarized below.

The financial impacts of the Gulf of Mexico oil spill on the income statement, balance sheet and cash flow statement of the group are shown in the table below. Amounts related to the trust fund are separately identified.

	$ Million	
		2010
	Total	of Which Amount Related to the Trust Fund
Income Statement		
Production and manufacturing expenses	40,858	7,261
Profit (loss) before interest and taxation	(40,858)	(7,261)
Finance costs	77	73
Profit (loss) before taxation	(40,935)	(7,334)
Less: Taxation	12,894	—
Profit (loss) for the period	(28,041)	(7,334)
Balance Sheet		
Current assets		
Trade and other receivables	5,943	5,943
Current liabilities		
Trade and other payables	(6,587)	(5,002)
Provisions	(7,938)	—
Net current liabilities	(8,582)	941
Non-current assets		
Other receivables	3,601	3,601
Non-current liabilities		
Other payables	(9,899)	(9,899)
Provisions	(8,397)	—
Deferred tax	11,255	—
Net non-current liabilities	(3,440)	(6,298)
Net assets	(12,022)	(5,357)
Cash Flow Statement		
Profit (loss) before taxation	(40,935)	(7,334)
Finance costs	77	73
Net charge for provisions, less payments	19,354	—
Increase in other current and non-current assets	(12,567)	(12,567)
Increase in other current and non-current liabilities	16,413	14,828
Pre-tax cash flows	(17,658)	(5,000)

<u>Trust Fund</u>

BP has established the Deepwater Horizon Oil Spill Trust (the Trust) to be funded in the amount of $20 billion (the trust fund) over the period to the fourth quarter of 2013, which is available to satisfy legitimate individual and business claims administered by the Gulf Coast Claims Facility (GCCF), state and local government claims resolved by BP, final judgments and settlements, state and local response costs, and natural resource damages and related costs. In 2010 BP contributed $5 billion to the fund, and further quarterly contributions of $1.25 billion are to be made during 2011 to 2013. The income statement charge for 2010 includes $20 billion in relation to the trust fund, adjusted to take account of the time value of money. Fines, penalties and claims administration costs are not covered by the trust fund. The establishment of the trust fund does not represent a cap or floor on BP's liabilities and BP does not admit to a liability of this amount.

Under the terms of the Trust agreement, BP has no right to access the funds once they have been contributed to the trust fund and BP has no decision-making role in connection with the payment by the trust fund of individual and business claims resolved by the GCCF. BP will receive funds from the trust fund only upon its expiration, if there are any funds remaining at that point. BP has the authority under the Trust agreement to present certain resolved claims, including natural resource damages claims and state and local response claims, to the Trust for payment, by providing the trustees with all the required documents establishing that such claims are valid under the Trust agreement. However, any such payments can only be made on the authority of the Trustee and any funds distributed are paid directly to the claimants, not to BP. BP will not settle any such items directly or receive reimbursement from the trust fund for such items.

BP's obligation to make contributions to the trust fund was recognized in full, amounting to $20 billion on an undiscounted basis as it is committed to making these contributions. On initial recognition the discounted amount recognized was $19,580 million. After BP's contributions of $5 billion to the trust fund during 2010, and adjustments for discounting, the remaining liability as at 31 December 2010 was $14,901 million. This liability is recorded within other payables on the balance sheet, apportioned between current and non-current elements according to the agreed schedule of contributions.

The table below shows movements in the funding obligation, recognized within other payables on the balance sheet, during the period to 31 December 2010.

	$ Million
Trust fund liability initially recognized—discounted	19,580
Unwinding of discount	73
Change in discount rate	240
Contributions	(5,000)
Other	8
At 31 December 2010	14,901
Of which—current	5,002
—non-current	9,899

An asset has been recognized representing BP's right to receive reimbursement from the trust fund. This is the portion of the estimated future expenditure provided for that will be settled by payments from the trust fund. We use the term "reimbursement asset" to describe this asset. BP will not actually receive any reimbursements from the trust fund, instead payments will be made directly to claimants from the trust fund, and BP will be released from its corresponding obligation.

The portion of the provision recognized during the year for items that will be covered by the trust fund was $12,567 million. Of this amount, payments of $3,023 million were made during the year from the trust fund. The remaining reimbursement asset as at 31 December 2010 was $9,544 million and is recorded within other receivables on the balance sheet. The amount of the reimbursement asset is equal to the amount of provisions as at 31 December 2010 that will be covered by the trust fund—see Note 37 in the table under *Provisions relating to the Gulf of Mexico oil spill.*

Movements in the reimbursement asset are presented in the table below:

	$ Million
Increase in provision for items covered by the trust fund	12,567
Amounts paid directly by the trust fund	(3,023)
At 31 December 2010	9,544
Of which—current	5,943
—non-current	3,601

The amount of the income statement charge related to the trust fund comprises:

	$ Million
Trust fund liability—discounted	19,580
Change in discount rate relating to trust fund liability	240
Recognition of reimbursement asset	(12,567)
Other	8
Total charge relating to the trust fund	7,261

As noted above, the obligation to fund the $20-billion trust fund has been recognized in full. Any increases in the provision that will be covered by the trust fund (up to the amount of $20 billion) have no net income statement effect as a reimbursement asset is also recognized, as described above. These charges for provisions, and the associated reimbursement asset, recognized during the year amounted to $12,567 million. Thus, a further $7,433 million could be provided in subsequent periods for items covered by the trust fund with no net impact on the income statement. Such future increases in amounts provided could arise from adjustments to existing provisions, or from the initial recognition of provisions for items that currently cannot be estimated reliably, namely final judgments and settlements and natural resource damages and related costs.

It is not possible at this time to conclude as to whether the $20-billion fund will be sufficient to satisfy all claims under the Oil Pollution Act of 1990 (OPA 90) that will ultimately be paid. Further information on those items that currently cannot be reliably estimated is provided under *Provisions and contingencies* and in Note 44.

The Trust agreement does not require BP to make further contributions to the trust fund in excess of the agreed $20 billion should this be insufficient to cover all claims administered by the GCCF, or to settle other items that are covered by the trust fund, as described above. Should the $20-billion trust fund not be sufficient, BP would commence settling legitimate claims and other costs by making payments directly to claimants. In this case, increases in estimated future expenditure above $20 billion would be recognized as provisions with a corresponding charge in the income statement. The provisions would be utilized and derecognized at the point that BP made the payments.

On 30 September 2010, BP pledged certain Gulf of Mexico assets as collateral for the trust fund funding obligation. The pledged collateral consists of an overriding royalty interest in oil and gas production of BP's Thunder Horse, Atlantis, Mad Dog, Great White and Mars, Ursa and Na Kika assets in the Gulf of Mexico. A wholly-owned company called Verano Collateral Holdings LLC (Verano) has been created to hold the overriding royalty interest, which is capped at $1.25 billion per quarter and $17 billion in total. Verano has pledged the

overriding royalty interest to the Trust as collateral for BP's remaining contribution obligations to the Trust. BP contributed a further $2 billion to the trust fund since this arrangement was established, thereby reducing the amount of the pledge to $15 billion at the end of the year. There is no change in operatorship or the marketing of the production from the assets and there is no effect on the other partners' interests in the assets. For financial reporting purposes Verano is a consolidated entity of BP and there is no impact on the consolidated financial statements from the pledge of the overriding royalty interest.

Provisions and Contingencies

At 31 December 2010 BP has recorded certain provisions and disclosed certain contingencies as a consequence of the Gulf of Mexico oil spill. These are described below under *Oil Pollution Act of 1990* and *Other items.*

Oil Pollution Act of 1990 (OPA 90)

The claims against BP under the OPA 90 and for personal injury fall into three categories: (i) claims by individuals and businesses for removal costs, damage to real or personal property, lost profits or impairment of earning capacity, loss of subsistence use of natural resources and for personal injury ("Individual and Business Claims"); (ii)claims by state and local government entities for removal costs, physical damage to real or personal property, loss of government revenue and increased public services costs ("State and Local Claims"); and (iii)claims by the United States, a State trustee, an Indian tribe trustee, or a foreign trustee for natural resource damages ("Natural Resource Damages claims"). In addition, BP faces civil litigation in which claims for liability under OPA 90 along with other causes of actions, including personal injury claims, are asserted by individuals, businesses and government entities.

A provision has been recorded for Individual and Business Claims and State and Local Claims. A provision has also been recorded for claims administration costs and natural resource damage assessment costs.

BP considers that it is not possible to measure reliably any obligation in relation to Natural Resource Damages claims under OPA 90 or litigation for violations of OPA 90. These items are therefore disclosed as contingent liabilities.

The $20-billion trust fund described above is available to satisfy the OPA 90 claims and litigation referred to above with the exception of claims administration costs which are borne separately by BP. BP's rights and obligations in relation to the trust fund have been recognized and $20 billion, adjusted to take account of the time value of money, was charged to the income statement. The establishment of the trust fund does not represent a cap or floor on BP's liabilities and BP does not admit liability for this amount.

Other Items

Provisions at 31 December 2010 also include amounts in relation to offshore and onshore oil spill response, BP's commitment to a 10-year research programme in the Gulf of Mexico, estimated penalties for liability under Clean Water Act Section 311 and legal fees where we have been able to estimate reliably those which will arise in the next two years. These are not covered by the trust fund.

The provision does not reflect any amounts in relation to fines and penalties except for those relating to the Clean Water Act, as it is not possible to estimate reliably either the amount or timing of such additional items. BP also considers that it is not possible to measure reliably any obligation in relation to litigation or any obligation in relation to legal fees beyond two years. These items are therefore disclosed as contingent liabilities.

No amounts have been recognized for recovery of costs from our co-owners of the Macondo well because under IFRS recovery must be virtually certain for receivables to be recognized. All of these items are therefore disclosed as contingent assets.

Further information on provisions is provided below and in Note 37. Further information on contingent liabilities and contingent assets is provided in Note 44.

A provision has been recognized for estimated future expenditure relating to the oil spill, for items that can be reliably measured at this time, in accordance with BP's accounting policy for provisions, as set out in Note 1.

The total amount recognized as a provision during the year was $30,261 million (including $12,567 million for items covered by the trust fund and $17,694 million for other items). After deducting amounts utilized during the year totaling $13,935 million (including payments from the trust fund of $3,023 million and payments made directly by BP of $10,912 million), and after adjustments for discounting, the remaining provision as at 31 December 2010 was $16,335 million.

Movements in the provision are presented in the table below.

	$ Million
Increase in provision—items not covered by the trust fund	17,694
—items covered by the trust fund	12,567
Unwinding of discount	4
Change in discount rate	5
Utilization—paid by BP	(10,912)
—paid by the trust fund	(3,023)
At 31 December 2010	16,335
Of which—current	7,938
—non-current	8,397

The total amounts that will ultimately be paid by BP in relation to all obligations relating to the incident are subject to significant uncertainty and the ultimate exposure and cost to BP will be dependent on many factors. Furthermore, the amount of claims that become payable by BP, the amount of fines ultimately levied on BP (including any determination of BP's negligence), the outcome of litigation, and any costs arising from any longer-term environmental consequences of the oil spill, will also impact upon the ultimate cost for BP. Although the provision recognized is the current best reliable estimate of expenditures required to settle certain present obligations at the end of the reporting period, there are future expenditures for which it is not possible to measure the obligation reliably as noted above.

Impact Upon the Group Income Statement and Cash Flow Statement

The group income statement for 2010 includes a pre-tax charge of $40,935 million in relation to the Gulf of Mexico oil spill. This comprises costs incurred up to 31 December 2010, estimated obligations for future costs that can be estimated reliably at this time and rights and obligations relating to the trust fund. Finance costs of $77 million reflect the unwinding of discount on the trust fund liability and provisions.

The amount of the provision recognized during the year can be reconciled to the income statement charge as follows:

	$ Million
Increase in provision	30,261
Change in discount rate relating to provisions	5
Costs charged directly to the income statement	3,339
Trust fund liability—discounted	19,580
Change in discount rate relating to trust fund liability	240
Recognition of reimbursement asset	(12,567)
(Profit) loss before interest and taxation	40,858

Costs charged directly to the income statement relate to expenditure incurred prior to the establishment of a provision at the end of the second quarter and ongoing operating costs of the GCRO. The accounting associated with the recognition of the trust fund liability and the expenditure which will be settled from the trust fund is described above.

The total charge in the income statement is analysed in the table below. Costs charged directly to the income statement in relation to spill response, environmental and litigation and claims are those that arose prior to recording a provision at the end of the second quarter of the year.

	$ Million
Trust fund liability—discounted	19,580
Change in discount rate relating to trust fund liability	240
Recognition of reimbursement asset	(12,567)
Other	8
Total charge relating to the trust fund	7,261
Spill response—amount provided	10,883
—costs charged directly to the income statement	2,745
Total charge relating to spill response	13,628
Environmental—amount provided	929
—change in discount rate relating to provisions	5
—costs charged directly to the income statement	70
Total charge relating to environmental	1,004
Litigation and claims—amount provided	14,939
—costs charged directly to the income statement	184
Total charge relating to litigation and claims	15,123
Clean Water Act penalties—amount provided	3,510
Other costs charged directly to the income statement	332
(Profit) loss before interest and taxation	40,858
Finance costs	77
(Profit) loss before taxation	40,935

The total amounts that will ultimately be paid by BP in relation to all obligations relating to the incident are subject to significant uncertainty as described above under Provisions and contingencies.

Response operations following the Deepwater Horizon incident in April 2010 have been managed by the federal government's response framework, which transitioned on 17 December from the Unified Area Command (UAC) to the Gulf Coast incident management team (GC-IMT). Both the UAC and now the GC-IMT link the organizations responding to the incident and provide a forum for those organizations to make consensus decisions. If consensus cannot be reached the US Coast Guard co-ordinator carries the final decision on response related actions deemed necessary. As such, the activities undertaken by BP and its sub-contractors, and the associated costs, are not wholly within BP's control. This will continue to be the case until control of the response operations transitions to the Gulf Coast Restoration Organization.

In particular, the centralized approval process established for the procurement of materials, equipment and personnel has not been used for all of the procurement activity that has taken place. The types of activity that fell outside the centralized approval process included aspects of the surface and shoreline response. Numerous personnel and vessels were involved in activities which included skimming, boom deployment and shoreline clean up. Due to the scale of the incident and the need to respond rapidly, procurement authority was vested with state on-scene co-ordinators, various responsible parties and various state and local government authorities. So long as the expenses incurred are found to be consistent with the National Contingency Plan, the responsible parties will be expected to pay these costs, regardless of whether or not they were involved in or approved the decision to procure the resource. With the large number of parties involved, the resulting funding flows are complex and resulted in difficulty maintaining real time monitoring of expenses.

Pre-tax cash flows amounted to $17,658 million and the impact on net cash provided by operating activities, on a post-tax basis, amounted to $16,019 million.

30. Trade and Other Receivables

	$ Million			
	2010		2009	
	Current	Non-Current	Current	Non-Current
Financial assets				
Trade receivables	24,255	—	22,604	—
Amounts receivable from jointly controlled entities	751	601	1,317	11
Amounts receivable from associates	448	220	417	298
Other receivables	4,763	1,342	4,949	1,420
	30,217	2,163	29,287	1,729
Non-financial assets				
Gulf of Mexico oil spill trust fund reimbursement asset[(a)]	5,943	3,601	—	—
Other receivables	389	534	244	—
	6,332	4,135	244	—
	36,549	6,298	29,531	1,729

[(a)] See Note 2 for further information.

Trade and other receivables are predominantly non-interest bearing. See Note 27 for further information.

Receivables with a carrying value of $18 million (2009 nil) have been pledged as security for certain of the group's liabilities.

IAS 19, *EMPLOYEE BENEFITS*

IFRIC 14, *IAS 19—THE LIMIT ON A DEFINED BENEFIT ASSET, MINIMUM FUNDING REQUIREMENTS AND THEIR INTERACTION*

IFRSs Overview and Comparison to U.S. GAAP

Author's Note

On 16 June 2011, the IASB issued a revised IAS 19, which is effective for annual reporting periods beginning on or after 1 January 2013, with early application permitted. The amendments to IAS 19 finalize proposals related to the accounting for termination benefits and include a revised definition and recognition and measurement requirements. The key changes are the following:

- *Termination benefits* are employee benefits provided in exchange for the termination of an employee's employment as a result of either of the following:
  - — An entity's decision to terminate an employee's employment before the normal retirement date
  - — An employee's decision to accept an offer of benefits in exchange for the termination of employment
- An entity should recognize a liability and expense for termination benefits at the earlier of the following dates:
  - — When the entity can no longer withdraw the offer of those benefits
  - — When the entity recognizes costs for a restructuring that is within the scope of IAS 37 and that involves the payment of termination benefits
- An entity should measure the liability for termination benefits, both initially and subsequently, according to the nature of the employee benefit, provided that if the benefit is an enhancement of a postemployment benefit, the liability is measured in accordance with the requirements of IAS 19 for those benefits.

None of the survey companies could have adopted these amendments in their 2010 financial statements. The discussion of termination benefits in the following commentary reflects the requirements of IAS 19, as applicable in 2010.

2.308 *Employee benefits*, as defined in IAS 19, are all forms of consideration given by an entity for services rendered by its employees. An entity should account for all employee benefits in accordance with IAS 19, except those to which IFRS 2, *Share-based Payment*, applies.

2.309 IAS 19 recognizes that an entity can provide employee benefits under agreements with individual or groups of employees, legislative requirements or industry arrangements, or informal arrangements that give rise to constructive obligations. *Constructive obligations* are defined as those in which an entity indicates to other parties by its past actions, published policy, or current statements that it will accept certain responsibilities and, hence, creates a valid expectation in affected parties that those responsibilities will be discharged. For example, an entity can have a constructive obligation for an employee benefit when it has always given its employees a set amount of money as a holiday bonus, even though it has no legal or contractual obligation to do so.

2.310 IAS 19 establishes separate requirements for four types of employee benefits: short-term benefits, long-term benefits, postemployment benefits, and termination benefits. Employee benefits include those provided directly to employees, their spouses or dependents, or others (for example, insurance companies). Employees include personnel providing services to an entity on a full-time, part-time, permanent, casual, or temporary basis and also include directors and other management personnel.

Recognition and Measurement

IFRSs

2.311 Unless another IFRS permits an amount to be included in the cost of an asset, IAS 19 requires an entity to recognize a liability for the undiscounted amount of short-term benefits it expects to pay for employee services, after deducting amounts already paid, and a corresponding expense in profit or loss. When amounts already paid exceed the undiscounted amount of the benefits, the entity should recognize an asset (prepaid expense). Short-term benefits include salaries and wages; Social Security contributions; paid sick leave or vacation leave (short-term compensating absences); profit sharing and bonuses payable within 12 months after the end of the period that the employee rendered service; and nonmonetary benefits, such as medical care, cars, and free or subsidized goods.

2.312 With respect to short-term compensating absences, an entity should recognize a liability for the expected cost. When compensating absences can be accumulated (that is, the employee's entitlement can be carried forward to future periods), the entity recognizes the expected cost when service increases the employee's entitlement to the benefit. Otherwise, the entity should recognize the expected cost when the absence occurs. An entity should measure the expected cost of accumulating compensating absences as the additional amount it expects to pay as a result of the entitlement carried forward to the next period.

2.313 An entity should recognize the expected cost of profit sharing and bonus plans when it has a present legal or constructive obligation to make payments as a result of past events and it can make a reliable estimate of its liability. An entity has a present obligation when it has no realistic alternative but to make the payments. Estimates should take into account the fact that some employees may leave without receiving a bonus. An entity should include any payments due beyond 12 months with long-term employee benefits.

2.314 Postemployment benefits include pensions and other benefits, such as insurance and medical care. IAS 19 establishes the requirements for accounting for both defined contribution and defined benefit postemployment benefit plans. *Defined contribution plans* are defined as those in which the entity's legal or constructive obligation is limited to the

agreed contributions to the plan; therefore, the employee bears the actuarial risk that benefits will be less than expected and investment risk that the assets will be insufficient to meet the expected benefits. All other plans are considered defined benefit plans for the purposes of accounting in accordance with IAS 19.

2.315 For defined contribution plans, an entity should recognize liabilities for contributions payable in exchange for employee service and a corresponding expense in profit or loss, unless appropriately included in the cost of another asset. When payments exceed the liability, an entity should recognize an asset (prepaid expense) for the excess. An entity should discount contributions payable beyond 12 months and, in most circumstances, should use a discount rate determined by reference to market yields on high-quality corporate bonds, with consistent currency and estimated maturity.

2.316 Accounting for defined benefit plans under IAS 19 is more complex than that for defined contribution plans. To determine the amount of a liability and the associated expense to recognize in the current period, an entity should take the following steps, separately, for each defined benefit plan:

a. Use actuarial techniques to reliably estimate the amount of the benefit earned.
b. Discount the benefit using the projected unit credit method to determine the present value of the defined benefit obligation.
c. Determine the fair value of any plan assets.
d. Determine the total amount of actuarial gains and losses and the amount to be recognized in the current period.
e. Determine any past service cost resulting from the introduction of a new plan or change to an existing plan.
f. Determine the resulting gain or loss from a plan curtailment or settlement.

2.317 An entity should apply the requirements of IAS 19 not only to its legal obligations but also to its constructive obligations, with the understanding that a constructive obligation exists when failure to pay benefits would result in unacceptable damage to an entity's relationship with employees.

2.318 An entity should recognize a net defined benefit obligation as the present value of the defined benefit obligation (calculated as described previously) adjusted by the following amounts:

- Net unrecognized actuarial gains (or losses)
- Unrecognized past service cost
- Fair value of the plan assets available to settle the liability

2.319 An entity should determine the present value of the defined benefit obligation and fair value of the plan assets with sufficient regularity so that amounts recognized are not materially different from those that it would determine at the balance sheet date.

2.320 An entity should not recognize a defined benefit asset at an amount more than the present value of economic benefits available in the form of refunds or reductions in future contributions (asset ceiling). IAS 19 includes specific requirements for recognition of any gains or losses that might result from application of this constraint. IFRIC 14, *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, provides guidance on the recognition of an entity's right to a refund or contribution reduction, as well as how a minimum funding requirement affects the availability of reductions in future contributions and might give rise to a liability.

2.321 Except to the extent that it may be included in the cost of an asset, an entity should recognize the net total of the following amounts as an expense in profit or loss:

- Service cost
- Interest cost
- Expected return on plan assets and any reimbursement rights
- Actuarial gains or losses, if any (subsequently described)
- Past service cost
- Effect of any curtailments or settlements
- Effect of the asset ceiling

2.322 IAS 19 gives an entity two alternatives for recognizing the effects of actuarial gains and losses in profit or loss. An entity may recognize only a portion of actuarial gains and losses in profit or loss using the corridor method. An entity should apply the corridor method separately to each plan to amortize unrecognized actuarial gains or losses to profit or loss. To determine the amount to be included in expense using the corridor method, an entity takes the following steps:

a. Determine the amount by which the net cumulative unrecognized actuarial gains and losses exceed the greater of 10 percent of the present value of the defined benefit obligation and 10 percent of the fair value of the plan assets. (If this amount is zero or negative, no expense is recognized.)
b. Divide the excess, if any, by the expected average remaining working lives of plan participants and recognize this amount as an expense. (If there is no excess, no expense is recognized.)

2.323 Alternatively, an entity may use another systematic method of amortizing unrecognized actuarial gains and losses as long as the selected method recognizes these gains and losses faster than the corridor method. When an entity chooses to recognize all actuarial gains and losses on all its defined benefit plans in the period in which they occur, it should recognize them in other comprehensive income. When so recognized, these actuarial gains and losses will never affect profit or loss in the future.

2.324 Multiemployer plans (that is, asset pools from contributions by entities that are not under common control to be used to provide benefits to employees of more than one entity) can be either defined contribution or defined benefit plans. When these plans are defined benefit plans, an entity should apply defined benefit plan accounting in accordance with IAS 19, unless insufficient information is available. In the latter case, the entity should apply defined contribution accounting and make additional disclosures. An entity should account for state plans (established by legislation for all entities or all entities in a particular category) as if the plans were multiemployer plans.

2.325 When the risks of a defined benefit plan are shared among entities under common control, the plan is not considered to be a multiemployer plan. An entity participating in such a plan should not claim it does not have sufficient information to apply defined benefit plan accounting. IAS 19 provides guidance about how the individual entity should account for its participation in these plans in its separate financial statements. In addition, participation in these plans is

considered a related party transaction and additional disclosures are required, in accordance with IAS 24, *Related Party Disclosures*.

2.326 An entity should treat insured benefits as defined contribution plans, unless it has a remaining legal or constructive obligation to pay benefits or further amounts if the insurer does not pay. An entity should account for any remaining legal or constructive obligation as a defined benefit plan.

2.327 An entity might offer other types of long-term employee benefits, such as sabbaticals, housing, disability benefits, or deferred compensation. An entity should recognize and measure the liability and related expense for these benefits in a manner similar to that for postemployment benefit obligations except that it recognizes any actuarial gains and losses and past service cost immediately in profit or loss.

2.328 An entity should recognize termination benefits as a liability and expense when the entity is demonstrably committed to terminate employment before normal retirement or to provide such benefits due to an offer encouraging voluntary termination. IAS 19 states that an entity is only demonstrably committed when it has a detailed formal plan for termination, with no realistic possibility of withdrawing. IAS 19 requires an entity to include specific items in such a plan (for example, termination benefits by job category). An entity should measure termination benefits due within 12 months at the amount payable and those due beyond 12 months at present value using a similar interest rate as that required for defined contribution plans.

U.S. GAAP

2.329 Accounting for short-term and long-term employee benefits is similar under FASB ASC and IFRSs, especially with respect to compensating absences. Consistent with FASB ASC 710-10-25-1, obligations and corresponding expenses are generally recognized when the settlement of the obligation is probable and the amount can be measured reasonably (reliably in IFRSs). However, FASB ASC 710-10-25-4 makes a distinction for certain sabbatical leaves by explaining that when the purpose of a sabbatical leave is solely for research or public service expected to enhance the reputation or otherwise benefit the entity in the future, an entity should not consider the sabbatical a benefit related to the employee's past service. Therefore, an entity should not accrue the liability in advance.

2.330 The FASB ASC glossary defines *defined contribution plan* more directly than IFRSs. Such a plan is one that provides an individual account for each participant and provides benefits based on amounts contributed to the participant's account by the employer or employee, investment experience, and any forfeitures allocated to the account less any administrative expenses charged to the plan. The accounting for such plans is similar to IAS 19, except FASB ASC 715-70-35-1 states that when a plan requires an entity to make contributions after the employee terminates or retires, the entity should accrue the estimated cost during the employee's service period.

2.331 Like IFRSs, when a plan does not meet the definition of *defined contribution plan*, an entity should account for it as a defined benefit plan.

2.332 Although the accounting for postemployment benefit plans is similar under both FASB ASC and IFRSs, several important differences exist, including the following:

- The FASB ASC glossary defines the following two obligations:
  - —*Projected benefit obligation* (PBO) is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered up to the date the PBO is calculated. An entity should measure the PBO using assumptions about future compensation levels if the pension benefit formula is based on those future compensation levels (for example, career-average-pay plans).
  - —*Accumulated postretirement benefit obligation* (APBO) is the actuarial present value of all future benefits attributed to an employee's service rendered to the date the APBO is calculated, based on the assumption that the plan will continue in effect and that all assumptions about future events are fulfilled. The APBO generally reflects a pro rata allocation of expected future benefits to employee service already rendered in the attribution period. Before an employee's full eligibility date, that employee's APBO as of a particular date is the portion of the expected postretirement benefit obligation attributed to that employee's service rendered to that date. On and after the full eligibility date, the accumulated and expected postretirement benefit obligations for an employee are the same.
- FASB ASC 715-60-35-79 requires an entity to select a discount rate to compute the present value of the defined benefit obligation based on either of the following:
  - —Interest rate inherent in the amount at which the postretirement benefit obligation could be settled, if it is possible to settle the obligation with third-party insurers
  - —Yields currently available on high-quality, fixed-rate investments whose cash flows match the timing and amount of expected benefit payments (FASB ASC 715-60-35-80 requires the use of rates on high-quality, fixed-rate investments for other postretirement obligations)
- FASB ASC 715-30-35-36 states that an entity should use the projected unit credit method to determine the obligation for pay-related plans, such as final-pay and career-average-pay plans. Unlike IFRSs, this paragraph further states that entities should use the benefit-years-of-service approach when the benefit formula defines benefits similarly for all years of service.
- An entity should calculate the expected return on plan assets based on the *market-related value of plan assets*, defined in the FASB ASC glossary as either the fair value or a calculated value that recognizes changes in fair value in a systematic and rational manner over a period not longer than five years.
- An entity should accumulate in other comprehensive income (*a*) gains and losses not included in pension expense, including gains and losses resulting from changes in experience (for example, the difference between the actual and expected return on plan assets) and assumptions (for example, actuarial assumptions), as stated by FASB ASC 715-60-35-25, and (*b*) prior service costs, as stated by FASB ASC 715-60-35-16. (FASB ASC 715-60-35-31 permits an entity to use the same corridor method used in IAS 19 or another method

that recognizes gains and losses more quickly if the method is used consistently and treats gains and losses in the same way. However, the entity should recognize the minimum amortization in any period in which it is greater [reduces the net gain or loss balance by more] than the amount that the entity would recognize under the method used.)

2.333 The FASB ASC glossary defines *multiemployer plans* similarly to IFRSs. However, FASB ASC 715-80-35-1 explains that an entity should recognize as net pension cost or net periodic postretirement benefit cost the required contributions to multiemployer plans, rather than use defined benefit accounting, as would generally be required under IFRSs.

2.334 Under FASB ASC, an entity should account for termination benefits depending upon the type of arrangement. As noted by FASB ASC 715-30-25-10, when the benefits are contractual, an entity should recognize a liability and expense loss when it is probable that employees will be entitled to benefits and it can reasonably estimate the liability. These conditions may not be met until the entity acts. When an employer offers special termination benefits to employees, the entity recognizes a liability and loss when the employees accept the offer and it can reasonably estimate the amounts to be paid. As stated by FASB ASC 715-30-55-189, a plan that provides termination benefits for virtually all employees is considered a pension plan. Such plans are either defined contribution or defined benefits plans and should be accounted for accordingly.

2.335 Under FASB ASC 420-10, an entity that provides involuntary termination benefits associated with exit or disposal activities (one-time termination benefits) is subject to similar conditions to those in IFRSs and should account for these benefits in a similar manner.

Presentation

IFRSs

2.336 IAS 1 does not require assets and liabilities associated with postemployment benefit plans to be shown as separate line items. However, IAS 19 prohibits an entity from offsetting assets and liabilities related to different plans in the balance sheet, unless it has a legal right to use a surplus in one plan to settle a liability in another and it intends to do so. IAS 19 does not provide guidance on whether an entity should disaggregate these assets and liabilities into current and noncurrent portions.

U.S. GAAP

2.337 Paragraphs 2–3 of FASB ASC 715-20-45 contains guidance for classification of defined benefit retirement plans on the balance sheet. Otherwise, FASB ASC does not prescribe any particular presentation for employee benefits in the financial statements.

Disclosure

IFRSs

2.338 IAS 24 requires disclosure of key management personnel compensation and, together with the general guidance of IAS 1, specific disclosures of employee benefits. Although IAS 19 does not require specific disclosures about short-term or long-term employee benefits, other than the subsequently discussed disclosures required for defined benefit and defined contribution plans, the requirements of IAS 1 and IAS 24 still apply.

2.339 With respect to defined contribution benefit plans, an entity should disclose the amount recognized as an expense during the period.

2.340 With respect to defined benefit plans, an entity should disclose descriptions of the type(s) of plans and its accounting policy choice for recognition of actuarial gains and losses. An entity should disclose a reconciliation of the beginning and ending balances of the following:

- Present value of the defined benefit obligation
- Fair value of the plan assets
- Reimbursement rights, if any

2.341 In these reconciliations, an entity should disclose, when applicable, the separate components of expense (for example, service cost, interest cost, and so on); contributions to the plan and payments to beneficiaries; effects of business combinations and disposals; and any foreign currency adjustments. An entity should also reconcile the balances in the net benefit obligation, plan assets, and amounts recognized in the balance sheet, including any unrecognized amounts (past service cost, actuarial gains and losses, asset due to the asset ceiling, and so on), and discuss any links between reimbursement rights and related obligation.

2.342 An entity should disclose an analysis of its defined benefit obligation into fully- or partially-funded and unfunded amounts.

2.343 An entity should disclose the amounts recognized in the statement of comprehensive income. For the expense recognized in profit or loss, an entity should disclose the components of the expense (for example, service cost and interest cost). For the amount recognized in other comprehensive income, an entity should separately disclose actuarial gains and losses and the effect of the asset ceiling. When the entity has opted to report all actuarial gains and losses of the period directly in other comprehensive income, the entity should disclose the cumulative amount recognized.

2.344 An entity should disclose the following with respect to defined benefit plans:

- Major categories of plan assets
- Percentage or amount of each major category of the fair value of plan assets
- Any property occupied or assets used by the entity
- Rate of return on plan assets, including a narrative describing the method used to determine the expected return and the effects of major categories
- Actual return on plan assets and recognized reimbursement rights

2.345 An entity should also disclose the following with respect to defined benefit plans:

- Information about actuarial assumptions used (for example, discount rates, salary increases, and health care cost trends)
- Effect of one percentage point change in health care cost trend on the aggregate of service and interest cost of net postemployment medical costs and net postemployment benefit obligation
- Historical information about the net benefit obligation and fair value of plan assets, including experience adjustments
- Best estimate of expected contributions to the plan in the next reporting period

2.346 IAS 19 does not require specific disclosure of termination benefits. However, the requirements of IAS 1 and IAS 24 both apply. In addition, uncertainty about whether, or how many, employees will accept an offer of voluntary termination may give rise to a contingent liability. In this case and with respect to restructuring activities, an entity should recognize and disclose such a contingency in accordance with IAS 37.

U.S. GAAP

2.347 Although the principal required disclosures are the same as those required under IFRSs, FASB ASC 715-20-50 disclosure requirements are more extensive and, for example, include the following:

- Description of how the entity makes investment allocation decisions
- Inputs and valuation techniques used to measure the fair value of plan assets
- Effect of fair value measurements using significant unobservable inputs (level 3) on changes in plan assets for the period
- Significant concentrations of risk within plan assets
- Accumulated benefit obligation for defined benefit plan
- Benefits expected to be paid in each of the next five fiscal years and in the aggregate for the five fiscal years thereafter

FASB ASC 715-70-50 and 715-80-50 include specific disclosure requirements for defined contribution plans and multiemployer plans, respectively.

2.348 Paragraphs 2–4 of FASB ASC 715-20-50 also include conditions under which disclosures about plans in different jurisdictions or plans with different funding statuses can be combined or should be shown separately.

2.349 With respect to other postemployment benefits, FASB ASC 715-60-50 requires additional disclosures on the impact of subsidies from the Medicare Prescription Drug, Improvement, and Modernization Act of 2003.

2.350 Unlike IFRSs, when termination benefits are a major cost of an exit and disposal activity, FASB ASC 420-10-50-1 requires an entity to disclose the total expected amount, amount incurred in the period, and cumulative amount incurred to date. An entity should also provide a reconciliation of beginning and ending balances in the liability showing adjustments to the liability, amounts incurred and charged to expense, and costs paid or otherwise settled and should explain why the entity made such adjustments.

Presentation and Disclosure Excerpts

Current Liabilities: Employee Entitlements

2.351

Rio Tinto Limited and Rio Tinto plc (Dec 2010)

GROUP STATEMENT OF FINANCIAL POSITION (in part)

At 31 December

	Note	2010 US$m	2009 US$m
Current liabilities			
Bank overdrafts repayable on demand	21	(7)	(91)
Borrowings	22	(1,057)	(756)
Trade and other payables	25	(6,576)	(5,759)
Other financial liabilities	26	(265)	(412)
Tax payable		(2,773)	(1,329)
Provisions	27	(1,117)	(1,182
		(11,795)	(9,529)
Non-current liabilities			
Borrowings	22	(13,277)	(22,155)
Trade and other payables	25	(879)	(591)
Other financial liabilities	26	(416)	(601)
Tax payable		(417)	(299)
Deferred tax liabilities	18	(5,175)	(4,304)
Provision for post retirement benefits	27	(4,339)	(4,993)
Other provisions	27	(9,023)	(7,519)
		(33,526)	(40,462)
Liabilities of disposal groups held for sale	19	(1,807)	(1,320)
Total liabilities		(47,128)	(51,311)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

25. Trade and Other Payables

	Non-Current 2010 US$m	Current 2010 US$m	Non-Current 2009 US$m	Current 2009 US$m
Trade payables	—	2,068	—	1,959
Amounts owed to equity accounted units	505	222	197	205
Other payables[(a)]	138	865	128	512
Employee entitlements	—	681	—	856
Royalties and mining taxes	—	594	—	325
Accruals and deferred income	109	2,097	125	1,865
Government grants deferred	127	49	141	37
	879	6,576	591	5,759

[(a)] "Other payables" include deferred consideration of US$108 million (2009: US$119 million) relating to certain assets acquired. The deferred consideration is included at its net present value. The amortisation of the discount applied in establishing the net present value is treated as a finance cost. All other accounts payable and accruals are non-interest bearing.

Due to their short term maturities, the fair value of trade and other payables approximates their carrying value.

27. Provisions (not including taxation)

	Pensions and Post Retirement Healthcare US$m[(a)]	Other Employee Entitlements US$m[(b)]	Close Down and Restoration Environmental[(c)(d)(e)]	Other US$m	Total 2010 US$m	Total 2009 US$m
At 1 January	5,150	795	6,916	833	13,694	10,933
Adjustment on currency translation	(68)	63	465	1	461	913
Amounts capitalised	—	—	872	—	872	268
Subsidiaries now equity accounted	—	—	—	—	—	(277)
Charged/(credited) to income statement:						
—new provisions	—	209	—	20	229	62
—increases to existing provisions	346	124	123	62	655	769
—unused amounts reversed	—	(25)	(48)	(1)	(74)	(82)
—exchange (gains)/losses on provisions	—	(4)	97	4	97	181
Amortisation of discount	—	4	293	2	299	255
Utilised in year	(1,110)	(272)	(102)	(133)	(1,617)	(833)
Actuarial losses recognised in equity	860	—	—	—	860	693
Transfers (to)/from assets held for sale	(718)	(21)	(19)	(71)	(829)	774
Transfers and other movements	12	(7)	5	(178)	(168)	38
At 31 December	4,472	866	8,602	539	14,479	13,694
Statement of Financial Position Analysis:						
Current	133	508	267	209	1,117	1,182
Non-current	4,339	358	8,335	330	13,362	12,512
Total	4,472	866	8,602	539	14,479	13,694

[(a)] The main assumptions used to determine the provision for pensions and post retirement healthcare, and other information, including the expected level of future funding payments in respect of those arrangements, are given in note 50.

[(b)] The provision for other employee entitlements includes a provision for long service leave of US$267 million (2009: US$205 million), based on the relevant entitlements in certain Group operations and includes US$132 million (2009: US$229 million) of provision for redundancy and severance payments. On 1 July 2010, the Performance Share Plan (formerly the Mining Companies Comparative Plan) was redesignated from cash-settled to equity-settled due to a change in settlement terms. This resulted in a provision balance of US$57 million being reclassified to reserves, refer to note 30. Further details of the plan's treatment are provided in note 49.

[(c)] The Group's policy on close down and restoration costs is described in note 1(k). Close down and restoration costs are a normal consequence of mining, and the majority of close down and restoration expenditure is incurred at the end of the relevant operation. Remaining lives of mines and infrastructure range from one to over 50 years with an average, weighted by closure provision, of around 21 years (2009: 23 years). Although the ultimate cost to be incurred is uncertain, the Group's businesses estimate their respective costs based on feasibility and engineering studies using current restoration standards and techniques. Provisions of US$8,602 million (2009: US$6,916 million) for close down and restoration costs and environmental clean up obligations include estimates of the effect of future inflation and have been adjusted to reflect risk. These estimates have been discounted to their present value at an average rate of approximately four per cent per annum, being an estimate of the long term, risk free, pre-tax cost of borrowing. Excluding the effects of future inflation, and before discounting, this provision is equivalent to some US$12.3 billion (2009: US$10.1 billion).

[(d)] Some US$687 million (2009: US$505 million) of environmental clean up expenditure is expected to take place within the next five years. The remainder includes amounts for the operation and maintenance of remediation facilities in later years. The provision for environmental clean up expenditure includes the issue described in (e) below.

[(e)] Includes provision for remediation of contamination of ground water in the vicinity of the Bingham Canyon mine as a result of the agreement between Kennecott Utah Copper (KUC) with the US Environmental Protection Agency (EPA) and the State of Utah in 1995. In September 2008, the EPA withdrew its proposal to list the Kennecott South Zone Site on the Superfund National Priorities List. This action recognises that soil clean up work is complete and that groundwater clean up is adequately initiated and financial assurance is in place to assure completion of the work.

Defined Contribution Benefit Plans, Funded and Unfunded Defined Benefit Plans, Immediate Recognition of Actuarial Gains and Losses in Other Comprehensive Income, Recognition of Assets

2.352

Companhia de Bebidas das Américas (American Beverage Company)—Ambev (Dec 2010)

CONSOLIDATED BALANCE SHEETS (in part)

As at December 31, 2010 and 2009
(Expressed in millions of Brazilian Reais)

	Note	2010	2009
Assets			
Non-current assets			
Property, plant and equipment	13	7,032.3	6,595.1
Goodwill	14	17,441.8	17,527.5
Intangible assets	15	1,823.2	1,932.6
Investments in associates		18.5	24.3
Investment securities	16	208.7	246.9
Deferred tax assets	17	1,089.8	1,368.5
Employee benefits	24	20.9	13.7
Trade and other receivables	19	2,132.1	2,089.3
		29,767.4	29,797.9
Current assets			
Investment securities	16	1,069.3	73.3
Inventories	18	1,905.2	1,488.1
Income tax receivable		181.2	986.2
Trade and other receivables	19	3,794.1	3,652.5
Cash and cash equivalents	20	5,909.3	4,042.9
Assets held for sale	21	51.8	60.2
		12,910.9	10,303.1
Total assets		42,678.3	40,101.0
Liabilities			
Non-current liabilities			
Interest-bearing loans and borrowings	23	4,164.2	6,460.2
Employee benefits	24	966.2	767.9
Deferred tax liabilities	17	548.7	502.2
Trade and other payables	26	1,343.4	663.6
Provisions	27	536.1	919.3
		7,558.6	9,313.2
Current liabilities			
Bank overdrafts	20	1.0	18.6
Interest-bearing loans and borrowings	23	2,606.2	801.1
Income tax and social contribution payable		701.6	1,295.9
Trade and other payables	26	7,142.9	6,279.9
Provisions	27	103.0	96.2
		10,554.9	8,491.7
Total liabilities		18,113.5	17,804.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

3. Summary of Significant Accounting Policies (in part)

(a) Basis of Preparation and Measurement

The consolidated financial statements were prepared in accordance with IFRS standards and the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") that were in force on December 31, 2010.

The consolidated financial statements are presented in millions of Brazilian Reais (R$), rounded to the nearest million indicated. Depending on the applicable IFRS requirement, the measurement basis used in preparing the financial statements is cost, net realizable value, fair value or recoverable amount. Whenever IFRS provides an option between cost and another measurement basis (e.g., systematic remeasurement), the cost approach is applied.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily evident from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or current and future periods if the revision affects such periods.

The Company believes that the following accounting policies reflect management´s most critical judgments, estimates and assumptions that are important to its business operations and the understanding of its results: business combinations, intangible assets, goodwill, impairment, provisions, share-based payments, employee benefits and accounting for current and deferred tax.

The fair value of acquired identifiable intangibles is based on an assessment of future cash flows. Impairment analyses of goodwill and indefinite-lived intangible assets are performed annually and whenever a triggering event has occurred, in order to determine whether the carrying value exceeds the recoverable amount. These calculations are based on estimates of future cash flows.

Management selects a variety of methods including the discounted cash flow method and option valuation models and make assumptions about the fair value of financial instruments that are mainly based on market conditions at each balance sheet date.

Actuarial assumptions are established to anticipate future events and are used in calculating pension and other postretirement benefit expense and liability. These factors include assumptions with respect to interest rates, expected return on plan assets, medical cost trend rates, rates of future salary increase, turnover rates, and longevity.

(s) Employee Benefits

Post-employment benefits include pensions managed in Brazil by Instituto Ambev de Previdência Privada—IAPP,

post-employment dental benefits and post-employment medical benefits managed by Fundação Zerrenner (formerly Fundação Antônio e Helena Zerrener Instituição Nacional de Beneficência—FAHZ). Usually, pension plans are funded by payments made by both the Company and its employees, taking into account the recommendations of independent actuaries. Post-employment dental benefits and post-employment medical benefits are maintained by the return on Fundação Zerrener's plan assets. If necessary, the Company may contribute some of its profit to the Fundação Zerrener.

The Company manages defined benefit and defined contribution plans for employees of its companies located in Brazil and in its subsidiaries located in Canada, Dominican Republic, Argentina and Bolivia.

Ambev maintains funded and unfunded plans.

Defined Contribution Plans

Payments to defined contribution plans are recognized as an expense in the income statement when incurred. A defined contribution plan is a pension plan under which Ambev pays fixed contributions into a fund. Ambev has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees for the benefits relating to employee service in the current and prior periods.

Defined Benefit Plans

For defined benefit plans, expenses are assessed separately for each plan using the projected unit credit method. The projected unit credit method takes into account each period of service as giving rise to an additional unit of benefit to measure each unit separately. Under this method, the cost of providing pensions is charged to the income statement during the period of service of the employee. The amounts charged to the income statement consist of current service cost, interest cost, the expected return of the plan assets, past service costs and the effect of any settlements and curtailments. The obligations of the plan recognized in the balance sheet are measured at the present value of the estimated future cash outflows using a discount rate equivalent to the government´s bond rates with maturity terms similar to those of the obligation, less any past service cost not recognized and the fair value of any plan assets. Past service costs result from the introduction of a new plan or changes to an existing plan. They are recognized in the income statement over the period the benefit vests. Actuarial gains and losses consist of the effects of differences between the previous actuarial assumptions and what has actually occurred and the effects of changes in actuarial assumptions. Actuarial gains and losses are fully recognized in Other comprehensive income.

Ambev recognizes assets (prepaid expenses) of its defined benefit plans, to the extent of the economic value of the benefit available to Ambev, from refunds or reductions in future contributions.

Other Post-Employment Obligations

The Company and its subsidiaries provide post-employment medical benefits, reimbursement of expenses with drugs and other benefits to certain retirees through Fundação Zerrenner. These benefits are not granted to new retirees. The expected costs of these benefits are recognized over the period of employment, using an accounting methodology similar to that for defined benefit plans.

Bonuses

Bonuses granted to employees and managers are based on financial performance indicators. The estimated amount of the bonus is recognized as an expense in the period the bonus is earned. To the extent that part of the bonus is settled in shares of the Company, these are accounted for as share-based payments.

9. Payroll and Related Benefits

	2010	2009	2008
Wages and salaries	1,642.7	1,694.8	1,588.3
Social security contributions	400.0	377.8	383.1
Other personnel cost	373.0	371.9	334.9
Increase/(decrease) in liabilities for defined benefit plans	(3.3)	63.2	62.8
Share-based payment	120.3	134.7	57.8
Contributions to defined contribution plans	6.7	7.4	10.4
	2,539.4	2,649.8	2,437.3
Average number of full time employees (FTE)	44,924	42,573	41,138

Payroll and related benefits by reportable segment:

	2010	2009	2008
LAN (Brazil and Hila-ex)	1,482.4	1,467.3	1,291.1
LAS	384.5	401.7	427.9
Canada	672.4	780.9	718.2
	2,539.3	2,649.9	2,437.2

24. Employee Benefits

Ambev provides post-employment benefits, including pension benefits and medical and dental care. Pursuant to IAS 19 *Employee Benefits*, post-employment benefits are classified as either defined contribution or defined benefit plans.

Defined Contribution Plans

These plans are funded by the participants and the sponsors, and are managed by privately administered pension funds. During 2010, the Company contributed R$6.7 (R$7.4 and R$7.3 in 2009 and 2008, respectively) to these funds, which were recorded as an expense. Once the contributions have been paid, the Company has no further payment obligations.

Defined Benefit Plans

The Company provides pension benefits, health care benefits, reimbursement of expenses for drugs and other benefits to retirees. Such benefits are not granted to new retirees.

At December 31, the net liability for long-term and post-employment benefits consists of the following:

(Expressed in Millions of Brazilian Reais)	2010	2009	2008
Present value of funded obligations	(3,325.9)	(2,997.6)	(2,942.1)
Fair value of plan assets	3,471.2	3,315.1	3,138.9
Present value of net obligations	145.3	317.5	196.8
Present value of unfunded obligations	(515.4)	(468.9)	(488.3)
Present value of net obligations	(370.1)	(151.4)	(291.5)
Unrecognized past service cost	1.4	2.7	5.8
Unrecognized assets	(576.9)	(605.2)	(466.7)
Net liability	(945.6)	(753.9)	(752.4)
Other long term employee benefits	0.3	(0.3)	(12.0)
Total employee benefits	(945.3)	(754.2)	(764.4)
Employee benefits amount in the balance sheet:			
Liabilities	(966.2)	(767.9)	(784.3)
Assets	20.9	13.7	19.9
Net liabilities	(945.3)	(754.2)	(764.4)

The changes in the present value of the defined benefit obligations were as follows:

(Expressed in Millions of Brazilian Reais)	2010	2009	2008
Defined benefit obligation at January 1	(3,466.5)	(3,430.4)	(3,771.4)
Service cost	(34.0)	(48.2)	(68.1)
Interest cost	(253.3)	(252.8)	(234.6)
New unvested past service cost	(6.4)	5.5	(3.0)
Contributions by plan participants	(4.2)	—	—
Actuarial gains and (losses)	(358.1)	(374.8)	495.5
Gains/(losses) on settlements or curtailments	—	22.2	—
Reclassifications	—	3.0	—
Effects of exchange rate changes	(11.9)	343.6	(99.7)
Benefits paid	293.1	265.4	250.9
Defined benefit obligation at December 31	(3,841.3)	(3,466.5)	(3,430.4)

The changes in the fair value of plan assets are as follows:

(Expressed in Millions of Brazilian Reais)	2010	2009	2008
Fair value of plan assets at January 1	3,315.1	3,138.9	3,534.5
Expected return	298.2	268.0	283.2
Actuarial gains and (losses)	25.8	331.0	(645.9)
Contributions by employer	108.8	103.3	136.1
Contributions by plan participants	4.2	4.0	3.7
Effects of exchange rate changes	12.7	(258.1)	78.2
Transfers	—	(6.6)	—
Benefits paid	(293.6)	(265.4)	(251.0)
Fair value of plan assets at 31 December	3,471.2	3,315.1	3,138.8

Expected return on plan assets generated a gain of R$30.2 (Loss of R$ (15.2) in 2009 and R$ (27.5) in 2008).

The expense recognized in the income statement with regard to defined benefit plans is detailed as follows:

(Expressed in Millions of Brazilian Reais)	2010	2009	2008
Current service costs	(34.0)	(28.6)	(43.5)
Interest cost	(253.3)	(252.8)	(234.7)
Expected return on plan assets	298.2	268.0	283.2
Amortized past service cost	(7.6)	(14.4)	(0.5)
New vested past service cost	—	(15.5)	(17.7)
(Gains) losses on settlements or curtailments	—	39.6	—
Recognized past service cost	—	—	(3.1)
Asset limitation	—	(59.5)	(46.5)
	3.3	(63.2)	(62.8)

The employee benefit expenses are included in the following line items in the income statement:

(Expressed in Millions of Brazilian Reais)	2010	2009	2008
Cost of sales	(17.3)	(24.3)	(15.7)
Sales and marketing expenses	(27.4)	(28.9)	(25.3)
Administrative expenses	48.1	1.3	(21.8)
Other operating income and expense	—	(11.3)	—
	3.4	(63.2)	(62.8)

The assumptions used in the calculation of the obligations are as follows:

	2010	2009	2008
Discount rate	7.0%	10.5%	8.1%
Future salary increases	4.2%	3.5%	3.8%
Future pension increases	2.9%	3.5%	2.4%
Medical cost trend rate	7.4% p.a. reducing to 5.5%	12.3% p.a. reducing to 8.2%	8.9% p.a. reducing to 6.6%
Dental claims trend rate	4.5%	6.2%	4.6%
Life expectation for an over 65 years old male	84	80	80
Life expectation for an over 65 years old female	87	84	85

The assumptions used in the calculation of the periodic pension costs are as follows[(i)]:

	2010	2009	2008
Discount rate	10.5%	8.1%	6.6%
Expected return on plan assets	8.8%	13.2%	8.4%
Future salary increases	3.5%	3.8%	3.6%
Future pension increases	3.5%	2.4%	2.3%
Medical cost trend rate	12.3% p.a. reducing to 8.2%	8.9% p.a reducing to 6.6%	9.2% p.a reducing to 6.5%
Dental claims trend rate	6.2%	4.6%	4.0%

(i) Since the assumptions are nominal rates in different currencies the Company has converted the foreign rates into Reais equivalents based on the two year forward currency exchange rates. The weighted average assumptions are calculated based on these Reais equivalents.

Assumed medical cost trend rates have a significant effect on the amounts recognized in profit or loss. A one percentage point change in the assumed medical cost trend rates would have the following effects (note that a positive amount refers to a decrease in the obligations or cost, while a negative amount refers to an increase in the obligations or cost):

	2010		2009		2008	
(Expressed in Millions of Brazilian Reais) Medical Cost Trend Rate	**100 Basis Points Increase**	**100 Basis Points Decrease**	**100 Basis Points Increase**	**100 Basis Points Decrease**	**100 Basis Points Increase**	**100 Basis Points Decrease**
Effect on the aggregate of the service cost and interest cost and of medical plans	(10.6)	11.1	(6.7)	5.8	(7.4)	6.2
Effect on the defined benefit obligation for medical cost	(70.5)	69.2	(65.9)	57.6	(57.1)	48.8

The disclosure requirements of IAS 1 *Presentation of Financial Statements* on the Company´s sensitivity analysis in relation to the discount rates, future salary increases and mortality rates is presented below:

	2010		2009		2008	
(Expressed in Millions of Brazilian Reais) Discount Rate	**50 Basis Points Increase**	**50 Basis Points Decrease**	**50 Basis Points Increase**	**50 Basis Points Decrease**	**50 Basis Points Increase**	**50 Basis Points Decrease**
Effect on the aggregate of the service cost and interest cost of defined benefit plans	1.5	0.1	1.3	(0.1)	1.4	(1.0)
Effect on the defined benefit obligation	217.5	(234.6)	177.1	(190.5)	156.7	(168.4)

	2010		2009		2008	
(Expressed in Millions of Brazilian Reais) Future Salary Increase	**50 Basis Points Increase**	**50 Basis Points Decrease**	**50 Basis Points Increase**	**50 Basis Points Decrease**	**50 Basis Points Increase**	**50 Basis Points Decrease**
Effect on the aggregate of the service cost	(1.7)	1.7	(0.8)	0.8	(1.1)	1.1
Effect on the defined benefit obligation	(12.4)	12.1	5.4	(5.5)	(6.3)	6.1

	2010		2009		2008	
(Expressed in Millions of Brazilian Reais) Longevity	**One Year Increase**	**One Year Decrease**	**One Year Increase**	**One Year Decrease**	**One Year Increase**	**One Year Decrease**
Effect on the aggregate of the service cost and interest cost of defined benefit plans	(5.7)	11.9	(4.1)	4.0	(8.9)	9.0
Effect on the defined benefit obligation	(115.6)	114.9	(61.8)	59.7	(89.8)	87.5

The data presented in these tables is purely hypothetical and are based on changes in individual assumptions holding all other assumptions constant; economic conditions and changes therein will often affect multiple assumptions at the same time and the effects of changes in key assumptions are not linear. Therefore, the above information is not necessarily a reasonable representation of future results.

The plan assets at December 31, consist of the following:

	2010	2009	2008
Government bonds	78%	27%	47%
Corporate bonds	0%	10%	13%
Equity	17%	60%	39%
Property	5%	3%	2%

The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated share in the total investment portfolio.

Ambev expects to contribute approximately R$84.0 to its defined benefit plans in 2011.

The historic four-year present value of defined benefit obligations, fair value of plan assets and pension reserve/contingency plans, is presented as follows:

	2010	2009	2008	2007
Present value of funded obligation	(3,325.9)	(2,997.6)	(2,942.1)	(3,227.4)
Fair value of plan assets	3,471.2	3,315.1	3,138.9	3,534.5
Pension/Contingency reserves	145.3	317.5	196.8	307.1
Experience adjustments: (increase)/decrease plan liabilities	(130.5)	(374.8)	495.5	43.2
Experience adjustments: increase/(decrease) plan assets	14.4	331.0	(645.9)	(34.4)

The present value of funded obligations include R$481.2 (R$402.3 in 2009 and R$333.3 in 2008) of two health care plans for which the benefits are provided directly by Fundação Zerrenner. Fundação Zerrenner is a legally distinct entity whose main goal is to provide Ambev's current and retired employees and managers with health care and dental assistance, technical and superior education courses, maintaining facilities for assisting and helping elderly people, among other things, through direct initiatives or through financial assistance agreements with other entities.

Ambev recognizes the assets of that plan (prepaid expenses) to the extent of the value of economic benefit available to the Company, from refunds or reductions in future contributions, in this case in an amount equivalent to the corresponding actuarial liabilities.

Defined Contribution Plans, Defined Benefit Plans, Recognition of Actuarial Gains and Losses Using the Corridor Approach, Curtailment and Settlement of a Defined Benefit Plan

2.353

Eni SPA (Dec 2010)

CONSOLIDATED BALANCE SHEET (in part)

(Euro Million)

		Dec. 31, 2009		Dec. 31, 2010	
	Note	Total Amount	Of Which With Related Parties	Total Amount	Of Which With Related Parties
Liabilities and Shareholders' Equity					
Non-current liabilities					
Long-term debt	(26)	18,064		20,305	
Provisions for contingencies	(27)	10,319		11,792	
Provisions for employee benefits	(28)	944		1,032	
Deferred tax liabilities	(29)	4,907		5,924	
Other non-current liabilities	(30)	2,480	49	2,194	45
		36,714		41,247	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

3. Summary of Significant Accounting Policies (in part)

Employee Benefits

Post-employment benefit plans, including constructive obligations, are classified as either defined contribution plans or defined benefit plans depending on the economic substance of the plan as derived from its principal terms and conditions. In the first case, the company's obligation, which consists of making payments to the State or a trust or a fund, is determined on the basis of contributions due. The liabilities related to defined benefit plans, net of any plan assets, are determined on the basis of actuarial assumptions and charged on an accrual basis during the employment period required to obtain the benefits.

The actuarial gains and losses of defined benefit plans are recognized pro-rata on service, in the profit and loss account using the corridor method, if and to the extent that net cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceed the greater of 10% of the present value of the defined benefit obligation or 10% of the fair value of the plan assets, over the expected average remaining working lives of the employees participating in the plan. Such actuarial gains and losses derive from changes in the actuarial assumptions used or from a change in the conditions of the plan. Obligations for long-term benefits are determined by adopting actuarial assumptions. The effect of changes in actuarial assumptions or a change in the characteristics of the benefit are taken to the profit or loss in their entirety.

5. Use of Accounting Estimates (in part)

Employee Benefits

Defined benefit plans are evaluated with reference to uncertain events and based upon actuarial assumptions including among others discount rates, expected rates of return on plan assets, expected rates of salary increases, medical cost trends, estimated retirement dates and mortality rates. The significant assumptions used to account for defined benefit plans are determined as follows: (i) discount and inflation rates reflect the rates at which benefits could be effectively settled, taking into account the duration of the obligation. Indicators used in selecting the discount rate include rates of annuity contracts and rates of return on high quality fixed-income investments. The inflation rates reflect market conditions observed country by country; (ii) the future salary levels of the individual employees are determined including an estimate of future changes attributed to general price levels (consistent with inflation rate assumptions), productivity, seniority and promotion; (iii) healthcare cost trend assumptions reflect an estimate of the actual future changes in the cost of the healthcare related benefits provided to the plan participants and are based on past and current healthcare cost trends including healthcare inflation, changes in healthcare utilization and changes in health status of the participants; (iv) demographic assumptions such as mortality, disability and turnover reflect the best estimate of these future events for individual employees involved, based principally on available actuarial data; and (v) determination of the expected rates of return on assets is made through compound averaging. For each plan, the distribution of investments among bonds, equities and cash and their specific average expected rate of return is taken into account. Differences between expected and actual costs and between the expected return and the actual return on plan assets routinely occur and are called actuarial gains and losses.

Eni applies the corridor method to amortize its actuarial losses and gains. This method amortizes on a pro-rata basis the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting period that exceed 10% of the greater of: (i) the present value of the defined benefit obligation; and (ii) the fair value of plan assets, over the average expected remaining working lives of the employees participating in the plan. Additionally, obligations for other long-term benefits are determined by adopting actuarial assumptions. The effect of changes in actuarial assumptions or a change in the characteristics of the benefit are taken to the profit or loss in their entirety.

28. Provisions for Employee Benefits

Provisions for employee benefits were as follows:

(Euro Million)	Dec. 31, 2009	Dec. 31, 2010
TFR	445	423
Foreign pension plans	204	295
Supplementary medical reserve for Eni managers (FISDE) and other foreign medical plans	107	108
Other benefits	188	206
	944	1,032

Provisions for indemnities upon termination of employment primarily related to the provisions accrued by Italian companies for employee termination indemnities ("TFR"), determined using actuarial techniques and regulated by Article 2120 of the Italian Civil Code.

The indemnity is paid upon retirement as a lump sum payment the amount of which corresponds to the total of the provisions accrued during the employees' service period based on payroll costs as revalued until retirement. Following the changes in regime, starting from January 1, 2007 the amount already then accrued and future benefits will be put in pension funds or the treasury fund held by the Italian administration for post-retirement benefits (INPS). For companies with less than 50 employees, it will be possible to continue the scheme as in previous years. Therefore, the allocation of future TFR provisions to pension funds or the INPS treasury fund determines that these amounts will be classified as costs to provide benefits under a defined contribution plan. Past unpaid amounts accrued before January 1, 2007 for post-retirement indemnities under the Italian TFR regime continue to represent costs to provide benefits under a defined benefit plan and must be assessed based on actuarial assumptions.

Pension funds are defined benefit plans provided by foreign subsidiaries located mainly in Nigeria and in Germany. Benefits under these plans consisted of payments based on seniority and the salary paid in the last year of service, or alternatively, the average annual salary over a defined period prior to retirement.

Group companies provide healthcare benefits to retired managers. Liability to these plans (FISDE and other foreign healthcare plans) and the current cost are limited to the contributions made by the company.

Other benefits primarily consisted of a deferred cash incentive plans, the long-term incentive plan and Jubilee awards. The provisions for the deferred cash incentive plans are assessed based on the estimated remuneration related to the probability of the company reaching planned targets that will be paid to managers reaching individual performance goals. The long-term incentive plan replaces the previous stock option assignments and provides for an incentive to be paid after a period of three years in an amount connected with the variation of a performance indicator. Jubilee awards are benefits due following the attainment of a minimum period of service and, for the Italian companies, consist of an in-kind remuneration.

The value of employee benefits, estimated by applying actuarial techniques, consisted of the following:

(Euro Million)	TFR	Foreign Pension Plans Gross Liability	Foreign Pension Plans Plan Assets	FISDE and Other Foreign Medical Plans	Other Benefits	Total
2009						
Current value of benefit liabilities and plan assets at beginning of year	443	802	(453)	94	168	1,054
Current cost	—	27	—	2	45	74
Interest cost	26	22	—	6	6	60
Amendments	—	81	—	10	—	91
Expected return on plan assets	—	—	(16)	—	—	(16)
Employee contributions	—	1	(42)	—	—	(41)
Actuarial gains/losses	18	301	(16)	9	4	316
Benefits paid	(41)	(45)	22	(7)	(39)	(110)
Curtailments and settlements	—	(15)	14	—	—	(1)
Currency translation differences and other changes	1	(28)	(9)	1	4	(31)
Current value of benefit liabilities and plan assets at end of year	447	1,146	(500)	115	188	1,396
2010						
Current value of benefit liabilities and plan assets at beginning of year	447	1,146	(500)	115	188	1,396
Current cost	—	42	—	2	50	94
Interest cost	22	36	—	6	6	70
Amendments	—	9	—	—	—	9
Expected return on plan assets	—	—	(20)	—	—	(20)
Employee contributions	—	1	(30)	—	—	(29)
Actuarial gains/losses	8	(22)	(4)	4	6	(8)
Benefits paid	(42)	(28)	9	(7)	(45)	(113)
Curtailments and settlements		(113)	115	—	—	2
Currency translation differences and other changes	(2)	38	(38)	—	1	(1)
Current value of benefit liabilities and plan assets at end of year	433	1,109	(468)	120	206	1,400

Other benefits of euro 206 million (euro 188 million at December 31, 2009) primarily concerned the deferred monetary incentive plan for euro 126 million (euro 119 million at December 31, 2009), jubilee awards for euro 59 million (euro 52 million at December 31, 2009) and the long-term incentive plan for euro 2 million.

Curtailments and settlements of foreign pension plans concerned a sale to third parties of obligations related to the pension plan and the relevant plan assets of Eni Lasmo Plc for euro 115 million with a net effect equal to zero.

The reconciliation analysis of benefit obligations and plan assets was as follows:

(Euro Million)	TFR Dec. 31, 2009	TFR Dec. 31, 2010	Foreign Pension Plans Dec. 31, 2009	Foreign Pension Plans Dec. 31, 2010	FISDE and Other Foreign Medical Plans Dec. 31, 2009	FISDE and Other Foreign Medical Plans Dec. 31, 2010	Other Benefits Dec. 31, 2009	Other Benefits Dec. 31, 2010
Present value of benefit obligations with plan assets	—	—	935	874	—	—	—	—
Present value of plan assets	—	—	(500)	(468)	—	—	—	—
Net present value of benefit obligations with plan assets	—	—	435	406	—	—	—	—
Present value of benefit obligations without plan assets	447	433	211	235	115	120	188	206
Actuarial gains (losses) not recognized	(2)	(10)	(442)	(273)	(6)	(9)	—	—
Past service cost not recognized	—	—	—	(73)	(2)	(3)	—	—
Net liabilities recognized in provisions for employee benefits	445	423	204	295	107	108	188	206

The net liability for foreign employee pension plans of euro 295 million (euro 204 million at December 31, 2009) included the liabilities related to joint ventures operating in exploration and production activities for euro 62 million and euro 121 million at December 31, 2009 and 2010, respectively. A receivable of an amount equivalent to such liability was recorded.

Costs charged to the profit and loss account were as follows:

(Euro Million)	TFR	Foreign Pension Plans	FISDE and Other Foreign Medical Plans	Other Benefits	Total
2009					
Current cost	—	27	2	45	74
Interest cost	26	22	6	6	60
Expected return on plan assets	—	(16)	—	—	(16)
Amortization of actuarial gains (losses)	—	10	7	4	21
Effect of curtailments and settlements	—	1	—	(3)	(2)
	26	44	15	52	137
2010					
Current cost	—	42	2	50	94
Interest cost	22	36	6	6	70
Expected return on plan assets	—	(20)	—	—	(20)
Amortization of actuarial gains (losses)	—	8	—	7	15
Effect of curtailments and settlements	—	5	—	—	5
	22	71	8	63	164

The main actuarial assumptions used in the evaluation of post-retirement benefit obligations at year-end and in the estimate of costs expected for 2011 were as follows:

(%)	TFR	Foreign Pension Plans	FISDE and Other Foreign Medical Plans	Other Benefits
2009				
Discount rate	5.0	2.7-11.0	5.0	2.0-5.0
Expected return rate on plan assets	—	4.0-13.0	—	—
Rate of compensation increase	3.0	2.7-14.0	—	—
Rate of price inflation	2.0	0.9-10.0	2.0	2.0
2010				
Discount rate	4.8	2.7-14.0	4.8	1.8-4.8
Expected return rate on plan assets	—	3.5-14.0	—	—
Rate of compensation increase	3.0	2.0-14.0	—	—
Rate of price inflation	2.0	0.8-13.0	2.0	2.0

With regards to Italian plans, demographic tables prepared by Ragioneria Generale dello Stato (RG48) were used. Expected return rate by plan assets has been determined by reference to quoted prices expressed in regulated markets.

Plan assets consisted of the following:

(%)	Plan Assets	Expected Return
Securities	13.0	6.4-7.4
Bonds	36.4	1.8-14.0
Real estate	2.0	6.4
Other	48.6	0.5-14.0
Total	100.0	

The effective return of the plan assets amounted to euro 24 million (nil at December 31, 2009).

With reference to healthcare plans, the effects deriving from a 1% change of the actuarial assumptions of medical costs were as follows:

(Euro Million)	1% Increase	1% Decrease
Impact on the current costs and interest costs	1	(1)
Impact on net benefit obligation	14	(12)

The amount expected to be accrued to defined benefit plans for 2011 amounted to euro 125 million.

The analysis of changes in the actuarial valuation of the net liability with respect to prior year deriving from the non-correspondence of actuarial assumptions with actual values recorded at year-end was as follows:

(Euro Million)	TFR	Foreign Pension Plans	FISDE and Other Foreign Medical Plans	Other Benefits
2009				
Impact on net benefit obligation	(7)	4	3	2
Impact on plan assets	—	(16)	—	—
2010				
Impact on net benefit obligation	(1)	(31)	1	4
Impact on plan assets	—	3	—	—

Senior Management Remuneration and Employment Termination Benefits

2.354

Vina Concha y Toro S.A. (Dec 2010)

Author's Note

Vina Conca y Toro S.A. implemented IFRSs effective December 31, 2010, with a date of transition of January 1, 2009. The excerpt that follows reflects the initial application of IAS 19.

CONSOLIDATED CLASSIFIED STATEMENTS OF FINANCIAL POSITION (in part)

Liabilities and Shareholders' Equity	Note N°	As of December 31, 2010 Th$	As of December 31, 2009 Th$	As of January 1, 2009 Th$
Liabilities				
Current liabilities				
Other current financial liabilities	(18)	30,732,214	36,891,049	75,069,473
Trade accounts payable and other current accounts payable	(20)	56,675,343	63,816,895	62,897,932
Current accounts payable to related companies	(10)	2,876,996	2,479,224	3,620,684
Other current provisions	(24)	14,687,986	18,621,917	21,530,839
Current tax liabilities	(22)	18,022,445	11,154,271	8,539,379
Other current non-financial liabilities	—	9,924,689	7,580,233	8,063,787
Total current liabilities		132,919,673	140,543,589	179,722,094
Non-current liabilities				
Other non-current financial liabilities	(18)	49,959,254	62,772,393	69,746,210
Other non-current accounts payable	(20)	2,137,049	2,211,541	2,393,975
Non-current accounts payable to related companies	(10)	1,452,471	1,664,255	1,947,240
Non-current liabilities due to deferred taxes	(21)	25,930,099	25,003,032	23,225,431
Non-current provisions due to benefits to employees	(24)	1,841,740	1,606,683	1,582,919
Total non-current liabilities		81,320,613	93,257,904	98,895,775
Total liabilities		214,240,286	233,801,493	278,617,869

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 2. Bases of Preparation and Presentation Used for These Financial Statements (in part)

2.17 Benefits to Employees

2.17.1 Vacations

Costs associated to personnel contractual benefits and related to services provided by employees during the year are charged to income in the related period.

2.17.2 Severance Indemnities

Company's management use assumptions in order to determine the best estimate of these benefits. The valuation of these obligations is performed through an actuarial calculation. The assumptions used in this calculation include the pension rotation hypothesis, the mortality rate, the discount rates the expected rise in remuneration and the future permanence, among other.

Actuarial gains or losses that can occur due to variations of defined pre-established obligations are directly recorded in income for the year.

Actuarial gains or losses arise from the deviations between estimates and actuality of the actuarial hypothesis behavior or in the reformulation of the established actuarial hypothesis.

Note 10. Transactions with Related Parties (in part)

10.4 Senior Management Remuneration

Managers and main executives participate in an annual bonuses plan through participation on income and goals achievements. The global remuneration of the Company's managers and main executives during the year, ended as of December 31, 2010 and 2009 is detailed as follows:

Senior Management Remuneration	As of 12-31-2010 Th$	As of 12-31-2009 Th$
Short-term benefits to employees	8,146,838	8,818,268
Contract termination benefit	173,632	81,858
Total remuneration	8,320,470	8,900,126

Note 18. Financial Liabilities (in part)

As of December 31, 2010, December 31, 2009 and January 1, 2009, the Company's financial liabilities are detailed as follows:

	Current			Non-Current		
Non-Guaranteed	**12-31-2010**	**12-31-2009**	**01-01-2009**	**12-31-2010**	**12-31-2009**	**01-01-2009**
Loans from financial entities	24,261,847	26,490,158	70,321,495	12,261,171	23,352,311	26,968,465
Obligations with the employees(*)	2,841,237	7,906,714	1,611,528	36,600,644	38,189,958	41,643,224
Financial lease	227,306	224,237	456,801	268,245	554,665	1,134,521
Notes payable	—	688,886	—	—	—	—
Derivatives	3,401,824	1,581,054	2,679,649	829,194	675,460	—
Total	30,732,214	36,891,049	75,069,473	49,959,254	62,772,393	69,746,210

(*) Valued at amortized cost except for obligations with the employees which are valued through the effective rate method.

Note 23. Benefits to Employees

23.1 Employee Benefits and Expenses

The movement in classes of expenses is detailed as follows:

Employee Benefits and Expenses	12-31-2010 Th$	12-31-2009 Th$
Participation in profits, bonuses and expenses	40,615,584	37,419,590
Participation in profits and bonuses, current	8,530,953	8,304,437
Personnel expenses	32,084,631	29,115,153
Wages and Salaries	26,167,412	24,057,522
Short-term benefits to employees	3,563,180	2,704,567
Expense for obligation of personnel benefits	346,589	325,366
Other long-term benefits	964,924	1,068,683
Other personnel expenses	1,042,526	959,015

23.2 Severance Indemnities Obligations

A. General Aspects:

Viña Concha y Toro and some of its subsidiaries located in Chile provide severance indemnity benefit plans to active employees which are determined and recorded in the financial statements following the criterion described in Note 2.23). These benefits are mainly referred to:

- Severance indemnity:

The beneficiaries receive the equivalent of a determined number of days per contractual years of service at his/her retirement date and/or due to cease of his/her functions. In case of dissociation due to a Company decision, beneficiaries receive the equivalent stipulated by law.

B. Openings, Movements and Presentation in Financial Statements:

Balances of obligations related with severance indemnities are as follows:

	12-31-2010 Th$	12-31-2009 Th$	01-01-2009 Th$
Severance indemnity obligation	1,841,740	1,606,683	1,582,919
Total	1,841,740	1,606,683	1,582,919

For the year ended as of December 31, 2010 and 2009 and as of January 1, 2009

Movement of obligations for employment termination for the year ended as of December 31, 2010 and December 31, 2009 is detailed as follows:

Employment Termination Benefits	Severance Indemnity Th$
Initial balance	1,582,919
Balance as of January 1, 2009	1,582,919
Current period costs of services	180,694
Cost for interest	68,995
Actuarial (Profits) losses	(28,069)
Paid benefits	(168,441)
Costs of past services	—
Other	(29,415)
Balance as of December 31, 2009	1,606,683
Current period costs of services	203,824
Cost for interest	78,291
Actuarial (Profits) losses	(6,188)
Paid benefits	(43,240)
Costs of past services	—
Other	2,370
Balance as of December 31, 2010	1,841,740

The main actuarial hypothesis used for the calculation of severance indemnity obligations as of December 31, 2010 and December 31, 2009 is detailed as follows:

Actuarial Hypothesis	As of December 31, 2010	As of December 31, 2009
Retirement rate	0.7%	0.7%
Mortality rate	RV-2004	RV-2004
Discount rate	5.0%	5.0%
Salary increase rate	3.5%	3.0%
Future permanence (years)	7.2	7.2

During the Company's Board meeting held on May 28, 2009 it was agreed to offer the balance of shares not subscribed by shareholders during the preferred option period (with charge to the Company's capital contribution agreed during the Shareholder's Board meeting held on December 18, 2008), between all the employees of Viña Concha y Toro S.A. and subsidiaries who voluntarily wish to participate in this program, at prorate of their age in the Company and salary, in the same price and subject to the same conditions offered to the shareholders during this period. Unsubscribed shares in the preferred option period reached a total of 1,674,591, equivalent to 5.98% of the new issuance (which correspond to 0.22% of the Company's total shares). Shares purchases reached Th$ 1,404,149 as of December 31, 2009.

The purpose of the explanation in the aforementioned paragraph is to establish a procedure for employees to effectively participate in the Company's property, as shareholders, and concentrate their efforts to achieve a greater value to the company and for their own investment.

The amounts recorded in the consolidated statement of comprehensive income by function as of December 31, 2010 and 2009 are as follows:

Recognized Expense of Employment Termination Benefits	For the Twelve Months Ended as of December 31 2010 Th$	2009 Th$
Cost of services for current period	203,824	180,694
Interest cost	78,291	68,995
Actuarial (Profits) losses	(6,188)	(28,069)
Paid benefits	256,958	25,474
Costs of past services	—	—
Other	—	—
Total expense recognized in the Consolidated Statement of Comprehensive Income by Function	532,885	247,093

IFRS 2, *SHARE-BASED PAYMENT*

IFRSs Overview and Comparison to U.S. GAAP

Author's Note

See section 3, beginning with paragraph 3.157, for an additional discussion of employee share-based payment transactions (such as, employee stock option plans) and a comparison to U.S. GAAP recognition and measurement requirements. Excerpts for equity-settled employee share-based payment compensation schemes are also provided in that section.

2.355 The objective of IFRS 2 is to reflect the effects of share-based payment transactions, whether with employees or others, on an entity's profit or loss and financial position of the reporting period. A *share-based payment transaction*, as defined in appendix A of IFRS 2, is a transaction in which an entity receives goods or services as consideration for the entity's equity instruments (including shares or share options) or acquires goods or services by incurring liabilities to the supplier of those goods and services for amounts that are based on the price of the entity's shares or other equity instruments. An entity may grant share options or other equity instruments (for example, contracts giving the holder the right, but not the obligation, to subscribe to an entity's shares at a fixed or determinable price for a specific period of time) to employees as part of their compensation for services rendered to the entity.

2.356 Transfers of an entity's equity instruments by its shareholders in exchange for supplying goods and services to the entity are also considered share-based payments within the scope of IFRS 2, unless the transfer is clearly for some other purpose than the supply of goods or services to the entity. Also included within the scope of IFRS 2 are transfers of equity instruments of the entity's parent, or equity instruments of another entity in the same group as the entity, to parties that have supplied goods or services to the entity. Goods include inventories, consumables, PPE, intangible assets, and other nonfinancial assets.

2.357 The revisions to IFRS 3 in 2008 amended the guidance in IFRS 2 related to share-based payments in a business combination. An entity should apply those amendments to annual periods beginning on or after 1 July 2009. If an entity applies IFRS 3, as revised in 2008, in an earlier period, the amendments to IFRS 2 should also be applied in that earlier period.

Recognition and Measurement

IFRS

2.358 Under IFRS 2, an entity should recognize goods and services at the time they are received and either a corresponding decrease in equity for equity-settled transactions or a liability for cash-settled transactions.

2.359 In the case when the supplier chooses the settlement option, IFRS 2 considers the entity to have issued a compound financial instrument. This compound financial instrument includes both a *debt component* (that is, the supplier's right to demand payment in cash) and an *equity component* (that is, the supplier's right to demand settlement in equity instruments rather than cash). When the fair value of the goods or services is measured directly, an entity should first measure the debt component at fair value. Then, the entity measures the equity component as the difference between the fair values of the goods and services and the debt component. This approach is usually referred to as the *incremental approach*.

2.360 In the case when the entity chooses the settlement option, the entity should still recognize a liability if the option to issue equity has no commercial substance (for example, the entity is prohibited from issuing equity) or it has a past practice of always settling in cash. Only if no present obligation exists should the entity account for the transaction as equity-settled. An example of a cash-settled share-based payment is a stock appreciation right.

U.S. GAAP

2.361 Like IFRSs, FASB ASC 718, *Compensation—Stock Compensation*, requires an entity to determine whether to classify a share-based payment transaction as cash settled or equity settled. Paragraphs 6–19 of FASB ASC 718-10-25 provide guidance for determining whether certain financial instruments awarded in share-based payment transactions are liabilities. FASB ASC 718-10-25-6 further states that in determining whether instruments not specifically discussed in the preceding paragraphs are classified as a liability or equity, an entity should apply U.S. GAAP applicable to financial instruments issued in transactions not involving share-based payment.

Presentation

2.362 Neither IFRSs nor FASB ASC 718-30 require separate presentation of share-based payment liabilities, unless they are material to the financial statements.

Disclosure

Author's Note

See section 3, beginning at paragraph 3.179, for a comparison of disclosure requirements for share-based payments classified as equity.

IFRSs

2.363 When the entity has recognized liabilities from share-based payment transactions, IFRS 2 requires the entity to disclose the following amounts:

- Total carrying amount at the end of the period
- Total intrinsic value at the end of the period of liabilities for which the counterparty's right to cash or other assets had vested by the end of the period (for example, vested share appreciation rights)

U.S. GAAP

2.364 FASB ASC 718-30 does not prescribe specific disclosures related to share-based payments recognized as liabilities.

Presentation and Disclosure Excerpts

Cash-Settled Share Appreciation Rights

2.365

AEGON N.V. (Dec 2010)

CONSOLIDATED BALANCE SHEET (in part)

As at December 31

Amounts in EUR Million	Note	2010	2009
Trust pass-through securities	18	143	130
Insurance contracts	19	100,506	93,790
Insurance contracts for account of policyholders	20	77,650	69,760
Investment contracts	21	23,237	27,932
Investment contracts for account of policyholders	22	69,527	57,421
Derivatives	9	5,971	5,716
Borrowings	23	8,518	7,485
Provisions	24	357	421
Defined benefit liabilities	25	2,152	2,104
Deferred revenue liabilities	26	82	69
Deferred tax liabilities	27	1,824	817
Other liabilities	28	18,495	13,714
Accruals	29	416	392
Total liabilities		308,878	279,751

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Summary of Significant Accounting Policies (in part)

2.22 Assets and Liabilities Relating to Employee Benefits (in part)

c. Share-Based Payments

The Group has issued share-based plans that entitle employees to receive equity instruments issued by the Group or cash payments based on the price of AEGON N.V. common shares. Some plans provide employees of the Group with the choice of settlement.

For share option plans that are equity-settled, the expense recognized is based on the fair value on the grant date of the share options, which does not reflect any performance conditions other than conditions linked to the price of the Group's shares. The cost is recognized in the income statement, together with a corresponding increase in shareholders' equity, as the services are rendered. During this period the cumulative expense recognized at the reporting date reflects management's best estimate of the number of shares expected to vest ultimately.

Share appreciation right plans are initially recognized at fair value at the grant date, taking into account the terms and conditions on which the instruments were granted. The fair value is expensed over the period until vesting, with recognition of a corresponding liability. The liability is remeasured at each reporting date and at the date of settlement, with any changes in fair value recognized in the income statement.

Share option plans that can be settled in either shares or cash at the discretion of the employee are accounted for as a compound financial instrument, which includes a debt component and an equity component.

3. Critical Accounting Estimates and Judgment in Applying Accounting Policies (in part)

Application of the accounting policies in the preparation of the financial statements requires management to apply judgment involving assumptions and estimates concerning future results or other developments, including the likelihood, timing or amount of future transactions or events. There can be no assurance that actual results will not differ materially from those estimates. Accounting policies that are critical to the financial statement presentation and that require complex estimates or significant judgment are described in the following sections.

Valuation of Share Appreciation Rights and Share Options

Because of the inability to measure the fair value of employee services directly, fair value is measured by reference to the fair value of the rights and options granted. This value is estimated using the binomial option pricing model, taking into account the respective vesting and exercise periods of the share appreciation rights and share options.

The volatility is derived from quotations from external market sources and the expected dividend yield is derived from quotations from external market sources and the binomial option pricing model. Future blackout periods are taken into account in the model in conformity with current blackout periods. The expected term is explicitly incorporated in the model by assuming that early exercise occurs when the share price is greater than or equal to a certain multiple of the exercise price. This multiple has been set at two based on empirical evidence. The risk free rate is the interest rate for Dutch government bonds.

28. Other Liabilities

	2010	2009
Payables due to policyholders	980	577
Payables due to brokers and agents	1,015	1,090
Payables out of reinsurance	914	815
Social security and taxes payable	74	55
Income tax payable	385	174
Investment creditors	542	512
Cash collateral	7,664	4,020
Repurchase agreements	5,077	4,867
Share appreciation rights	1	1
Other creditors	1,843	1,603
At December 31	18,495	13,714
Current	15,725	11,718
Non-current	2,770	1,996

The carrying amounts disclosed reasonably approximate the fair values at year end.

Refer to note 38 for a description of share appreciation rights and related expenses.

38. Commissions and Expenses (in part)

	2010	2009	2008
Commissions	2,802	2,764	3,072
Employee expenses	2,151	2,035	1,899
Administration expenses	1,182	1,227	1,373
Deferred expenses	(1,611)	(1,613)	(1,792)
Amortization of deferred expenses	1,306	1,212	1,332
Amortization of VOBA and future servicing rights	204	358	225
Total	6,034	5,983	6,109

Included in administration expenses above is depreciation amounting to EUR 88 million (2009: EUR 90 million; 2008: EUR 84 million) that relates to equipment, software and real estate held for own use. The direct operating expenses relating to investments in real estate that generated rental income was EUR 83 million (2009: EUR 72 million; 2008: EUR 59 million). Minimum lease payments recognized as expense amounted to EUR 7 million (2009: EUR 6 million; 2008: EUR 6 million). Included in employee expenses is EUR 29 million (2009: EUR 27 million; 2008: EUR 26 million) regarding defined contribution expenses.

Included in the amortization of deferred expenses and VOBA is EUR (27) million (2009: EUR 78 million; 2008: EUR 14 million) that is classified for segment reporting purposes as non underlying earnings as an offset against realized gains and losses and impairments on financial investments. Included in employee expenses is EUR 74 million that is classified for segment reporting purposes as non underlying earnings (2009 and 2008: nil).

Employee Expenses	2010	2009	2008
Salaries	1,368	1,311	1,285
Post-employment benefit costs	258	281	180
Social security charges	134	150	146
Other personnel costs	390	287	303
Share appreciation rights and share options	1	6	(15)
Total	2,151	2,035	1,899

Share Appreciation Rights and Share Options

Senior executives of AEGON companies, as well as other AEGON employees, have been offered both share appreciation rights and share options. These share appreciation rights and share options have been granted at an exercise price equal to the market price of the shares at the date of the grant. The rights and options granted in 2004–2008 vest after three years and can only be exercised during the four years after the vesting date. The rights and options granted in 2003 vest after two years and can only be exercised during the five years after the vesting date. Vesting and exercisability depend on continuing employment of the individual employee to whom the rights and options have been granted. Option plans are settled in equity, whilst stock appreciation rights are settled in cash or provide the employee with the choice of settlement.

Decisions by the Executive Board to implement share appreciation rights and share option plans are subject to approval by the Supervisory Board. If, subsequently, the Executive Board decides to implement such plans, that decision has to be approved by the Supervisory Board.

In compliance with regulations under Dutch law, share appreciation rights and share options cannot be exercised in blackout periods.

Long Term Incentive Plan

In 2010, AEGON implemented a new Long Term Incentive Plan which replaces the option plan, share appreciation plans, share plans or similar plans relating to AEGON shares. Members of the Executive Board and the Management Board, as well as other senior managers within AEGON, have been granted the right to receive AEGON shares if certain performance indicators are met and depending on continued employment of the individual employee to whom the rights have been granted. The shares were granted in May at the average share price on the NYSE Euronext stock exchange in Amsterdam during the period between December 15 preceding a plan year and January 15 of a plan year. The performance indicators apply over a vesting period of three years and consist of financial and non-financial targets set by the Supervisory Board or the local remuneration committees. After the vesting period, the shares are transferred to the individual employees. Members of the Executive Board and the Management Board are not entitled to execute any transactions regarding the shares for a period of two years following vesting.

In compliance with regulations under Dutch law, no transactions regarding the shares can be exercised in blackout periods.

In 2010, 4,266,107 shares were granted to participants in the Long Term Incentive Plan of which 52,314 shares were subsequently forfeited.

Share Appreciation Rights

The following tables present the movements in number of share appreciation rights outstanding (SARs), as well as the breakdown by the year in which they were granted.

	Number of SARs	Weighted Average Exercise Price in EUR	Weighted Average Remaining Contractual Term in years	Aggregate Intrinsic Value in EUR Million
Outstanding at January 1, 2009	18,144,141	15.30	1.71	0
Forfeited	(1,168,508)	13.68		
Expired	(5,643,604)	26.70		
Outstanding at January 1, 2010	11,332,029	9.78	1.44	0
Forfeited	(992,380)	10.47		
Expired	(2,443,509)	6.30		
Outstanding at December 31, 2010	7,896,140	10.77	0.79	0
Exercisable at December 31, 2010	7,649,840	10.83	0.68	0

During 2009 and 2010, no share appreciation rights were exercised.

SARs	Original Number Granted	Outstanding January 1, 2010	Outstanding December 31, 2010	Exercise Price in EUR	Exercise Period
2003	11,447,300	2,562,809	—	6.30	until March 11, 2010
2004	11,574,850	4,934,254	4,546,426	10.56	until March 17, 2011
2005	4,575,600	3,183,566	2,778,114	10.86	until March 8, 2012
2006	244,300	183,700	177,100	14.00	until March 14, 2013
2007	309,500	213,600	148,200	14.98	until March 13, 2014
2008	300,300	254,100	246,300	8.93	until March 11, 2015
Total	28,451,850	11,332,029	7,896,140		

In 2009 and 2010 no share appreciation rights were granted.

The volatility is derived from quotations from external market sources and the expected dividend yield is derived from quotations from external market sources and the binomial option pricing model. Refer to note 3 for a further description of the method used to estimate the fair value and a description of the significant assumptions.

The liability related to share appreciation rights is valued at fair value at each balance sheet date. Refer to note 28 for details. The costs related to the share appreciation rights amount to EUR 4 million (2009: EUR (5) million; 2008: EUR (34) million) and are recognized in the income statement as part of 'Commissions and expenses.'

Share Appreciation Rights and Share Options

No share appreciation rights and share options were granted in 2009 and 2010. The fair value of a share appreciation right or share option at the grant date in 2008 amounted to EUR 1.57. This amount is equal to the weighted average fair value for 2008.

No share options were exercised and no SARs were paid during 2009 and 2010. The total intrinsic value of share options exercised and SARs paid during 2008 amounted to EUR 1 million.

At December 31, 2010, the total compensation cost related to non-vested awards not yet recognized is estimated at EUR 1 million (2009: EUR 5 million). The weighted average period over which it is expected to be recognized is 0.25 years (2009: 0.8 years).

No cash is received from exercise of share options during 2010, 2009 and 2008. Cash used to settle share appreciation rights amounts to EUR 0 million in 2010 (2009: EUR 0 million; 2008: EUR 0.4 million).

The exposure from the issued share appreciation rights and share options is economically hedged by part of the position in treasury shares.

There have been no modifications to the plans during the financial year.

No share appreciation rights and share options were granted in 2009 and 2010. The breakdown of the share appreciation rights and share options granted in 2008 is as follows: senior executives 4,747,500 and other employees 5,822,700.

Refer to note 52 for detailed information about the SARs/share options and the shares and options conditionally granted to the Executive Board.

52. Related Party Transactions (in part)

Related party transactions include, among others, transactions between AEGON N.V. and Vereniging AEGON.

Share options and share appreciation rights and interests in AEGON N.V. held by active members of the Executive Board.

	Year	Number of Rights/ Options Per January 1, 2010	Number of Rights/ Options Vested in 2010	Number of Rights/ Options Exercised in 2010	Number of Rights/ Options Expired/ Forfeited in 2010	Number of Rights/ Options Per Dec. 31, 2010	Number of Exercisable Rights/ Options	Exercise Price EUR	Shares Held in Aegon at Dec. 31, 2010
Alexander R. Wynaendts									
	2003	50,000[(1)]	—	—	50,000	—	—	6.30	
	2004	50,000	—	—	—	50,000	50,000	10.56	
	2005	34,132	—	—	—	34,132	34,132	9.91	
	2006	50,842	—	—	—	50,842	50,842	14.55	44,210
Jan J. Nooitgedagt		—	—	—	—	—	—	—	—

(1) The share appreciation rights were granted before becoming a member of the Executive Board.

For each of the members of the Executive Board, the shares held in AEGON as shown in the above table do not exceed 1% of total outstanding share capital at the balance sheet date.

At the balance sheet date, Mr. Wynaendts had mortgage loans with AEGON totalling to EUR 1,485,292, with interest rates of 4.1%, 4.3%, 4.4% and 5.4%. These loans were made in AEGON's ordinary course of business, pursuant to a widely available employee benefit program on terms comparable to other AEGON employees in the Netherlands and were approved in advance by the Supervisory Board. In accordance with the terms of the mortgage loans, no principal repayments were received on the loans in 2010.

Cash-Settled Phantom Shares

2.366

Gerdau S.A. (Dec 2010)

CONSOLIDATED BALANCE SHEETS (in part)

As of December 31, 2010 and 2009
In thousands of Brazilian reais (R$)

	Note	2010	2009
Non-Current Liabilities			
Long-term debt	14	12,360,056	12,563,155
Debentures	15	616,902	600,979
Deferred income taxes	9	2,270,849	2,273,759
Unrealized losses on derivatives	16	92,476	90,377
Provision for tax, civil and labor liabilities	18	645,375	447,171
Environmental liabilities	21	42,902	66,642
Employee benefits	20	834,471	961,300
Put options on non-controlling interest	16-f	516,706	518,096
Other non-current liabilities		342,008	238,523
		17,721,745	17,760,002

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 2—Summary of Significant Accounting Practices (in part)

2.11—Employee Benefits

The Company has several employee benefit plans including pension and retirement plans, health care benefits, profit sharing, bonus, and share-based payment, as well as other retirement and termination benefits. The main benefit plans granted to the Company's employees are described in notes 20 and 25.

The actuarial obligations related to the pension and retirement benefits and the actuarial obligations related to the health care plans are recorded based on actuarial calculations performed every year by independent actuaries, using the projected unit credit method, net of the assets that fund the plan, when applicable, and the related costs are recognized over the employees' vesting period. Any employee benefit plan surpluses are also recognized up to the probable amount of reduction in future contributions of the plans' sponsor.

The projected unit credit method considers each period of service as a triggering event of an additional benefit unit, which is accrued to calculate the total obligation. Other actuarial assumptions are also used such as estimates of the increase of healthcare costs, demographical and economic hypotheses and, also, historical costs and employee contributions.

Actuarial gains and losses arising from adjustments and changes in actuarial assumptions of the pension and retirement benefit plans and actuarial obligations related to the health care plan are recognized directly in Equity as described in Note 20. The Company believes that the recognition of actuarial gains and losses in comprehensive income provides a better presentation of these changes in the consolidated financial statements when considered as a whole.

Note 25—Long-Term Incentive Plans (in part)

II) Gerdau Ameristeel Corporation—("Gerdau Ameristeel")

In February 2010, the Board of Directors of the Company approved the adoption of the Equity Incentive Plan (the "EIP"). Awards under the EIP may take the form of stock options, SARs, deferred share units ("DSUs"), restricted share units ("RSUs"), performance share units ("PSUs"), restricted stock, and/or other share-based awards. Except for stock options, which must be settled in common shares, awards may be

settled in cash or common shares as determined by the Company at the time of grant.

For the portion of any award which is payable in options or SARs, the exercise price of the options or SARs will be no less than the fair market value of a common share on the date of the award. The vesting period for all awards (including RSUs, DSUs and PSUs) is determined by the Company at the time of grant. Options and SARs have a maximum term of 10 years.

On March 12, 2010, an award of approximately US$11.8 million (R$ 20.81 million) was granted to participants under the EIP for 2010 performance. The Company issued 1,728,689 equity-settled SARs, 277,621 RSUs, and 396,602 PSUs under this plan. This award is being accrued over the vesting periods.

In connection with the adoption of the EIP, the Company terminated the existing long-term incentive plan ("LTIP"), and no further awards will be granted under the LTIP. All outstanding awards under the LTIP will remain outstanding until either exercised, forfeited or they expire. At December 31, 2010, there were 2,577,470 cash-settled SARs, 1,397,701 stock options, and 428,489 phantom shares outstanding under the LTIP. These awards are being accrued over the vesting period.

An award valued at approximately US$10.6 million (R$24.54 million) was earned by participants pursuant to the long-term incentive plan in 2008 and was granted 40% in SARs, 30% in options and 30% in phantom stock. On March 5, 2009, the Company issued 2,002,116 options as part of this award.

On August 30, 2010, Gerdau S.A. indirectly acquired all of the outstanding common shares of the Company not already owned, directly or indirectly, by Gerdau S.A. In connection with the acquisition, all outstanding Options, SARs, PSUs, RSUs, and Phantom Shares as well as shares under the amended and restated employment agreement of the Company's President and Chief Executive (the "Executive") were converted to awards in respect of American Depository Shares of Gerdau S.A. ("ADS"), which represents the right to receive one preferred share of Gerdau S.A. The conversion was based on the relative value of a common share of the Company to an ADS as at the closing of the Arrangement in order to maintain an equivalent intrinsic value of the award at the time of the exchange. A conversion factor was applied of 0.7993 (the "conversion factor"), equal to the final closing price of a common share of the Company on the New York Stock Exchange ("NYSE") divided by the closing price of an ADS on the NYSE on August 27, 2010, the last trading day for the Company's common shares.

All amounts (e.g. grants, exercises, forfeitures, weighted average fair value, fair value, etc.) disclosed in this footnote regarding share-based activity prior to August 30, 2010 (the "modification date") are on a pre-conversion basis in respect of the Company's common shares. All amounts disclosed related to activity after the modification date are on a post-conversion basis in respect of ADSs.

Modification expenses for equity-settled awards are recognized if the effect of the modification increases the total fair value of the equity-settled awards or is otherwise beneficial to the employee. The incremental fair value granted is the difference between the fair value of the modified equity award and that of the original award, both estimated at the date of modification. If the modification occurs during the vesting period, the incremental fair value granted is recognized for services received over the remaining vesting period while the original grant date fair value of the original equity award continues to be recognized in accordance with the original vesting period. If the modification occurs after vesting date, the incremental fair value granted is recognized immediately. The modification date fair value of all of the Company's equity settled awards was less than the fair value of the original awards at the modification date. As such, no incremental expense was recognized by the Company. The modification did not impact the Company's classification of equity-settled and cash-settled awards.

Phantom Shares

Phantom Shares provide the holder with the opportunity to receive a cash payment equal to the fair market value of the ADSs. Phantom Shares vest 25% each year over a four year period with the holders receiving payment for vested shares on each grant anniversary date. The holders of Phantom Shares have no voting rights, but accumulate additional shares based on notional dividends paid by Gerdau S.A. on its ADSs at each dividend payment date, which are reinvested as additional Phantom Shares. Compensation expense related to Phantom Shares is recognized over the vesting period based upon the number of shares that are expected to vest and remain outstanding at the end of the reporting period. On the date of grant, the fair value of a Phantom Share is equal to the fair value of the underlying reference shares. For Phantom Shares, the fair value is remeasured at each balance sheet reporting date.

IAS 12, *INCOME TAXES*

SIC 21, *INCOME TAXES—RECOVERY OF REVALUED NON-DEPRECIABLE ASSETS*

IFRSs Overview and Comparison to U.S. GAAP

Author's Note

Accounting for income taxes is significantly different between IFRSs and FASB ASC. Therefore, revising IAS 12 was originally part of a convergence project with FASB. However, in 2009, the two boards determined that revising their respective standards on accounting for income taxes was a larger project than originally anticipated, and they removed it from that agenda. In March 2010, the IASB determined to proceed with more limited amendments to IAS 12 and planned to issue an exposure draft in late 2010 and a revised standard in the first half of 2011. The IASB proposed including the following in a revised standard:

- An initial step in which the entity would consider whether the recovery of an asset or settlement of liability will affect taxable profit
- Recognition of a deferred tax asset in full and an offsetting valuation allowance to the extent necessary, which is similar to that required in US GAAP

- Guidance on assessing the need for a valuation allowance
- Guidance on substantive enactment
- Allocation of current and deferred taxes within a group that files a consolidated tax return

The IASB is also considering proposals on the following issues:

- Treatment of the tax effect of dividends paid by entities such as real estate investment trusts and cooperatives
- Uncertain tax positions, after finalizing the revision of IAS 37
- Deferred tax on property remeasured at fair value

In December 2010, the IASB issued *Deferred Tax: Recovery of Underlying Assets: Amendments to IAS 12*, which addressed the last item in the preceding list: deferred tax on property remeasured at fair value. IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. When the asset is measured using the fair value model in IAS 40 Investment Property, an entity might find it difficult and subjective to assess whether recovery will be through use or sale. This amendment provides a practical solution to the problem by introducing a presumption that recovery of the carrying amount will normally be through sale. As a result of these amendments, SIC 21, *Income Taxes—Recovery of Revalued Non-Depreciable Assets*, would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is accordingly withdrawn. The amendments are effective for annual periods beginning on or after 1 January 2012, with early application permitted. Given the issue and effective dates, no survey companies would have applied these amendments to their 2010 financial statements.

The IASB does not plan to address other issues in the IAS 12 project until the latter half of 2011.

2.367 IAS 12 establishes the accounting for the current and future tax consequences of taxes levied on an entity's income by taxation authorities. Because the accounting for financial reporting and tax purposes may be different, an entity can have current and future tax consequences from the future recovery of the carrying amount of assets, the future settlement of its liabilities, and transactions and other events in the current period recognized in its financial statements.

2.368 In IAS 12, income taxes include all domestic and foreign taxes that are based on taxable profits and also include taxes, such as withholding taxes, which are payable by a subsidiary, associate, or joint venture on distributions to the reporting entity. IAS 12 does not address the accounting for government grants but does address the accounting for temporary differences that may arise from such grants or investment tax credits.

Recognition and Measurement

IFRSs

2.369 Accounting for income taxes in accordance with IAS 12 relies on the following two essential differences between financial reporting and tax reporting:

- Difference between profit or loss on the statement of comprehensive income and taxable profit determined by the rules of the relevant taxation authorities
- Difference between the carrying value of an asset or a liability in the balance sheet and its *tax base*, which is the amount that is attributable to the asset or liability for tax purposes (temporary difference)

2.370 Temporary differences may be either taxable or deductible. A taxable or deductible temporary difference results in taxable amounts or deductible amounts, respectively, in a future period when the carrying amount of the asset is recovered or the liability is settled. Deferred tax assets and deferred tax liabilities are amounts that are recoverable or taxable, respectively, in future periods as a result of these temporary differences. Deferred tax liabilities result from taxable temporary differences. Deferred tax assets can result not only from deductible temporary differences but also an unused tax loss or unused tax credit carryforward.

2.371 *Tax expense* (or *income*) is defined as the aggregate amount included in profit or loss for the period in respect of current and deferred tax. *Current tax expense* is the amount of income taxes payable (or recoverable) in respect of taxable profit (or loss) during the period. Although not explicitly defined, measurement of deferred tax assets and liabilities in accordance with IAS 12 determines the measurement of deferred tax expense.

2.372 An entity should recognize as a liability current tax and any current tax from prior periods that remains unpaid. Taxes paid in advance or payments in excess of tax payable in prior periods are recognized as an asset. When the benefits of a tax loss can be carried back to prior periods to recover current tax paid in prior periods, an entity should also recognize an asset.

2.373 An entity should recognize a deferred tax liability for all taxable temporary differences, except when the difference arises on initial recognition of either goodwill or an asset or a liability from a transaction that was not a business combination and at the time of the transaction did not affect either accounting or taxable profit (or loss). An entity should recognize a deferred tax asset for all deductible temporary differences to the extent that future taxable profit will be available, except when the difference arises on initial recognition of an asset or a liability from a transaction that was not a business combination and at the time of the transaction did not affect either accounting or taxable profit (or loss).

2.374 In accordance with the recognition and measurement requirements of IFRS 3, an entity should measure goodwill arising in a business combination as either the excess of the sum of the consideration transferred or the amount of the noncontrolling interest and the fair value of any previously held equity interest over the net identifiable assets acquired. However, many taxation authorities do not permit reductions in the carrying amount of goodwill to be deductible for tax purposes; hence, the tax base of goodwill is nil. Although

the difference between the tax base and its carrying value is a taxable temporary difference, IAS 12 does not permit recognition of the deferred tax liability because goodwill is measured as a residual and its recognition would result in an increase in the carrying value of goodwill. In contrast, if the carrying value of goodwill is less than its tax base, the entity should recognize a deferred tax asset to the extent that future taxable profit would be available against which the deduction could be used.

2.375 An entity should recognize a deferred tax asset for unused tax losses and unused tax credits that can be carried forward to future years to the extent that future taxable profit would be available against which the loss or credit could be used. At the end of each reporting period, an entity should reassess any unrecognized deferred tax assets. To the extent that it is probable that future taxable profit would be available, an entity should recognize a deferred tax asset. An entity should review the carrying value of deferred tax assets and liabilities at the end of each reporting period and reduce deferred tax assets to the extent future taxable profit will not be available against which to use the asset. This reduction can be reversed in the future if taxable profit becomes available. *Probable* is not specifically defined in IAS 12.

2.376 An entity should not recognize a deferred tax asset or liability in respect of its investments in subsidiaries, associates, and joint ventures when it is probable that the temporary difference will not reverse in the foreseeable future and with respect to the following:

- *Deferred tax asset*. The entity expects future taxable profit to be available against which to use the deductible temporary difference.
- *Deferred tax liability*. The entity can control the timing of the reversal of the taxable temporary difference.

2.377 Using enacted or substantially enacted tax rates or laws, an entity should measure current tax liabilities or assets for the current period at the amount they expect to pay or recover, respectively. An entity should measure deferred tax assets and liabilities at enacted or substantially enacted tax rates that are expected to apply in the period of recovery or payment. Measurement of deferred tax assets or liabilities should reflect that manner in which the entity expects to recover the asset or settle the liability. For example, when there are differential tax rates for income generated by operating activities and income from sales of assets and the entity intends to recover the asset by its use in operations, the entity should use the rate on operating income to measure the liability.

2.378 An entity should not discount future cash inflows and outflows to measure a deferred tax asset or liability.

2.379 IAS 12 notes that a revaluation of an asset may not always affect taxable profit or loss in the period of the revaluation; consequently, the entity should not adjust the tax base of the asset as a result of the revaluation. However, if the future recovery of the asset's carrying amount will be taxable, an entity should recognize any difference between the carrying amount of the revalued asset and its tax base as a deferred tax liability or asset in respect of the temporary difference. SIC 21 requires an entity to recognize the deferred tax consequences of revaluation of a nondepreciable asset, such as land, based on its recovery through sale and use of the tax rate that would apply in that circumstance.

U.S. GAAP

2.380 FASB ASC 740, *Income Taxes*, provides more extensive requirements and guidance on recognition and measurement of income taxes.

2.381 Like IFRSs, the FASB ASC glossary defines *income taxes* as domestic and foreign federal (national), state, and local (including franchise) taxes based on income. To accomplish the objectives of recognizing income tax, FASB ASC 740-10-05-5 explains that an entity should recognize the following in its financial statements:

- Amount of estimated taxes payable or refundable on tax returns for the current year as a tax liability or asset
- Deferred tax liabilities and assets for the estimated future tax effects attributable to temporary differences and carryforwards

2.382 Like IFRSs, FASB ASC 740-10-05-7 applies the concept of temporary differences to incorporate in the financial statements the differences that exist between financial reporting standards and jurisdiction-specific tax regulations or law. Both sets of principles confront these differences with an asset-liability approach and, therefore, focus on the difference between the carrying value of an asset or a liability in the entity's financial statements and its tax basis for tax reporting.

2.383 However, unlike IFRSs, FASB ASC 740-10-10-1 recognizes that some events do not have tax consequences. Certain income is not taxable, and certain expenses or losses are not deductible. For example, in the United States, municipal bond interest income is generally not taxable but would be reported as income in the company's income statements.

2.384 Unlike IFRSs, which permit the use of substantially enacted tax rates, FASB ASC 740-10-10-3 only permits the use of enacted tax rates that are expected to apply to taxable income in the period in which the deferred tax asset or liability is expected to be recovered or settled, respectively.

2.385 Like IFRSs, FASB ASC 740-10-05-5 requires an entity to recognize deferred tax assets and liabilities at amounts recoverable or taxable, respectively, in future periods as a result of temporary differences. Both deferred tax assets and liabilities can result from temporary differences and carryforwards. FASB ASC 740-10-25-29 explains that an entity should recognize a deferred tax liability or asset for all temporary differences and operating loss and tax credit carryforwards, in accordance with FASB ASC 740-10-30-5. However, FASB ASC 740-10-25-3 includes certain exemptions from these requirements, unless the temporary differences are expected to reverse in the foreseeable future.

2.386 Although different criteria apply, neither FASB ASC nor IFRSs requires deferred tax to be recognized on temporary differences arising from investments in foreign subsidiaries or corporate joint ventures until it becomes apparent that those temporary differences will reverse in the foreseeable future, as discussed in FASB ASC 740-10-25-3. IFRSs also exempt temporary differences from investments in associates. FASB ASC 740-10-25-3 includes some exemptions for events that occurred before specific dates (for example, bad debt reserves for tax purposes of U.S. savings and loans that arose in tax years beginning before December 31, 1987). Unlike IFRSs, FASB ASC 740-10-25-3 also

prohibits recognition of deferred tax assets or liabilities for the following:

- Leveraged leases
- Goodwill when amortization is not tax deductible (similar to the IFRSs exception)
- Differences due to the intra-entity difference between the tax basis of the assets in the buyer's tax jurisdiction and their cost as reported in the consolidated financial statements
- Differences due to remeasurement of assets and liabilities from the local currency into the functional currency, using historical exchange rates, and differences that result from changes in exchange rates or indexing for tax purposes

2.387 Measurement requirements for deferred tax assets and liabilities under U.S. GAAP are similar to those under IFRSs. In contrast with the net approach to recognizing deferred tax assets under IFRSs, the FASB ASC glossary definition of *deferred tax asset* explains that an entity is required to reduce the deferred tax asset balance by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax asset will not be realized. An entity should measure the valuation allowance at an amount that reduces the carrying value of the net deferred tax asset to the amount more likely than not to be recovered. FASB ASC 740-10-25-6 clarifies that for purposes of applying the more likely than not threshold in evaluating the potential realization of deferred tax assets, *more likely than not* is defined as a likelihood of more than 50 percent.

2.388 Unlike IFRSs, U.S. GAAP includes requirements regarding uncertain tax positions. The FASB ASC glossary defines a *tax position* as a position in a previously filed tax return, or a position expected to be taken in a future tax return, that is reflected in measuring current or deferred income tax assets and liabilities for interim or annual periods. A tax position can result in a permanent reduction in income taxes payable, a deferral of income taxes otherwise currently payable to future years, or a change in the expected realizability of deferred tax assets. The term *tax position* also encompasses, but is not limited to, a decision not to file a tax return; an allocation or a shift of income between jurisdictions; the characterization of income or a decision to exclude reporting taxable income in a tax return; a decision to classify a transaction, entity, or other position in a tax return as tax exempt; and an entity's status, including its status as a pass-through entity or a tax-exempt not-for-profit entity. FASB ASC 740-10 includes detailed procedures for recognition, measurement, and disclosure of uncertain tax positions.

2.389 Unlike IFRSs, FASB ASC 740-20 also includes requirements for intraperiod tax allocation, including computation of tax expense and treatment of tax carryforwards.

Presentation

IFRSs

2.390 IFRSs require deferred tax assets and liabilities to be presented separately from current tax receivable and payable and classified as noncurrent in a classified balance sheet. IAS 12 prohibits the offsetting of tax assets and liabilities, unless they relate to the same tax authority and the entity has a legal right and intends to recover or settle net.

U.S. GAAP

2.391 Rule 5-02 of SEC Regulation S-X requires SEC registrants to present deferred credits in the balance, with separate amounts for deferred income taxes and deferred tax credits, and also other assets (for example, deferred tax assets) when they exceed 5 percent of total assets. However, unlike IFRSs, in a classified statement of financial position, FASB ASC 740-10-45-4 requires deferred tax assets and liabilities to be classified as either current or noncurrent based on the classification of the related asset or liability. For example, deferred tax assets due to temporary differences related to accounts receivable would be classified as current. Similarly, deferred tax liabilities due to temporary differences related to PPE would be classified as noncurrent. FASB ASC 740-10-45-11 requires an entity that presents a classified balance sheet to classify a liability associated with an unrecognized tax benefit (or the amount of a net operating loss carryforward or amount refundable that is reduced) as a current liability, to the extent that the entity expects to pay or receive cash within the next 12 months (or current operating cycle if longer). FASB ASC 740-10-45-5 requires an entity to allocate any valuation allowances for the same tax jurisdictions on a pro rata basis between current and noncurrent.

2.392 Like IFRSs, FASB ASC 740-10-45-6 prohibits offsetting deferred tax assets and liabilities attributable to different tax-paying components of the entity or different tax jurisdictions. However, an entity should present current deferred tax assets and liabilities as a single amount and all noncurrent deferred tax assets and liabilities as a single amount only for a particular tax-paying component of the entity and within a particular tax jurisdiction. FASB ASC 740-10-45-13 prohibits the offset of cash or other assets against the tax liability, unless the general criteria for offsetting, in accordance with FASB ASC 210-20-45-6, are met.

Disclosure

Author's Note

Both IAS 12 and FASB ASC 740 require significant additional disclosures about the effects of accounting for income taxes on the statement of comprehensive income. These disclosures are described, and excerpts are provided, beginning with paragraph 3.322 of section 3.

IFRSs

2.393 Under IAS 12, an entity should disclose the amount of deferred tax assets and liabilities due to each type of temporary difference, unused tax loss, and unused tax credit. An entity should also disclose the aggregate amount of temporary differences associated with investments in subsidiaries, associates, and joint ventures for which deferred tax liabilities have not been recognized. For unused tax losses and tax credits, an entity should disclose the amount and expiration date (if any) of deductible temporary differences.

2.394 An entity should disclose the amount of any deferred tax asset and the nature of the evidence supporting recognition when the following two conditions are met:

- Recovery of the asset relies on future taxable profit in excess of that arising from reversal of existing taxable temporary differences.
- Entity reported a loss in the current or preceding period in the relevant tax jurisdiction.

U.S. GAAP

2.395 FASB ASC 740-10-50-2 requires an entity to disclose the aggregate of all deferred tax liabilities, the aggregate of all deferred tax assets, and the valuation allowance recognized for deferred tax assets.

2.396 Like IFRSs, for unrecognized tax loss and tax credit carryforwards, FASB ASC 740-10-50-3 states that an entity should disclose the amounts of these carryforwards and their expiration dates for tax purposes. Unlike IFRSs, an entity should also disclose the portion of any valuation allowance for deferred tax assets for which subsequently recognized tax benefits will be credited directly to contributed capital rather than income. FASB ASC 740-10-50-6 requires public entities also to disclose the approximate tax effect of each type of temporary difference and carryforward that gives rise to a significant portion of deferred tax assets and deferred tax liabilities (before allocation of valuation allowances).

Presentation and Disclosure Excerpts

Current and Non-current Tax Payables, Deferred Tax Liabilities, and Tax Loss Carryforwards

2.397

Nortel Inversora S.A. (Dec 2010)

Author's Note

Nortel Inversora S.A. implemented IFRSs effective December 31, 2010, with a date of transition of January 1, 2009. The excerpt that follows reflects the initial application of IAS 12.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In millions of Argentine pesos)

		As of December 31		As of January 1
Liabilities	**Note**	**2010**	**2009**	**2009**
Current liabilities				
Trade payables	11	2,908	2,212	1,769
Financial debt	12	42	763	1,355
Salaries and social security payables	13	390	300	237
Income tax payables	14	491	431	290
Other taxes payables	15	531	338	336
Other liabilities	16	84	84	73
Provisions	17	64	73	36
Total current liabilities		4,510	4,201	4,096
Non-current liabilities				
Trade payables	11	—	24	27
Financial debt	12	121	58	688
Salaries and social security payables	13	110	82	83
Deferred income tax liabilities	14	247	243	266
Income tax payables	14	14	13	—
Other liabilities	16	274	267	231
Provisions	17	536	374	319
Total non-current liabilities		1,302	1,061	1,614
Total liabilities		5,812	5,262	5,710

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 3—Significant Accounting Policies (in part)

n) Taxes Payables

The Company and Telecom Group are subject to different taxes and levies such as municipal taxes, tax on deposits to and withdrawals from bank accounts, turnover taxes, regulatory fees (including SU) and income taxes, among others, that represent an expense for the Company and for the Group. They are also subject to other taxes over their activities that generally do not represent an expense (internal taxes, VAT, ENARD tax).

The principal taxes that represent an expense for the Company and Telecom Group are the following:

- *Income taxes*

Income taxes are recognized in the consolidated income statement, except to the extent that they relate to items directly recognized in Other comprehensive income or directly in equity. In this case, the tax is also recognized in Other comprehensive income or directly in equity, respectively. The tax expense for the period comprises current and deferred tax.

As per Argentinean Tax Law, income taxes payables have been computed on a separate return basis (i.e., the Company is not allowed to prepare a consolidated income tax return). All income tax payments are made by each of the subsidiaries as required by the tax laws of the countries in which they operate. The Company records income taxes in accordance with IAS 12.

Deferred taxes are recognized using the "liability method." Temporary differences arise when the tax base of an asset or liability differs from their carrying amounts in the consolidated financial statements. A deferred income tax asset or liability is recognized on those differences, except for those differences related to investments in subsidiaries where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets relating to unused tax loss carryforwards are recognized to the extent that it is probable that future taxable income will be available against which they can be utilized. Current and deferred tax assets and liabilities are offset when the income taxes are levied by the same tax authority and there is a legally enforceable right of offset. Deferred tax assets and liabilities are determined based on enacted tax rates in the respective jurisdictions in which the Group operates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The statutory income tax rate in Argentina was 35% for all years presented. Cash dividends received from a foreign subsidiary are computed on the statutory income tax rate. As per Argentinean Tax Law, income taxes paid abroad may be recognized as tax credits.

The statutory income tax rate in Paraguay was 10% for all years presented. As per Paraguayan Tax Law, dividends paid are computed with an additional income tax rate of 5% (this is the criterion used by Núcleo for the recording of its deferred tax assets and liabilities, representing an effective tax rate of 14.75%). However, the effect of the additional income tax rate according to the Argentine tax law in force on the undistributed profits of Núcleo is fully recognized as it is considered probable that those results will flow to Personal in the form of dividends.

- *Tax on minimum presumed income*

The Company is subject to a tax on minimum presumed income. This tax is supplementary to income tax. The tax is calculated by applying the effective tax rate of 1% on the tax basis of certain assets. The Company's tax liabilities will be the higher of income tax or minimum presumed income tax. However, if the tax on minimum presumed income exceeds income tax during any fiscal year, such excess may be computed as a prepayment of any income tax excess over the tax on minimum presumed income that may arise in the next ten fiscal years.

At December 31, 2009, Nortel had accumulated tax loss carryforwards. As taxable income for year ended December 31, 2010 is lower than local accumulated tax loss carryforwards, Nortel has recorded the proportional charge for the tax on minimum presumed income (amounting to $3) which, together with the previous year charges, was capitalized under the item line "Other non-current receivables." These charges have been estimated as fully recoverable based on the Company's tax projections and the 10-year legal expiration term for use of the related credit.

- *Turnover tax*

Under Argentine tax law, the Company is subject to a tax levied on interest from financial investments at a rate of 6%.

Telecom Group is subject to a tax levied on revenues and other income, net of certain deductible expenses. Rates differ depending on the jurisdiction where revenues are earned for tax purposes and on the nature of revenues (services and equipment). Average rates were approximately 4.6% and 4.4% for the years ended December 31, 2010 and 2009, respectively.

- *Other taxes*

Since the beginning of 2001, telecommunication services companies have been required to pay a SU tax to fund SU requirements. The SU tax is calculated as a percentage of the total revenues received from the rendering of telecommunication services, net of taxes and levies applied on such revenues, excluding the SU tax and other deductions stated by regulations. The rate is 1% of total billed revenues (See Note 2.d)).

Congress passed Law No. 26,539 which amends the excise tax and establishes that the importation and sale of technological and computer goods, including mobile phones, will be subject to the excise tax at a rate of 17%, resulting in an effective tax rate of up to 20.48%, applicable beginning on December 1, 2009. Telecom Group has the right to transfer this tax to its customers but this is not always possible. Such cost is included in the item line "Cost of equipment and handsets."

Note 14—Income Tax Payables and Deferred Income Tax

Income tax payables as of December 31, 2010 and 2009 and January 1, 2009 consist of the following:

	As of December 31, 2010					As of December 31, 2009	As of January 1, 2009
	Telecom Argentina	Personal	Núcleo	Telecom USA	Total		
Income tax payables	405	662	4	—	1,071	797	635
Payments in advance of income taxes	(212)	(367)	(5)	—	(584)	(346)	(110)
Credit on minimum presumed income tax(*)	—	—	—	—	—	(23)	(235)
Law No. 26,476 Tax Regularization Regime	3	—	—	—	3	3	—
Current income tax payables (receivables)	196	295	(**)(1)	—	490	431	290
Deferred income tax liabilities	101	143	1	2	247	(***)242	266
Law No. 26,476 Tax Regularization Regime	14	—	—	—	14	13	—
Non-current Income tax payables	115	143	1	2	261	255	266

(*) The Company is subject to a tax on minimum presumed income. This tax is supplementary to income tax. The tax is calculated by applying the effective tax rate of 1% on the tax basis of certain assets. The Company's tax liabilities will be the higher of income tax or minimum presumed income tax. However, if the tax on minimum presumed income exceeds income tax during any financial year, such excess may be computed as a prepayment of any income tax excess over the tax on minimum presumed income that may arise in the next ten financial years.

(**) Núcleo's receivable is included in Current other receivables, net—Tax credits.

(***) Núcleo's deferred income tax assets amounted to $1 and are included in Non-current other receivables, net.

The tax effects of temporary differences that give rise to significant portions of the Company's deferred tax assets and liabilities are presented below:

	As of December 31, 2010						As of December 31, 2009	As of January 1, 2009
	Telecom Argentina	Personal	Núcleo	Telecom USA	Nortel	Total		
Tax loss carryforwards	—	1	—	—	7	8	5	5
Allowance for doubtful accounts	22	26	1	—	—	49	55	75
Provisions	173	68	—	—	—	241	184	155
Inventory	(2)	10	—	—	—	8	18	4
Termination benefits	53	1	—	—	—	54	41	42
Deferred revenues	34	1	—	—	—	35	37	37
Other deferred tax assets	44	8	—	—	(2)	50	40	73
Total deferred tax assets	324	115	1	—	5	445	380	391
PP&E and intangible assets	(101)	(236)	9	(2)	—	(330)	(227)	(215)
Inflation adjustments(i)	(319)	(6)	(11)	—	—	(336)	(376)	(416)
Other deferred tax liabilities	(5)	—	—	—	—	(5)	—	(10)
Total deferred tax liabilities	(425)	(242)	(2)	(2)	—	(671)	(603)	(641)
Subtotal net deferred tax assets (liabilities)	(101)	(127)	(1)	(2)	5	(226)	(223)	(250)
—Valuation allowance	—	(16)	—	—	(5)	(21)	(19)	(16)
Net deferred tax liabilities	(101)	(143)	(1)	(2)	—	(247)	(242)	(266)

(i) Mainly related to inflation adjustment on PP&E and intangible assets for financial reporting purposes.

As of December 31, 2010, the Company has accumulated an operating tax loss carryforward of $8 which expires: $1 in 2010, $2 in 2011 (includes $1 of Personal), $1 in 2012, $1 in 2013, and $3 in 2014.

Income tax expense for the years ended December 31, 2010 and 2009 consists of the following:

	Year Ended December 31, 2010					
	Telecom Argentina	Personal	Núcleo	Telecom USA	Nortel	Total
Current tax expense	(408)	(655)	(4)	—	—	(1,067)
Deferred tax benefit (expense)	79	(79)	(6)	—	(1)	(7)
Valuation allowance	—	(3)	—	—	1	(2)
Income tax expense	(329)	(737)	(10)	—	—	(1,076)

	Year Ended December 31, 2009					
	Telecom Argentina	Personal	Núcleo	Telecom USA	Nortel	Total
Current tax expense	(301)	(511)	(6)	—	—	(818)
Deferred tax benefit (expense)	29	(6)	—	(1)	2	24
Valuation allowance	—	(2)	—	—	(2)	(4)
Income tax expense	(272)	(519)	(6)	(1)	—	(798)

Income tax expense for the years ended December 31, 2010 and 2009 differed from the amounts computed by applying the Company's statutory income tax rate to pre-tax income as a result of the following:

	For the Years Ended December 31	
	2010	2009
Pre-tax income	2,861	2,087
Non taxable items—Other income from investments	—	(13)
Non taxable items—Series "A" preferred shares	171	117
Non taxable items—Other	39	49
Subtotal	3,071	2,240
Weighted statutory income tax rate(*)	34.4%	34.3%
Income tax expense at weighted statutory tax rate	(1,056)	(769)
Changes in deferred assets and liabilities	(18)	(6)
Law No. 26,476 Tax Regularization Regime	—	(19)
Changes in valuation allowance	(2)	(4)
	(1,076)	(798)

(*) Effective income tax rate based on weighted statutory income tax rate in the different countries where the Company has operations. The statutory tax rate in Argentina was 35%, in Paraguay was 10% plus an additional rate of 5% in case of payment of dividends, in the USA the effective tax rate was 34% and in Uruguay the statutory tax rate was 25%.

Current Tax Receivables and Payables, Deferred Tax Assets and Liabilities

2.398

AstraZeneca plc (Dec 2010)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (in part)

At 31 December

	Notes	2010 $m	2009 $m	2008 $m
Assets				
Non-current assets				
Property, plant and equipment	7	6,957	7,307	7,043
Goodwill	8	9,871	9,889	9,874
Intangible assets	9	12,158	12,226	12,323
Derivative financial instruments	15	324	262	449
Other investments	10	211	184	156
Deferred tax assets	4	1,475	1,292	1,236
		30,996	31,160	31,081
Current assets				
Inventories	11	1,682	1,750	1,636
Trade and other receivables	12	7,847	7,709	7,261
Other investments	10	1,482	1,484	105
Derivative financial instruments	15	9	24	—
Income tax receivable		3,043	2,875	2,581
Cash and cash equivalents	13	11,068	9,918	4,286
		25,131	23,760	15,869
Total assets		56,127	54,920	46,950
Liabilities				
Current liabilities				
Interest-bearing loans and borrowings	14	(125)	(1,926)	(993)
Trade and other payables	16	(8,661)	(8,687)	(7,178)
Derivative financial instruments	15	(8)	(90)	(95)
Provisions	17	(1,095)	(1,209)	(600)
Income tax payable		(6,898)	(5,728)	(4,549)
		(16,787)	(17,640)	(13,415)
Non-current liabilities				
Interest-bearing loans and borrowings	14	(9,097)	(9,137)	(10,855)
Derivative financial instruments	15	—	—	(71)
Deferred tax liabilities	4	(3,145)	(3,247)	(3,126)
Retirement benefit obligations	18	(2,472)	(3,354)	(2,732)
Provisions	17	(843)	(477)	(542)
Other payables	16	(373)	(244)	(149)
		(15,930)	(16,459)	(17,475)
Total liabilities		(32,717)	(34,099)	(30,890)
Net assets		23,410	20,821	16,060

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Group Accounting Policies (in part)

Estimates and Judgements

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and judgements that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Judgements include classification of transactions between profit and the consolidated statement of financial position and the determination of operating segments while estimates focus on areas such as carrying values and estimated lives.

AstraZeneca's management considers the following to be the most important accounting policies in the context of the Group's operations.

The accounting policy descriptions set out the areas where judgements and estimates need exercising, the most significant of which are revenue recognition, research and development (including impairment reviews of associated intangible assets), business combinations and goodwill, litigation and environmental liabilities, employee benefits, taxation and operating segments.

Taxation

The current tax payable is based on taxable profit for the year. Taxable profit differs from reported profit because it excludes items that are never taxable or tax deductible. The Group's current tax assets and liabilities are calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the asset can be utilised. This requires judgements to be made in respect of the availability of future taxable income.

4. Taxation

Taxation recognised in the profit for the period in the consolidated statement of comprehensive income is as follows:

	2010 $m	2009 $m	2008 $m
Current Tax Expense			
Current year	3,065	2,854	2,946
Adjustment for prior years	370	251	130
	3,435	3,105	3,076
Deferred Tax Expense			
Origination and reversal of temporary differences	(369)	98	(486)
Adjustment to prior years	(170)	60	(39)
	(539)	158	(525)
Taxation recognised in the profit for the period	2,896	3,263	2,551

Taxation relating to components of other comprehensive income is as follows:

	2010 $m	2009 $m	2008 $m
Current and Deferred Tax			
Foreign exchange arising on consolidation	(29)	16	20
Actuarial loss for the period	(18)	158	340
Share-based payments	9	17	9
Deferred tax impact of reduction in UK tax rate	(23)	—	—
Other	—	1	(1)
Taxation relating to components of other comprehensive income	(61)	192	368

Taxation has been provided at current rates on the profits earned for the periods covered by the Group Financial Statements. The 2010 prior period current tax adjustment relates mainly to an increase in provisions for tax contingencies and double tax relief partially offset by a benefit of $342m arising from a number of tax settlements (including the UK matters described in Note 25) and tax accrual to tax return adjustments. The 2009 and 2008 prior period current tax adjustments relate mainly to tax accrual to tax return adjustments, an increase in provisions in respect of a number of transfer pricing audits and double tax relief. The 2010 prior period deferred tax adjustment relates mainly to tax accrual to tax return adjustments and a reclassification from deferred tax to current tax of amounts provided in relation to tax contingencies for prior periods. The 2009 and 2008 prior year deferred tax adjustments relate to tax accrual to tax return adjustments and the recognition of previously unrecognised deferred tax assets. To the extent that dividends remitted from overseas subsidiaries, joint ventures and associates are expected to result in additional taxes, appropriate amounts have been provided for. No deferred tax has been provided for unremitted earnings of Group companies overseas as these are considered permanently employed in the business of these companies. Unremitted earnings may be liable to overseas taxes and/or UK taxation (after allowing for double tax relief) if distributed as dividends. The aggregate amount of temporary differences associated with investments in subsidiaries and branches for which deferred tax liabilities have not been recognised totalled approximately $16,768m at 31 December 2010 (2009: $14,846m; 2008: $8,449m).

Factors Affecting Future Tax Charges

As a group involved in worldwide operations, AstraZeneca is subject to several factors that may affect future tax charges, principally the levels and mix of profitability in different jurisdictions, transfer pricing regulations, tax rates imposed and tax regime reforms. It is the UK Government's intention to enact legislation which will reduce the main rate of UK corporation tax to 24% by 2014. In November 2010, the UK Government also released a consultation document providing details on a proposed programme of corporate tax reforms including the introduction of a patent box regime. Details of material tax exposures and items currently under audit and negotiation are set out in Note 25.

Tax Reconciliation to UK Statutory Rate

The table shown below reconciles the UK statutory tax charge to the Group's total tax charge.

	2010 $m	2009 $m	2008 $m
Profit before tax	10,977	10,807	8,681
Notional taxation charge at UK corporation tax rate of 28% (28% for 2009, 28.5% for 2008)	3,074	3,026	2,474
Differences in effective overseas tax rates	(333)	(212)	(8)
Deferred tax credit relating to reduction in Swedish, UK and other tax rates[1,2]	(21)	—	(70)
Unrecognised deferred tax asset	—	2	(7)
Items not deductible for tax purposes	12	156	119
Items not chargeable for tax purposes	(36)	(20)	(48)
Adjustments in respect of prior periods	200	311	91
Total tax charge for the year	2,896	3,263	2,551

[1] The 2010 item relates to the reduction in the UK statutory corporation tax rate from 28% to 27% effective from 1 April 2011.
[2] The 2008 item relates to the reduction in the Swedish statutory corporation tax rate from 28% to 26.3% effective from 1 January 2009.

Deferred Tax

Deferred tax assets and liabilities and the movements during the year, before offset of balances within countries, are as follows:

	Property, Plant and Equipment $m	Intangible Assets $m	Pension and Post-Retirement Benefits $m	Inter Company Inventory Transfers $m	Untaxed Reserves[1] $m	Accrued Expenses $m	Share Schemes $m	Deferred Capital Gains $m	Losses and Tax Credits Carried Forward $m	Other $m	Total $m
Deferred tax assets at 1 January 2008	66	59	531	907	—	611	62	—	330	71	2,637
Deferred tax liabilities at 1 January 2008	(693)	(3,653)	(3)	(21)	(1,171)	(13)	—	(88)	—	(70)	(5,712)
Net deferred tax balance at 1 January 2008	(627)	(3,594)	528	886	(1,171)	598	62	(88)	330	1	(3,075)
Taxation expense	122	375	24	55	(119)	37	43	—	12	(24)	525
Other comprehensive income	—	—	340	—	—	—	9	—	—	(1)	348
Exchange	168	130	(113)	(35)	199	(37)	(14)	24	(7)	(3)	312
Net deferred tax balance at 31 December 2008	(337)	(3,089)	779	906	(1,091)	598	100	(64)	335	(27)	(1,890)
Deferred tax assets at 31 December 2008	136	42	786	935	—	598	100	—	335	45	2,977
Deferred tax liabilities at 31 December 2008	(473)	(3,131)	(7)	(29)	(1,091)	—	—	(64)	—	(72)	(4,867)
Net deferred tax balance at 31 December 2008	(337)	(3,089)	779	906	(1,091)	598	100	(64)	335	(27)	(1,890)
Taxation expense	175	232	(61)	17	(303)	(146)	5	—	(100)	23	(158)
Other comprehensive income	—	—	140	—	—	—	17	—	—	—	157
Exchange	(46)	(36)	54	29	(80)	18	7	(7)	(4)	1	(64)
Net deferred tax balance at 31 December 2009	(208)	(2,893)	912	952	(1,474)	470	129	(71)	231	(3)	(1,955)

(continued)

	Property, Plant and Equipment $m	Intangible Assets $m	Pension and Post-Retirement Benefits $m	Inter Company Inventory Transfers $m	Untaxed Reserves[1] $m	Accrued Expenses $m	Share Schemes $m	Deferred Capital Gains $m	Losses and Tax Credits Carried Forward $m	Other $m	Total $m
Deferred tax assets at 31 December 2009	266	47	918	968	—	553	129	—	231	34	3,146
Deferred tax liabilities at 31 December 2009	(474)	(2,940)	(6)	(16)	(1,474)	(83)	—	(71)	—	(37)	(5,101)
Net deferred tax balance at 31 December 2009	(208)	(2,893)	912	952	(1,474)	470	129	(71)	231	(3)	(1,955)
Taxation expense	131	465	(178)	3	24	66	(5)	2	50	(19)	539
Other comprehensive income	—	—	(46)	—	—	—	4	—	—	1	(41)
Acquisition of subsidiary undertaking[2]	—	(143)	—	—	—	—	—	—	—	2	(141)
Exchange	(6)	5	(9)	15	(81)	12	(1)	3	(10)	—	(72)
Net deferred tax balance at 31 December 2010	(83)	(2,566)	679	970	(1,531)	548	127	(66)	271	(19)	(1,670)
Deferred tax assets at 31 December 2010	357	54	686	988	—	558	127	—	271	25	3,066
Deferred tax liabilities at 31 December 2010	(440)	(2,620)	(7)	(18)	(1,531)	(10)	—	(66)	—	(44)	(4,736)
Net deferred tax balance at 31 December 2010	(83)	(2,566)	679	970	(1,531)	548	127	(66)	271	(19)	(1,670)

Analysed in the Statement of Financial Position, After Offset of Balances Within Countries, as:	2010 $m	2009 $m	2008 $m
Deferred tax assets	1,475	1,292	1,236
Deferred tax liabilities	(3,145)	(3,247)	(3,126)
Net deferred tax balance	(1,670)	(1,955)	(1,890)

[1] Untaxed reserves relate to taxable profits where the tax liability is deferred to later periods.
[2] The deferred tax liability of $143m relates to the acquisition of Novexel S.A.

Unrecognised Deferred Tax Assets

Deferred tax assets of $128m have not been recognised in respect of deductible temporary differences (2009: $104m; 2008: $80m) because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

25. Commitments and Contingent Liabilities (in part)

Tax

Where tax exposures can be quantified, an accrual is made based on best estimates and management's judgement. Details of the movements in relation to material tax exposures are discussed below.

Transfer Pricing and Other International Tax Contingencies

AstraZeneca faces a number of transfer pricing audits in jurisdictions around the world and, in some cases, is in dispute with the tax authorities. The issues under discussion are often complex and can require many years to resolve. Accruals for tax contingencies require management to make estimates and judgements with respect to the ultimate outcome of a tax audit, and actual results could vary from these estimates. The international tax environment presents increasingly challenging dynamics for the resolution of transfer pricing disputes. These disputes usually result in taxable profits being increased in one territory and correspondingly decreased in another. Our balance sheet positions for these matters reflect appropriate corresponding relief in the territories affected. Management considers that at present such corresponding relief will be available, but given the challenges in the international tax environment will keep this aspect under careful review. The total net accrual included in the Group Financial Statements to cover the worldwide exposure to transfer pricing audits is $2,310m, a decrease of $17m due to negotiated settlements offset by the impact of an additional year of transactions relating to contingencies for which accruals had already been established, revisions of estimates relating to existing audits, a number of new tax contingencies and exchange rate effects.

Tax accruals have been made in respect of two individually significant exposures:

- The tax accrual at 31 December 2008 and 2009 included amounts in relation to a long running transfer pricing dispute between AstraZeneca and HM Revenue & Customs (HMRC) covering all periods from 1996 onwards. In February 2010, AstraZeneca announced that the company had entered into an agreement with HMRC

in the UK to settle this dispute. As a consequence of the settlement, AstraZeneca and HMRC have withdrawn the joint referral of this issue to the UK Tax Court. The agreement will result in AstraZeneca paying £505m to HMRC to resolve all claims made by HMRC in relation to this issue for the 15-year period from 1996 to the end of 2010. The £505m settlement is payable in two instalments of which the first instalment of £350m ($562m) was paid in February 2010. A second final instalment of £155m is due to be paid in March 2011 and is included in ordinary tax payable at 31 December 2010.

- AstraZeneca has applied for an advance pricing agreement in relation to intra-group transactions between the UK and the US which is being progressed through competent authority proceedings under the relevant double tax treaty.

Management continues to believe that AstraZeneca's positions on all its transfer pricing audits and disputes are robust and that AstraZeneca is appropriately provided.

For transfer pricing audits where AstraZeneca and the tax authorities are in dispute, AstraZeneca estimates the potential for reasonably possible additional losses above and beyond the amount provided to be up to $565m (2009: $575m); however, management believes that it is unlikely that these additional losses will arise. It is possible that some of these contingencies may reduce in the future to the extent that any tax authority challenge is unsuccessful, or matters lapse following expiry of the relevant statutes of limitation resulting in a reduction in the tax charge in future periods.

Other Tax Contingencies

Included in the tax accrual is $1,429m relating to a number of other tax contingencies, an increase of $468m mainly due to the impact of an additional year of transactions relating to contingencies for which accruals had already been established and exchange rate effects. For these tax exposures, AstraZeneca does not expect material additional losses. It is, however, possible that some of these contingencies may reduce in the future if any tax authority challenge is unsuccessful or matters lapse following expiry of the relevant statutes of limitation resulting in a reduction in the tax charge in future periods.

Timing of Cash Flows and Interest

It is not possible to estimate the timing of tax cash flows in relation to each outcome, however, it is anticipated that a number of significant disputes may be resolved over the next one to two years. Included in the provision is an amount of interest of $608m (2009: $565m). Interest is accrued as a tax expense.

SECTION 3: STATEMENT OF COMPREHENSIVE INCOME AND RELATED DISCLOSURES*

IAS 1, *PRESENTATION OF FINANCIAL STATEMENTS*

IAS 27, *CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS*

THE CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING

Author's Note

The following items are covered in the indicated sections within this publication more specific to that topic:

- Assets and liabilities associated with certain income and expense items (see section 2, "Statement of Financial Position and Related Disclosures").
- Assets held for sale and discontinued operations (see section 6, "Non-current Assets Held for Sale and Discontinued Operations").
- Financial instruments (see section 8, "Financial Instruments and Related Disclosures").

IFRS Overview and Comparison to U.S. GAAP

Author's Note

In September 2010, the International Accounting Standards Board (IASB) issued *Conceptual Framework for Financial Reporting 2010* (IFRS *Conceptual Framework*), which supersedes the *Framework for the Preparation and Presentation of Financial Statements*. However, the IFRS *Conceptual Framework* retains the definitions of the elements of financial statements (that is, *assets*, *liabilities*, *equity*, *income*, and *expenses*) from the previous *Framework for the Preparation and Presentation of Financial Statements*.

Author's Note

In May 2011, the IASB issued International Financial Reporting Standard (IFRS) 10, *Consolidated Financial Statements*, which supersedes the requirements of International Accounting Standard (IAS) 27, *Consolidated and Separate Financial Statements*, with respect to consolidation, and Standing Interpretations Committee (SIC) 12, *Consolidation—Special Purpose Entities*. Because IFRS 10 and IAS 27, *Separate Financial Statements* (as amended in 2011) were not issued until May 2011, no survey entity could apply the new requirements in its 2010 financial statements. Therefore, the following commentary only describes the requirements in IAS 27 that are applicable to 2010 financial statements. See additional discussion before paragraph 2.01 in section 2.

3.01 IAS 1, *Presentation of Financial Statements*, requires an entity to include in a complete set of financial statements a statement of comprehensive income for the period. A statement of comprehensive income should present all income and expense items recognized in the period. An entity can choose to present the required income, expense, and other comprehensive income items in either a single statement of comprehensive income or in two statements presented sequentially. When an entity chooses the two-statement format, it should prepare a separate income statement that displays the components of profit or loss followed by a second statement that begins with profit or loss and displays the components of other comprehensive income.

3.02 IAS 27, *Consolidated and Separate Financial Statements*, requires a statement of comprehensive income to include the results of all entities (subsidiaries) that the reporting entity controls, except in certain circumstances, eliminating intragroup income, expenses, and dividends.

3.03 A complete set of financial statements should include two statements of comprehensive income: one for the current period and one for the comparable previous period, except when IFRSs permit or require otherwise.

3.04 When an entity changes the presentation or classification of items in the statement of comprehensive income, it should also reclassify comparative period information, unless it is impracticable to do so.

3.05 The IFRS *Conceptual Framework* establishes the concepts that underlie the preparation and presentation of financial statements for external users and contains definitions of the elements of financial statements (that is, *assets*, *liabilities*, *equity*, *income*, and *expenses*). Among other purposes, the IFRS *Conceptual Framework* assists preparers of financial statements in applying IFRSs and in dealing with topics that have yet to form the subject of a specific standard or interpretation.

3.06 IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, states that when making judgments about an issue not specifically addressed in IFRSs, an entity's

* Unless otherwise indicated, references to International Accounting Standards Board (IASB) standards and interpretations throughout this 2011 edition of *IFRS Accounting Trends & Techniques* refer to the version of those standards and interpretations included in the *IFRS 2011* bound volume, the official printed consolidated text of IASB standards and interpretations, including revisions, amendments, and supporting documents, applicable as of 1 January 2011.

management should first refer to and consider the applicability of the requirements in IFRSs dealing with similar and related issues and then refer to the definitions, recognition criteria, and measurement concepts in the IFRS *Conceptual Framework*. Although the IFRS *Conceptual Framework* is not a standard, the requirements of IAS 8 essentially establish the IFRS *Conceptual Framework* as part of the IFRS hierarchy of accounting and reporting requirements.

3.07 The IFRS *Conceptual Framework* defines *income* as increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases in liabilities that result in increases in equity, other than those increases relating to contributions from the entity's owners. This definition includes both revenue and gains. *Revenue* is defined as income that arises in the course of an entity's ordinary activities. *Gains*, on the other hand, may or may not arise from ordinary activities of the entity, and IFRSs do not consider gains to be a separate element of the financial statements. An entity should recognize income when an increase in future economic benefits related to an increase in an asset or a decrease in a liability can be measured reliably. However, an entity should only recognize an increase in an asset when it is probable that future economic benefits will flow to the entity.

3.08 The IFRS *Conceptual Framework* defines an *expense* as outflows or depletions of assets or an incurrence of liabilities that result in a decrease in equity, other than those relating to distributions to the entity's owners. Expenses, which include the concept of losses, may or may not arise in the course of the ordinary activities of the entity. IFRSs also do not consider a loss to be a separate element of the financial statements. An entity should recognize an expense when a decrease in economic benefits related to a decrease in an asset or an increase in a liability can be measured reliably. However, an entity should recognize an increase in a liability only when it is probable that an outflow of economic benefits will occur.

Author's Note

Although not specifically discussed in the IFRS *Conceptual Framework*, changes in fair value meet the definition of *income* or *expense* when recognized in either profit or loss or other comprehensive income.

3.09 The IFRS *Conceptual Framework* also notes that expenses usually are recognized in profit and loss when directly associated with a specific item of income, often referred to as the "matching concept." However, the IFRS *Conceptual Framework* explicitly states that application of this concept does not permit recognition of items on the balance sheet that do not meet the definition of an *asset* or a *liability*. An entity should recognize an expense immediately for an expenditure that does not produce future benefits or to the extent that the expenditure does not qualify for recognition as an asset. An entity also recognizes an expense when it incurs a liability without the recognition of an asset (for example, product warranty liabilities). Expenses related to the use of assets over several accounting periods should be allocated to profit or loss on a rational, systematic basis.

Presentation

IFRSs

3.10 At a minimum, IAS 1 requires the statement of comprehensive income to include the following line items:

- Revenues
- Finance costs (interest expense)
- Share of profit or loss of equity-method investments (for example, associates and jointly controlled entities)
- Tax expense
- Discontinued operations as a single amount consisting of the sum of any profit or loss from the discontinued operations and any gain or loss on disposal of related assets or disposal groups
- Profit or loss (net income)
- Share of the other comprehensive income of equity-method investments
- Each component of other comprehensive income classified by nature
- Total comprehensive income

3.11 An entity should also provide separate allocations of profit or loss and total comprehensive income attributable to the following:

- Noncontrolling interest
- Owners of the parent entity

3.12 An entity should also present additional line items, headings, and subtotals when these would be relevant for understanding its financial performance during the period. IAS 1 also suggests that an entity should amend descriptions of line items and consider factors such as materiality and the nature or function of line items when making these decisions.

3.13 An entity should not offset income and expense items unless required or permitted by an IFRS.

3.14 IAS 1 prohibits the presentation of any line item as an extraordinary item in the statement of comprehensive income, a separate income statement (if presented), or in the notes.

Author's Note

Despite the prohibition against the presentation of an extraordinary item (that is, presenting the item net of income taxes and outside of continuing operations), IAS 1 does not define *exceptional* or *unusual* items. Except for discontinued operations, all other income statement income and expense items are considered to be operating items, regardless of the titles an entity uses for subtotals it provides in the income statement. Several survey companies use the terms *exceptional* or *unusual* to differentiate among line items included in the income statement before income taxes. An entity may also define and disclose its own non-generally accepted accounting principles (GAAP) performance metric (for example, underlying earnings is not measured in accordance with GAAP) as long as it also provides a reconciliation of that metric to profit or loss measured in accordance with IFRSs.

3.15 An entity should present all items of income and expense in profit or loss, unless IFRSs require or permit otherwise, and should disclose reclassification adjustments related to components of other comprehensive income. An entity should disclose the amount of income tax related to components of other comprehensive income and may either show each component net of related tax or each component at its pretax amount, with an aggregated amount of tax related to total other comprehensive income items.

U.S. GAAP

3.16 Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 220-10-45-5 requires an entity to report all components of comprehensive income in its financial statements in the period in which the components are recognized and to display a total amount for comprehensive income in the financial statement where the components of other comprehensive income are reported. When the entity has a noncontrolling interest in a subsidiary, it should present separate amounts for both comprehensive income attributable to the parent and attributable to the noncontrolling interest in the subsidiary on the face of the relevant financial statement, in addition to presenting total consolidated comprehensive income. FASB ASC 220-10-45-13 explains that an entity should classify components of comprehensive income based on their nature.

3.17 Like IFRSs, FASB ASC 220-10-45-8 does not require one format for the statement in which an entity presents comprehensive income and its components, as long as the financial statement is displayed with the same prominence as its other financial statements and net income is shown as a component of comprehensive income in that financial statement. Additionally, like IFRSs, FASB ASC 220-10-45-9 permits an entity to include the components of comprehensive income in the income statement or in a separate statement that begins with net income and encourages an entity to use one of these formats. Although FASB ASC 220-10-45-10 states that presenting items of other comprehensive income in an income statement-like form is superior to presenting these items in a statement of changes in equity, unlike IFRSs, FASB ASC 220-10-45-14 permits an entity to present the components of comprehensive income in a statement of changes in equity.

3.18 Like IFRSs, FASB ASC 220-10-45-12 requires an entity to disclose the amount of income tax expense or benefit allocated to each component of other comprehensive income, including reclassification adjustments, either on the face of the relevant statement or in the notes to the financial statements.

3.19 Rule 5-03, "Income Statements," of Securities and Exchange Commission (SEC) Regulation S-X prescribes the format of the income statement for issuers and requires an issuer to display net sales and gross revenues, separately disclosing the following classes, which are different from those required by IFRSs:

- Net sales of tangible products (gross sales less discounts, returns, and allowances)
- Operating revenues of public utilities or others
- Income from rentals
- Revenues from services
- Other revenues

3.20 The aforementioned SEC rule permits an entity to combine classes of net sales and gross revenue derived from a particular class with another class if each is not more than 10 percent of the sum of the classes. When such classes of income are combined, an entity should also combine the related costs and expenses. IFRSs do not include a quantitative threshold for aggregating the prescribed line items on the statement of comprehensive income.

3.21 Unlike IFRSs, FASB ASC 225-20 provides for the presentation of extraordinary items in the income statement when the required conditions are met. *Extraordinary items*, as defined in the FASB ASC glossary, are events and transactions that are distinguished by both their unusual nature and infrequency of occurrence. Additionally, extraordinary items should be material in relation to income before extraordinary items, to the trend of annual earnings before extraordinary items, or material by other appropriate criteria in order to be classified separately in the income statement in accordance with FASB ASC 225-20-45-3. Unlike IFRSs, Rule 5-03 of SEC Regulation S-X includes a long list of cost and expense line items that an entity should show separately, including extraordinary items, net of tax. Some of these line items may be provided in note disclosures. Like IFRSs, an entity should show material amounts of the preceding items separately.

Disclosure

IFRSs

3.22 IAS 1 requires an entity to present the following additional information either in the statement or in the notes:

- Nature and amount of material items of income or expense (for example, inventory write-downs, restructuring activities, disposals of investments, and so on).
- Analysis of expenses by nature or by function (for example, cost of sales), whichever provides reliable and more relevant information, with subclassifications to highlight differences in components (such as frequency and potential for gain or loss). When an entity classifies expenses by function, it should also disclose information about the nature of expenses, particularly depreciation and amortization expense and employee benefit expense.

Author's Note

IAS 1 encourages entities to provide the analysis of expenses in the statement of comprehensive income or the income statement, rather than in the notes. However, some companies present one line item, "operating expenses," in the statement with the disaggregation in a note disclosure.

U.S. GAAP

3.23 FASB ASC 225-10 does not contain a disclosure requirement comparable to the analysis of expenses. However, Rule 5-03 of SEC Regulation S-X effectively requires SEC registrants to provide this analysis by its list of required cost and expense line items. Paragraphs 9 and 12 of FASB ASC 225-20-45 explain that extraordinary items should be segregated from the results of ordinary operations and shown separately in the income statement, with disclosure of the nature and amounts thereof, including earnings per share

data, presented either on the face of the income statement or in the related notes.

TABLE 3-1: ANALYSIS OF EXPENSES RECOGNIZED IN PROFIT AND LOSS

	2010	2009	2008
Survey entities reporting expenses by function	92	86	54
Survey entities reporting expenses by nature			
Financial institutions	11	12	6
Insurance entities	8	8	5
Entities in other industries	59	54	35
Total	**170**	**160**	**100**

TABLE 3-2: ITEMS OF OTHER COMPREHENSIVE INCOME

	2010	2009
Foreign currency translation	136	129
Change in fair value of available for sale financial instrument	106	102
Change in fair value of property plant and equipment held at revalued amount	15	13
Change in fair value of intangible assets held at revalued amount	0	0
Cash flow hedges	101	94
Hedge of net investment in a foreign operations	11	11
Other derivatives and hedging transactions	11	20
Actuarial gains and losses on defined benefit plans	61	62
Share of other comprehensive income of associates and joint ventures	35	32
Share-based payments	2	4
Revaluation of equity interest	8	9
Other	31	20
Disclosure of Income Tax Recognized Directly in Equity		
Tax effect shown in statement	94	87
Items shown net of tax	65	64
No items of other comprehensive income	11	9
Total Companies	**170**	**160**

Presentation and Disclosure Excerpts

Single Statement—Statement of Comprehensive Income, Expenses by Nature

3.24

Huaneng Power International Inc. (Dec 2010)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended December 31, 2010, 2009 and 2008

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in thousands of RMB or US$, except per share data)

		For the Year Ended December 31			
		2010		2009	2008
	Note	RMB	US$	RMB	RMB
Operating revenue	5	104,318,120	15,751,600	76,862,896	67,835,114
Tax and levies on operations		(147,641)	(22,293)	(151,912)	(106,385)
Operating Expenses					
Fuel		(67,891,547)	(10,251,340)	(44,861,375)	(49,810,275)
Maintenance		(2,302,018)	(347,595)	(2,035,297)	(1,702,274)
Depreciation		(10,447,021)	(1,577,456)	(8,572,103)	(7,718,773)
Labor		(4,067,420)	(614,163)	(3,595,340)	(3,164,613)
Service fees on transmission and transformer facilities of HIPDC	34	(140,771)	(21,256)	(140,771)	—
Purchase of electricity		(5,557,219)	(839,117)	(3,639,440)	(2,726,028)
Others	6	(5,135,492)	(775,438)	(4,692,955)	(3,842,992)
Total operating expense		(95,541,488)	(14,426,365)	(67,537,281)	(68,964,955)
Profit/(Loss) from operations		8,628,991	1,302,942	9,173,703	(1,236,226)
Interest income		89,026	13,443	60,397	83,522
Financial Expenses, Net					
Interest expense		(5,282,549)	(797,643)	(4,260,400)	(4,064,779)
Exchange gain and bank charges, net		87,964	13,282	(48,925)	356,836
Total financial expense, net		(5,194,585)	(784,361)	(4,309,325)	(3,707,943)
Share of profits of associates	8	568,794	85,886	756,164	72,688
Gain/(Loss) on fair value changes		11,851	1,789	(33,638)	(54,658)
Other investment income		60,013	9,061	56,675	51,061
Profit/(Loss) before income tax expense	6	4,164,090	628,760	5,703,976	(4,791,556)
Income tax (expense)/benefit	31	(842,675)	(127,240)	(593,787)	239,723
Net profit/(loss)		3,321,415	501,520	5,110,189	(4,551,833)
Other Comprehensive Income/(Loss), Net of Tax					
Available-for-sale financial asset fair value changes		(258,204)	(38,988)	773,967	(1,563,388)
Proportionate share of other comprehensive (loss)/income of investees measured using the equity method of accounting		(35,156)	(5,308)	8,795	3,096
Hedging instruments for cash flow hedges		(112,377)	(16,968)	604,645	(476,601)
Currency translation differences		457,670	69,105	173,548	(536,638)
Other comprehensive income/(loss), net of tax		51,933	7,841	1,560,955	(2,573,531)
Total comprehensive income/(loss)		3,373,348	509,361	6,671,144	(7,125,364)
Net Profit/(Loss) Attributable to:					
—Equity holders of the Company		3,347,985	505,532	4,929,544	(3,937,688)
—Non-controlling interests		(26,570)	(4,012)	180,645	(614,145)
		3,321,415	501,520	5,110,189	(4,551,833)
Total Comprehensive Income/(Loss) Attributable to:					
—Equity holders of the Company		3,397,720	513,042	6,489,317	(6,509,014)
—Non-controlling interests		(24,372)	(3,681)	181,827	(616,350)
		3,373,348	509,361	6,671,144	(7,125,364)
Earnings/(Loss) Per Share for Profit/(Loss) Attributable to the Equity Holders of the Company (Expressed in RMB or US $ Per Share)					
—Basic and diluted	32	0.28	0.04	0.41	(0.33)
Dividends paid	21	2,528,050	381,725	1,241,633	3,570,334
Proposed dividend	21	2,811,077	424,461	2,531,631	1,205,538
Proposed dividend per share (expressed in RMB or US $ per share)	21	0.20	0.03	0.21	0.10

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

5. Revenue and Segment Information (in part)

A reconciliation of revenue from external customers to operating revenue is provided as follows:

	For the Year Ended December 31		
	2010	**2009**	**2008**
Revenue from external customers (PRC GAAP)	104,307,702	79,742,331	72,198,019
Reconciling item:			
Impact of business combination under common control(*)	—	(2,884,007)	(4,372,882)
Impact of IFRS adjustment(**)	10,418	4,572	9,977
Operating revenue per consolidated statement of comprehensive income	104,318,120	76,862,896	67,835,114

(*) Under PRC GAAP, the business combination under common control is accounted for under merger accounting method; the operating results for all periods presented are retrospectively restated by combining the financial information of the businesses acquired as if they had been combined from the date when the combining entities first came under the control of the controlling party. Therefore, the financial information of business acquired before the acquisition date is shown as the difference between PRC GAAP and IFRS.

(**) The GAAP adjustments above were primarily represented by the classification adjustments and other adjustments, and the GAAP adjustments other than classification were primarily brought forward from prior years. Such differences will be gradually eliminated following subsequent depreciation and amortization of related assets or the extinguishment of liabilities.

Two Statements—Income Statement and Statement of Other Comprehensive Income, Expenses by Function, Disaggregation of Expenses by Nature in Note Disclosure

3.25

Vina Concha y Toro S.A. (Dec 2010)

Author's Note

Vina Concha y Toro S.A. implemented IFRSs effective December 31, 2010, with a date of transition of January 1, 2009. The excerpt that follows reflects the initial application of IAS 1.

CONSOLIDATED STATEMENTS OF INCOME BY FUNCTION

		For the Year Ended December 31	
Statement of Income by Function	**Note N°**	**2010 Th$**	**2009 Th$**
Income from ordinary activities	(29)	374,018,545	354,418,905
Cost of sales	(30)	(241,775,864)	(223,443,943)
Gross revenue		132,242,681	130,974,962
Other income by function		886,787	106,046
Distribution costs	(30)	(68,256,090)	(65,807,994)
Administrative expenses	(30)	(18,850,626)	(18,674,326)
Other expenses by function	(30)	(747,463)	(460,452)
Financial income	(31)	340,264	734,741
Financial expenses	(31)	(3,149,276)	(5,594,142)
Participation in income (loss) of associates and joint-ventures recorded using the equity method	—	984,406	811,500
Exchange differences	(31)	9,057,132	10,837,415
Income/expense by adjustment units	(31)	(866,507)	1,950,267
Income before tax		51,641,308	54,878,017

(continued)

	Note N°	For the Year Ended December 31 2010 Th$	2009 Th$
Income tax expense	(22)	(9,722,728)	(9,599,971)
Income from continued operations		41,918,580	45,278,046
Income		41,918,580	45,278,046
Income (loss) attributable to :			
Income attributable to owners of the company		41,918,574	45,278,038
Income attributable to non-controlling interests		6	8
Income		41,918,580	45,278,046
Income per share			
Income per basic share			
Income per basic share in continued operations		56.12	61.39
Income per basic share		56.12	61.39

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 30. Costs and Expenses by Nature

Costs and expenses by nature as of December 31, 2010 are disclosed as follows.

Nature of Cost and Operating Expenses	Cost of Sale Th$	Distribution Cost Th$	Administrative Expense Th$	Other Expenses by Function Th$	Total Th$
Direct cost	236,295,058	—	—	—	236,295,058
Maintenance	286,222	3,176,573	2,624,377	—	6,087,172
Depreciations and amortizations	439,095	1,438,406	629,261	—	2,506,762
Power	198,553	719,459	33,200	—	951,212
Transportation and distribution	426,876	9,151,547	161,346	—	9,739,769
Remunerations	2,057,177	14,452,667	13,028,678	—	29,538,522
Advertising and promotions	230,670	34,176,365	31,207	—	34,438,242
Leases	1,608,497	1,449,509	480,753	—	3,538,759
Other expenses	233,716	3,691,564	1,861,804	747,463	6,534,547
Total	241,775,864	68,256,090	18,850,626	747,463	329,630,043

The costs distribution and expenses by nature as of December 31, 2009 are disclosed as follows:

Nature of Cost and Operating Expenses	Cost of Sale Th$	Distribution Cost Th$	Administrative Expense Th$	Other Expenses by Function Th$	Total Th$
Direct cost	215,900,388	—	—	—	215,900,388
Maintenance	1,190,801	2,768,575	2,242,252	—	6,201,628
Depreciations and amortizations	424,824	1,016,337	607,783	—	2,048,944
Power	158,076	562,482	25,674	—	746,232
Transportation and distribution	842,426	20,894,343	197,683	—	21,934,452
Remunerations	1,921,786	12,053,061	13,426,816	—	27,401,663
Advertising and promotions	273,889	24,779,549	636,169	—	25,689,607
Leases	388,963	1,538,248	241,662	—	2,168,873
Other expenses	2,342,790	2,195,399	1,296,287	460,452	6,294,928
Total	223,443,943	65,807,994	18,674,326	460,452	308,386,715

Analysis of Expenses by Function, Disaggregation of Cost of Sales in Note Disclosure

3.26

Harmony Gold Mining Company Limited (Jun 2010)

GROUP INCOME STATEMENTS

For the years ended 30 June 2010

SA Rand				US Dollar	
2009(*)	**2010**	**Figures in Million**	**Note**	**2010**	**2009(*)**
		Continuing Operations			
11,496	11,284	Revenue		1,489	1,277
(9,659)	(10,484)	Cost of sales	5	(1,383)	(1,083)
(7,657)	(8,358)	Production costs		(1,103)	(850)
(1,253)	(1,375)	Amortisation and depreciation		(181)	(139)
(546)	(331)	Impairment of assets		(43)	(71)
(39)	(205)	Employment termination and restructuring costs		(27)	(4)
(164)	(215)	Other items		(29)	(19)
1,837	800	Gross profit		106	194
(329)	(382)	Corporate, administration and other expenditure		(50)	(36)
(33)	(81)	Social investment expenditure		(11)	(4)
(259)	(219)	Exploration expenditure		(29)	(29)
947	104	Profit on sale of property, plant and equipment	6	14	114
(101)	(58)	Other expenses—net	7	(8)	(3)
2,062	164	Operating profit	8	22	236
12	56	Profit from associates	21	7	1
1	—	Profit on sale of investment in associate		—	—
(112)	—	Impairment of investment in associate	21	—	(14)
—	(24)	Loss on sale of investment in subsidiary	9	(3)	—
(101)	38	Net gain/(loss) on financial instruments	10	5	(10)
443	187	Investment income	11	25	49
(212)	(246)	Finance cost	12	(32)	(24)
2,093	175	Profit before taxation		24	238
(188)	(335)	Taxation	13	(44)	(22)
1,905	(160)	Net (loss)/profit from continuing operations		(20)	216
		Discontinued Operations			
1,022	(32)	(Loss)/profit from discontinued operations	14	(4)	95
2,927	(192)	Net (loss)/profit		(24)	311
		Attributable to:			
2,927	(192)	Owners of the parent		(24)	311
—	—	Non-controlling interest		—	—
		(Loss)/earnings per ordinary share (cents):	15		
460	(38)	(Loss)/earnings from continuing operations		(5)	52
247	(8)	(Loss)/earnings from discontinued operations		(1)	23
707	(46)	Total (loss)/earnings for the period		(6)	75
		Diluted (loss)/earnings per ordinary share (cents):	15		
458	(38)	(Loss)/earnings from continuing operations		(5)	51
246	(8)	(Loss)/earnings from discontinued operations		(1)	23
704	(46)	Total diluted (loss)/earnings for the period		(6)	74

(*) The comparative periods have been re-presented for a change in discontinued operations. Refer to note 14.

The accompanying notes are an integral part of these consolidated financial statements.

GROUP STATEMENTS OF OTHER COMPREHENSIVE INCOME

For the years ended 30 June 2010

SA Rand				US Dollar	
2009	2010	Figures in Million	Note	2010	2009
2,927	(192)	Net (loss)/profit for the year		(24)	311
(450)	(131)	Other comprehensive (loss)/income for the year, net of income tax		25	111
(497)	(127)	Foreign exchange translation	26	25	105
47	(4)	Fair value movement of available-for-sale investments	26	—	6
2,477	(323)	Total comprehensive (loss)/income for the year		1	422
		Attributable to:			
2,477	(323)	Owners of the parent		1	422
—	—	Non-controlling interest		—	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

5. Cost of Sales

SA Rand			US Dollar	
2009	2010	Figures in Million	2010	2009
7,657	8,358	Production costs (a)	1,103	850
1,176	1,326	Amortisation and depreciation of mining properties, mine development costs and mine plant facilities	175	130
77	49	Amortisation and depreciation of assets other than mining and mining related assets (b)	6	9
5	29	Rehabilitation expenditure (c)	4	1
44	57	Care and maintenance cost of restructured shafts	8	5
39	205	Employment termination and restructuring costs (d)	27	4
113	148	Share-based payments (e)	20	13
546	331	Impairment of assets (f)	43	71
2	(19)	Provision for post retirement benefits (g)	(3)	—
9,659	10,484	Total cost of sales	1,383	1,083

(a) Production costs include mine production, transport and refinery costs, applicable general and administrative costs, movement in inventories and ore stockpiles and ongoing 1 environmental rehabilitation costs as well as transfers to and from deferred stripping. Ongoing employee termination costs are included, however employee termination costs associated with major restructuring and shaft closures are excluded. Production costs, analysed by nature, consist of the following:

SA Rand			US Dollar	
2009	2010	Figures in Million	2010	2009
4,857	5,776	Labour costs, including contractors	762	540
1,937	2,284	Stores and materials	302	215
840	1,212	Water and electricity	160	93
222	178	Insurance	24	25
136	140	Transportation	19	15
(14)	(20)	Changes in inventory	(3)	(2)
(953)	(1,187)	Capitalisation of mine development costs	(157)	(106)
—	6	Deferred mining	1	—
(25)	(35)	By-products sales	(5)	(3)
—	33	Royalty expense	4	—
657	(29)	Other	(4)	73
7,657	8,358	Total production cost	1,103	850

(b) Amortisation and depreciation of assets other than mining and mining related assets

SA Rand			US Dollar	
2009	2010	Figures in Million	2010	2009
8	16	Other non-mining assets	2	1
24	30	Intangible assets	4	3
45	3	Amortisation of issue costs	—	5
77	49	Total amortisation and depreciation	6	9

(c) For the assumptions used to calculate the rehabilitation costs, refer to note 3.4.
This expense includes the change in estimate for the rehabilitation provision as well as ongoing rehabilitation cost.

(d) Employment termination and restructuring costs consist of the following:

SA Rand			US Dollar	
2009	2010	Figures in Million	2010	2009
10	72	Harmony Gold Mining Company Limited (Harmony)	9	1
9	4	Randfontein Estates Limited (Randfontein)	1	1
		Evander Gold Mines Limited (Evander)		
8	116	ARMGold/Harmony Freegold Joint Venture	15	1
12	12	Company (Proprietary) Limited (Freegold)	2	1
—	1	Avgold Limited (Avgold)	—	—

During the 2010 financial year, certain shafts in Harmony and Evander were closed and placed on care and maintenance. These closures were due to mining no longer being economically viable as a result of the current economic situation. The group also engaged in a voluntary retrenchment process during the year, resulting in retrenchment costs for various operations.

(e) Refer to note 34 for details on the share-based payments schemes operated by the group.

(f) Impairment consists of the following:

SA Rand			US Dollar	
2009	2010	Figures in Million	2010	2009
52	249	Virginia[1]	33	7
236	11	Target[1]	1	31
258	70	Evander[1]	9	33
—	1	Australia	—	—
546	331	Total impairment of assets	43	71

[1] During the 2010 financial year impairments to the value of R300 million (US$40 million) were recognised mainly as a result of the shaft closures discussed under note 5(d) above. The remaining balance in 2010 and the impairment in 2009 resulted from revised business (life-of-mine) plans, which are completed in June of each year, and included increases in electricity and labour costs. Included in 2009 for Evander and Target was additional capital expenditure that was needed to access reserve ounces in areas where geological anomalies have been discovered.

These adjustments impacted negatively on the recoverable amount of property, plant and equipment and contributed to the recognition of the impairments at the shafts. Impairment tests were performed as required by IAS 36, *Impairment of Assets,* and as a result these impairments were recorded. For assumptions used to calculate the recoverable amount, refer to note 3.1.

(g) The net credit of R19 million (US$2.5 million) is a result of curtailments in 124 members' post employment subsidies due to renegotiation of employment contracts. These members were transferred from Freegold employment conditions to Harmony employment conditions.

IAS 18, *REVENUE*

SIC 31, *REVENUE—BARTER TRANSACTIONS INVOLVING ADVERTISING SERVICES*

Author's Note

In 2002, the IASB and the FASB jointly initiated a project on revenue recognition with the objective of developing a single coherent asset and liability model for revenue recognition. In such a model, revenue is a function of changes in assets and liabilities and is not based on the notions of realization and the completion of an earnings process. Currently, there are significant differences between IFRSs and U.S. GAAP in how and when an entity recognizes revenue. In the course of this project, the boards issued the following due process documents:

- In December 2008, the boards published for public comment a discussion paper, Preliminary Views on Revenue Recognition in Contracts with Customers, which set out a joint approach for revenue recognition. Comments were due by June 2009.
- In January 2010, the boards published for public comment an exposure draft, Revenue from Contracts with Customers. The proposed standard would replace IAS 18, Revenue, IAS 11 Construction Contracts, and related interpretations. In U.S. GAAP, it would supersede most of the guidance on revenue recognition in Topic 605 of the FASB Accounting Standards Codification. Comments were due by October 2010.

The core principle in the exposure draft is to recognize revenue so as "to depict the *transfer* of goods or services in an amount that reflects the consideration expected to be received in exchange for those goods or services." An entity would take five steps to apply this principle:

1. Identify the customer contract(s).
2. Identify the separate performance obligations.
3. Determine the transaction price for the contract(s).
4. Allocate the transaction price to the performance obligations.
5. Recognize revenue when the entity settles the performance obligations.

Overall, comment letters supported the project's objective to create a single revenue recognition standard to be used across industries and capital markets. However, other comments resulted in redeliberations by the boards on a number of issues including determining when transfer occurs for services, clarifying what constitutes a "distinct" performance obligation, handling of contract modifications, reducing complexity of proposed approach to segmenting contracts, determining whether an entity should expense all contract acquisition costs, accruing "statutory" warranty costs, determining how to account for licenses, reducing complexity of measurements, and determining when to apply a test for an onerous contract.

In June 2011, because of the extent of the changes to the proposed standard, the boards decided to reexpose their revised proposals in the third quarter of 2011 with a target date for a new IFRS of 2012.

IFRS Overview and Comparison to U.S. GAAP

3.27 The IFRS *Conceptual Framework* defines *income* as increases in economic benefits during the period in the form of inflows or enhancements of assets or reductions of liabilities that result in an increase in equity other than an increase from contributions by equity participants. Income includes both revenues and gains. The IFRS *Conceptual Framework* defines *revenue* as income that results from the entity's ordinary business activities. Gains also meet the definition of *income* but may or may not result from the entity's ordinary business activities. Because gains represent increases in economic benefits, they are no different in nature from revenue. Whereas the IFRS *Conceptual Framework* considers revenue to be a separate element of the financial statements, a gain is not considered a separate element.

Recognition and Measurement

IFRSs

3.28 IAS 18, *Revenue*, establishes the accounting and disclosure requirements for revenue from the sale of goods, rendering of services, and the use by others of an entity's assets that yield interest, dividends, or royalties. IAS 18 does not address the accounting for revenue or income generated by the extraction of mineral ores, changes in value of current assets, or assets covered by another IFRS. For example, IAS 18 does not apply to revenue arising from leases, dividends from equity-method investments, insurance contracts, change in fair value or disposal of financial instruments, agricultural produce, and biological assets since other IFRSs address these issues.

3.29 Revenue includes only gross inflows received or receivable by an entity on its own account. When amounts are collected on behalf of third parties (for example, fees and commissions), an entity should only recognize revenue for its fee or commission, not the amount collected. Similarly, amounts collected on behalf of third parties, such as sales taxes, goods and services taxes, and value-added taxes, are not economic benefits that flow to the entity and do not result in increases in equity; therefore, these items are excluded from revenue.

3.30 IAS 18 requires an entity to segment or combine transactions to arrive at the substance of the arrangement for revenue recognition purposes. Because there is limited guidance on segmenting and combining in IAS 18, the entity should refer to and consider the applicability of the guidance on segmenting and combining transactions included in IAS 11, *Construction Contracts*.

Author's Note

For more information on IAS 11, see paragraph 3.64 in this section.

3.31 Revenue is measured at the fair value of the consideration received or receivable. The fair value should take into account any trade discounts or volume rebates. When a transaction is effectively a financing arrangement, IAS 18 requires an entity to determine the fair value by discounting future cash flows using an imputed interest rate. The *imputed rate of interest* is the more clearly determinable of either the prevailing rate on similar instruments by issuers with similar credit ratings or the rate that discounts the nominal amount of the instrument to the current cash sales price of the goods or services provided. An entity should recognize the difference between the present value and the nominal amount as interest revenue, in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*.

3.32 When goods and services are exchanged, an entity should not recognize revenue when the goods or services are similar. An entity should only recognize revenue when it exchanges dissimilar goods or services. In an exchange, an entity should measure revenue at the fair value of the goods or services received. Only when this fair value cannot be measured reliably should the entity recognize revenue at the fair value of the goods or services given up, adjusted by any cash or cash equivalent transferred.

3.33 SIC Interpretation 31, *Revenue—Barter Transactions Involving Advertising Services*, when entering into a barter transaction, an entity should recognize revenue only when the fair value is determined by reference to nonbarter transactions with certain characteristics.

3.34 IAS 18 requires an entity to meet two conditions before recognizing revenue on the sale of goods. The entity should

- transfer the significant risks and rewards of ownership of the goods to the buyer and
- retain neither continuing management involvement associated with ownership nor effective control over the goods sold.

3.35 An entity should determine that the economic benefits from the transfer of the goods are probable and should measure reliably both the revenue and the costs associated with the transaction. An entity should recognize a sale when it retains only an insignificant amount of the risk and rewards of ownership.

3.36 To meet the probability criteria when an entity does not receive consideration at the time the goods are transferred and is uncertain about the consideration's future collectability, the entity should measure revenue at the amount expected to be collected.

3.37 With respect to revenue generated by providing services, an entity should recognize revenue using the percentage-of-completion method; that is, the entity recognizes revenue when it is probable that future economic benefits will be received and it can reliably measure all of the following:

- Amount of revenue
- Stage of completion
- Costs incurred
- Costs to complete the project

IAS 18 does not require an entity to use a particular method for measuring the stage of completion. Use of surveys of work performed, services performed to date, and the percentage of costs incurred are all acceptable measurement methodologies.

3.38 When the outcome of a transaction for services cannot be measured reliably, an entity should recognize revenue only up to the amount of recoverable costs incurred.

3.39 An entity should recognize revenue from the use of assets generating interest, dividends, or royalties only when receipt of the expected economic benefits is probable and it can measure the amount reliably. IAS 18 requires an entity to recognize these types of revenue as follows:

- Recognize interest revenue using the effective interest method
- Recognize royalty revenue using the accrual basis, in accordance with the substance of the relevant agreement
- Recognize dividend revenue when an entity's shareholder rights to dividends are established

U.S. GAAP

3.40 FASB ASC 605, *Revenue Recognition*, includes extensive requirements and guidance for revenue recognition and measurement, which exceed that provided in IAS 18. Revenue guidance is contained in both FASB ASC and rules of the SEC.

3.41 FASB ASC 605-10-25-1 generally permits an entity to recognize revenue only in the following circumstances:

- The revenue is realized or realizable (that is, when the goods or services are exchanged for cash or claims to cash).
- The revenue is being earned (that is, when the entity has substantially accomplished what it must do to be entitled to the benefits represented by the revenues).

3.42 However, FASB ASC 605-10-25-4 permits revenue and gain recognition using the installment or cost-recovery methods under exceptional circumstances. The cost-recovery method yields essentially the same results as the requirements of IAS 18 in circumstances when the outcome of a transaction cannot be measured reliably. IFRSs do not permit entities to use the installment method. Unlike IFRSs, for transactions involving the rendering of services, FASB ASC 605 does not require an entity to use the percentage-of-completion method of revenue recognition.

3.43 SEC *Codification of Staff Accounting Bulletins* topic 13, "Revenue Recognition," states that revenue generally is realized or realizable and earned when all of the following criteria are met:

- Persuasive evidence of an arrangement exists.
- Delivery of the goods has occurred or services have been rendered.
- The seller's price to the buyer is fixed or determinable.
- Collectability is reasonably assured.

3.44 In addition, unlike IFRSs, FASB ASC and SEC sources contain detailed transaction-specific guidance. For example, these sources provide guidance on revenue recognition for sales when the title is retained, bill and hold sales, goods are shipped but not billable or are subject to conditions, consignment sales, layaway sales, options to buy, special orders and drop shipments, sale and repurchase agreements, subscriptions, and points and other items redeemable for goods or services.

3.45 Despite the detailed guidance on the timing of recognition, FASB ASC and SEC sources contain little guidance on

measurement, other than the previously noted requirement for the seller's price to be fixed or determinable. Additional guidance about this condition exists for extended payment terms, reseller arrangements, customer cancellation privileges, fiscal funding clauses, and software arrangements. If the fee is not fixed or determinable, an entity should recognize revenue as payments are received.

3.46 FASB ASC 605-25 contains more guidance on segmenting of transactions, referred to as *multiple element arrangements*, for both recognition and measurement. FASB ASC 605-25-30-2 requires that when there is objective and reliable evidence of the fair values of different units of account in an arrangement, the entity should allocate the consideration to these units based on their relative fair values, except when fair values do not exist for delivered elements. In the latter case, the residual method is used to allocate the consideration to the separate elements.

Author's Note

In October 2009, FASB issued Accounting Standards Update (ASU) No. 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements—a consensus of the FASB Emerging Issues Task Force*. This ASU addresses the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately, rather than as a combined unit. This guidance affects accounting and reporting for all vendors that enter into multiple-deliverable arrangements with their customers when those arrangements are within the scope of FASB ASC 605-25. This guidance is labeled as "Pending Content" due to the transition and open effective date information discussed in FASB ASC 605-25-65-1. The ASU became effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. See the ASU or "Pending Content" in FASB ASC 605-25. The fiscal years of all survey companies included in the sample began before June 15, 2010.

3.47 Like IFRSs, FASB ASC 605-45 requires entities to recognize revenue at the net amount retained when acting as an agent.

Presentation

IFRSs

3.48 IAS 1 requires an entity to present total revenue separately on the statement of comprehensive income. Use of the term *revenue* is not required.

Author's Note

Companies domiciled in the United Kingdom commonly use the term "turnover" in place of revenue.

U.S. GAAP

3.49 Rule 5-03 of SEC Regulation S-X requires SEC registrants to present revenues on a separate line item on the income statement.

3.50 Unlike IFRSs, FASB ASC 605-45-50-3 explains that an entity may present taxes collected from customers and remitted to governmental authorities on either a gross basis (included in both revenues and costs) or net basis (excluded from revenues). The method that an entity chooses is an accounting policy decision.

Disclosure

IFRSs

3.51 An entity should disclose its accounting policies for revenue recognition separately for the following categories: sales of goods, services, interest, dividends, and royalties. The policies should appear either on the face of the statement of comprehensive income or in the notes. Entities should also disclose the amount of revenue recognized from the exchange of goods or services in each of those categories.

U.S. GAAP

3.52 FASB ASC 235-10-50-3 also requires entities to disclose the accounting policy for revenue recognition. FASB ASC 235 does not require disclosures comparable to those required by IAS 18 for each type of revenue.

3.53 FASB ASC 605 includes extensive disclosure requirements, including those pertaining to multiple element arrangements and specific industry requirements. For example, FASB ASC 605-25-50-1 requires an entity to provide specific disclosures regarding multiple element arrangements, including the accounting policy for such arrangements (for example, whether deliverables are separable into units of accounting) and the nature of such arrangements (for example, provisions for performance, termination, or cancellation of the agreement). "Pending Content" in FASB ASC 605-25-50-1 explains that the objective of the disclosure guidance is to provide both qualitative and quantitative information about a vendor's revenue arrangements and the significant judgments made about the application of FASB ASC 605-25, changes in those judgments, or the application of FASB ASC 605-25 that may significantly affect the timing or amount of revenue recognition. Therefore, in addition to the required disclosures, a vendor shall also disclose other qualitative and quantitative information as necessary to comply with this objective.

3.54 For SEC registrants, SEC *Codification of Staff Accounting Bulletins* topic 13(B), "Disclosures," provides SEC staff views on disclosures pertaining to revenue recognition.

Presentation and Disclosure Excerpts

Revenue—Sales of Goods and Contracts to Provide Services

3.55

Ultra Electronics Holdings plc (Dec 2010)

CONSOLIDATED INCOME STATEMENT (in part)

For the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Continuing Operations			
Revenue	3	710,043	651,036
Cost of sales	—	(505,425)	(462,524)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Statement of Accounting Policies (in part)

In Respect of the Group's Consolidated Financial Statements

A summary of the Group's principal accounting policies, all of which have been applied consistently across the Group throughout the current and preceding year, are set out below:

Revenue Recognition

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes. Sales of goods are normally recognised when goods are delivered and title has passed.

Revenue from contracts to provide services is recognised by reference to the stage of completion of the contracts in the same way as for long-term contracts.

Revenue from long-term contracts is recognised in accordance with the Group's accounting policy on long-term contracts *(see accounting policy 'Long-term contracts').*

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Long-Term Contracts

Where the outcome of a long-term contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer, or when it is considered probable that the customer will approve the variation and the amount of revenue arising from the variation.

Where the outcome of a long-term contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Revenue—Sales of Services and Barter Transactions

3.56

City Telecom (H.K.) Limited (Aug 2010)

CONSOLIDATED INCOME STATEMENTS

City Telecom (H.K.) Limited and its subsidiaries
(Expressed in Hong Kong dollars)

		For the Year Ended August 31		
	Note	2010 HK$'000	2009 HK$'000	2008 HK$'000
Revenue	2	1,574,687	1,478,239	1,302,981

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Significant Accounting Policies (in part)

(s) Revenue Recognition

(i) Revenue for the provision of international telecommunications and fixed telecommunications network services is recognized, when an arrangement exists, service is rendered, the fee is fixed or determinable, and collectability is probable.
(ii) Tariff-free period granted to subscribers of fixed telecommunications network services are recognized in profit or loss ratably over the term of the service subscription agreement. Unbilled revenue represents revenue recognized in accordance with the requirement in note 1(s)(i) that has not been billed to the subscriber.
(iii) Amount received in advance for the provision of fixed telecommunications network services is deferred and included under deferred service revenue, and subsequently recognized as revenue on a straight-line basis over the related service period.
(iv) Interest income is recognized as it accrues using the effective interest method.
(v) Rental income receivable under operating leases is recognized in profit or loss in equal installments over the periods covered by the lease term. Lease incentives granted are recognized in profit or loss as an integral part of the aggregate net lease payments receivable.

(v) Accounting for Barter Transactions

When goods or services are exchanged for goods or services which are of a similar nature and value, the exchange is not regarded as a revenue generating transaction.

When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services rendered, adjusted by the amount of any cash or cash equivalents transferred.

2. Turnover and Segment Information (in part)

The Group is principally engaged in the provision of international telecommunications services and fixed telecommunications network services to customers in Hong Kong and Canada. Revenues recognized during the year are as follows:

	2010 HK$'000	2009 HK$'000	2008 HK$'000
Turnover			
International telecommunications services	218,589	247,359	291,943
Fixed telecommunications network services (note 2(b))	1,356,098	1,230,880	1,011,038
	1,574,687	1,478,239	1,302,981

28. Barter Transaction

During the year ended August 31, 2010, HKBN entered into an agreement with a third party (the "Contract Party"). Pursuant to the agreement, HKBN would provide network capacity to the Contract Party for a service term of 10 years commencing on May 1, 2010 or after the respective activation of the relevant network capacity, and in exchange, the Contract Party would provide HKBN the right to use telecommunications facilities for a term of 10 years commencing on May 1, 2010 or after the respective activation of the relevant network capacity. The transaction has been entered into on a barter basis at no consideration being exchanged. The agreement expires on April 30, 2020.

The Directors of the Company made an assessment and determined that since the arrangement above involves exchange of services of a similar nature and value, the exchange is not regarded as a transaction which generates revenue. Accordingly, the network capacity of the Contract Party under the arrangement has not been recognized as an asset and no revenue or deferred revenue has been recognized in the financial statements of the Group since inception of the arrangement.

Revenue—Bill and Hold Transactions

3.57

Tenaris S.A. (Dec 2010)

CONSOLIDATED INCOME STATEMENT (in part)

(All amounts in thousands of U.S. dollars, unless otherwise stated)

		Year Ended December 31		
	Notes	2010	2009	2008
Continuing Operations				
Net sales	1	7,711,598	8,149,320	11,987,760
Cost of sales	1 & 2	(4,700,810)	(4,864,922)	(6,698,285)
Gross profit		3,010,788	3,284,398	5,289,475

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

S. Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of Tenaris' activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group.

Tenaris' products and services are sold based upon purchase orders, contracts or upon other persuasive evidence of an arrangement with customers, including that the sales price is known or determinable. Sales are recognized as revenue upon delivery, when neither continuing managerial involvement nor effective control over the products is retained by Tenaris and when collection is reasonably assured. Delivery is defined by the transfer of risk, provision of sales contracts and may include delivery to a storage facility located at one of the Company's subsidiaries. For bill and hold transactions revenue is recognized only to the extent (a) it is probable delivery will be made; (b) the products have been specifically identified and are ready for delivery; (c) the sales contract specifically acknowledges the deferred delivery instructions; (d) the usual payment terms apply.

The percentage of total sales that were generated from bill and hold arrangements for products located in Tenaris's storage facilities that have not been shipped to customers amounted to 1.2%, 0.7% and 1.7% as of December 31, 2010, 2009 and 2008, respectively. The Company has not experienced any material claims requesting the cancellation of bill and hold transactions.

Other revenues earned by Tenaris are recognized on the following bases:

- Interest income: on the effective yield basis.
- Dividend income from investments in other companies: when Tenaris' right to receive payment is established.

Revenue—Software, Support, Subscription, Consulting Revenues and Multiple Element Arrangements

3.58

SAP AG (Dec 2010)

CONSOLIDATED INCOME STATEMENTS OF SAP GROUP (in part)

For the years ended December 31,

Millions, Unless Otherwise Stated	Note	(Unaudited) 2010[1] US$	2010 €	2009 €	2008 €
Software revenue		4,332	3,265	2,607	3,606
Support revenue		8,138	6,133	5,285	4,602
Subscription and other software-related service revenue		525	396	306	258
Software and software-related service revenue		12,996	9,794	8,198	8,466
Consulting revenue		2,915	2,197	2,074	2,498
Other service revenue		628	473	400	611
Professional services and other service revenue		3,543	2,670	2,474	3,109
Total revenue	(5)	16,538	12,464	10,672	11,575

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

(3) Summary of Significant Accounting Policies (in part)

(3b) Relevant Accounting Policies (in part)

Reclassifications (in part)

We have reclassified and renamed certain revenue items in our Consolidated Financial Statements: As a result of the acquisition of Sybase we recognize revenue from messaging services. This revenue is presented within the other service revenue line item within the professional services and other service revenue subsection. In addition, we have merged our previously-presented Training revenue line item (2009: €273 million; 2008: €434 million) and other revenue line item (2009: €42 million; 2008: €70 million) into the other service revenue line item in our income statement. We believe that this change further improves the clarity of our income statement. Amounts reported in previous years have been reclassified accordingly to conform to the current presentation.

Revenue Recognition

We derive our revenue from the sale or license of our software products and of support, subscription, consulting, development, training, and other services. The vast majority of our software arrangements include support services, and many also include professional services and other elements.

Software and software-related service revenue, as shown in our Consolidated Income Statements, is the sum of our software revenue, support revenue, and revenue from subscriptions, on-demand services and other software-related services. Professional services and other service revenue as shown in our Consolidated Income Statements is the sum of our consulting revenue and other service revenue. Other service revenue as shown in our Consolidated Income Statements mainly consists of revenue from training services, messaging services, and SAP marketing events. Revenue information by segment and geographic region is disclosed in Note (29).

If, for any of our product or service offerings, we determine at the outset of an arrangement that the amount of revenue cannot be measured reliably, we conclude that the inflow of economic benefits associated with the transaction is not probable, and we defer revenue until the arrangement fee becomes due and payable by the customer. If, at the outset of an arrangement, we determine that collectability is not probable, we conclude that the inflow of economic benefits associated with the transaction is not probable, and we defer revenue recognition until the earlier of when collectability becomes probable or payment is received. If collectability becomes unlikely before all revenue from an arrangement is recognized, we recognize revenue only to the extent of the fees that are successfully collected unless collectability becomes reasonably assured again. If a customer is specifically identified as a bad debtor, we stop recognizing revenue except to the extent of the fees that have already been collected.

We account for out-of-pocket expenses invoiced by SAP and reimbursed by customers as support, consulting, and training revenues, depending on the nature of the service for which the out-of-pocket expenses were incurred.

Software revenue represents fees earned from the sale or license of software to customers. Revenue from the sale of perpetual licenses of our standard products is recognized in line with the requirements for selling goods stated in IAS 18 Revenue (IAS 18) when evidence of an arrangement exists, delivery has occurred, the risks and rewards of ownership have been transferred to the customer, the amount of revenue and associated costs can be measured reliably, and collection of the related receivable is reasonably assured. The sale is recognized net of returns and allowances, trade discounts, and volume rebates. We usually sell or license software on a perpetual basis. Occasionally, we license software for a specified time. Revenue from short-term time-based

licenses, which usually include support services during the license period, is recognized ratably over the license term. Revenue from multi-year time-based licenses that include support services, whether separately priced or not, is recognized ratably over the license term unless a substantive support service renewal rate exists; if this is the case, the amount allocated to the delivered software is recognized as software revenue based on the residual approach once the basic criteria described above have been met. In general, our software license agreements do not include acceptance-testing provisions. If an arrangement allows for customer acceptance testing of the software, we defer revenue until the earlier of customer acceptance or when the acceptance right lapses. We usually recognize revenue from software arrangements involving resellers on evidence of sell-through by the reseller to the end-customer, because the inflow of the economic benefits associated with the arrangements to us is not probable before sell-through has occurred.

Sometimes we enter into customer-specific software development agreements. We recognize software revenue in conjunction with these arrangements using the percentage-of-completion method based on contract costs incurred to-date as a percentage of total estimated contract costs required to complete the development work. If we do not have a sufficient basis to reasonably measure the progress of completion or to estimate the total contract revenue and costs, revenue is recognized only to the extent of the contract costs incurred for which we believe recoverability to be probable. When it becomes probable that total contract costs exceed total contract revenue in an arrangement, the expected losses are recognized immediately as an expense based on the costs attributable to the contract.

Support revenue represents fees earned from providing customers with unspecified future software updates, upgrades, and enhancements, and technical product support. We recognize support revenue for most of our services ratably over the term of the support arrangement. We do not separately sell technical product support or unspecified software upgrades, updates, and enhancements. Accordingly, we do not distinguish within software and software-related service revenue or within cost of software and software-related services the amounts attributable to technical support services and unspecified software upgrades, updates, and enhancements.

Subscription and other software-related service revenue represents fees earned from subscription and software rental arrangements, on-demand solutions, and other software-related services. Subscription contracts combine software and support service elements, as they provide the customer with current software products, rights to receive unspecified future software products, and rights to support services during the subscription term. Customers pay an annual fee for a defined subscription term, and we recognize such fees ratably over the term of the arrangement beginning with the delivery of the first product.

Software rental contracts also combine software and support service elements. Such contracts provide the customer with current software products and support but not the right to receive unspecified future software products. Customers pay a periodic fee over the rental term and we recognize fees from software rental contracts ratably over the term of the arrangement.

Revenue from on-demand solutions relates to software hosting arrangements that provide the customer with the right to use certain software functionality, but do not include the right to terminate the hosting contract and take possession of the software without significant penalty. On-demand solution revenue is generally recognized ratably over the term of the arrangement. Other software-related service revenue mainly results from software-related revenue-sharing agreements with other software vendors.

We recognize consulting, and other service revenue when the respective services are performed. Consulting revenue primarily results from implementation contracts to install and configure our software products. Consulting contracts do not usually involve significant production, modification, or customization of software and are recognized using the percentage-of-completion method of accounting as outlined above.

Other service revenue consists of fees from training services, cancelable hosting contracts, application management services (AMS), messaging services, revenue from SAP marketing events, and referral fees.

Training services provide educational services to customers and partners regarding the use of our software products. We recognize training revenue when the respective services are rendered. Cancelable hosting contracts allow the customer to terminate a software hosting arrangement at any time and to take possession of the hosted software without significant penalty. In these contracts revenue is allocated to the hosting element and to the software element. The hosting revenue is recognized ratably over the agreed hosting period. Our AMS contracts provide post-implementation application support, optimization, and improvements to a customer's IT solution. We recognize revenue from AMS services when the respective services are rendered. Messaging revenue mainly represents fees earned from transmitting electronic text messages from one mobile phone provider to another. We recognize revenue from message services based upon the number of messages successfully processed and delivered. Revenue from fixed-price messaging arrangements is recognized ratably over the contractual term of the arrangement. Revenue from marketing events hosted by SAP, for which SAP sells tickets to its customers, is recognized after the marketing event takes place. Fees from referral services are commissions from partners to which we have referred customers.

The vast majority of our software arrangements form multiple-element arrangements, as they include support services, and many also include professional services and other elements. As authorized by IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8), we follow the guidance provided by FASB ASC Subtopic 985-605, Software Revenue Recognition, as amended, in order to determine the recognizable amount of license revenue in multiple-element arrangements. Revenue from multiple-element arrangements is recognized using the residual method of revenue recognition when company-specific objective evidence of fair value exists for all of the undelivered elements (for example, support services, consulting services, or other services) in the arrangement, but does not exist for one or more delivered elements (generally software). We determine the fair value of and allocate revenue to each undelivered element based on its respective company-specific objective evidence of fair value, which is the price charged when that element is sold separately or, for elements not yet sold separately, the price established by our management if it is probable that the price will not change before the element is sold separately. We allocate revenue to undelivered support services based on the rates charged to renew the support

services annually after an initial period. Such renewal rates generally represent a fixed percentage of the discounted software license fee charged to the customer. The vast majority of our customers renew their annual support service contracts at these rates. We allocate revenue to future incremental discounts whenever customers are granted the right to license additional software at a higher discount than the one given within the initial software license arrangement, or to purchase or renew support or services at rates below company-specific objective evidence of fair value of the respective service.

We defer revenue for all undelivered elements and recognize the residual amount of the arrangement fee attributable to the delivered elements, if any, when the revenue recognition criteria described above have been met and company-specific objective evidence of fair value for the undelivered elements exists.

Combining or segmenting multiple-element arrangements consisting of software and consulting or other professional services depends on:

- Whether the arrangement involves significant production, modification, or customization of the software, and
- Whether the services are not available from third-party vendors and are therefore deemed essential to the software.

If neither of the above is the case, revenue for the software element and the other element is recognized separately. In contrast, if one or both of the above is the case, the elements of the arrangement are combined and accounted for as a single unit of accounting, and the entire arrangement fee is recognized using the percentage-of-completion method as outlined above. If the arrangement includes multiple elements, we exclude those elements from contract accounting that meet the criteria for separate recognition (for example support services or hosting), provided that the elements have stand-alone value.

Our contributions to resellers that allow our resellers to execute qualified and approved marketing activities are recognized as an offset to revenue, unless we obtain a separate identifiable benefit for the contribution, and the fair value of the benefit is reasonably estimable.

Deferred Income

Deferred income is recognized as software revenue, support revenue, professional service revenue, or other revenue, depending on the reasons for the deferral, once the basic applicable revenue recognition criteria have been met, for example, when the related services are performed or when the discounts are used.

(3c) Management Judgments and Sources of Estimation Uncertainty

The preparation of the Consolidated Financial Statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues, and expenses, as well as disclosure of contingent assets and liabilities.

We base our judgments, estimates, and assumptions on historical and forecast information, as well as regional and industry economic conditions in which we or our customers operate, changes to which could adversely affect our estimates. Although we believe we have made reasonable estimates about the ultimate resolution of the underlying uncertainties, no assurance can be given that the final outcome of these matters will be consistent with what is reflected in our assets, liabilities, revenues, and expenses. Actual results could differ from original estimates.

The accounting policies that most frequently require us to make judgments, estimates, and assumptions, and therefore are critical to understanding our results of operations, are:

- Revenue recognition
- Valuation of trade receivables
- Accounting for share-based compensation
- Accounting for income tax
- Accounting for business combinations
- Subsequent accounting for goodwill and other intangibles
- Accounting for legal contingencies
- Recognition of internally generated intangible assets from development

Our management periodically discusses these critical accounting policies with the Audit Committee of the Supervisory Board.

Revenue Recognition

As described in the Revenue Recognition section of Note (3b), we do not recognize revenue before persuasive evidence of an arrangement exists, delivery has occurred, the risks and rewards of ownership have been transferred to the customer, the amount of revenue can be measured reliably, and collection of the related receivable is reasonably assured. The determination of whether the amount of revenue can be measured reliably or whether the fees are collectible is inherently judgmental as it requires estimates as to whether and to what extent subsequent concessions may be granted to customers and whether the customer is expected to pay the contractual fees. The timing and amount of revenue recognition can vary depending on what assessments have been made.

In most of our revenue-generating arrangements we sell to the customer more than one product solution or service. Additionally, we have ongoing relationships with many of our customers and often enter into several transactions with the same customer within close proximity in time. We therefore have to determine:

- Which arrangements with the same customer are to be accounted for as one arrangement
- Which deliverables under one arrangement are to be accounted for separately
- How to allocate the total arrangement fee to the individual elements of one arrangement

The determination of whether different arrangements with the same customer are to be accounted for as one arrangement is highly judgmental as it requires us to evaluate whether the arrangements are negotiated together or linked in any other way. The timing and amount of revenue recognition can vary depending on whether two arrangements are accounted for separately or as one arrangement.

We do not account separately for software and other deliverables under an arrangement if one of the other deliverables (such as consulting services) is deemed to be essential to the functionality of the software. The determination whether an undelivered element is essential to the functionality of the delivered element requires the use of judgment. The timing and amount of revenue recognition can vary depending on how that judgment is exercised because software revenue which

may otherwise have been recognized up front is recognized over the term of providing the essential deliverable.

We also do not account separately for different deliverables under an arrangement if we have no basis for allocating the overall arrangement fee to the different elements of the arrangement. We believe that such allocation basis exists if we can demonstrate for each undelivered element of the arrangement a company-specific objective evidence of fair value as further defined in the Revenue Recognition section of Note (3b). Judgment is required in the determination of company-specific evidence of fair value which may impact the timing and amount of revenue recognized depending on:

- Whether company-specific evidence of fair value can be demonstrated for the undelivered elements of a software arrangement
- The approaches used to demonstrate company-specific evidence of fair value

Additionally, our revenue would be significantly different if we applied a revenue allocation policy other than the residual method.

Revenue from consulting, other professional services, and custom software development projects is determined by applying the percentage of completion method of revenue recognition. The percentage-of-completion method requires us to make estimates about total revenue, total cost to complete the project, and the stage of completion. The assumptions, estimates, and uncertainties inherent in determining the stage of completion affect the timing and amounts of revenue recognized and expenses reported. If we do not have a sufficient basis to measure the progress of completion or to estimate the total contract revenue and costs, revenue recognition is limited to the amount of contract costs incurred. The determination of whether a sufficient basis to measure the progress of completion exists is judgmental. Changes in estimates of progress towards completion and of contract revenue and contract costs are accounted for as cumulative catch-up adjustments to the reported revenue for the applicable contract.

(5) Revenue

For detailed information about our revenue recognition policies, see Note (3).

For revenue information by segment and geographic region, see Note (29).

Revenue from construction-type contracts (contract revenue) is included in software revenue and consulting revenue depending on the type of project. The status of our construction projects in progress at the end of the reporting period accounted for under IAS 11 was as follows:

Construction Projects in Progress

€ Millions	2010	2009	2008
Revenue recognized in the respective year	141	109	80
Aggregate cost recognized (multi-year)	163	106	126
Recognized result (+ profit/ − loss; multi-year)	17	14	–14
Advance payments received	5	3	0
Gross amounts due from customers	21	8	18
Gross amounts due to customers	35	7	12
Loss provisions	28	1	2

Revenue—Sale of Gold, Copper and Silver; Gold and Silver Bullion; and Interest Revenue

3.59

Newcrest Mining Limited (June 2010)

INCOME STATEMENT (in part)

For the year ended 30 June 2010

		Consolidated	
	Note	2010 $M	2009 $M
Operating sales revenue	3(a)	2,801.8	2,530.8
Cost of sales	3(b)	(1,568.7)	(1,638.0)
Gross profit		1,233.1	892.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Summary of Significant Accounting Policies (in part)

The significant accounting policies adopted in the preparation of this financial report are:

(v) Revenue Recognition

Revenue from the sale of goods is recognised when there has been a transfer of risks and rewards to the customer and no further processing is required by the Group, the quality and quantity of the goods has been determined with reasonable accuracy, the price is fixed or determinable, and collectability is probable. The point at which risk and title passes for the majority of the Group's commodity sales is upon receipt of the bill of lading when the commodity is delivered for shipment. Revenue is measured at the fair value of the consideration received or receivable.

Gold and Silver Bullion Sales

Revenue from gold and silver bullion sales is brought to account when the significant risks and rewards of ownership have transferred to the buyer and selling prices are known or can be reasonably estimated.

Gold, Copper and Silver in Concentrate Sales

Contract terms for the Group's sale of gold, copper and silver in concentrate ('metal in concentrate') allow for a price adjustment based on final assay results of the metal in concentrate by the customer to determine content. Recognition of sales revenue for these commodities is based on the most recently determined estimate of metal price in concentrate with a subsequent adjustment made upon final determination and presented as part of 'Other Income'.

The terms of metal in concentrate sales contracts with third parties contain provisional pricing arrangements whereby the selling price for metal in concentrate is based on prevailing spot prices on a specified future date after shipment to the customer (quotation period). Adjustments to the sales price occur based on movements in quoted market prices up to the date of final settlement. The period between provisional

invoicing and final settlement is typically between one and six months.

The provisionally priced sales of metal in concentrate contain an embedded derivative that is required to be separated from the host contract for accounting purposes. Accordingly the embedded derivative, which does not qualify for hedge accounting, is recognised at fair value, with subsequent changes in fair value recognised in the Income Statement each period until final settlement, and presented as 'Other Income'. Changes in fair value over the quotation period and up until final settlement are estimated by reference to forward market prices.

Interest Revenue

Interest revenue is recognised as it accrues using the effective interest method.

3. Revenue and Expenses (in part)

Specific Items

Profit before income tax includes the following revenues, income and expenses whose disclosure is relevant in explaining the performance of the Group:

(a) Operating Sales Revenue

	Consolidated	
	2010 $M	2009 $M
Gold	2,125.5	1,914.4
Copper	651.6	593.2
Silver	241.7	23.2
Total operating sales revenue	2,801.8	2,530.8

Revenue—Rental Revenue, Land and Home Sales

3.60

Brookfield Office Properties Canada (Dec 2010)

Author's Note

Brookfield Office Properties Canada implemented IFRSs effective December 31, 2010, with a date of transition of January 1, 2009. The excerpt that follows reflects the initial application of IAS 18.

CONSOLIDATED STATEMENTS OF INCOME (in part)

December 31 (US Millions, Except per Share Amounts)	Note	2010	2009
Revenue	25	$1,326	$1,156
Net operating income			
Commercial property operations	25	729	690
Interest and other income	25	110	38
		839	728

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 2: Significant Accounting Policies (in part)

(l) Revenue Recognition

(i) Commercial Operations

The company has retained substantially all of the risks and benefits of ownership of its investment properties and therefore accounts for leases with its tenants as operating leases. Revenue recognition under a lease commences when the tenant has a right to use the leased asset. Generally, this occurs on the lease inception date or, where the company is required to make additions to the property in the form of tenant improvements which enhance the value of the property, upon substantial completion of those improvements. The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease; a straight-line rent receivable, which is included in the carrying amount of investment property, is recorded for the difference between the rental revenue recorded and the contractu al amount received.

Rental revenue also includes percentage participating rents and recoveries of operating expenses, including property and capital taxes. Percentage participating rents are recognized when tenants' specified sales targets have been met. Operating expense recoveries are recognized in the period that recoverable costs are chargeable to tenants.

(ii) Residential Operations

Land sales are recognized at the time that the risks and rewards of ownership have been transferred, possession or title passes to the purchaser, all material conditions of the sales contract have been met, and a significant cash down payment or appropriate security is received.

Revenue from the sale of homes is recognized when title passes to the purchaser upon closing and at which time all proceeds are received or collectability is ensured.

(iii) Performance and Management Fee Revenue

The company is entitled to management fees and performance fees on the management of properties for third parties. The company recognizes management fees as earned. The company recognizes performance fees in revenue when the amount receivable from its fund partners is determinable at the end of a contractually specified term.

(o) Critical Judgments in Applying Accounting Policies (in part)

The following are the critical judgments that have been made in applying the company's accounting policies and that have the most significant effect on the amounts in the consolidated financial statements:

(iv) Leases

The company's policy for revenue recognition on commercial properties is described in Note 2(l)(i). In applying this policy, the company makes judgments with respect to whether tenant improvements provided in connection with a lease enhance the value of the leased property which determines whether such amounts are treated as additions to commercial property

as well as the point in time at which revenue recognition under the lease commences.

The company also makes judgments in determining whether certain leases, in particular those tenant leases with long contractual terms where the lessee is the sole tenant in a property and long-term ground leases where the company is lessor, are operating or finance leases. The company has determined that all of its leases are operating leases.

Note 25: Revenue and Net Operating Income (in part)

(a) Revenue

The components of revenue are as follows:

(Millions)	2010	2009
Revenue from commercial property operations	$1,224	$1,141
Interest and other income[1]	102	15
Total	$1,326	$1,156

[1] Excludes foreign exchange gains and losses associated with translation of the company's net foreign currency denominated monetary assets.

(b) Commercial Property Operations

The company's commercial property net operating income from continuing operations is as follows:

(Millions)	2010	2009
Revenue	$1,224	$1,141
Property operating costs	(495)	(451)
Commercial property net operating income	$ 729	$ 690

The company leases commercial properties under operating leases generally with lease terms of between 1 and 15 years, with options to extend up to a further 5 years.

The company also earns fee revenue for property management, leasing and third party service fees. Fee revenue included in revenue from commercial property operations was $58 million for the year ended December 31, 2010 (2009—$50 million).

Minimum rental commitments on non-cancellable tenant operating leases are as follows:

(Millions)	Dec. 31, 2010	Dec. 31, 2009
Not later than 1 year	$ 892	$ 740
Later than 1 year and not longer than 5 years	2,995	2,415
Later than 5 years	3,745	3,460
Total	$7,632	$6,615

Property operating costs for the year ended December 31, 2010 includes $21 million (2009—$22 million) representing rent expense associated with operating leases for land on which certain of the company's commercial properties are situated. The company does not have an option to purchase the leased land at the expiry of the lease periods. Future minimum lease payments under these arrangements are as follows:

(Millions)	Dec. 31, 2010	Dec. 31, 2009
Not later than 1 year	$ 22	$ 22
Later than 1 year and not longer than 5 years	81	85
Later than 5 years	1,093	1,110
Total	$1,196	$1,217

Royalty Income and Dividend Income

3.61

Compagnie Financière Richemont SA (Mar 2010)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (in part)

For the year ended 31 March

	Notes	2010 €m	2009 Re-presented €m
Sales	6	5,176	5,418
Cost of sales		(1,985)	(2,001)
Gross profit		3,191	3,417
Selling and distribution expenses		(1,277)	(1,235)
Communication expenses		(506)	(644)
Administrative expenses		(545)	(542)
Other operating (expense)/income	24	(33)	(28)
Operating profit		830	968
Finance costs	27	(161)	(228)
Finance income	27	24	127
Share of post-tax profit of associated undertakings	10	4	3
Profit before taxation		697	870

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Summary of Significant Accounting Policies (in part)

2.18. Revenue Recognition

(a) Goods

Sales revenue comprises the fair value of the sale of goods, net of value-added tax, duties, other sales taxes, rebates and trade discounts and after eliminating sales within the Group. Revenue is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer. Where there is a practice of agreeing to customer returns, accumulated experience is used to estimate and provide for such returns at the time of sale.

(b) Interest Income

Interest income is recognised on a time-proportion basis using the effective interest method.

(c) Royalty Income

Royalty income is recognised on the accruals basis in accordance with the substance of the relevant agreements.

(d) Dividend Income

Dividend income is recognised when the right to receive payment is established.

24. Other Operating (Expense)/Income

	2010 €m	2009 €m
Royalty income—net	18	16
Amortisation of other intangible assets acquired on business combinations	(15)	(13)
Other expenses	(36)	(31)
	(33)	(28)

27. Net Finance (Costs)/Income (in part)

	2010 €m	2009 €m
Finance costs:		
Interest expense:		
—bank borrowings	(26)	(37)
—other financial expenses	(1)	(1)
Net loss in fair value of financial assets at fair value through profit or loss	(2)	(18)
Mark-to-market adjustment in respect of hedging activities	—	(172)
Net foreign exchange losses on monetary items	(132)	—
Finance costs	(161)	(228)
Finance income:		
Interest income on bank and other deposits	15	73
Dividend income on financial assets at fair value through profit or loss	7	1
Net foreign exchange gains on monetary items	—	53
Mark-to-market adjustment in respect of hedging activities	2	—
Finance income	24	127
Net finance (costs)/income	(137)	(101)

Foreign exchange losses resulting from effective hedge derivative instruments of €14 million (2009: gains of €12 million) were reflected in cost of sales during the year. Gains and losses on all non-hedge derivatives, as well as the ineffective portion of hedge derivatives, are included in net finance (costs)/income.

34. Related-Party Transactions (in part)

Compagnie Financière Rupert, Bellevue, Geneva holds 522,000,000 'B' registered shares representing an interest in 50 per cent of the voting rights in Compagnie Financière Richemont SA. In addition, Compagnie Financière Rupert has advised that parties related to it held a total of 2,811,664 Richemont 'A' bearer shares, or the equivalent thereof in the form of Depository Receipts, as at 31 March 2010, representing 0.3 per cent of the voting rights of the Company.

The Group has a number of transactions and relationships with related parties, as defined by IAS 24, *Related Party Disclosures*, all of which are undertaken in the normal course of business.

Besides Compagnie Financière Rupert, the Board of Directors of Compagnie Financière Richemont SA and the Group Management Committee ('key management'), the Group has identified the following other related parties:

- Richemont's associated undertakings (see note 10);
- Richemont's joint venture interests (see note 36);

- Reinet Investments SCA, a public company incorporated in Luxembourg;
- Remgro Limited, a public company incorporated in South Africa;
- VenFin Limited, a private company incorporated in South Africa; and
- Richemont foundations (employee and others).

The following transactions were carried out with related parties giving rise to (expense/payables) and income/receivables:

(a) Transactions and Balances Between the Richemont Group and Its Associated Undertakings

	2010 €m	2009 €m
Rouages SA—purchase of watch components	(1)	—
Sales to Net-a-Porter Limited	1	1
Net-a-Porter Limited—dividend income	1	—

Interest Income, Fees and Commissions, Insurance Net Premium Income

3.62

The Royal Bank of Scotland Group plc (Dec 2010)

CONSOLIDATED INCOME STATEMENT (in part)

For the year ended 31 December 2010

	Note	2010 £m	2009[(1)] £m	2008[(1)] £m
Interest receivable		22,776	26,311	42,190
Interest payable		(8,567)	(12,923)	(26,708)
Net interest income	1	14,209	13,388	15,482
Fees and commissions receivable	2	8,193	8,738	8,855
Fees and commissions payable	2	(2,211)	(2,790)	(2,444)
Income/(loss) from trading activities	2	4,517	3,761	(9,025)
Gain on redemption of own debt	2	553	3,790	—
Other operating income (excluding insurance net premium income)	2	1,479	873	2,153
Insurance net premium income	26	5,128	5,266	5,709
Non-interest income		17,659	19,638	5,248
Total income		31,868	33,026	20,730

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Accounting Policies (unnumbered note, in part)

3. Revenue Recognition

Interest income on financial assets that are classified as loans and receivables, available-for-sale or held-to-maturity and interest expense on financial liabilities other than those at fair value through profit or loss are determined using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or liabilities) and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees payable or receivable that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows.

Financial assets and financial liabilities held-for-trading or designated as at fair value through profit or loss are recorded at fair value. Changes in fair value are recognised in profit or loss together with dividends and interest receivable and payable.

Commitment and utilisation fees are determined as a percentage of the outstanding facility. If it is unlikely that a specific lending arrangement will be entered into, such fees are taken to profit or loss over the life of the facility otherwise they are deferred and included in the effective interest rate on the advance.

Fees in respect of services are recognised as the right to consideration accrues through the provision of the service to the customer. The arrangements are generally contractual and the cost of providing the service is incurred as the service is rendered. The price is usually fixed and always determinable. The application of this policy to significant fee types is outlined below.

Payment services—this comprises income received for payment services including cheques cashed, direct debits, Clearing House Automated Payments (the UK electronic settlement system) and BACS payments (the automated clearing house that processes direct debits and direct credits). These are generally charged on a per transaction basis.

The income is earned when the payment or transaction occurs. Charges for payment services are usually debited to the customer's account monthly or quarterly in arrears. Income is accrued at period end for services provided but not yet charged.

Card related services—fees from credit card business include:

- Commission received from retailers for processing credit and debit card transactions: income is accrued to the income statement as the service is performed;
- Interchange received: as issuer, the Group receives a fee (interchange) each time a cardholder purchases goods and services. The Group also receives interchange fees from other card issuers for providing cash advances through its branch and automated teller machine networks. These fees are accrued once the transaction has taken place; and
- An annual fee payable by a credit card holder is deferred and taken to profit or loss over the period of the service i.e. 12 months.

Insurance brokerage—this is made up of fees and commissions received from the agency sale of insurance. Commission on the sale of an insurance contract is earned at the inception of the policy, as the insurance has been arranged and placed. However, provision is made where commission is refundable in the event of policy cancellation in line with estimated cancellations.

Investment management fees—fees charged for managing investments are recognised as revenue as the services are provided. Incremental costs that are directly attributable to securing an investment management contract are deferred and charged as expense as the related revenue is recognised.

Insurance premiums—see Accounting policy 12.

12. Insurance

General Insurance

General insurance comprises short-duration contracts. Due to the nature of the products sold—predominantly property, and motor—the insurance protection is provided on an even basis throughout the term of the policy. Consequently, written premiums are recognised on a straight-line basis over the period of the policy. Insurance premiums exclude insurance premium tax. Unearned premiums represent the proportion of the net premiums that relate to periods of insurance after the balance sheet date and are calculated over the period of exposure under the policy, on a daily basis, 24th's basis or allowing for the estimated incidence of exposure under policies which are longer than twelve months. Provision is made where necessary for the estimated amount of claims over and above unearned premiums including that in respect of future written business on discontinued lines under the run-off of delegated underwriting authority arrangements. The provision is designed to meet future claims and related expenses and is calculated across related classes of business on the basis of a separate carry forward of deferred acquisition expenses after making allowance for investment income.

Acquisition expenses relating to new and renewed business for all classes are expensed over the period during which the premiums are earned. The principal acquisition costs so deferred are commissions payable, and costs associated with the telesales and underwriting staff. Claims and the related reinsurance are recognised in the accounting period in which the loss occurs. Provision is made for the cost of settling outstanding claims at the balance sheet date, including claims estimated to have been incurred but not yet reported at that date, and claims handling expenses. Provisions are only discounted where claims, principally motor, either have been or are expected to be settled by periodical payments. Related reinsurance receivables are recognised on the same basis and at the same time.

Life Assurance

The Group's long-term assurance contracts include whole-life term assurance, endowment assurance, flexible whole-life, pension and annuity contracts that are expected to remain in force for an extended period of time. Long-term assurance contracts under which the Group does not accept significant insurance risk are classified as financial instruments.

The Group recognises the value of in-force long-term assurance contracts as an asset. Cash flows associated with in-force contracts and related assets, including reinsurance cash flows, are projected, using appropriate assumptions as to future mortality, persistency and levels of expenses and excluding the value of future investment margins, to estimate future surpluses attributable to the Group. These surpluses, discounted at a risk-adjusted rate, are recognised as a separate asset. Changes in the value of this asset are included in profit or loss.

Premiums on long-term insurance contracts are recognised as income when receivable. Claims on long-term insurance contracts reflect the cost of all claims arising during the year, including claims handling costs. Claims are recognised when the Group becomes aware of the claim.

Reinsurance

The Group has reinsurance treaties that transfer significant insurance risk. Liabilities for reinsured contracts are calculated gross of reinsurance and a separate reinsurance asset recorded.

Notes on the Accounts (in part)

1. Net Interest Income

	Group		
	2010 £m	2009 £m	2008 £m
Loans and advances to customers	18,889	21,356	34,949
Loans and advances to banks	591	830	2,201
Debt securities	3,296	4,125	5,040
Interest receivable	22,776	26,311	42,190
Customer accounts: demand deposits	1,228	970	3,475
Customer accounts: savings deposits	1,148	1,245	2,261
Customer accounts: other time deposits	1,345	2,546	7,906
Deposits by banks	1,333	2,898	6,362
Debt securities in issue	3,277	4,482	8,919
Subordinated liabilities	417	1,291	1,959
Internal funding of trading businesses	(181)	(509)	(4,174)
Interest payable	8,567	12,923	26,708
Net interest income	14,209	13,388	15,482

2. Non-Interest Income (Excluding Insurance Net Premium Income)

	Group		
	2010 £m	2009 £m	2008 £m
Fees and commissions receivable	8,193	8,738	8,855
Fees and commissions payable			
—Banking	(1,892)	(2,351)	(2,043)
—Insurance related	(319)	(439)	(401)
	(2,211)	(2,790)	(2,444)
Income/(loss) from trading activities[1]			
Foreign exchange	1,491	2,340	1,906
Interest rate	1,862	3,883	1,026
Credit	41	(4,147)	(12,207)
Other	1,123	1,685	250
	4,517	3,761	(9,025)
Gain on redemption of own debt[2]	553	3,790	—
Other operating income (excluding insurance net premium income)			
Operating lease and other rental income	1,394	1,323	1,469
Changes in the fair value of own debt attributable to own credit[3]	249	51	977
Changes in the fair value of securities and other financial assets and liabilities	(180)	42	(1,266)
Changes in the fair value of investment properties	(405)	(117)	(86)
Profit on sale of securities	496	162	164
Profit on sale of property, plant and equipment	50	40	177
(Loss)/profit on sale of subsidiaries and associates	(107)	(144)	934
Life business profits/(losses)	90	156	(52)
Dividend income	69	78	276
Share of profits less losses of associated entities	70	(268)	45
Other income[4]	(247)	(450)	(485)
	1,479	873	2,153

Notes:

[1] The analysis of trading income/(loss) is based on how the business is organised and the underlying risks managed. Trading income/(loss) comprises gains and losses on financial instruments held for trading, both realised and unrealised, interest income and dividends and the related funding costs.

The types of instruments include:

- Foreign exchange: spot foreign exchange contracts, currency swaps and options, emerging markets and related hedges and funding.
- Interest rate: interest rate swaps, forward foreign exchange contracts, forward rate agreements, interest rate options, interest rate futures and related hedges and funding.
- Credit: asset-backed securities, corporate bonds, credit derivatives and related hedges and funding.
- Other: equities, commodities, equity derivatives, commodity contracts and related hedges and funding.

[2] In May 2010, the Group redeemed certain subordinated debt securities and equity preference shares in exchange for cash or senior debt. The exchanges involving instruments classified as liabilities all met the criteria in IFRS for treatment as the extinguishment of the original liability and the recognition of a new financial liability. Gains on these exchanges and on the redemption of securities classified as liabilities for cash, totalling £553 million were credited to profit or loss. No amounts have been recognised in profit or loss in relation to the redemption of securities classified as equity in the Group financial statements. The difference between the consideration and the carrying value for these securities amounting to £651 million has been recorded in equity. A similar series of exchange and tender offers completed in April 2009 and resulted in a gain of £3,790 million being credited to profit or loss and £829 million being recorded in equity.

[3] Measured as the change in fair value from movements in the period in the credit risk premium payable by the Group.

[4] Includes income from activities other than banking and insurance.

26. Insurance Business (in part)

	Group		
	2010 £m	2009 £m	2008 £m
Insurance premium income	5,379	5,529	6,009
Reinsurers' share	(251)	(263)	(300)
Net premium income	5,128	5,266	5,709
Insurance claims	4,932	4,492	4,090
Reinsurers' share	(149)	(135)	(173)
Net claims	4,783	4,357	3,917

Income—Emissions Rights

3.63

OAO Gazprom (Dec 2010)

IFRS CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (in part)

For the year ended 31 December 2010
(In millions of Russian Roubles)

Notes		Year Ended 31 December 2010	2009
25	Sales	3,597,054	2,991,001
5	Net gain front trading activity	6,256	4,171
26	Operating expenses	(2,440,777)	(2,092,832)
	Impairment provision and other provisions	(48,711)	(45,428)
	Operating profit	1,113,822	856,912

NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS (in part)

(In millions of Russian Roubles)

5. Summary of Significant Accounting Policies (in part)

The principal accounting policies followed by the Group are set out below.

5.18 Revenue Recognition

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up.

Sales are recognised for financial reporting purposes when products are delivered to customers and title passes and are stated net of VAT, excise taxes and other similar compulsory payments. Gas transportation sales are recognized when transportation services have been provided, as evidenced by delivery of gas in accordance with the contract.

Natural gas prices and gas transportation tariffs to the final consumers in the Russian Federation are established mainly by the Federal Tariffs Service. Export gas prices for sales to European countries are indexed to oil products prices, as stipulated in long-term contracts. Export gas prices for sales to Former Soviet Union countries are determined in various ways including using formulas, similar to European.

Promissory Notes

Promissory notes issued by the Group are recorded initially at the fair value of the consideration received or the fair value of the note, which is determined using the prevailing market rate of interest for a similar instrument.

In subsequent periods, promissory notes are stated at amortised cost using the effective yield method. Any difference between the fair value of the consideration (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the promissory note.

Trading Activity

Contracts to buy or sell non-financial items entered into for trading purposes and which do not meet the expected own-use requirements, such as contracts to sell or purchase commodities that can be net settled in cash or settled by entering into another contract, are recognized at fair value and associated gains or losses are recorded as Net gain from trading activity. These contracts are derivatives in the scope of IAS 39 for both measurement and disclosure. Revenues generated by trading activities are reported as a net figure, reflecting realized gross margins. Trading activities are mainly managed by Gazprom Marketing and Trading Ltd. subsidiary of the Group and relate partly to gas and oil trading and power and emission rights trading activities.

6. Critical Judgments and Estimates in Applying Accounting Policies (in part)

The value in use of assets or cash-generating units related to oil and gas operations are based on the cash flows expected from oil and gas production volumes, which include both proved reserves as well as certain volumes of those that are expected to constitute proved and probable reserves in the future. Impairment charges are given in Note 12.

6.6 Fair Value Estimation for Financial Instruments (in part)

The fair values of energy trading contracts, commodity futures and swaps are based on market quotes on measurement date (Level 1 in accordance with the valuation hierarchy). Customary valuation models are used to value financial instruments which are not traded in active markets. The fair values are based on inputs that are observable either directly or indirectly (Level 2 in accordance with the valuation hierarchy). The fair values of Emission Reduction Purchase Agreements ("ERPA") for the acquisition of post 2012 emission rights generating from pre-2012 registered Clean Development Mechanism ("CDM") projects are based on the inputs that are not based on observable market data (Level 3 in accordance with the valuation hierarchy). Where the valuation technique employed incorporates significant unobservable input data such as these long-term price assumptions, contracts have been categorised as Level 3 in accordance with the valuation hierarchy (see Note 22).

The assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement of assets and liabilities within the levels of the fair value hierarchy.

IAS 11, *CONSTRUCTION CONTRACTS*

IFRIC 15, *AGREEMENTS FOR THE CONSTRUCTION OF REAL ESTATE*

IFRS Overview and Comparison to U.S. GAAP

3.64 A *construction contract* is a contract specifically negotiated for the construction of an asset or combination of assets that are closely interrelated or interdependent in terms of their design, technology, and function or their ultimate purpose or use. IAS 11 establishes the accounting by contractors for these contracts. In addition to contracts for the construction of tangible assets, IAS 11 includes contracts for rendering of services directly related to the construction of an asset, destruction or restoration of an asset, or restoration of the environment after destruction of the asset. International Financial Reporting Interpretations Committee (IFRIC) Interpretation15, *Agreements for the Construction of Real Estate*, provides guidance for determining whether an agreement for the construction of real estate is a construction contract within the scope of IAS 11 or is a contract for the sale of goods within the scope of IAS 18. IFRIC 15 was issued in July 2008 and is effective for annual periods beginning on or after 1 January 2009. Earlier application is permitted.

3.65 IAS 11 includes the definitions of two types of contracts: cost plus and fixed price. A *cost-plus contract* is one in which the contractor is reimbursed for allowable or otherwise defined costs plus either a percentage of these costs or a fixed fee. A *fixed-price contract* is one in which the contractor agrees to a fixed contract price or a fixed rate per unit of output, which in some cases is subject to escalation clauses.

Recognition and Measurement

IFRSs

3.66 The requirements of IAS 11 generally apply separately to each construction contract. However, the standard recognizes that contracts can be written so that there are separately identifiable components covering the construction of multiple assets. Multiple contracts can be so interrelated that they are, in effect, part of a single project with an overall profit margin. Therefore, contractors should assess whether to segment a particular contract into components or whether to combine a group of contracts. If the criteria for combining or segmenting are met, the contracts should be combined or segmented, as appropriate.

3.67 The guidance in IAS 11 states that contractors should treat individual assets as separate contracts when the customer submitted separate proposals and separately negotiated for each asset so the customer or contractor, or both, could accept or reject the parts of the contract relating to each asset and the contractor is able to identify each asset's costs and revenues. In contrast, contractors should combine contracts when the customer and contractor negotiated a group of assets as a package and the contracts are so interrelated that they, in substance, form one project with an overall profit margin and the contractor will perform the contracts either concurrently or in sequence.

3.68 IAS 11 also specifies that contractors should treat construction of an additional asset as a separate contract when the asset differs in design, technology, or function from other assets covered by the original contract or the price for the additional asset is negotiated independent of the original contract price.

3.69 IAS 11 defines *contract revenue* as the sum of the following amounts:

- Initial amount of revenue agreed in the contract
- Variations in contract work, claims, and incentive payments to the extent that it is probable that these items will result in revenue and can be measured reliably

Contractors should measure contract revenue at fair value of the consideration received or receivable.

3.70 IAS 11 defines *contract costs* as the sum of the following amounts:

- Costs that relate directly to the specific contract
- Costs that are attributable to contract activity in general and can be allocated to the specific contract
- Other costs specifically chargeable to the customer under the terms of the contract

In addition to providing guidance on cost that can or may be attributable to the contract, IAS 11 does not permit an entity to include general administration costs or research and development costs in contract costs, unless the contract specifies reimbursement, selling costs, and depreciation of idle plant and equipment not used on that contract.

3.71 When the outcome of the contract can be estimated reliably, the contractor should recognize contract revenue and costs according to the percentage-of-completion method, with reference to the stage of completion at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenues, contractors should immediately recognize expected losses as an expense.

3.72 IAS 11 provides that costs directly related to securing a contract and other precontract costs are included as part of contract costs only when it is probable that the contract will be obtained and the costs can be identified separately and measured reliably. An entity should not capitalize costs previously expensed.

3.73 For fixed-price contracts, IAS 11 states that the contractor can estimate the contract outcome reliably when the following criteria are met:

- The contractor can measure reliably the total contract revenue, the costs to complete the contract, and the stage of completion at the end of the reporting period;
- It is probable that future economic benefits will flow to the contractor from the contract; and
- Attributable contract costs can be clearly identified and measured reliably so that accrued costs can be compared with prior estimates.

3.74 For cost-plus contracts, IAS 11 states that the contractor can estimate the contract outcome reliably when it is probable that future economic benefits will flow to the contractor from the contract and attributable contract costs can be clearly identified and measured reliably, regardless of whether they are specifically reimbursable, so that accrued costs can be compared with prior estimates. Because the

percentage-of-completion method is applied on a cumulative basis, changes in the required estimates are accounted for prospectively as a change in accounting estimate, in accordance with IAS 8.

3.75 When the contract outcome cannot be estimated reliably, the contractor should recognize contract costs as an expense in the period incurred and contract revenue only to the extent that contract costs were incurred and cost recovery is probable.

Author's Note

The method used when the contract outcome cannot be measured reliably is commonly referred to as either the *cost-recovery-first* or *zero-profit method*, although IAS 11 does not use these terms.

U.S. GAAP

3.76 FASB ASC 605-35 also includes guidance that an entity may use for combining contracts for revenue recognition and loss determination. FASB ASC 605-35-25-5 states that the presumption in combining contracts is that revenue and profit are earned and should be reported uniformly over the performance of the combined contracts. In addition to the criteria established under IFRSs for combining contracts, FASB ASC 605-35-25-8 includes the following additional indicators that a group of contracts may be combined:

- Contracts are, in essence, an agreement to complete a single project.
- Contracts are, in substance, an agreement with a single customer.

3.77 Unlike IFRSs, FASB ASC 605-35-25-12 permits an entity to segment a construction contract if all of the following steps were taken and are documented and verifiable:

a. The contractor submitted bona fide proposals on the separate components of the project and the entire project.
b. The customer had the right to accept the proposals on either basis.
c. The aggregate amount of the proposals on the separate components approximated the amount of the proposal on the entire project.

When these restrictive conditions are not met, contractors may segment contracts only if seven other conditions, discussed in FASB ASC 605-35-25-13, are met.

3.78 FASB ASC 605-35-25 includes significantly more guidance than IAS 11 for determining total contract revenue and contract costs. With respect to revenues, paragraphs 16–31 of FASB ASC 605-35-25 include specific requirements for determining the basic contract price for cost-type (cost-plus) and fixed-price contracts, for incorporating customer-furnished materials, priced and unpriced change orders, contract options and additions, and for claims.

3.79 With respect to costs, paragraphs 32–44 of FASB ASC 605-35-25 include specific guidance on the costs that contractors should include in construction-in-progress accounts. Although the accounting for costs incurred to secure a contract and other precontract costs is similar to IFRSs, FASB ASC 605-35-25 provides more extensive guidance and, unlike IFRSs, allows for deferral of such costs until receipt of the anticipated contract in certain circumstances. Paragraphs 42–43 of FASB ASC 605-35-25 specify the accounting treatment for back charges, requiring both adjustments to receivables and payables for back charges to and from others.

3.80 Like IFRSs, FASB ASC 605-35-25-45 requires an entity to recognize a loss immediately when estimated contract costs exceed contract revenues. However, unlike IFRSs, paragraphs 45–50 of FASB ASC 605-35-25 provide considerable guidance on how contractors should estimate the loss.

3.81 FASB ASC 605-35-05-5 identifies the percentage-of-completion method and the completed-contract method as the two accounting methods commonly followed by contractors. An entity should use one of the two methods in specified circumstances and should not consider the methods acceptable alternatives for the same circumstances.

3.82 Paragraphs 56–61 of FASB ASC 605-35-25 describe the circumstances under which use of the percentage-of-completion method would be appropriate. Specifically, the use of the percentage-of-completion method requires an entity to make reasonably dependable estimates of the extent of progress toward completion, contract revenues, and contract costs. FASB ASC 605-35-25-60 states that normally, a contractor will be able to estimate total contract revenue and total contract cost in single amounts. Those amounts should normally be used as the basis for accounting for contracts under the percentage-of-completion method. Unlike IFRSs, guidance on how an entity should apply this method and allowed alternatives is extensive.

3.83 Paragraphs 88–89 of FASB ASC 605-35-25 state that under the completed-contract method, an entity recognizes income only when a contract is completed or substantially completed. However, in accordance with paragraphs 45–50 of FASB ASC 605-35-25, an entity should recognize expected contract losses as soon as they become evident. Paragraphs 90–93 of FASB ASC 605-35-25 identify appropriate circumstances under which an entity should apply the completed-contract method. Contractors may use the completed-contract method as their accounting policy either when their financial position and operating results would not be materially different from that which would result from using the percentage-of-completion method or inherent hazards and undependable estimates would make the necessary forecasts required by the percentage-of-completion method unreliable. For example, a contractor with primarily short-term contracts could use the completed-contract method. In contrast, IFRSs do not permit contractors to use the completed-contract method in any circumstances.

Presentation

IFRSs

3.84 IFRSs contain limited presentation guidance for contract revenues, expenses, or the related assets and liabilities. Although not required to present these as separate line items on the balance sheet, an entity should present the following amounts:

- Gross amount due from customers for contract work as an asset
- Gross amount due to customers for contract work as a liability

The *gross amount due from customers* for contract work is the net amount of costs incurred plus recognized profits (less

the sum of recognized losses and progress billings) for all contracts in progress for which costs incurred plus recognized profits (less recognized losses) exceed progress billings.

The *gross amount due to customers* for contract work is the net amount of costs incurred plus recognized profits (less the sum of recognized losses and progress billings) for all contracts in progress for which progress billings exceed costs incurred plus recognized profits (less recognized losses).

U.S. GAAP

3.85 Like IFRSs, FASB ASC 605-35 contains limited presentation guidance for contract revenues and expenses, and related assets and liabilities. FASB ASC 605-35-45-3 states that, when an entity applies the percentage-of-completion method, current assets may include costs and recognized income not yet billed, with respect to certain contracts. Liabilities—in most cases, current liabilities—may include billings in excess of costs and recognized income, with respect to other contracts.

3.86 FASB ASC 605-35-45-4 explains that when the completed-contract method is used, an excess of accumulated costs over related billings should be shown in the balance sheet as a current asset, and an excess of accumulated billings over related costs should be shown among the liabilities, in most cases as a current liability. Similar to IFRSs, if costs exceed billings on some contracts and billings exceed costs on others, the contracts should ordinarily be segregated so that the amounts shown as assets include only those contracts on which costs exceed billings and those shown as liabilities include only those on which billings exceed costs. FASC 605-35-45-5 recommends that an entity describe the asset as costs of uncompleted contracts in excess of related billings, rather than as inventory or work in process. The entity should describe the liability as billings on uncompleted contracts in excess of related costs.

3.87 Paragraphs 1–2 of FASB ASC 605-35-45 require an entity to recognize expected contract losses in the income statement as additional contract costs, not a reduction of contract revenues. Unless the loss is material in amount or unusual or infrequent in nature, an entity should not show the loss contract cost separately in the income statement. If the loss is shown separately, an entity should present it as a component of the cost included in the computation of gross profit.

Disclosure

IFRSs

3.88 Contractors should disclose the amount of revenue recognized during the period and the methods used to determine the contract revenue and stage of completion. For contracts in progress, contractors should disclose the aggregate amount of costs incurred and recognized net profits, amount of advances received, and amount of retentions. They should also disclose any contingencies in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* (for example, warranty costs, claims, penalties, and possible losses).

U.S. GAAP

3.89 FASB ASC 605-35-50 requires fewer disclosures than IFRSs. According to FASB ASC 605-35-50-1, contractors should disclose their accounting policy (for example, percentage of completion or completed contract). In addition, the guidance in FASB ASC 605-35-50-3 states that if a contractor departs from the percentage-of-completion method as its basic accounting policy for a single contract or group of contracts for which the entity cannot make reasonably dependable estimates or for which inherent hazards make estimates doubtful, the entity should disclose that fact and the reason. Similarly, in accordance with FASB ASC 605-35-50-5, if an entity departs from the completed-contract method as its basic accounting policy, it should disclose and explain that departure.

Presentation and Disclosure Excerpts

Construction Contracts

3.90

Subsea 7 S.A. (formerly, Acergy S.A.) (Nov 2010)

CONSOLIDATED INCOME STATEMENT (in part)

For the fiscal year ended November 30

(In $ Millions, Except per Share Data)	Notes	2010	2009	2008
Continuing operations:				
Revenue	5	2,369.0	2,208.8	2,522.4
Operating expenses		(1,701.0)	(1,683.8)	(1,874.2)
Gross profit		668.0	525.0	648.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

3. Significant Accounting Policies (in part)

Investments in associates and joint ventures are accounted for using the equity method. Under this method, the investment is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate or joint venture, less any provisions for impairment. The Consolidated Income Statement reflects the Group's share of the results of operations after tax of the associate or joint venture. Losses in excess of the Group's interest (which includes any long-term interests that, in substance, form part of the Group's net investment) are only recognised to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Where there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share in the Consolidated Statement of Comprehensive Income. Net incomes and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the Group's interest.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from construction contracts is recognised in accordance with the Group's accounting policy on construction contracts (see below). Revenue from rendering of services is recognised when services are provided.

Service Revenues

Revenues received for the provision of services under charter agreements, day-rate contracts, reimbursable/cost-plus contracts and similar contracts are recognised on an accrual basis as services are provided.

Long-Term Contracts

Long-term contracts are accounted for using the percentage-of-completion method. Revenue and gross profit are recognised each period based upon the advancement of the work-in-progress.

The percentage-of-completion method is calculated based on the ratio of costs incurred to date to total estimated costs, taking into account the level of completion. The percentage-of-completion method requires the Group to make reliable estimates of progress toward completion of contract revenues and contract costs. Provisions for anticipated losses are made in full in the period in which they become known. In rare circumstances where percentage-of-completion based on cost is not appropriate, the physical proportion of the contract work performed is used to measure the percentage-of-completion.

If the stage of completion is insufficient to enable a reliable estimate of gross profit to be established (typically when less than 5% completion has been achieved), revenues are recognised to the extent of contract costs incurred where it is probable that they will be recoverable.

A major portion of the Group's revenue is billed under fixed-price contracts. However, due to the nature of the services performed, variation orders and claims are commonly billed to clients in the normal course of business. Additional contract revenue arising from variation orders is recognised when it is probable that the client will approve the variation and the amount of revenue arising from the variation can be reliably measured. Revenue resulting from claims is recognised in contract revenue only when negotiations have reached an advanced stage such that it is probable that the client will accept the claim and that the amount can be measured reliably.

During the course of multi-year projects the accounting estimates may change. The effects of such changes are accounted for in the period of change and the cumulative income recognised to date is adjusted to reflect the latest estimates. Such revisions to estimates do not result in restating amounts in previous periods.

Investment Income

Investment income is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

22. Other Accrued Income and Prepaid Expenses

As at November 30 (In $ Millions)	2010	2009
Amounts due from contract clients (see Note 23)	112.1	144.4
Unbilled revenue	96.3	54.7
Prepaid expenses	33.9	13.7
Total	242.3	212.8

Unbilled revenue relates to completed work other than lump-sum construction contracts, which has not yet been billed to customers.

Prepaid expenses are incurred in the normal course of business and represent expenditure which has been deferred and which will be recognised within the next fiscal year.

23. Construction Contracts

As at November 30 (In $ Millions)	2010	2009
Contracts in progress at balance sheet date:		
Amounts due from contract clients included in other accrued income and prepaid expenses (see Note 22)	112.1	144.4
Deferred revenue recognised under construction contracts (see Note 38)	(198.4)	(241.2)
Total	(86.3)	(96.8)
Contract costs incurred plus recognised net profits less recognised losses to date	2,656.8	3,535.0
Less: progress billings	(2,743.1)	(3,631.8)
Total	(86.3)	(96.8)

As at November 30, 2010 retentions held by customers for contract work amounted to $3.1 million (2009: $13.0 million). Advances received from customers for contract work amounted to $19.4 million (2009: $38.6 million) (refer to Note 38 'Deferred revenue').

As at November 30, 2010 a total of $10.1 million (2009: $7.9 million) was recorded for losses expected at completion.

38. Deferred Revenue

Revenue deferred relating to the Group's obligations are as indicated:

As at November 30 (In $ Millions)	2010	2009
Construction contracts (see Note 22)	198.4	241.2
Advances received from clients (see below)	19.4	38.6
Total	217.8	279.8

Construction contracts are the gross amount due to clients for contract work billed prior to progress of work performed. This is adjusted for estimated losses at completion.

Advances received from clients are amounts received before the related work is performed.

Advances received from clients are recognised as follows:

For the Fiscal Year (In $ Millions)	2010	2009
Balance at December 1	38.6	59.8
Revenue deferred in respect of advances received	3.6	19.2
Revenue recognised on discharge of obligation	(22.8)	(32.1)
Less: assets classified as held for sale	—	(8.3)
Balance at November 30	19.4	38.6

IAS 2, *INVENTORIES*

TABLE 3-3: INVENTORY COST DETERMINATION

	2010	2009
First-in first-out (FIFO)	52	51
(Weighted) average cost	88	78
Specific identification	10	9
Fair value less cost to sell (broker-dealer exemption)	8	4
Other	3	4
No valuation method disclosed	14	16
No inventory or not-material	28	27
Total	**203**	**189**
Less: Companies disclosing at least two valuation methods	(27)	(27)
Companies disclosing at least three valuation methods	(3)	(2)
Total Companies in Sample	**170**	**160**

IFRS Overview and Comparison to U.S. GAAP

3.91 IAS 2, *Inventories*, establishes the requirements for recognition and measurement of cost of sales, write-downs, and reversals of write-downs of inventory. IAS 1 establishes the requirements for presentation of this information in the statement of comprehensive income and note disclosures.

Author's Note

See paragraphs 2.33–.42 in section 2 for coverage of accounting for inventories under IFRSs. The discussion that follows focuses only on the expenses and losses addressed in IAS 2 that are recognized in the statement of comprehensive income.

3.92 IAS 2 applies to all inventories except work in process arising under construction contracts, financial instruments, biological assets related to agricultural activity, and agricultural produce at the point of harvest.

Recognition and Measurement

IFRSs

3.93 An entity should use one of the following cost flow assumptions to assign costs to inventories and cost of sales:

- Specific identification for inventory items that are not interchangeable or segregated and produced for specific projects
- First in, first out (FIFO)
- Weighted average cost

IAS 2 requires an entity to apply the same cost flow assumption to inventories of similar nature and use. IAS 2 prohibits the use of the last in, first out (LIFO) cost flow assumption.

3.94 An entity should recognize the carrying amount of inventories sold as an expense in the same period as the related revenue is recognized.

3.95 An entity should not carry inventories on the balance sheet at amounts exceeding those it expects to realize from sale or use. When there are indicators that the cost is not recoverable, such as damage or decline in selling price, an entity should write down inventories to net realizable value. An entity normally should write down inventories on an item-by-item basis. However, IAS 2 recognizes that when an entity tests its inventory for impairment, there may be circumstances when it is more appropriate to group similar or related items (for example, items in the same product line that cannot be evaluated separately).

3.96 *Net realizable value* is the estimated selling price in the ordinary course of business less the sum of estimated costs to complete and costs necessary to make the sale. An entity should recognize a write-down of inventory in profit or loss in the period recognized. IAS 2 permits reversals of inventory write-downs.

U.S. GAAP

3.97 Relative to IFRSs, FASB ASC 330, *Inventory*, establishes a more complex process for determining the circumstances for, and the amount by, which an entity should record

inventory write-downs and provides considerably more guidance for applying this process. FASB ASC 330-10-35-1 requires an entity to value inventories at the lower of cost or market, in contrast to the IAS 2 requirement to value inventories at the lower of cost or net realizable value. *Market*, as defined in the FASB ASC glossary, is generally considered to be replacement cost not to exceed net realizable value (the ceiling) and not to be less than net realizable value less an allowance for an approximately normal profit margin (the floor). The FASB ASC glossary defines *net realizable value* similarly to IFRSs.

3.98 FASB ASC 330-10 explains that the lower of cost or market rule applies to all inventory cost flow assumptions (for example, FIFO, weighted average cost, and LIFO). However, FASB ASC 330-10-35-7 explains that the concept of "market" is intended as a guide, not a literal rule, and discusses application of this concept in the context of the retail inventory method. Because the retail method already incorporates the concept of lower of cost or market when adequate markdowns are taken, FASB ASC explains that an entity is not required to make additional adjustments since the inventory method applied already meets the objectives of the lower of cost or market rule. IFRSs do not discuss the retail method in the same detail as FASB ASC 330-10 but permit use of either the standard cost or retail inventory method if the result approximates cost.

3.99 Both paragraphs 8–10 of FASB ASC 330-10-35 and IFRSs provide guidance on testing inventory for impairments. Both conclude that an entity should generally test individual items but recognize that there may be circumstances when performing the test on groups of items is more appropriate.

3.100 Unlike IFRSs, FASB ASC 330-10 does not permit reversals of inventory write-downs, with the rationale that inventory written down acquires a new cost basis and recovery of the original cost is only permitted on sale or disposal. However, as noted in paragraphs 15–16 of FASB ASC 330-10-35, in exceptional circumstances, certain inventories (for example, precious metals with a fixed monetary value and no substantial marketing costs) may be stated above cost.

Presentation

IFRSs

3.101 IAS 1 does not require an entity to present cost of sales or cost of inventory as a separate line item on the statement of comprehensive income. IAS 1 does require an entity to provide an analysis of expenses either on the face of the income statement or in the notes. An entity may choose from two formats for this analysis: by function or by nature. The by function format is often referred to as the *cost of sales* format. Unless an entity uses the by function format, an entity should disclose cost of sales in the notes.

U.S. GAAP

3.102 Rule 5-03 of SEC Regulation S-X states that SEC registrants should disclose cost of sales or cost of revenues as a separate line item on the income statement. However, unlike IFRSs, neither FASB ASC nor SEC rules require a particular presentation format for this disclosure.

3.103 Unlike IFRSs, paragraphs 2 and 5 of FASB ASC 330-10-50 respectively require an entity to present substantial and unusual write-downs and net losses on firm purchase commitments separately from cost of goods sold.

Disclosure

IFRSs

3.104 IAS 2 requires an entity to disclose the accounting policies adopted to measure inventories, the cost flow assumptions (formula) used (for example, FIFO), the amount of inventories recognized as an expense during the period, and the amounts of any writedowns or reversals of writedowns recognized in profit or loss. An entity should also discuss the circumstances or events that led to the reversal of a writedown of inventories.

U.S. GAAP

3.105 FASB ASC 330-10-50-1 requires an entity reporting under U.S. GAAP to disclose whether inventories are stated at the lower of cost or market or another basis and the relevant cost flow assumption (for example, LIFO).

3.106 When an SEC registrant using the LIFO method liquidates a substantial portion of its LIFO inventory and, as a result, includes a material amount of income in its income statement due to the liquidation, the registrant should disclose the amount of income realized as a result of the liquidation, either in a note or parenthetically on the face of the income statement, in accordance with SEC *Codification of Staff Accounting Bulletins* topic 11(F), "LIFO Liquidations."

3.107 Unlike IFRSs, when entities recognize inventory write-downs, FASB ASC 330-10-50-2 only requires disclosure of the amount of any substantial and unusual write-downs.

Presentation and Disclosure Excerpts

Analysis of Expenses by Function (Cost of Sales)—First-In, First-Out Cost Flow Assumption, Write-Downs and Reversal of Write-Downs of Inventory

3.108

GlaxoSmithKline plc (Dec 2010)

CONSOLIDATED INCOME STATEMENT (in part)

For the year ended 31st December 2010

		2010			2009		
	Notes	Results Before Major Restructuring £m	Major Restructuring £m	Total £m	Results Before Major Restructuring £m	Major Restructuring £m	Total £m
Turnover	6	28,392	—	28,392	28,368	—	28,368
Cost of sales		(7,405)	(187)	(7,592)	(7,095)	(285)	(7,380)
Gross profit		20,987	(187)	20,800	21,273	(285)	20,988

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Accounting Principles and Policies (in part)

Inventories

Inventories are included in the financial statements at the lower of cost (including raw materials, direct labour, other direct costs and related production overheads) and net realisable value. Cost is generally determined on a first in, first out basis. Pre-launch inventory is held as an asset when there is a high probability of regulatory approval for the product. Before that point a provision is made against the carrying value to its recoverable amount; the provision is then reversed at the point when a high probability of regulatory approval is determined.

9. Operating Profit (in part)

The Following Items Have Been Included in Operating Profit:	2010 £m	2009 £m	2008 £m
Employee costs (Note 10)	6,994	7,167	6,524
Advertising	971	923	805
Distribution costs	413	363	310
Depreciation of property, plant and equipment	1,146	1,130	920
Impairment of property, plant and equipment, net of reversals	186	149	256
Amortisation of intangible assets	533	432	311
Impairment of intangible assets and goodwill, net of reversals in 2008	160	172	115
Net foreign exchange losses/(gains)	60	163	(145)
Inventories:			
Cost of inventories included in cost of sales	7,014	6,743	5,734
Write-down of inventories	305	276	298
Reversal of prior year write-down of inventories	(66)	(116)	(118)
Operating lease rentals:			
Minimum lease payments	136	160	143
Contingent rents	14	13	15
Sub-lease payments	7	6	1
Fees payable to the company's auditor and its associates in relation to the Group (see below)	22.2	24.1	19.2

The reversals of prior year write-downs of inventories principally arise from the reassessment of usage or demand expectations prior to inventory expiration.

23. Inventories

	2010 £m	2009 £m
Raw materials and consumables	1,466	1,153
Work in progress	751	1,437
Finished goods	1,620	1,474
	3,837	4,064

Analysis of Expenses by Function (Cost of Sales)—Weighted Average Cost, Inventories Stated at Net Realizable Value

3.109

Clicks Group Limited (Aug 2010)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (in part)

For the year ended 31 August 2010

	Notes	2010 R'000	2009 (Restated) R'000
Revenue	1	13,912,673	12,754,202
Turnover	1	13,276,277	12,175,312
Cost of merchandise sold		(10,372,685)	(9,657,930)
Gross profit		2,903,592	2,517,382

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Accounting Policies (unnumbered note, in part)

Significant Accounting Estimates and Assumptions (in part)

Estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below and disclosed in the relevant notes to the financial statements.

Allowance for Net Realisable Value of Inventories

The group evaluates its inventory to ensure that it is carried at the lower of cost and net realisable value. Provision is made against slow moving, obsolete and damaged inventories. Damaged inventories are identified and written down through the inventory counting procedures conducted within each business. Allowance for slow moving and obsolete inventories is assessed by each business as part of their ongoing financial reporting. Obsolescence is assessed based on comparison of the level of inventory holding to the projected likely future sales using factors existing at the reporting date.

Rebates Received From Vendors

The group enters into agreements with many of its vendors providing for inventory purchase rebates based upon achievement of specified volumes of purchases, with many of these agreements applying to the calendar year. For certain agreements, the rebates increase as a proportion of necessary purchases as higher quantities or values of purchases are made relative to the prior period. The group accrues the receipt of vendor rebates as part of its cost of sales for products sold, taking into consideration the cumulative purchases of inventory to date. Rebates are accrued monthly, with an extensive reassessment of the rebates earned being performed at the reporting date. Consequently the rebates actually received may vary from that accrued in the financial statements.

Inventories

Merchandise for resale is valued on the weighted average cost basis and is stated at the lower of cost and net realisable value. The cost of inventories comprises all costs of purchase, conversion and other costs incurred in bringing the inventories to their present location and condition and is stated net of purchase incentives. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs to complete and sell the product. The cost of merchandise sold includes normal shrinkage, wastage and inventory losses. Obsolete, redundant and slow moving inventories are identified on a regular basis and are written down to their net realisable value. The carrying amount of inventory is recognised as an expense in the period in which the related revenue is recognised.

14. Inventories

Inventories comprise:

	2010 R'000	2009 (Restated) R'000
Goods for resale	1,493,412	1,378,950
Goods in transit	77,836	42,546
	1,571,248	1,421,496
Inventories stated at net realisable value	49,458	61,004

The value of inventories stated at net realisable value is determined on management's best estimate of the likely selling price at which the inventories in question could be sold in the ordinary course of business less the directly attributable selling costs.

Analysis of Expenses by Function (Cost of Sales)—Multiple Cost Flow Assumptions, Provision for Inventory Obsolescence

3.110

Diageo plc (Jun 2010)

CONSOLIDATED INCOME STATEMENT (in part)

£ Million	Notes	Year Ended 30 June 2010	Year Ended 30 June 2009 (Restated)	Year Ended 30 June 2008 (Restated)
Sales	2	12,958	12,283	10,643
Excise duties	3	(3,178)	(2,972)	(2,553)
Net sales	2	9,780	9,311	8,090
Cost of sales	3, 5	(4,099)	(3,893)	(3,254)
Gross profit		5,681	5,418	4,836

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Accounting Policies of the Group (unnumbered note, in part)

Biological Assets

Grape cultivation by the group's wine business is accounted for as an agricultural activity. Accordingly, the group's biological assets (grape vines and grapes on the vine) are carried at fair value which, in the absence of third party valuations, is computed on the basis of a discounted cash flow computation. Agricultural produce (harvested grapes) is valued at market value on transfer into inventory.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes raw materials, direct labour and expenses, an appropriate proportion of production and other overheads, but not borrowing costs. Cost is calculated on an actual usage basis for maturing inventories and on a first in, first out basis for other inventories.

13. Biological Assets

	£ Million
Fair Value	
At 30 June 2008	31
Exchange differences	6
Harvested grapes transferred to inventories	(24)
Changes in fair value	24
At 30 June 2009	37
Exchange differences	3
Harvested grapes transferred to inventories	(23)
Transfer to assets held for sale	(6)
Changes in fair value	19
At 30 June 2010	30

Biological assets comprise grape vines and grapes on the vine. At 30 June 2010, these assets comprise approximately 1,725 hectares (2009—2,206 hectares) of vineyards, ranging from newly established vineyards to vineyards that are 91 years old. As part of the restructuring of the US wines operations, 481 hectares of vineyards are expected to be sold in the year ending 30 June 2011. These are classified as assets held for sale.

17. Inventories

£ Million	2010	2009 (Restated)	2008 (Restated)
Raw materials and consumables	297	270	245
Work in progress	21	25	21
Maturing inventories	2,506	2,274	1,939
Finished goods and goods for resale	457	509	483
	3,281	3,078	2,688

Maturing inventories include whisky, rum and wines. The following amounts of inventories are expected to be utilised after more than one year:

£ Million	2010	2009	2008
Raw materials and consumables	46	42	35
Maturing inventories	2,093	1,875	1,595
	2,139	1,917	1,630

Inventories are disclosed net of provisions for obsolescence, an analysis of which is as follows:

£ Million	2010	2009	2008
Balance at beginning of the year	55	38	43
Exchange differences	3	1	2
Income statement charge	63	22	2
Written off	(24)	(6)	(9)
	97	55	38

Analysis of Expenses by Nature—Multiple Cost Flow Assumptions, Write-Down and Reversal of Write-Downs of Inventory

Author's Note

Barloworld Limited discloses cost of sales in a note disclosure disaggregating operating profit.

3.111

Barloworld Limited (Sep 2010)

CONSOLIDATED INCOME STATEMENT (in part)

For the year ended 30 September

	Notes	2010 Rm	2009* Rm	2008* Rm
Continuing Operations				
Revenue	19	40,830	45,269	50,107
Operating profit before items listed below (EBITDA)		3,318	4,061	4,689
Depreciation		(1,736)	(1,854)	(1,833)
Amortisation of intangible assets		(64)	(61)	(52)
Leasing interest classified as cost of sales		(142)	(152)	(153)
Operating profit	20	1,376	1,994	2,651

Accounting Policies (unnumbered note, in part)

Definitions

Refer to the web version of the annual report on www.barloworld.com under Investor centre for a list of financial terms used in the annual financial statements of Barloworld Limited (the company) and consolidated financial statements.

Basis of Preparation (in part)

1. Accounting Framework (in part)

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board using the historical cost convention except for certain financial instruments that are stated at fair value and adjustments, where applicable, in respect of hyperinflation accounting.

15. Non-Current Assets Held for Sale (in part)

Rental assets that become available for sale after being removed from rental fleets are transferred to inventories (policy note 16) at their carrying amount. Sale proceeds from such rental assets are recognised as revenue in accordance with policy note 21.

16. Inventories

Inventories are assets held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are stated at the lower of cost and net realisable value. Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition, net of discount and rebates received. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion, distribution and selling.

The specific identification basis is used to arrive at the cost of items that are not interchangeable. Otherwise the first-in-first-out method or weighted average method for certain classes of inventory is used to arrive at the cost of items that are interchangeable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

9. Inventories

	2010 Rm	2009 Rm	2008 Rm
Work in progress	295	295	291
Finished goods	2,554	3,617	4,219
Merchandise	2,421	3,054	3,219
Consumable stores	11	21	26
Other inventories	37	49	20
Total inventories	5,318	7,036	7,775
Per business segment:			
—Equipment	2,623	4,386	5,010
—Automotive	2,097	1,902	2,124
—Handling	595	791	798
—Logistics	3	5	7
—Corporate		3	11
Total group	5,318	7,087	7,950
Amounts classified as held for sale	—	(51)	(175)
Total per statement of financial position	5,318	7,036	7,775
The value of inventories has been determined on the following bases:			
First-in first-out and specific identification	4,957	6,680	7,361
Weighted average	361	356	414
	5,318	7,036	7,775
Inventory pledged as security for liabilities	107	109	170
The secured liabilities are included under trade and other payables (note 17)			
Amount of write down of inventory to net realisable value and losses of inventory	141	22	13
Amount of reversals of inventory previously written down	4	7	5
Amounts removed during the year from cash flow hedge reserve and included in the initial cost of inventory	8	(55)	(2)

20. Operating Profit

Operating profit is arrived at as follows:

	2010 Rm	2009 Rm	2008 Rm
Revenue	40,830	45,269	50,107
Less: Net expenses	39,454	43,275	47,456
Cost of sales	31,900	35,296	39,778
Distribution costs	984	1,134	2,080
Administrative costs	4,436	4,571	4,349
Other operating costs	2,495	2,359	1,380
Other operating income	(361)	(85)	(131)
Operating profit	1,376	1,994	2,651
Per business segment:			
Continuing operations			
—Equipment	656	1,293	2,057
—Automotive	772	703	540
—Handling	(17)	(27)	172
—Logistics	10	77	135
—Corporate	(45)	(52)	(253)
Total continuing operations	1,376	1,994	2,651
Discontinued operations			
—Car rental—Scandinavia	(89)	(135)	(10)
—Coatings			78
—Scientific			13
Total discontinued operations	(89)	(135)	81
Total group	1,287	1,859	2,732

TABLE 3-4: DEPRECIATION AND AMORTIZATION METHODS

	2010	2009
Property, Plant and Equipment Investment Properties Held at Cost		
Straight line	157	148
Declining balance	3	3
Units of production	17	16
Other (e.g., proportion of proven reserves)	9	8
No property, plant and equipment or depreciation method disclosed	6	5
Total	**192**	**180**
Less: Companies disclosing at least two depreciation methods	(19)	(18)
Companies disclosing at least three depreciation methods	(3)	(2)
Total Companies	**170**	**160**
Intangible Assets With Finite Life		
Straight line	124	118
Units of production	8	18
Other (e.g., pattern of consumption)	28	29
Assets not yet available for use	1	0
No finite-life intangible assets or amortization method disclosed	31	26
Total	**192**	**181**
Less: Companies disclosing at least one amortization methods	(20)	(19)
Companies disclosing at least three amortization methods	(2)	(2)
Total Companies	**170**	**160**

DEPRECIATION AND AMORTIZATION

Author's Note

The commentary that follows addresses depreciation and amortization of assets covered by the following IFRSs:

- IAS 17, *Leases*
- IAS 16, *Property, Plant and Equipment*
- IAS 38, *Intangible Assets*
- IAS 40, *Investment Property*

IFRS Overview and Comparison to U.S. GAAP

3.112 Depreciation and amortization are terms describing the systematic allocation of an asset's carrying amount less estimated residual value (depreciable or amortizable amount) over the asset's estimated useful life. IFRSs require an entity to record depreciation or amortization on the following asset classes for all assets in the class with finite useful lives:

- Property, plant, and equipment (PPE) (measured under either the cost or revaluation model)
- Intangible assets (measured under the cost or revaluation model)
- Investment property (measured under the cost model)
- Assets held under a finance (capital) lease (those previously listed)

Author's Note

Section 2 provides the general recognition and measurement requirements applicable to these asset classes.

Recognition and Measurement

IFRSs

3.113 IAS 16 requires an entity to measure items of PPE initially at cost and to allocate that cost to the item's significant component parts. This allocation of cost is often referred to as *componentization* or *component accounting*. One such part, or component, to which an entity should allocate cost is major inspection and overhaul costs. An entity should depreciate all significant components separately. To calculate depreciation, an entity should determine the depreciable base of assets with finite lives by estimating the asset's useful life and residual value. IAS 16 also requires an entity to depreciate separately each component part with an individual cost that is significant in relation to the total cost of the item.

3.114 IAS 16 requires an entity to begin to depreciate an asset when it is available for use (that is, when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management). Depreciation of an asset should cease at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale), in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, or the date that the asset is derecognized. Therefore, an entity does not stop recognizing depreciation when the asset becomes idle or is retired from active use, unless the asset is fully depreciated. However, under methods of depreciation based on usage or units of production, the depreciation charge can be zero while there is no production.

3.115 To allocate the asset's depreciable base over its useful life on a reasonable and systematic basis, an entity should select a depreciation method that most closely reflects the pattern in which economic benefits from the asset will flow to the entity. Specific methods mentioned in the standard are straight line, declining balance, and units of production, but no methods are specifically required or prohibited.

3.116 Depreciation expense should be recognized in profit or loss in each reporting period, unless included in the carrying value of another asset (for example, inventory, assets under construction, and capitalized development costs). An entity should annually review depreciation methods and estimates of useful lives and residual values. Changes in estimated useful lives, residual values, and depreciation methods should be considered a change in accounting estimate, and the change should be applied prospectively, in accordance with IAS 8.

3.117 When using the revaluation model for subsequent measurement, an entity continues to recognize depreciation expense. At each revaluation, the revalued amount becomes the new cost basis for the asset. At the same time, the entity should reassess the asset's useful life and residual value, if any, and calculate depreciation expense going forward based on the new cost basis and these estimates. The *carrying value* of the asset is the revalued amount less any subsequent accumulated depreciation and impairment losses.

3.118 An entity should measure depreciation in accordance with IAS 16 for investment property measured under the cost model.

3.119 IFRSs require an entity to measure a decommissioning or restoration obligation (that is, asset retirement obligation) in accordance with IAS 37 and include the amount in the cost of the asset that gives rise to the obligation. When that asset is PPE, including land, an entity should depreciate over the useful life of the asset the amount of a decommissioning or restoration obligation capitalized. Generally, land is considered to have an indefinite life; therefore, an entity that capitalizes the obligation as a component of the cost of land should depreciate the amount over the period that benefits are expected to flow to the entity, unless the land itself is determined to have a finite life. In the latter case, depreciation should be recorded over the useful life of the land.

3.120 IAS 38 requires an entity to assess whether an intangible asset's useful life is indefinite (that is, no foreseeable limit to the asset's ability to generate net future cash inflows) or finite. If its useful life is determined to be finite, the entity should determine the length of the life in time or units of production. The useful life of an asset that arises from contractual or other legal rights (for example, a patent) should not exceed the period of those rights. If the contracts contain renewal clauses, these clauses should be taken into account if the entity has the ability to renew without significant cost. An assessment of the useful life of reacquired rights in a business combination only considers the remaining original contract period; renewals are not considered.

3.121 For intangible assets with finite useful lives, the entity should allocate the asset's depreciable base (original cost less residual value) over its useful life to profit or loss. Amortization begins when the asset is available for use and stops at the earlier of the date that it is classified as held for sale or derecognized. The residual value of an intangible asset is assumed to be zero, unless the entity has a commitment from a third party to purchase the asset at the end of its useful life or there is an active market for the asset that the entity expects to exist at the end of the asset's useful life and from which it expects to determine a reliable residual value.

3.122 Like PPE, when measuring an intangible asset using the revaluation model, an entity records amortization based on the revalued amount less any residual value over the estimated useful life of the asset. The carrying value of the asset is the revalued amount less subsequent accumulated amortization and impairment losses.

3.123 Amortization should reflect the pattern of benefits to be received from the asset's use. If it cannot determine the pattern reliably, an entity should use the straight-line method. An entity should review both the amortization period and method annually. Changes to either should be considered changes in accounting estimate and applied prospectively, in accordance with IAS 8.

3.124 Goodwill acquired in a business combination (see section 9, "Business Combinations") and intangible assets with indefinite lives should not be amortized. Instead, IAS 38 requires an entity to test goodwill and indefinite-life intangibles for impairment annually.

3.125 An entity should account for leased assets in accordance with IAS 17. IAS 17 requires leased items of PPE, investment properties, and intangible assets that an entity accounts for as a finance lease to be depreciated in a manner consistent with the depreciation policy on similar assets owned by the entity.

U.S. GAAP

3.126 FASB ASC 350, *Intangibles—Goodwill and Other*, and FASB ASC 360, *Property, Plant, and Equipment*, establish essentially the same requirements for depreciation

and amortization of PPE and intangible assets owned or held under a capital (finance) lease. FASB ASC 360 does not consider investment property to be a separate asset class. FASB ASC 360 requires an entity to classify as PPE those land and buildings classified as investment property under IFRSs.

3.127 Consistent with IFRSs and subject to the same conditions, FASB ASC 350-30-35-8 explains that an entity should assume the residual value of an intangible asset is zero. FASB ASC 350-30-35-9 states that an entity should review estimates of useful lives of intangible assets each reporting period and amortize these assets prospectively over their remaining useful lives.

3.128 In contrast, measuring depreciation of PPE or investment properties under FASB ASC 360 requires an entity to estimate both useful lives and residual values (salvage values). Unlike IFRSs, FASB ASC 360 does not require an entity to review estimates of the useful lives of these assets each reporting period. Instead, such a review is required, in accordance with FASB ASC 360-10-35-22, only when events or changes in circumstances indicate that the current estimates are no longer appropriate, as is also the case with depreciation methods.

Author's Note

In the process of determining appropriate FASB ASC references for U.S. GAAP requirements, we found that FASB ASC 360-10-35-3 states that depreciation expense in financial statements for an asset shall be determined based on the asset's useful life. Neither FASB ASC 360 nor other sections of FASB ASC include the requirement to estimate residual values for items of PPE in determining depreciation expense. The FASB ASC glossary does not include definitions of *depreciation*, *depreciable base*, or *residual value of PPE*. The existing definition of residual value applies to an intangible asset. FASB ASC briefly discusses residual value in the context of leased assets. Notwithstanding the absence of specific guidance in FASB ASC, it is generally accepted that an entity should include estimates of useful or depreciable lives and residual or salvage values in calculating depreciation expense.

3.129 Like IFRSs, an entity should select a depreciation method. Paragraphs 9–10 of FASB ASC 360-10-35 specify two methods that are unacceptable for financial reporting: the accelerated cost recovery system if the number of years specified by that system does not fall within a reasonable range of the asset's useful life (used for tax reporting in the United States) and the annuity method. Unlike IFRSs, changes in depreciation method should be considered to be a change in accounting estimate affected by a change in accounting principle, in accordance with FASB ASC 250-10-45-18. Although accounted for prospectively, as stated by FASB ASC 250-10-45-19, an entity should make this change only if it is justifiable on the basis that it is preferable.

3.130 Consistent with FASB ASC 360-10-35-4, FASB ASC 410-20-35-2 states that an entity should depreciate the costs of asset retirement obligations included in the cost of the related asset over the useful life of that asset using a rational and systematic basis.

Presentation

IFRSs

3.131 IAS 1 does not require separate presentation of depreciation or amortization expense in the statement of comprehensive income.

U.S. GAAP

3.132 FASB ASC 350-30-45 permits an entity to present amortization expense and impairment losses for intangible assets in income statement line items within continuing operations, as the entity deems appropriate. However, FASB ASC 360 does not address the presentation of depreciation expense for PPE.

Disclosure

Author's Note

Required disclosures about the relevant balance sheet accounts are discussed in section 2.

IFRSs

3.133 Both IAS 16 and IAS 38 require disclosure of depreciation and amortization methods used and estimates of useful lives (when the intangible asset has a finite life) or depreciation and amortization rates by asset class are necessary. Both standards require an entity to disclose depreciation and amortization as line items in the relevant reconciliation of the beginning and ending balances in the accumulated depreciation and impairment loss account.

3.134 IAS 1 requires an entity classifying expenses by function to disclose total depreciation and amortization expense in the notes. Entities classifying expenses by nature should present total depreciation and amortization expense on the face of the statement of comprehensive income.

U.S. GAAP

3.135 FASB ASC does not require an entity to provide reconciliation disclosures. For PPE, FASB ASC 360-10-50-1 does require disclosure of depreciation expense for the period, account balances by major classes of depreciable assets, accumulated depreciation either by major depreciable asset classes or in total, and a general description of the depreciation method(s) used.

3.136 For intangible assets subject to amortization, FASB ASC 350-30-50-2 requires an entity to disclose the gross carrying amount and accumulated amortization, in total and by major intangible asset class; aggregate amortization expense for the period; and estimated aggregate amortization expense for each of the five succeeding fiscal years.

Presentation and Disclosure Excerpts

Property, Plant, and Equipment—Cost Model, Straight Line Method

3.137

Empresa Nacional de Electricidad S.A. (Endesa-Chile) (Dec 2010)

STATEMENT OF COMPREHENSIVE INCOME (in part)

	Note	2010 ThCh$	2009 ThCh$	2008 ThCh$
Sales	23	2,397,944,527	2,406,367,778	2,531,561,947
Other operating income	23	37,437,927	12,551,577	4,826,492
Total Revenues		2,435,382,454	2,418,919,355	2,536,388,439
Raw materials and consumable used	24	(1,191,327,819)	(976,145,889)	(1,304,453,135)
Contribution Margin		1,244,054,635	1,442,773,466	1,231,935,304
Other work performed by entity and capitalized		10,126,628	731,901	500,315
Employee benefits expenses	25	(80,066,349)	(75,564,322)	(63,799,789)
Depreciation and amortization expense	26	(179,007,900)	(196,142,075)	(186,604,575)
Reversal of impairment loss (impairment loss) recognized in profit or loss		(706,125)	(43,999,600)	—
Other expenses	27	(103,677,256)	(110,868,779)	(107,867,715)
Operating income		890,723,633	1,016,930,591	874,163,540

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Basis of Presentation of the Consolidated Financial Statements (in part)

2.3 Responsibility for the Information and Estimates Made (in part)

The information contained in these consolidated financial statements is the responsibility of the Company's Board, which expressly states that IFRS principles and standards have been fully implemented.

In preparing the consolidated financial statements, certain estimates made by the Company's Management have been used in order to quantify some assets, liabilities, income, expenses and commitments recorded in such statements.

These estimates basically refer to:

- The useful life of property, plant and equipment as well as intangible assets (see Notes 3.a and 3.b).

3. Accounting Principles Applied

The principal accounting principles applied in preparing the attached consolidated financial statements are detailed as follows:

a) Property, Plant and Equipment

Property, Plant and Equipment is valued at acquisition cost, net of accumulated depreciation and any impairment losses it may have experienced. In addition to the price paid to acquire each item, the cost also includes, where appropriate, the following concepts:

- Finance expenses accrued during the construction period that are directly attributable to the acquisition, construction or production of qualified assets, which require a substantial period of time before being ready for use such as, for example, electricity generation or distribution facilities. The interest rate used is that of the specific financing or, if none exists, the mean financing rate of the company carrying out the investment. The mean financing rate depends principally on the geographic area and ranges between 5.19% and 7.46%. The amount capitalized for this concept amounts to ThCh$ 11,744,123, ThCh$ 4,745,501, and ThCh$ 4,331,965 for the years ended December 31, 2010, 2009 and 2008 respectively.
- Personnel expenses directly related to construction in progress, capitalized for the years ended December 31, 2010, 2009 and 2008, amount to ThCh$ 10,126,628 ThCh$ 731,901 and ThCh$ 500,315, respectively.
- Future disbursements that Endesa Chile and subsidiaries must make to close their facilities are incorporated into the value of the asset at present value, recording the corresponding provision in accounting. On a yearly basis, Endesa Chile and subsidiaries review their estimate of these future disbursements, increasing or decreasing the value of the asset based on the results of this estimate. (see Note 20).
- Items acquired before the date on which Endesa Chile transitioned to IFRS, that is January 1, 2004, include within the acquisition cost, where appropriate, asset reappraisals permitted in various countries to adjust the value of Property, Plant and Equipment for inflation as of that date. (see Note 22.5l).

The construction in progress are transferred to operating assets once the testing period has been completed, when they are available for use, at which time depreciation begins.

Expansion, modernization and improvement costs that represent an increase in productivity, capacity or efficiency or a

longer useful life are capitalized as a greater cost for the corresponding assets.

Replacement or overhaul of whole components that increase the asset's useful life, or its economic capacity, are recorded as an increase in value for the respective assets, derecognizing the replaced or overhauled components.

Periodic maintenance, conservation and repair expenses are recorded directly in income as an expense for the year in which they are incurred.

The Company, based on the outcome of impairment testing explained in Note 3.d, believes that the book value of these assets does not exceed their net recoverable value.

Property, Plant and Equipment, net of its residual value, is depreciated by distributing the cost of the different items that compose it on a straight-line basis over its estimated useful life, which is the period during which the companies expect to use them. Useful estimated life is periodically reviewed and, if appropriate, adjusted prospectively.

The following are the main classes of Property, plant and equipment including their estimated useful lives:

Classes of Property, Plant and Equipment	Range of Estimated Useful Lives (In Years)
Buildings	22–100
Plant and equipment (see below)	3–65
IT equipment	3–15
Fixtures and fittings	5–21
Motor vehicles	5–10
Other	2–33

Additionally, and for more information, there is a greater opening of the useful lives for plant and equipment class:

	Range of Estimated Useful Lives (In Years)
Generation Facilities:	
Hydroelectric power plants	
Civil works	35–65
Electromechanical equipment	10–40
Coal/fuel power plants	25–40
Combined-cycle power plants	10–25
Renewable energy	35
Transport and Distribution Facilities:	
High voltage network	10–60
Low and medium voltage network	10–60
Measurement and telecontrol equipment	3–50
Other facilities	4–25

The following table shows a detail of the duration period of those non-indefinite administrative concessions maintained by the Group's electrical companies:

Company	Country	Concession Term	Period Remaining Until Expiration
Hidroeléctrica El Chocón (Generation)	Argentina	30 years	13 years

Endesa Chile's management evaluated the specific contract term of each of the aforementioned concession, which vary by country, business or legal jurisprudence, and concluded that no determining factors exist to indicate that the grantor, which in each case is a government entity, controls the infrastructure and, at the same time, can continuously set the price to be charged for services. These requirements are essential for applying IFRIC 12 "Service Concession Arrangements," which establishes how to record and value certain types of concessions (see Note 3b.1).

Gains or losses that arise from the sale or disposal of items of Property, Plant and Equipment are recognized in income for the period and calculated as the difference between the sale value and the net book value.

14. Property, Plant and Equipment (in part)

a) The following tables detail the balances within this account as of December 31, 2010 and 2009:

Classes of Property, Plant and Equipment, Net	12/31/2010 ThCh$	12/31/2009 ThCh$
Property, plant and equipment, net	4,253,906,589	4,326,989,360
Construction in progress	608,596,323	536,448,556
Land	78,877,683	60,524,427
Buildings	434,119,630	469,701,385
Plant and equipment	3,069,395,911	3,204,840,870
IT equipment	2,415,894	2,644,074
Fixtures and fittings	2,985,401	6,763,919
Motor vehicles	998,995	813,545
Other	56,516,752	45,252,584

Classes of Property, Plant and Equipment, Gross	12/31/2010 ThCh$	12/31/2009 ThCh$
Property, plant and equipment, net	7,214,012,699	7,180,903,160
Construction in progress	608,596,323	536,448,556
Land	78,877,683	60,524,427
Buildings	603,016,963	636,044,699
Plant and equipment	5,822,980,365	5,856,864,944
IT equipment	12,315,903	12,121,154
Fixtures and fittings	19,289,187	18,887,548
Motor vehicles	3,493,227	3,370,794
Other	65,443,048	56,641,038

Classes of Accumulated Depreciation and Impairment, Property, Plant and Equipment	12/31/2010 ThCh$	12/31/2009 ThCh$
Total accumulated depreciation and impairment, property, plant and equipment	(2,960,106,110)	(2,853,913,800)
Buildings	(168,897,333)	(166,343,314
Plant and equipment	(2,753,584,454)	(2,652,024,074)
IT equipment	(9,900,009)	(9,477,080)
Fixtures and fittings	(16,303,786)	(12,123,629)
Motor vehicles	(2,494,232)	(2,557,249)
Other	(8,926,296)	(11,388,454)

b) Property, Plant and Equipment during 2010 and 2009 is detailed as follows:

Movement 2010	Construction in Progress ThCh$	Land ThCh$	Buildings, Net ThCh$	Plant and Equipment, Net ThCh$	IT Equipment, Net ThCh$	Fixtures and Fittings, Net ThCh$	Motor Vehicles, Net ThCh$	Other Property, Plant and Equipment, Net ThCh$	Property, Plant and Equipment, Net ThCh$
Movements									
Beginning balance as of January 1, 2010	536,448,556	60,524,427	469,701,385	3,204,840,870	2,644,074	6,763,919	813,545	45,252,584	4,326,989,360
Additions	181,369,666	—	—	—	—	—	—	—	181,369,666
Retirements	(56,851)	—	—	(124,642)	(659)	(270)	(6,727)	(7,538)	(196,687)
Depreciation expense	—	—	(14,841,057)	(156,596,319)	(924,609)	(1,176,493)	(277,595)	(1,251,831)	(175,067,904)
Impairment losses recorded on earnings(*)	—	—	—	(397,857)	—	—	—	—	(397,857)
Foreign currency translation	(3,456,617)	(861,803)	(24,307,921)	(50,250,877)	(68,970)	(539,579)	(21,615)	(1,865,613)	(81,372,995)
Other increases (decreases)	(105,708,431)	19,215,059	3,567,223	71,924,736	766,058	(2,062,176)	491,387	14,389,150	2,583,006
Total movements	72,147,767	18,353,256	(35,581,755)	(135,444,959)	(228,180)	(3,778,518)	185,450	11,264,168	(73,082,771)
Ending balance as of December 31, 2010	608,596,323	78,877,683	434,119,630	3,069,395,911	2,415,894	2,985,401	998,995	56,516,752	4,253,906,589

(*) See Note 26: Depreciation, amortization and impairment.

26. Depreciation, Amortization and Impairment Losses

This account as presented in the accompanying consolidated statements of comprehensive income for the 2010, 2009 and 2008 periods is detailed as follows:

	Balance as of		
	12/31/2010 ThCh$	12/31/2009 ThCh$	12/31/2008 ThCh$
Depreciation	(175,067,904)	(192,772,740)	(182,631,235)
Amortization	(3,939,996)	(3,369,335)	(3,973,340)
Impairment losses financial assets	(308,268)	—	—
Impairment losses Fixes assets	(397,857)	(43,999,600)	—
Total	(179,714,025)	(240,141,675)	(186,604,575)

Property, Plant, and Equipment—Cost Model, Declining Balance Method at Varying Rates

3.138

HGL Limited (Sep 2010)

PROFIT AND LOSS STATEMENT

For the financial year ended 30 September 2010

		Consolidated	
	Note	2010 $'000	2009 $'000
Sales revenue	2	170,067	164,653
Cost of sales	2	(93,497)	(95,089)
Gross profit		76,570	69,564
Other revenue	2	10,887	7,594
Share of associates' profit		484	397
Sales, marketing and advertising expenses		(25,055)	(22,837)
Freight and distribution expenses		(7,116)	(6,765)
Administration expenses		(25,373)	(24,800)
Occupancy expenses		(4,614)	(4,351)
Impairment of available for sale assets		—	(1,665)
Fair value of interest rate swap		—	(651)
Finance costs		(1,229)	(2,502)
Profit before income tax expense		24,554	13,984

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

1—Summary of Significant Accounting Policies (in part)

(g) Property, Plant and Equipment

Land and buildings are measured at fair value. Fair value is determined on the basis of independent valuation prepared by external valuation experts. The fair values are recognised in the financial statements of the consolidated entity and are reviewed at the end of each reporting period to ensure that the carrying value of land and buildings is not materially different from their fair values.

Any revaluation increase arising on the revaluation of land and buildings is credited to the land and buildings revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in profit or loss, in which case the increase is credited to the profit and loss statement to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of land and buildings is charged as an expense in profit or loss to the extent that it exceeds the balance, if any, held in the land and buildings revaluation reserve relating to a previous revaluation of that asset.

On the subsequent sale, the attributable revaluation surplus remaining in the land and buildings revaluation reserve, net of any related deferred taxes, is transferred directly to retained earnings.

Plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item.

(h) Depreciation

Buildings are depreciated over their estimated useful lives using the straight line method. Items of plant and equipment are depreciated over their estimated useful lives using the reducing balance method. The estimated useful lives and depreciation method is reviewed at the end of each reporting period.

The following estimated useful lives are used in the calculation of depreciation: buildings—40 years; plant and equipment—3 to 10 years; and leased plant and equipment—3 to 5 years. The cost of improvements to or on leasehold properties is depreciated over the lesser of the period of the lease or the estimated useful life of the improvement.

2—Profit From Operations

a) Revenue

		Consolidated	
	Note	2010 $'000	2009 $'000
Sales revenue		170,067	164,653
Net income from MMC Contrarian Limited		—	7
Acquisition discount	25	761	—
Profit on sale of listed securities		9,373	6,120
Dividends from listed securities		230	917
Interest:			
Other entities—bank		325	414
Employee Share Scheme:			
Key management personnel		198	136
		180,954	172,247

b) Profit/(Loss) Before Income Tax

Profit/(Loss) before income tax has been arrived at after crediting/charging) the following gains and losses:

		Consolidated	
	Note	2010 $'000	2009 $'000
Profit/(Loss) on sale of property, plant and equipment		50	(56)
Foreign exchange gain		535	425

c) Expenses

		Consolidated	
	Note	2010 $'000	2009 $'000
Cost of sales		93,497	95,089
Interest:			
Associates		49	48
Other entities—bank		1,089	2,364
Fair value of interest rate swap		—	651
Finance charges relating to finance leases		91	90
		1,229	3,153
Depreciation:			
Buildings		72	75
Leased plant and equipment		294	366
Leasehold improvements		90	81
Plant and equipment		1,682	1,477
		2,138	1,999

9—Property, Plant and Equipment

	Consolidated				
	Land & Buildings $'000	Leasehold Improvements $'000	Plant & Equipment $'000	Leased Plant & Equipment $'000	Total $'000
Gross Carrying Amount					
Balance at 30 September 2008	5,737	1,105	8,539	2,037	17,418
Additions	—	50	2,120	308	2,478
Net revaluation increments	79	—	—	—	79
Disposals	(374)	(5)	(1,054)	(595)	(2,028)
Deconsolidation of controlled entity	—	—	(76)	—	(76)
Net foreign currency exchange difference	(29)	(5)	(16)	—	(50)
Balance at 30 September 2009	5,413	1,145	9,513	1,750	17,821
Additions	—	659	2,851	424	3,934
Disposals	—	(353)	(729)	(617)	(1,699)
Net foreign currency exchange difference	(207)	(39)	(117)	—	(363)
Balance at 30 September 2010	5,206	1,412	11,518	1,557	19,693
Accumulated Depreciation					
Balance at 30 September 2008	(341)	(936)	(4,773)	(986)	(7,036)
Disposals	374	4	829	445	1,652
Deconsolidation of controlled entity	—	—	74	—	74
Depreciation expense	(75)	(81)	(1,477)	(366)	(1,999)
Net foreign currency exchange difference	2	3	13	—	18
Balance at 30 September 2009	(40)	(1,010)	(5,334)	(907)	(7,291)
Disposals	—	348	595	493	1,436
Depreciation expense	(72)	(90)	(1,682)	(294)	(2,138)
Net foreign currency exchange difference	—	34	108	—	142
Balance at 30 September 2010	(112)	(718)	(6,313)	(708)	(7,851)
Net Book Value					
As at 30 September 2010	5,094	694	5,205	849	11,842
As at 30 September 2009	5,373	135	4,179	843	10,530

The carrying value of the properties are based on market values provided by independent valuations made in 2009 and 2008. It was determined the carrying value of the land and buildings was not materially different to the fair value.

	Consolidated	
	2010 $'000	2009 $'000
The carrying amount of land and buildings had they been recognised under the cost model	3,939	4,003

Aggregate depreciation allocated during the year is recognised as an expense and disclosed in note 2 to the financial statements.

Property, Plant, and Equipment—Cost Model, Straight Line Method, Capitalization of Major Overhaul Expenditures

3.139

TAM S.A. (Dec 2010)

CONSOLIDATED INCOME STATEMENT (in part)

Year ended December 31, 2010
(Amounts expressed in thousands of R$, unless otherwise indicated)

	Note	December 31, 2010	December 31, 2009	December 31, 2008	December 31, 2007
			(Adjusted)	(Adjusted)	(Adjusted)
Revenue	24	11,378,691	9,765,506	10,513,044	8,018,819
Operating expenses	25	(10,401,678)	(9,555,632)	(9,935,437)	(7,709,487)
Operating profit before movements in fair value of fuel derivatives		977,013	209,874	577,607	309,332
Movements in fair value of fuel derivatives		36,585	316,852	(1,273,461)	130,410
Operating profit/(loss)		1,013,598	526,726	(695,854)	439,742

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Significant Accounting Policies (in part)

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

2.12 Property, Plant and Equipment Including Aircraft Pre-Delivery Payments

Depending on the type of the asset and the timing of its acquisition, the cost refers to the historical acquisition cost, deemed cost, or to the historical acquisition cost adjusted for the effects of hyperinflation, in the years in which the Brazilian economy was considered hyperinflationary. Brazil was considered a hyperinflationary economy for IFRS purposes until 1997.

Land is not subject to depreciation. Depreciation is recognized based on the estimated useful life of each asset under the straight-line method, so that the cost less its residual value after its useful life is fully written off. The estimated useful life, residual values and depreciation methods are reviewed annually and the effect of any changes in estimates is accounted for prospectively. The estimated useful life of items used in the calculation of depreciation is as follows:

	Years
Flight equipment—Aircraft	6–30
Flight equipment—Engines	10
Overhaul	4–6
Buildings	25
Machinery and equipment	10
Computers	5

Major overhaul expenditure, including replacement spares and labor costs, is capitalized and amortized over the average expected life between major overhauls (the "built-in overhaul method"). All other replacement spares and other costs relating to maintenance of flight equipment assets, including all amounts payable under "power by the hour" maintenance contracts, are charged to the income statement on consumption or as incurred respectively, as described below in Note 2.25.

The costs of loans attributable to the acquisition of qualifying assets, which necessarily take a substantial period of time to get ready for use, are added to the cost of such assets until the date when they are ready for their intended use.

The carrying value of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate the carrying value is greater than its estimated recoverable amount.

A property, plant and equipment item is written off after disposal or when there are no future economic benefits as a result of the continued use of the asset. Any gains or losses on the sale or disposal of a property, plant and equipment item are determined by the difference between the amounts received from the sale and the carrying amount of the asset and are recognized in profit or loss.

(a) Pre-Delivery Payments

Pre-delivery Payments (PDPs) paid to aircraft manufacturers under the terms of purchase agreements for aircraft are denominated in US dollars and are recognized in the financial statements at the amount paid translated at the exchange rate ruling at the date of payment. Borrowing costs, including interest and applicable foreign exchange differences incurred for the construction of qualifying assets are capitalized during the period which the aircraft are built.

In the event that a decision is taken that the aircraft will not be purchased by TAM, but rather it will be leased and it is agreed that the PDPs will be returned to TAM, then the related PDPs are reclassified to other receivables and are remeasured to the present value of the amount expected to be returned to TAM. This amount will, if it is denominated in a foreign currency, be translated at the exchange rate ruling at the reporting date, and any resulting difference recognized in the income statement.

4. Adjustments Retroactive to the Financial Statements Consolidated for the Prior Period (in part)

As mentioned in note 2.1, at December 31, 2010, the Company decided to change the accounting policy related to recognition of flight equipment revaluation in its consolidated financial statements, in order that the consolidated profit and equity may be equivalent to those presented in the parent company's individual financial statements since the Brazilian corporate law does not permit the revaluation of assets. This change in accounting policy has effects on the consolidated financial statements presented for comparative purposes for the years ended December 31, 2009, 2008 and 2007 previously issued.

The effects of retroactive adjustments at December 31, 2009, are as follows:

	December 31, 2009		
	As Originally Presented	Retrospective Adjustment	Adjusted
Effects on Balance Sheet			
Property, plant and equipment	6,910,496	1,223,532	8,134,028
Deferred income tax and social contribution asset	621,788	(427,912)	193,876
Total	7,532,284	795,620	8,327,904
Revaluation reserve	116,504	(116,504)	
Retained earnings (accumulated deficit) and other reserves	(296,993)	912,124	615,131
Total	(180,489)	795,620	615,131

	December 31, 2009		
	As Originally Presented	Retrospective Adjustment	Adjusted
Effects on Profit or Loss			
Operating expenses	(9,595,826)	40,194	(9,555,632)
Gains (losses) on revaluation of aircraft	(1,207,608)	1,207,608	—
Operating profit (loss) before income tax and social contribution	650,196	1,247,802	1,897,998
Income tax and social contribution	(212,781)	(436,758)	(649,539)
Profit for the year	437,415	811,044	1,248,459
Earnings per share—basic	2.90		8.30
Earnings per share—diluted	2.90		8.29
Effects on Comprehensive Income (Loss) for the Year			
Revaluation of property, plant and equipment	(1,017,255)	1,017,255	—
Profit for the year	437,415	811,044	1,248,459
Total comprehensive income (loss) for the year	(599,944)	1,828,299	1,228,356

15. Property, Plant and Equipment (in part)

	Flight Equipment[(i)]	Land and Buildings	Computer Equipment	Machinery and Equipment	Construction in Progress[(ii)]	Pre-Delivery Payments[(iii)]	Other[(iv)]	Total
Net book amount January 1, 2010—adjusted[(*)]	7,179,464	219,970	47,746	77,721	12,154	490,679	106,294	8,134,028
Acquired on acquisition of Pantanal at fair value[(vi)]	13,208	—	90	71	—	—	612	13,981
Transfers of pre-delivery payments[(v)]	155,577	—	—	—	—	(306,066)	3	(150,486)
Additions[(v)]	1,038,528	3,296	3,748	9,385	3,969	282,815	14,899	1,356,640
Transfers				(8,628)	(5)	—	8,633	—
Disposals/write-offs	(2,241)	(8,633)	(996)	(522)		—	(277)	(12,669)
Capitalized interest/other		50	(4)	8	3	9,086		9,143
Depreciation	(584,088)	(5,012)	(18,853)	(11,779)	—	—	(19,055)	(638,787)
Net book amount December 31, 2010	7,800,448	209,671	31,731	66,256	16,121	476,514	111,109	8,711,850
At December 31, 2010								
Cost	10,722,269	254,572	152,665	135,873	16,121	476,514	214,138	11,966,415
Accumulated depreciation	(2,921,821)	(44,901)	(120,934)	(69,617)	—	—	(103,029)	(3,260,302)
Net book amount December 31, 2010	7,800,448	209,671	31,731	66,256	16,121	476,514	111,109	8,711,850

(i) Includes aircraft, engines and spare parts. Aircraft includes aircraft leased under finance leases, according to IAS 17—Leases. As of December 31, 2010 TAM has 79 aircraft under finance leases (2009—66 aircraft, 2008—64 aircraft and 2007—47 aircraft).

During the year ended December 31, 2010, the Company received 14 aircraft. Twelve aircraft leases were classified as finance leases and one A320 aircraft and one A319 aircraft were classified as operational leases.

(ii) Mainly composed of improvements carried out at the São Carlos Technology Center.

(iii) Amounts disbursed from the aircraft acquisition program are recorded as advances, since upon the disbursement the form of lease agreement that will be used is not yet defined. The Company's past experience shows that the refund of prepaid amounts upon the delivery of aircraft by manufacturers is probable. Note 2.12 (a).

(iv) Basically furniture and vehicles.

(v) Transfers occur when the aircraft are delivered and amounts are either returned to TAM or capitalized within flight equipment as "Additions."

(vi) Refers to the initial balance of Pantanal. The movements after the date of acquisition are included in the corresponding line items.

The Properties and improvements of TLA are pledged as collateral for loans in the total amount of R$ 110,499 (2009—R$ 110,499, 2008—R$ 110,499 and 2007—R$ 110,499).

Other than aircraft, there are no significant amounts of property, plant and equipment outside of Brazil. Aircraft are based in Brazil but fly both domestically and internationally.

As described in note 2.12, the Company adopts the policy of reviewing the estimated useful life of property, plant and equipment items annually at the end of each year. The Company analyzed the remaining economic useful life of property, plant and equipment items. As a consequence of the review of this accounting estimate that was intended to realign the useful life and the residual value of assets and, consequently, the remaining depreciation to the residual life of assets, an impact was recorded as a credit to the 2010 depreciation result, in the comparison with the depreciation recorded in the prior period, of R$ 346.

The depreciation expense is recorded in the statement of income within Operating expenses as follows:

	December 31, 2010	December 31, 2009	December 31, 2008	December 31, 2007
Cost of services rendered	554,127	480,232	376,709	228,583
Selling expenses	1,344	1,262	838	1,443
General and administrative expenses	83,316	78,220	49,783	27,613
	638,787	559,714	427,330	257,639

(*) See note 4.

25. Costs and Operating Expenses by Nature (in part)

	December 31, 2010				
	Cost of Services Rendered	Selling	General and Administrative	Total	%
Personnel	1,881,905	247,283	191,220	2,320,408	22.3
Directors' fees	1,895	—	6,125	8,020	0.1
Fuel	3,451,198	—	—	3,451,198	33.2
Depreciation and amortization	613,687	1,661	84,421	699,769	6.7
Maintenance and repairs (excluding personnel)	612,262	—	—	612,262	5.9
Aircraft insurance	51,982	—	—	51,982	0.5
Take-off, landing and navigation aid charges	609,447	—	—	609,447	5.9
Leasing of aircraft, engines and equipment under operating leases	447,112	7,252	16,619	470,983	4.5
Third party services	166,691	262,696	343,907	773,294	7.4
Marketing and related expenses	—	959,843	—	959,843	9.2
Reversal of additional tariff (Note 20 (b))	—	—	(364,854)	(364,854)	(3.5)
Other	353,788	274,966	180,572	809,326	7.8
	8,189,967	1,753,701	458,010	10,401,678	100.0

Property, Plant, and Equipment—Revaluation Model Applied to Multiple Asset Classes

3.140

Sasini Limited (Sep 2010)

CONSOLIDATED INCOME STATEMENT (in part)

For the year ended 30 September 2010

	Note	2010 KShs'000	2009 KShs'000
Revenue	23	2,297,927	2,182,090
Gains arising from changes in fair value of biological assets less estimated point of sale costs	6(a)	904,832	568,992
Cost of Sales	24	(1,376,450)	(1,471,493)
Gross profit		1,826,309	1,279,589
Other income	25	177,192	48,495
Expenses			
Administration and establishment expenses	26	(563,550)	(513,913)
Selling and distribution costs	27	(13,427)	(11,297)
Interest income	28	27,774	28,497
Interest expense	28	(71,923)	(71,649)
Profit before tax	28	1,382,375	759,722

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME (in part)

For the year ended 30 September 2010

	2010 KShs'000	2009 KShs'000
Profit for the year	993,729	533,032
Other comprehensive income		
Revaluation of property, plant and equipment	28,818	572,217
Deferred tax on revaluation	—	(123,122)
Other comprehensive income after tax	28,818	449,095
Total comprehensive income for the year	1,022,547	982,127

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (in part)

For the year ended 30 September 2010

	Share Capital KShs'000	Capital Reserve KShs'000	Revaluation Reserve KShs'000	Biological Assets Fair Value KShs'000	Retained Earnings KShs'000	Proposed Dividends KShs'000	Total Equity Attributable to Owners KShs'000	Non Controlling Interest KShs'000	Total Equity KShs'000
At 1 October 2009	228,055	137,933	2,081,483	2,455,567	581,650	45,611	5,530,299	131,523	5,661,822
Total comprehensive income for the year	—	—	(21,763)	628,354	352,553	—	959,144	63,403	1,022,547
Excess depreciation on revaluation	—	—	(97,322)	—	94,912	—	(2,410)	2,410	—
Acquisition of investments	—	—	—	—	—	—	—	(60,597)	(60,597)
Release on disposal of assets	—	—	(3,168)	—	—	—	(3,168)	—	(3,168)
Final 2009 dividend paid	—	—	—	—	—	(45,611)	(45,611)	—	(45,611)
Interim 2010 dividend paid	—	—	—	—	(45,611)	—	(45,611)	—	(45,611)
Proposed 2010 dividend	—	—	—	—	(68,417)	68,417	—	—	—
At 30 September 2010	228,055	137,933	1,959,230	3,083,921	915,087	68,417	6,392,643	136,739	6,529,382
	Note 13		Note 14	Note 14	Note 14				

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Significant Accounting Policies (in part)

(e) Critical Accounting Estimates and Assumptions (in part)

Property, Plant and Equipment

Directors make estimates in determining the depreciation rates for property, plant and equipment. The rates used are set out in the accounting policy for property, plant and equipment.

These estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the prevailing circumstances.

The Group measures its property, plant and equipment at revalued amounts with changes in revaluation values being recognized in equity. The Group engages independent valuers to determine fair values of property, plant and equipment. The valuation values are based on the prevailing market prices which are sensitive to economic conditions.

(k) Property, Plant & Equipment and Depreciation

Property, plant and equipment are stated at cost or revalued amounts less accumulated depreciation and any impairment losses. Revaluation increases arising on the revaluations are credited to a revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the statement of comprehensive income to the extent of the decrease previously charged. A decrease in carrying amount arising out of revaluation is charged as an expense to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset original cost. Additionally, accumulated depreciation at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any surplus remaining in the revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Revaluations are done every 5 years to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

No depreciation is provided on freehold land. Work-in-progress is not depreciated until the assets are completed and brought to use. Other items of property, plant and equipment are depreciated on the straight line basis to write down the cost or revalued amount of each asset to its residual value over its estimated useful life as follows:

Buildings and improvements	12–45 years
Plant, machinery and tools	12.5% p.a
Rolling stock	25.0% p.a
Farm implements and trailers	12.5% p.a
Furniture and fittings	12.5% p.a
Computers	33.3% p.a

Useful life, residual values and depreciation methods are reviewed on an annual basis.

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Statement of comprehensive income in the year the item is de-recognised. The carrying values of the property, plant and equipment are assessed annually and adjusted for impairment where it is considered necessary.

4. Property, Plant and Equipment (in part)

a) The Group

Year ended 30 September 2010

	Land and Development KShs'000	Buildings and Improvements KShs'000	Plant, Machinery and Tools KShs'000	Rolling Stock and Farm Implements KShs'000	Furniture, Computers and Equipment KShs'000	Total KShs'000
Cost or Valuation						
At start of the year	1,003,000	947,353	424,837	96,752	93,111	2,565,053
Additions and transfers	—	81,419	33,844	40,183	11,770	167,216
Disposals	—	(2,619)	—	(7,925)	—	(10,544)
At 30 September 2010	1,003,000	1,026,153	458,681	129,010	104,881	2,721,725
Comprising:						
At cost	—	251,635	143,834	63,142	89,800	548,411
At valuation	1,003,000	774,518	314,847	65,868	15,081	2,173,314
	1,003,000	1,026,153	458,681	129,010	104,881	2,721,725
Depreciation						
At start of the year	—	68,740	22,386	6,953	31,012	129,091
Charge for the year	—	79,266	39,327	22,322	20,748	161,663
Disposals	—	(537)	—	(2,212)	—	(2,749)
At 30 September 2010	—	147,469	61,713	27,063	51,760	288,005
Net Book Value						
At 30 September 2010	1,003,000	878,684	396,968	101,947	53,121	2,433,720

The Group's property was revalued on 30 September 2008 by Lloyd Masika Limited, registered valuers, on the market value existing use basis.

The Group's plant and equipment was revalued on 30 September 2009 by Lloyd Masika registered valuers, on the market value existing use basis.

The book values of the property, plant and equipment were adjusted to the revaluations and the resultant surplus and deferred tax effect, was recognised in equity as at that date.

26. Administration and Establishment Expenses

	The Group		The Company	
	2010 KShs'000	2009 KShs'000	2010 KShs'000	2009 KShs'000
Staff costs (note 32)	159,100	144,263	78,041	71,652
Insurance and medical costs	21,719	16,592	1,169	402
Depreciation of property, plant and equipment	161,663	115,809	48,096	31,075
Amortisation of intangible assets	10,092	1,991	3,486	—
Amortisation of leasehold land	239	135	125	121
Auditors' remuneration	3,400	2,830	1,050	870
Directors' emoluments	9,972	10,286	9,972	10,286
Legal and professional fees	7,110	9,912	2,687	2,362
Secretarial costs	3,000	3,000	—	—
Travelling and accommodation	2,795	3,443	2,269	2,657
Coffee house overheads	34,523	25,450	—	—
Office expenses	43,152	18,335	6,950	17,680
Administration costs	102,544	142,595	100,144	99,646
Bank charges	2,034	3,251	231	1,681
Sundry expenses	2,207	16,021	—	11,747
	563,550	513,913	254,220	250,179

28. Profit Before Taxation

The profit before taxation is arrived at after charging:

	The Group		The Company	
	2010 KShs'000	2009 KShs'000	2010 KShs'000	2009 KShs'000
Depreciation	161,663	115,809	48,096	31,075
Amortisation of intangible assets	10,092	1,991	3,486	—
Amortisation of leasehold land	239	135	125	121
Directors' emoluments:				
Fees	2,601	2,915	2,601	2,915
Other remuneration	7,371	7,371	7,371	7,371
Pension scheme contributions	6,843	5,608	3,409	2,721
Auditors' remuneration	3,400	2,830	1,050	870
Interest expense	71,923	71,649	56,923	67,374
And after crediting:				
Interest income	27,774	28,497	8,846	26,129
Foreign exchange gain	38,419	20,761	37,217	23,648
Gain on disposal of property, plant and equipment	79,407	101	79	101

Intangible Assets

3.141

Koninklijke Philips Electronics NV (Dec 2010)

CONSOLIDATED STATEMENTS OF INCOME (in part)

In millions of euros unless otherwise stated

Consolidated statements of income (including earnings per share) of the Philips Group for the years ended December 31

	2008	2009	2010
Sales	26,385	23,189	25,419
Cost of sales	(17,938)	(15,110)	(15,873)
Gross margin	8,447	8,079	9,546
Selling expenses	(5,518)	(5,159)	(5,246)
General and administrative expenses	(972)	(734)	(735)
Research and development expenses	(1,777)	(1,631)	(1,576)
Impairment of goodwill	(301)	—	—
Other business income	261	97	100
Other business expenses	(86)	(38)	(24)
Income from operations	54	614	2,065

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Significant Accounting Policies (in part)

The Consolidated financial statements in this section have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU). All standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee effective year-end 2010 have been endorsed by the EU, except that the EU did not adopt some paragraphs of IAS 39 applicable to certain hedge transactions. Philips has no hedge transactions to which these paragraphs are applicable. Consequently, the accounting policies applied by Philips also comply fully with IFRS as issued by the IASB.

The Consolidated financial statements have been prepared under the historical cost convention, unless otherwise indicated.

Intangible Assets Other Than Goodwill

Acquired definite-lived intangible assets are amortized using the straight-line method over their estimated useful life. The useful lives are evaluated every year. Patents and trademarks with a definite useful live acquired from third parties either separately or as part of the business combination are capitalized at cost and amortized over their remaining useful lives. Intangible assets acquired as part of a business combination are capitalized at their acquisition-date fair value.

The Company expenses all research costs as incurred. Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized as an intangible asset if the product or process is technically and commercially feasible and the Company has sufficient resources and the intention to complete development.

The development expenditure capitalized includes the cost of materials, direct labor and an appropriate proportion of overheads. Other development expenditures and expenditures on research activities are recognized in the Statement of income. Capitalized development expenditure is stated at cost less accumulated amortization and impairment losses. Amortization of capitalized development expenditure is charged to the Statement of income on a straight-line basis over the estimated useful lives of the intangible assets.

Costs relating to the development and purchase of software for both internal use and software intended to be sold are capitalized and subsequently amortized over the estimated useful life.

9. Intangible Assets Excluding Goodwill (in part)

The changes were as follows:

	Other Intangible Assets	Product Development	Software	Total
Balance as of January 1, 2010:				
Cost	5,040	820	606	6,466
Accumulated amortization	(1,484)	(436)	(385)	(2,305)
Book value	3,556	384	221	4,161
Changes in book value:				
Additions	64	219	76	359
Acquisitions and purchase price allocation adjustments	131	(13)	1	119
Amortization/deductions	(484)	(155)	(89)	(728)
Impairment losses	(3)	(13)	—	(16)
Translation differences	268	17	11	296
Other	(2)	20	(11)	7
Total changes	(26)	75	(12)	37
Balance as of December 31, 2010:				
Cost	5,486	1,046	665	7,197
Accumulated amortization	(1,956)	(587)	(456)	(2,999)
Book value	3,530	459	209	4,198

	Other Intangible Assets	Product Development	Software	Total
Balance as of January 1, 2009:				
Cost	5,021	805	702	6,528
Accumulated amortization	(1,137)	(448)	(466)	(2,051)
Book value	3,884	357	236	4,477
Changes in book value:				
Additions	14	188	91	293
Acquisitions and purchase price allocation adjustments	102	25	—	127
Amortization/deductions	(433)	(165)	(103)	(701)
Impairment losses	(3)	(16)	(3)	(22)
Translation differences	(18)	(4)	—	(22)
Other	10	(1)	—	9
Total changes	(328)	27	(15)	(316)
Balance as of December 31, 2009:				
Cost	5,040	820	606	6,466
Accumulated amortization	(1,484)	(436)	(385)	(2,305)
Book value	3,556	384	221	4,161

The additions for 2010 contain internally generated assets of EUR 219 million and EUR 70 million for product development and software, respectively (2009: EUR 188 million, EUR 76 million).

The acquisitions through business combinations in 2010 consist of the acquired intangible assets of Discus Holdings, Inc. for EUR 67 million and several other smaller acquisitions. The acquisitions through business combinations in 2009 mainly consist of the acquired intangible assets of Saeco for EUR 74 million.

The amortization of Intangible assets is specified in note 1.

Other intangible assets consist of:

	December 31, 2009		December 31, 2010	
	Gross	Accumulated Amortization	Gross	Accumulated Amortization
Brand names	939	(212)	843	(206)
Customer relationships	2,581	(534)	2,839	(762)
Technology	1,472	(712)	1,743	(948)
Other	48	(26)	61	(40)
	5,040	(1,484)	5,486	(1,956)

The estimated amortization expense for other intangible assets for each of the next five years are:

2011	471
2012	426
2013	384
2014	309
2015	293

The expected useful lives of the intangible assets excluding goodwill are as follows:

Brand names	2–20 years
Customer relationships	2–25 years
Technology	3–20 years
Other	1–8 years
Software	3 years
Development	3–5 years

The expected weighted average remaining life of other intangible assets is 9.1 years as of December 31, 2010 (2009: 11.3 years).

The Group assessed the useful life of intangible assets with indefinite lives and reviewed the amortization period for intangible assets with definite lives. This assessment resulted in the following changes in amortization expense, mainly recognized in cost of sales, for 2010 and future years:

In Thousands of Euros	2010	2011	2012	2013	2014	Later
Increase in amortization expense	16	15	15	15	15	196

The unamortized costs of computer software to be sold, leased or otherwise marketed amounted to EUR 82 million (2009: EUR 95 million). The amounts charged to the Consolidated statements of income for amortization or impairment of these capitalized computer software costs amounted to EUR 25 million (2009: EUR 38 million).

Depreciation and Depletion

3.142

BP plc (Dec 2010)

GROUP INCOME STATEMENT (in part)

For the Year Ended 31 December	Note	$ Million 2010	2009	2008
Sales and other operating revenues	7	297,107	239,272	361,143
Earnings from jointly controlled entities—after interest and tax		1,175	1,286	3,023
Earnings from associates—after interest and tax		3,582	2,615	798
Interest and other income	8	681	792	736
Gains on sale of businesses and fixed assets	5	6,383	2,173	1,353
Total revenues and other income		308,928	246,138	367,053
Purchases		216,211	163,772	266,982
Production and manufacturing expenses[(a)]		64,615	23,202	26,756
Production and similar taxes	9	5,244	3,752	8,953
Depreciation, depletion and amortization	10	11,164	12,106	10,985
Impairment and losses on sale of businesses and fixed assets	5	1,689	2,333	1,733
Exploration expense	16	843	1,116	882
Distribution and administration expenses	12	12,555	14,038	15,412
Fair value (gain) loss on embedded derivatives	34	309	(607)	111
Profit (loss) before interest and taxation		(3,702)	26,426	35,239

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Significant Accounting Policies (in part)

Oil and Natural Gas Exploration, Appraisal and Development Expenditure

Oil and natural gas exploration, appraisal and development expenditure is accounted for using the principles of the successful efforts method of accounting.

Licence and Property Acquisition Costs

Exploration licence and leasehold property acquisition costs are capitalized within intangible assets and are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned or that it has been determined, or work is under way to determine, that the discovery is economically viable based on a range of technical and commercial considerations and sufficient progress is being made on establishing development plans and timing. If no future activity is planned, the remaining balance of the licence and property acquisition costs is written off. Lower value licences are pooled and amortized on a straight-line basis over the estimated period of exploration. Upon recognition of proved reserves and internal approval for development, the relevant expenditure is transferred to property, plant and equipment.

Exploration and Appraisal Expenditure

Geological and geophysical exploration costs are charged against income as incurred. Costs directly associated with an exploration well are initially capitalized as an intangible asset until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs and payments made to contractors. If potentially commercial quantities of hydrocarbons are not found, the exploration well is written off as a dry hole. If hydrocarbons are found and, subject to further appraisal activity, are likely to be capable of commercial development, the costs continue to be carried as an asset.

Costs directly associated with appraisal activity, undertaken to determine the size, characteristics and commercial potential of a reservoir following the initial discovery of hydrocarbons, including the costs of appraisal wells where hydrocarbons were not found, are initially capitalized as an intangible asset.

All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off. When proved reserves of oil and natural gas are determined and development is approved by management, the relevant expenditure is transferred to property, plant and equipment.

Development Expenditure

Expenditure on the construction, installation and completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including service and unsuccessful development or delineation wells, is capitalized within property, plant and equipment and is depreciated from the commencement of production as described below in the accounting policy for property, plant and equipment.

Property, Plant and Equipment

Property, plant and equipment is stated at cost, less accumulated depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of any decommissioning obligation, if any, and, for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalized value of a finance lease is also included within property, plant and equipment. Exchanges of assets are measured at fair value unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. Where fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. The gain or loss on derecognition of the asset given up is recognized in profit or loss.

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset that was separately depreciated is replaced and it is probable that future economic benefits associated with the item will flow to the group, the expenditure is capitalized and the carrying amount of the replaced asset is derecognized. Inspection costs associated with major maintenance programmes are capitalized and amortized over the period to the next inspection. Overhaul costs for major maintenance programmes, and all other maintenance costs are expensed as incurred.

Oil and natural gas properties, including related pipelines, are depreciated using a unit-of-production method. The cost of producing wells is amortized over proved developed reserves. Licence acquisition, common facilities and future decommissioning costs are amortized over total proved reserves. The unit-of-production rate for the amortization of common facilities costs takes into account expenditures incurred to date, together with the future capital expenditure expected to be incurred in relation to these common facilities and excluding future drilling costs.

Other property, plant and equipment is depreciated on a straight line basis over its expected useful life. The useful lives of the group's other property, plant and equipment are as follows:

Land improvements	15 to 25 years
Buildings	20 to 50 years
Refineries	20 to 30 years
Petrochemicals	20 to 30 years
Pipelines	10 to 50 years
Service stations	15 years
Office equipment	3 to 7 years
Fixtures and fittings	5 to 15 years

The expected useful lives of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

The carrying value of property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period in which the item is derecognized.

10. Depreciation, Depletion and Amortization

	$ Million		
By Business	**2010**	**2009**	**2008**
Exploration and Production			
US	3,751	4,150	3,012
Non-US	4,865	5,407	5,428
	8,616	9,557	8,440
Refining and Marketing			
US	955	919	825
Non-US[(a)]	1,303	1,317	1,383
	2,258	2,236	2,208
Other Businesses and Corporate			
US	140	136	132
Non-US	150	177	205
	290	313	337
By Geographical Area			
US	4,846	5,205	3,969
Non-US[(a)]	6,318	6,901	7,016
	11,164	12,106	10,985

[(a)] Non-US area includes the UK-based international activities of Refining and Marketing.

22. Property, Plant and Equipment

	$ Million							
	Land and Land Improvements	**Buildings**	**Oil and Gas Properties**	**Plant, Machinery and Equipment**	**Fixtures, Fittings and Office Equipment**	**Transportation**	**Oil Depots, Storage Tanks and Service Stations**	**Total**
Cost								
At 1 January 2010	3,786	2,918	157,197	41,599	3,022	12,441	10,295	231,258
Exchange adjustments	(85)	(68)	3	35	(41)	28	(72)	(200)
Additions	39	96	11,980	3,354	279	152	610	16,510
Acquisitions	2	3	1,931	41	5	15	—	1,997
Transfers	—	—	2,633	—	—	—	—	2,633
Reclassified as assets held for sale	(6)	(10)	(6,610)	(1,083)	(87)	(212)	—	(8,008)
Deletions	(176)	(104)	(6,950)	(1,119)	(213)	(208)	(1,181)	(9,951)
At 31 December 2010	3,560	2,835	160,184	42,827	2,965	12,216	9,652	234,239
Depreciation								
At 1 January 2010	571	1,389	86,975	18,903	1,893	7,852	5,400	122,983
Exchange adjustments	1	(46)	—	(19)	(25)	16	(13)	(86)
Charge for the year	34	82	8,024	1,492	291	268	606	10,797
Impairment losses	57	5	918	117	1	—	21	1,119
Reclassified as assets held for sale	—	(8)	(4,342)	(514)	(76)	(97)	—	(5,037)
Deletions	(91)	(38)	(3,528)	(796)	(208)	(99)	(940)	(5,700)
At 31 December 2010	572	1,384	88,047	19,183	1,876	7,940	5,074	124,076
Net book amount at 31 December 2010	2,988	1,451	72,137	23,644	1,089	4,276	4,578	110,163

(continued)

	$ Million							
	Land and Land Improvements	Buildings	Oil and Gas Properties	Plant, Machinery and Equipment	Fixtures, Fittings and Office Equipment	Transpor-tation	Oil Depots, Storage Tanks and Service Stations	Total
Cost								
At 1 January 2009	3,964	2,742	146,813	37,905	3,045	12,295	10,345	217,109
Exchange adjustments	148	85	2	877	83	66	546	1,807
Additions	59	313	11,928	3,743	145	115	739	17,042
Transfers	—	—	745	—	—	—	—	745
Deletions	(385)	(222)	(2,291)	(926)	(251)	(35)	(1,335)	(5,445)
At 31 December 2009	3,786	2,918	157,197	41,599	3,022	12,441	10,295	231,258
Depreciation								
At 1 January 2009	598	1,313	79,955	17,298	1,696	7,542	5,507	113,909
Exchange adjustments	19	38	—	446	54	30	272	859
Charge for the year	31	102	8,951	1,372	302	289	618	11,665
Impairment losses	88	53	10	185	10	8	52	406
Deletions	(165)	(117)	(1,941)	(398)	(169)	(17)	(1,049)	(3,856)
At 31 December 2009	571	1,389	86,975	18,903	1,893	7,852	5,400	122,983
Net book amount at 31 December 2009	3,215	1,529	70,222	22,696	1,129	4,589	4,895	108,275
Net book amount at 1 January 2009	3,366	1,429	66,858	20,607	1,349	4,753	4,838	103,200

Assets Held Under Finance Leases at Net Book Amount Included Above								
At 31 December 2010	—	14	236	386	—	7	18	661
At 31 December 2009	—	14	225	110	—	7	19	375

Decommissioning Asset at Net Book Amount Included Above	Cost	Depreciation	Net
At 31 December 2010	9,237	4,585	4,652
At 31 December 2009	7,968	4,129	3,839

Assets Under Construction Included Above	
At 31 December 2010	23,055
At 31 December 2009	19,120

IAS 19, *EMPLOYEE BENEFITS*

IFRS Overview and Comparison to U.S. GAAP

Author's Note

On 16 June 2011, the IASB issued a revised IAS 19, Employee Benefits, which is effective for annual reporting periods beginning on or after 1 January 2013, with early application permitted. See the author's note preceding paragraph 2.308 in section 2 for a discussion of the amendments to this standard.

3.143 *Employee benefits* are all forms of consideration given by an entity for services rendered by its employees. IAS 19 establishes the requirement of accounting for four general categories of employee benefits within its scope: short term (for example, wages and compensating absences); postemployment (for example, pensions); other long term (for example, long-term disability); and termination benefits (for example, severance pay). An entity should account for all employee benefits, except those to which IFRS 2, *Share-based Payment*, applies, in accordance with IAS 19.

Author's Note

See section 2, beginning with paragraph 2.308, for a more comprehensive discussion of recognition, measurement, presentation, and disclosure requirements set forth in IAS 19. This subsection only provides a brief overview of the effects of IAS 19 on the statement of comprehensive income.

Recognition and Measurement

IFRSs

3.144 For most employee benefits, IAS 19 requires an entity to recognize both a liability and related expense in profit or loss when it is probable that settlement of the obligation will

result in an outflow of economic benefits and the cost can be estimated reliably, except to the extent that the cost may be included in the cost of an asset.

3.145 An entity should recognize termination benefits as a liability and expense when the entity is demonstrably committed to terminate employment before normal retirement or provide such benefits due to an offer encouraging voluntary termination.

3.146 With respect to postemployment benefits, IAS 19 requires an entity to recognize the net total of the following amounts as an expense in profit or loss, except as otherwise required or permitted to be included in the cost of an asset:

- Service cost
- Interest cost
- Expected return on plan assets and any reimbursement rights
- Actuarial gains or losses, if any (see the following paragraph)
- Past service cost
- Effect of any curtailments or settlements
- Effect of the limit on recognition of a defined benefit asset, unless recognized in other comprehensive income

3.147 For defined benefit plans, IAS 19 provides an entity with alternatives for recognizing the effects of actuarial gains and losses. An entity can recognize only a portion of actuarial gains and losses in profit or loss using the corridor method. An entity should apply the corridor method to each defined benefit plan separately. An entity using the corridor method should determine the amount, if any, of unrecognized actuarial gains or losses to be recognized in profit or loss as follows:

a. Determine the amount by which the net cumulative unrecognized actuarial gains and losses exceed the greater of 10 percent of the present value of the defined benefit obligation and 10 percent of the fair value of the plan assets. (If this amount is zero or negative, no expense is recognized.)
b. Divide the excess, if any, by the expected average remaining working lives of plan participants and recognize this amount as an expense. (If there is no excess, no expense is recognized.)

Alternatively, IAS 19 states that an entity may use a systematic method that recognizes actuarial gains or losses more quickly, as long as the method treats gains and losses the same and is applied consistently from period to period. If the entity chooses to recognize all actuarial gains and losses on all its defined benefit plans in the period in which they occur, it can recognize them in other comprehensive income, rather than profit or loss.

U.S. GAAP

3.148 Like IFRSs, U.S. GAAP requires an entity to recognize obligations and corresponding expenses when settlement of the obligation is probable and the amount can be measured reasonably. FASB ASC 710, *Compensation—General* addresses general employee compensation (such as salaries, wages, and compensating absences); deferred compensation; and lump sum payments under union contracts. FASB ASC 712, *Compensation—Nonretirement Postemployment Benefits*, FASB ASC 715, *Compensation—Retirement Benefits,* and FASB ASC 718, *Compensation—Stock Compensation,* address postemployment nonretirement benefits; pensions and other retirement benefits; and stock compensation respectively.

3.149 With respect to defined benefit postemployment benefit plans, FASB ASC 715 requires an entity to recognize essentially the same components on the income statement as IAS 19, except that FASB ASC 220-10-55-2(h)–(j) requires an entity to report in other comprehensive income the following items associated with pensions and other postretirement benefits:

- Gains and losses and transition assets or obligations to the extent these items are not recognized immediately as a component of net periodic pension cost, and
- Prior service costs or credits.

Presentation

3.150 Neither IAS 19 nor FASB ASC requires an entity to present employee benefits as a separate line item(s) in the statement of comprehensive income. An entity may disaggregate information either on the statement or in the notes. However, it is common in practice for actuarial gains and losses to be shown as a separate line item in other comprehensive income.

Disclosure

IFRSs

3.151 IAS 19 requires an entity to disclose amounts recognized in the statement of comprehensive income. For the expense recognized in profit or loss, an entity should disclose the components of the expense (for example, service cost and interest cost). For the amount recognized in other comprehensive income, an entity should separately disclose actuarial gains and losses and the effect of the asset ceiling. When the entity has opted to report all actuarial gains and losses of the period directly in other comprehensive income, the entity should disclose the cumulative amount recognized.

U.S. GAAP

3.152 FASB ASC 715 requires similar disclosures for items reported on the income statement and in other comprehensive income.

Presentation and Disclosure Excerpts

Author's Note

When using the two-statement format for the Statement of Comprehensive Income, several survey companies use the title "Statement of Recognized Income and Expense" as the title for the statement that includes the information recognized in other comprehensive income.

Short-Term Benefits

3.153

Reckitt Benckiser Group plc (Dec 2010)

GROUP INCOME STATEMENT (in part)

For the Year Ended 31 December	Notes	2010 £m	2009 £m
Net revenues	2	8,453	7,753
Cost of sales	3	(3,332)	(3,089)
Gross profit		5,121	4,664
Net operating expenses	3	(2,991)	(2,773)
Operating profit	2	2,130	1,891
Operating profit before exceptional items		2,231	1,891
Exceptional items	3	(101)	—
Operating profit		2,130	1,891

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

5. Employees (in part)

(a) Staff Costs

The total employment costs, including Directors, were

	2010 £m	2009 £m
Wages and salaries	815	749
Social security costs	145	141
Net pension costs	56	52
Share based payments	62	59
	1,078	1,001

Details of Directors' emoluments are included in the Directors' Remuneration Report on pages 22 to 28, which forms part of the financial statements.

Compensation awarded to key management (the Executive Committee):

	2010 £m	2009 £m
Salaries and short-term employee benefits	12	14
Post-employment benefits	1	1
Share based payments	21	23
	34	38

There were no other long-term benefits (2009: £nil) or termination benefits (2009: £nil) paid to key management in 2010.

(b) Staff Numbers

The average number of people employed by the Group, including Directors, during the year was:

	2010 000s	2009 000s
Europe(*)	12.3	11.7
North America and Australia	3.7	3.6
Developing Markets	10.8	9.2
RBP	0.4	0.4
	27.2	24.9

(*) Included in Europe are 2,700 (2009: 2,500) UK employees.

Postemployment Benefits—Actuarial Gains and Losses Recognized Immediately in Equity, Effect of the Asset Ceiling, Special Contributions

3.154

Thomson Reuters Corporation (Dec 2010)

CONSOLIDATED INCOME STATEMENT (in part)

		Year Ended December 31	
(Millions of U.S. Dollars, Except per Share Amounts)	Notes	2010	2009
Revenues		13,070	12,997
Operating expenses	5	(10,061)	(9,875)
Depreciation		(457)	(509)
Amortization of computer software		(572)	(548)
Amortization of other identifiable intangible assets		(545)	(499)
Other operating (losses) gains, net	6	(16)	9
Operating profit		1,419	1,575

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (in part)

		Year Ended December 31	
(Millions of U.S. Dollars)	Notes	2010	2009
Net earnings		933	867
Other comprehensive (loss) income:			
Net gain on cash flow hedges		113	296
Net (gain) on cash flow hedges transferred to earnings	19	(123)	(350)
Foreign currency translation adjustments to equity		9	678
Foreign currency translation adjustments to earnings		(8)	173
Net actuarial losses on defined benefit pension plans, net of tax(1)	26	(108)	(4)
Other comprehensive (loss) income		(117)	793
Total comprehensive income		816	1,660

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

(Unless otherwise stated, all amounts are in millions of U.S. dollars)

Note 1: Summary of Business and Significant Accounting Policies (in part)

Employee Future Benefits

For defined benefit pension plans and other post-employment benefits, the net periodic pension expense is actuarially determined on an annual basis by independent actuaries using the projected unit credit method. The determination of benefit expense requires assumptions such as the expected return on assets available to fund pension obligations, the discount rate to measure obligations, expected mortality, the expected rate of future compensation and the expected healthcare cost trend rate. For the purpose of calculating the expected return on plan assets, the assets are valued at fair value. Actual results will differ from results which are estimated based on assumptions. The vested portion of past service cost arising from plan amendments is recognized immediately in the income statement. The unvested portion is amortized on a straight-line basis over the average remaining period until the benefits become vested.

The asset or liability recognized in the statement of financial position is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past service costs. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. All actuarial gains and losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are recognized immediately in retained earnings and included in the statement of comprehensive income. For funded plans, surpluses are recognized only to the extent that the surplus is considered recoverable. Recoverability is primarily based on the extent to which the Company can unilaterally reduce future contributions to the plan.

Payments to defined contribution plans are expensed as incurred, which is as the related employee service is rendered.

Note 26: Employee Benefit Plans

Retirement Benefits

The Company sponsors both defined benefit and defined contribution employee future benefit plans covering substantially all employees. Costs for all future employee benefits are accrued over the periods in which employees earn the benefits. Defined benefit plans provide pension and other post-employment benefits ("OPEB") to covered employees. Significant plans are valued under IAS 19, *Employee Benefits*, by independently qualified actuaries using the projected unit credit method. The largest defined benefit plans are Thomson Reuters Group Pension Plan and the Reuters Pension Fund.

Net Defined Benefit Plan Obligations

The movement on net defined benefit plan obligations was as follows:

	Pension Plans[1]		OPEB[1]		Total[1]	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
As of January 1	(590)	(588)	(179)	(174)	(769)	(762)
Plan expense recognized in income statement	(71)	(78)	(15)	(13)	(86)	(91)
Actuarial losses	(155)	(7)	(11)	(4)	(166)	(11)
Exchange differences	(16)	3	—	1	(16)	4
Contributions paid	76	75	11	11	87	86
Other	(26)	5	(2)	—	(28)	5
Net plan obligations as of December 31	(782)	(590)	(196)	(179)	(978)	(769)
Net plan surpluses recognized in non-current assets	—	—	—	—	48	64
Net plan obligations recognized in non-current liabilities	—	—	—	—	(1,026)	(833)

[1] Includes amounts for immaterial defined benefit and OPEB plans that are not included in the detailed analysis below.

Analysis of Material Defined Benefit Plans

The net defined benefit surpluses (obligations) of the material defined benefit plans recognized in the statement of financial position were as follows:

	Funded		Unfunded[1]		OPEB		Total	
As of December 31	2010	2009	2010	2009	2010	2009	2010	2009
Present value of plan obligations	(4,883)	(4,436)	(281)	(263)	(186)	(172)	(5,350)	(4,871)
Fair value of plan assets	4,586	4,261	—	—	—	—	4,586	4,261
	(297)	(175)	(281)	(263)	(186)	(172)	(764)	(610)
Unrecognized plan assets[2]	(172)	(127)	—	—	—	—	(172)	(127)
Net plan obligations	(469)	(302)	(281)	(263)	(186)	(172)	(936)	(737)
Net plan surpluses	48	64	—	—	—	—	48	64
Net plan obligations	(517)	(366)	(281)	(263)	(186)	(172)	(984)	(801)

(1) The unfunded pension plans referred to above consist primarily of supplemental executive retirement plans (“SERPs”) for eligible employees.
(2) Unrecognized plan assets represent the plan surpluses deemed not recoverable as the Company cannot unilaterally reduce future contributions in order to utilize the surplus. These amounts are not included in the statement of financial position.

The following summarizes the activity in material defined benefit pension and OPEB plans:

	Funded		Unfunded		OPEB		Total	
Present Value of Defined Benefit Obligation	2010	2009	2010	2009	2010	2009	2010	2009
Opening defined benefit obligation	(4,436)	(3,922)	(263)	(253)	(172)	(166)	(4,871)	(4,341)
Current service cost	(80)	(75)	(4)	(5)	(2)	(2)	(86)	(82)
Interest cost	(247)	(234)	(15)	(15)	(10)	(10)	(272)	(259)
Actuarial losses	(357)	(113)	(13)	(3)	(11)	(4)	(381)	(120)
Contributions by employees	(8)	(9)	—	—	—	—	(8)	(9)
Benefits paid	164	155	15	15	10	11	189	181
Exchange differences	104	(237)	1	(7)	(1)	(1)	104	(245)
Other	(23)	(1)	(2)	5	—	—	(25)	4
Closing defined benefit obligation	(4,883)	(4,436)	(281)	(263)	(186)	(172)	(5,350)	(4,871)

	Funded		Unfunded		OPEB		Total	
Fair Value of Plan Assets	2010	2009	2010	2009	2010	2009	2010	2009
Opening fair value of plan assets	4,261	3,698	—	—	—	—	4,261	3,698
Expected return[1]	279	257	—	—	—	—	279	257
Actuarial gains[1]	271	135	—	—	—	—	271	135
Contributions by employer	59	57	15	15	10	11	84	83
Contributions by employees	8	9	—	—	—	—	8	9
Benefits paid	(164)	(155)	(15)	(15)	(10)	(11)	(189)	(181)
Exchange differences	(127)	260	—	—	—	—	(127)	260
Other	(1)	—	—	—	—	—	(1)	—
Closing fair value of plan assets	4,586	4,261	—	—	—	—	4,586	4,261

(1) Actuarial gains and losses include the difference between the expected and actual return on plan assets. The expected return on assets represents the projected increase in the fair value of plan assets due to investment returns. The actual return on plan assets for the year ended December 31, 2010 was a gain of $550 million (2009: gain of $392 million).

The weighted average duration of the plan obligations were 17 years (2009: 17) and 22 years (2009: 20) for the Thomson Reuters Group Pension Plan and the Reuters Pension Fund, respectively.

For funded plans, the major categories of plan assets as a percentage of total plan assets were as follows:

	As of December 31	
	2010	2009
Equity	40%	42%
Bonds	54%	53%
Property	3%	3%
Other	3%	2%
Total	100%	100%

Plan assets are invested to satisfy the fiduciary obligation to adequately secure benefits and to minimize the Company's long-term contributions to the plans. As of December 31, 2010 and 2009, there were no Thomson Reuters securities held in the Company's pension plans' assets.

The following summarizes the history of plan obligations, plan assets and experience adjustments:

As of	2010				2009				2008			
December 31	Funded	Unfunded	OPEB	Total	Funded	Unfunded	OPEB	Total	Funded	Unfunded	OPEB	Total
Present value of plan obligations	(4,883)	(281)	(186)	(5,350)	(4,436)	(263)	(172)	(4,871)	(3,922)	(253)	(166)	(4,341)
Fair value of plan assets	4,586	—	—	4,586	4,261	—	—	4,261	3,698	—	—	3,698
Deficit	(297)	(281)	(186)	(764)	(175)	(263)	(172)	(610)	(224)	(253)	(166)	(643)

Year Ended	2010				2009				2008			
December 31	Funded	Unfunded	OPEB	Total	Funded	Unfunded	OPEB	Total	Funded	Unfunded	OPEB	Total
Experience gains (losses) on plan obligations	(22)	1	—	(21)	(2)	5	4	7	(50)	3	10	(37)
Experience gains (losses) on plan assets	271	—	—	271	135	—	—	135	(578)	—	—	(578)

Contributions

In 2010, the Company made special contributions of $12 million (2009: $7 million) to the Reuters Supplementary Pension Plan ("SPS") following discussion with plan Trustees. In 2009, the Company also made special contributions of $4 million to the Reuters Pension Fund. In 2011, the Company expects to contribute approximately $77 million to all its plans in accordance with normal funding policy, of which $50 million relates to the normal funding policy of funded plans, and the remainder relates to claims arising under unfunded plans. Additionally, the Company does not anticipate having to make material special contributions to its pension plans in 2011. From time to time, the Company may elect to make voluntary contributions in order to improve the funded status of the plans. Relative to certain plans, the Trustees have the right to call for special valuations, which could result in an unexpected contribution. No such valuation has been called for as of this date. Because of the ability of the trustees to call for interim valuations for certain plans, as well as market driven changes that the Company cannot predict, the Company could be required to make contributions in the future that differ significantly from its estimates.

Actuarial Assumptions

The weighted average actuarial assumptions were as follows:

	Funded		Unfunded		OPEB	
As of December 31	2010	2009	2010	2009	2010	2009
Discount rate	5.32%	5.72%	5.41%	5.94%	5.05%	5.65%
Inflation assumption	3.33%	3.03%	2.73%	2.73%	—	—
Rate of increase in salaries	3.91%	3.86%	3.60%	4.78%	3.50%	3.50%
Rate of increase in pensions in payment	3.25%	3.17%	3.40%	3.30%	—	—
Medical cost trend	—	—	—	—	7.53%	8.01%
Expected rate of return on assets	6.82%	6.81%	—	—	—	—

Discount Rate

The discount rate was selected based on a review of current market interest rates of high-quality, fixed-rate debt securities adjusted to reflect the duration of expected future cash outflows for pension benefit payments. Because the Company has a relatively young workforce, the expected future cash outflows for its plans tend to be of longer duration than the bond indices reviewed. Therefore, the discount rate used for the Company's plans tends to be higher than these benchmark rates. To estimate the discount rate, the Company's actuary constructed a hypothetical yield curve that represented yields on high quality zero-coupon bonds with durations that mirrored the expected payment stream of the benefit obligation. For the Thomson Reuters Group Pension Plan and Reuters Pension Fund, a 0.25% increase or decrease in the discount rate would have decreased or increased the defined benefit obligation by approximately $155 million as of December 31, 2010.

Expected Rate of Return on Assets

The Company must make assumptions about the expected long-term rate of return on plan assets, but there is no assurance that a plan will be able to earn the assumed rate of return. In determining the long-term rate of return assumption, the Company considers historical returns, input from investment advisors and its actuary's simulation model of expected long-term rates of return assuming the Company's targeted investment portfolio mix. For the Thomson Reuters Group Pension Plan and Reuters Pension Fund, a 0.25% increase or decrease in the expected rate of return on assets would decrease or increase pension expense by approximately $8 million in 2011.

Medical Cost Trend

The medical cost trend is based on the Company's actuarial medical claims experience and future projections of medical costs. The average medical cost trend rate used was 7.5% for 2010, which is reduced ratably to 5% in 2016. A 1% increase or decrease in the trend rate would have resulted in an increase or decrease in the benefit obligation for post-retirement benefits of approximately $17 million at December 31, 2010 and an increase or decrease in the service and interest costs of approximately $1 million in 2010.

Mortality Assumptions

The mortality assumptions used to assess the defined benefit obligation for the Thomson Reuters Group Pension Plan and the Reuters Pension Fund as of December 31, 2010 are based on the UP94 Generational Table and the 00 Series Tables issued by the Continuous Mortality Investigation Bureau with allowance for projected longevity improvements and adjustment for the medium cohort effect, respectively.

The following table illustrates the life expectation in years of an average plan participant retiring at age 65 as of December 31, 2010 and 2009 and a plan participant at age 40 as of December 31, 2010 and 2009 retiring 25 years later at age 65 under the mortality assumptions used.

	Life Expectation in Years	
December 31, 2010	Male	Female
Employee retiring as of December 31, 2010 at age 65	21	23
Employee age 40 as of December 31, 2010 retiring at age 65	22	24

	Life Expectation in Years	
December 31, 2009	Male	Female
Employee retiring as of December 31, 2009 at age 65	21	23
Employee age 40 as of December 31, 2009 retiring at age 65	22	23

For the Thomson Reuters Group Pension Plan and the Reuters Pension Fund, an increase in life expectancy of one year across all age groups would result in a $65 million increase in the defined benefit obligation as of December 31, 2010.

Analysis of Income and Expense

The following summarizes income and expense activity for material defined benefit plans:

Income Statement	**Funded**		**Unfunded**		**OPEB**		**Total**	
Year Ended December 31	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Current service cost	80	75	4	5	2	2	86	82
Interest cost	247	234	15	15	10	10	272	259
Expected gain on plan assets	(279)	(257)	—	—	—	—	(279)	(257)
Defined benefit plan expense	48	52	19	20	12	12	79	84

Statement of Comprehensive Income	**Funded**		**Unfunded**		**OPEB**		**Total**	
Year Ended December 31	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Actuarial losses (gains)	86	(22)	13	3	11	4	110	(15)
Effect of asset ceiling	52	25	—	—	—	—	52	25
Total recognized in other comprehensive income before taxation	138	3	13	3	11	4	162	10

	Funded		**Unfunded**		**OPEB**		**Total**	
Accumulated Comprehensive Income	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Balance of actuarial losses (gains) at January 1	542	564	1	(2)	(13)	(17)	530	545
Net actuarial losses (gains) recognized in the year	86	(22)	13	3	11	4	110	(15)
Balance of actuarial losses (gains) at December 31	628	542	14	1	(2)	(13)	640	530
Balance of asset ceiling at January 1	46	21	—	—	—	—	46	21
Effects of the asset ceiling in the year	52	25	—	—	—	—	52	25
Balance of asset ceiling at December 31	98	46	—	—	—	—	98	46
Total accumulated comprehensive income at December 31	726	588	14	1	(2)	(13)	738	576

Defined Contribution Plans

The Company sponsors various defined contribution savings plans that provide for company-matching contributions. Total expense related to defined contribution plans was $132 million in 2010 (2009: $128 million), which approximates the cash outlays related to the plans.

Postemployment Benefits—Change in Accounting Policy for Actuarial Gains and Losses, Termination Benefits

3.155

Luxottica Group S.p.A. (Dec 2010)

CONSOLIDATED STATEMENTS OF INCOME (in part)

For the years ended December 31, 2010, 2009 and 2008(*)

(Amounts in Thousands of Euro Except Share Data)	Note Reference	2010	2009	2008
Net sales	4	5,798,035	5,094,318	5,201,611
Cost of sales		(1,990,205)	(1,762,591)	(1,748,628)
Gross profit		3,807,831	3,331,727	3,452,983
Selling and Advertising		(2,367,979)	(2,104,362)	(2,144,989)
General and administrative		(727,693)	(656,280)	(576,355)
Total operating expenses		(3,095,672)	(2,760,642)	(2,721,344)
Income from operations		712,159	571,085	731,639

(*) In accordance with IFRS.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (in part)

For the years ended December 31, 2010, 2009 and 2008(*)

(Amounts in Thousands of Euro)	2010	2009	2008
Net income	407,258	304,896	397,872
Other comprehensive income:			
Cash flow hedge—net of tax	(3,223)	10,429	(41,287)
Currency translation differences	233,518	24,827	(63,900)
Actuarial gain/(loss) on defined benefit plans—net of tax	(8,744)	14,951	(50,208)
Total other comprehensive income—net of tax	221,552	50,207	(155,395)
Total comprehensive income for the period	628,810	355,103	242,477

(*) In accordance with IFRS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Consolidation Principles, Consolidation Area and Significant Accounting Policies (in part)

Employee Benefits

The Group has both defined benefit and defined contribution plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive upon retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation.

Actuarial gains and losses due to changes in actuarial assumptions or to changes in the plan's conditions are recognized as incurred in the consolidated statement of comprehensive income.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expenses when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

Use of Estimates (in part)

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions which influence the value of assets and liabilities as well as revenues and costs reported in the consolidated statement of financial position and in the consolidated statement of income, respectively, or the disclosures included in the notes to the consolidated financial statements, in relation to potential assets and liabilities existing as of the date the consolidated financial statements were authorized for issue.

Estimates are based on historical experience and other factors. The resulting accounting estimates could differ from the related actual results. Estimates are periodically reviewed and the effects of each change are reflected in the consolidated statement of income in the period in which the change occurs.

The current economic and financial crisis has resulted in the need to make assumptions on future trends that are characterized by a significant degree of uncertainty and, therefore, the actual results in future years may significantly differ from the estimate.

The most significant accounting principles which require a higher degree of judgment from management are illustrated below.

f) Benefit plans. The Group participates in benefit plans in various countries. The present value of pension liabilities is determined using actuarial techniques and certain assumptions. These assumptions include the discount rate, the expected return on plan assets, the rates of future compensation increases and rates relative to mortality and resignations. Any change in the abovementioned assumptions could result in significant effects on the employee benefit liabilities.

2. New Accounting Principles (in part)

Changes to Previously Applied Accounting Principles

During 2009, the Group changed the accounting principle on to the recognition of actuarial gains and losses on defined benefit plans. Actuarial gains and losses comprise (i) the effects of differences between the previous actuarial assumptions and what has actually occurred and (ii), the effect of changes in actuarial assumptions. Up to December 31, 2008, actuarial gains and losses were recognized based on the “corridor” method. Starting from January 1, 2009, the Company recognizes actuarial gains and losses in other comprehensive income, as incurred.

The above change was implemented in order to reduce volatility and improve comparability of the consolidated statements of income presented.

In accordance with IAS 8, the change in the accounting principle was applied retrospectively. The effects of the change on stockholders’ equity, deferred tax assets, termination indemnities and other long-term payables, as of January 1, 2008 and January 1, 2009, are reported below (amounts in thousands of Euro):

	January 1, 2008		
	Reported	Effect Due to Change in Accounting Principle	Restated
Retained earnings	2,604,274	(2,760)	2,601,514
Currency translation difference	(367,421)	431	(366,990)
Liability for termination indemnities	48,344	(3,034)	45,310
Other non-current liabilities	232,185	7,942	240,127
Deferred tax assets	314,026	4,831	318,857
Deferred tax liabilities	372,350	2,252	374,602

	January 1, 2009		
	Reported	Effect Due to Change in Accounting Principle	Restated
Retained earnings	2,729,519	(52,968)	2,676,551
Currency translation difference	(428,093)	(2,454)	(430,547)
Liability for termination indemnities	47,355	(1,789)	45,566
Other non-current liabilities	326,681	92,602	419,283
Deferred tax assets	355,470	35,883	391,353
Deferred tax liabilities	415,778	492	416,270

In September 2007, the IASB issued a revised IAS 1—*Presentation of Financial Statements* requiring to present, in a statement of changes in equity, all owner changes in equity. All non-owner changes in equity (i.e. comprehensive income) are required to be presented in one statement of comprehensive income or in two separate statements (an income statement and a statement of comprehensive income). Components of comprehensive income are not permitted to be presented in the statement of changes in equity. The Company has applied the revised standard retrospectively from January 1, 2009, electing to present both the income statement and the statement of comprehensive income, and has consequently amended the presentation of changes in stockholders’ equity. The provisions of the new guidance have been applied to all periods presented in the accompanying consolidated financial statements.

20. Liability for Termination Indemnities

Liabilities for termination indemnity were equal to Euro 45.4 million (Euro 44.6 million as of December 31, 2009).

This item primarily includes the liabilities related to the post-employment benefits of the Italian companies' employees (hereinafter "TFR"), accounted for in accordance with Article 2120 of the Italian Civil Code.

Effective January 1, 2007, the TFR system was reformed, and under the new law, employees are given the ability to choose where the TFR compensation is invested, whereas such compensation otherwise would be directed to the National Social Security Institute or Pension Funds. As a result, contributions under the reformed TFR system are accounted for as a defined contribution plan. The liability accrued until December 31, 2006 continues to be considered a defined benefit plan. Therefore, each year, the Group adjusts its accrual based upon headcount and inflation, excluding changes in compensation level.

The liabilities as of December 31, 2010 amounted to Euro 37.8 million (Euro 37.8 million as of December 31, 2009).

Contribution expense was Euro 16.2 million, Euro 15.0 million and Euro 14.9 million for the years 2010, 2009 and 2008, respectively.

In application of Accounting Principle IAS 19, the valuation of TFR liability accrued as of December 31, 2006 was based on the Projected Unit Credit Cost method. The main assumptions utilized are reported below:

Economic Assumptions	2010	2009
Discount rate	4.60%	5.10%
Annual TFR increase rate	3.00%	3.00%
Death probability:	Those determined by the General Accounting Department of the Italian Government, named RG48	Those determined by the General Accounting Department of the Italian Government, named RG48
Retirement probability:	Assuming the attainment of the first of the retirement requirements applicable for the Assicurazione Generale Obbligatoria (General Mandatory Insurance)	Assuming the attainment of the first of the retirement requirements applicable for the Assicurazione Generale Obbligatoria (General Mandatory Insurance)

Movements in liabilities during the course of the year are detailed in the following table:

(Amounts in Thousands of Euro)	2010	2009	2008
Liabilities at the beginning of the period	37,829	39,712	34,409
Expenses for interests	1,929	2,090	2,223
Actuarial loss (income)	1,575	(819)	1,246
Benefits paid	(3,495)	(3,154)	(4,163)
Liabilities at the end of the period	37,838	37,829	39,712

22. Other Non-Current Liabilities

(Amounts in Thousands of Euro)	As of December 31 2010	2009
Provision for risk	82,855	99,050
Other liabilities	113,077	113,517
Other financial liabilities	114,658	137,461
Total other non-current liabilities	310,590	350,028

The provision for risks primarily includes:

(1) accruals for "self-insurance" covering specific risks, amounting to Euro 26.9 million (Euro 25.2 million as of December 31, 2009);
(2) accruals for various legal disputes arising from normal business activities, totaling Euro 6.0 million (Euro 3.0 million as of December 31, 2009); and
(3) accruals for tax liabilities of Euro 37.5 million (Euro 51.3 million as of December 31, 2009). The decrease is primarily related to certain contingent tax liabilities for Euro 19.9 million originally recorded as part of the 2006 sale of our Things Remembered retail business, which either settled or expired. The release of the provision has been recorded in the discontinued operations line within the consolidated statement of income as of December 31, 2010. The entire discontinued operations relate to release of the tax reserve noted above.

Other liabilities primarily include the liabilities for U.S. pension funds.

The decrease of other financial liabilities as of December 31, 2010 as compared to December 31, 2009 was mainly due to the payment of the financial liabilities relating to the purchase of the remaining non-controlling interests in our subsidiary SGH UK Ltd., which occurred on July 30, 2010 (the financial liabilities were Euro 31.2 million at December 31, 2009).

Information regarding post-employment employee benefits is provided below.

Pension Funds

Qualified Pension Plans—US Holdings sponsors a qualified noncontributory defined benefit pension plan, the Luxottica Group Pension Plan ("Lux Pension Plan"), which provides for the payment of benefits to eligible past and present employees of US Holdings upon retirement. Pension benefits are gradually accrued based on length of service and annual compensation under a cash balance formula. Participants become vested in the Lux Pension Plan after three years of vesting service as defined by the Lux Pension Plan.

Nonqualified Pension Plans and Agreements—US Holdings also maintains a nonqualified, unfunded supplemental executive retirement plan ("Lux SERP") for participants of its qualified pension plan to provide benefits in excess of amounts permitted under the provisions of prevailing tax law. The pension liability and expense associated with this plan are accrued using the same actuarial methods and assumptions as those used for the qualified pension plan. This plan's benefit provisions mirror those of the Lux Pension Plan.

US Holdings also sponsors the Cole National Group, Inc. Supplemental Pension Plan. This plan is a nonqualified unfunded SERP for certain participants of the former Cole pension plan who were designated by the Board of Directors of Cole on the recommendation of Cole's chief executive officer at such time. This plan provides benefits in excess of amounts

permitted under the provisions of the prevailing tax law. The pension liability and expense associated with this plan are accrued using the same actuarial methods and assumptions as those used for the qualified pension plan.

The following tables provide key information pertaining to the Lux Plan and SERPs (amounts in thousands of Euro):

	Obligations and Funded Status					
	Pension Plan			SERPs		
	2010	2009	2008	2010	2009	2008
Change in benefit obligations:						
Benefit obligation—beginning of period	334,015	313,520	272,611	11,299	12,014	10,361
Service cost	18,640	18,443	17,344	367	466	552
Interest cost	21,700	19,476	17,476	627	664	718
Actuarial (gain)/loss	26,417	1,952	359	455	(1,142)	102
Settlement loss	—	—	—	81	—	—
Benefits paid	(14,152)	(9,545)	(9,142)	(23)	(367)	(289)
Settlements	—	—	—	(2,293)	—	—
Translation difference	22,696	(9,831)	14,872	827	(336)	570
Benefit obligation—end of period	409,316	334,015	313,520	11,340	11,299	12,014

	Pension Plan			SERPs		
	2010	2009	2008	2010	2009	2008
Change in plan assets:						
Fair value of plan assets—beginning of period	238,168	184,379	224,534	—	—	—
Expected return on plan assets	21,185	15,205	17,720	—	—	—
Actuarial gain/(loss) on plan assets	14,462	23,790	(73,341	—	—	—
Employer contribution	39,164	31,267	16,318	2,316	367	289
Benefits paid	(14,152)	(9,546)	(9,142)	(23)	(367)	(289)
Translation difference	15,675	(6,927)	8,290	(2,293)	—	—
Fair value of plan assets—end of period	314,501	238,168	184,379	—	—	—
Unfunded status—end of period	94,815	95,847	129,141	11,340	11,299	12,014

Amounts to be recognized in the statement of financial position and profit or loss along with actual return on assets were as follows (amounts in thousands of Euro):

	Pension Plan			SERPs		
	2010	2009	2008	2010	2009	2008
Amounts recognized in the statement of financial position:						
Liabilities:						
Present value of the obligation	409,316	334,015	313,520	11,340	11,299	12,014
Fair value of plan assets	314,501	238,168	184,379	—	—	—
Liability recognized in statement of financial position	94,815	95,847	129,141	11,340	11,299	12,014
Accumulated other comprehensive income:						
Net gain/(loss), beginning of year	(63,659)	(87,429)	(9,107)	(2,627)	(3,849)	(3,545)
Asset gain/(loss)	14,462	23,790	(73,341	—	—	—
Liability experience gain/(loss)	1,744	(1,761)	(4,380)	421	1,228	(948)
Liability assumption change gain/(loss)	(28,161)	(191)	4,020	(875)	(86)	825
Translation difference	(4,527)	1,932	(4,621)	(187)	80	(181)
Accumulated other comprehensive income, end of year	(80,141)	(63,659)	(87,429)	(3,268)	(2,627)	(3,849)
Service cost	18,640	18,443	17,344	367	466	552
Interest cost	21,700	19,476	17,476	628	663	718
Expected return on plan assets	(21,185)	(15,204)	(17,720)	—	—	—
Settlement loss	—	—	—	81	—	—
Expense recognized in profit or loss	19,156	22,715	17,100	1,076	1,129	1,270
Actual return on assets:						
Expected return on assets	21,185	15,205	17,720	—	—	—
Actuarial gain/(loss) on plan assets	14,462	23,790	(73,341)	—	—	—
Actual return on assets	35,646	38,995	(55,621)	—	—	—

During 2010, the Lux SERP plan settled a portion of its benefit obligations through lump sum cash payments to certain plan participants. As a result of this action, the projected benefit obligation was re-measured as of July 1, 2010. US Holdings recognized an actuarial loss of Euro 81 thousand in earnings at the time of re-measurement.

The following tables show the main assumptions used to determine the period benefit cost and the benefit obligation.

	Pension Plan		SERPs	
	2010	2009	2010	2009
Weighted-average assumptions used to determine benefit obligations:				
Discount rate	5.50%	6.15%	5.50%	6.15%
Rate of compensation increase	5%/3%/2%	4%/3%/1%	5%/3%/2%	4%/3%/1%
Expected long-term return on plan assets	8.00%	8.00%	N/A	N/A

	Pension Plan		
	2010	2009	2008
Weighted-average assumptions used to determine net periodic benefit cost:			
Discount rate	5.50%	6.15%	6.30%
Expected long-term return on plan assets	8.00%	8.00%	8.00%
Rate of compensation increase	5%/3%/2%	4%/3%/1%	6%/5%/4%
Mortality table	RP-2000	RP-2000	RP-2000

	SERPs		
	2010	2009	2008
Weighted-average assumptions used to determine net periodic benefit cost:			
Discount rate:			
For the year ended December 31	N/A	6.15%	6.30%
For the period prior to re-measurement	6.15%	N/A	N/A
For the period after re-measurement	5.50%	N/A	N/A
Expected long-term return on plan assets	8.00%	8.00%	8.00%
Rate of compensation increase	5%/3%/2%	4%/3%/1%	6%/5%/4%
Mortality table	RP-2000	RP-2000	RP-2000

Defined benefit plan data for the current and previous four annual periods are as follows:

(Amounts in Thousands of Euro)	2010	2009	2008	2007	2006
Pension Plans:					
Defined benefit obligation	409,316	334,015	313,520	272,611	277,468
Fair value of plan assets	314,501	238,168	184,379	224,533	224,262
Plan surplus/(deficit)	94,815	95,847	129,141	48,078	53,206
Plan liabilities experience gain/(loss)	1,744	(1,761)	(4,379)	(5,212)	(6,414)
Plan assets experience gain/(loss)	14,462	23,790	(73,341)	(2,619)	3,698
SERPs:					
Defined benefit obligation	11,340	11,299	12,015	10,361	8,512
Fair value of plan assets	—	—	—	—	—
Plan surplus/(deficit)	(11,340)	(11,299)	(12,015)	(10,361)	(8,512)
Plan liabilities experience gain/(loss)	421	1,228	(927)	2,039)	(1,799)
Plan assets experience gain/(loss)	—	—	—	—	—

The Group's discount rate is developed using a third party yield curve derived from non-callable bonds of at least an Aa rating by Moody's Investor Services or at least an AA rating by Standard & Poor's. Each bond issue is required to have at least U.S. $250 million par outstanding. The yield curve compares the future expected benefit payments of the Lux Pension Plan to these bond yields to determine an equivalent discount rate.

The Group uses an assumption for salary increases based on a graduated approach of historical experience. The Group's experience shows salary increases that typically vary by age.

In developing the long-term rate of return assumption, the Group considers its asset allocation. The Group analyzed historical rates of return being earned for each asset category over various periods of time. Additionally, the Group considered input from its third-party pension asset managers, investment consultants and plan actuaries, including their review of asset class return expectations and long-term inflation assumptions.

Plan Assets—The Lux Pension Plan's investment policy is to invest plan assets in a manner to ensure over a long-term investment horizon that the plan is adequately funded; maximize investment return within reasonable and prudent levels of risk; and maintain sufficient liquidity to make timely benefit and administrative expense payments. This investment policy was developed to provide the framework within which the fiduciary's investment decisions are made, establish standards to measure the investment manager's and investment consultant's performance, outline the roles and responsibilities of the various parties involved, and describe the ongoing review process. The investment policy identifies target asset allocations for the plan's assets at 40 percent Large Cap U.S. Equity, 10 percent Small Cap U.S. Equity, 15 percent International Equity, and 35 percent Fixed Income Securities, but an allowance is provided for a range of allocations to these categories as described in the table below.

	Asset Class as a Percent of Total Assets	
Asset Category	**Minimum**	**Maximum**
Large Cap U.S. Equity	37%	43%
Small Cap U.S. Equity	8%	12%
International Equity	13%	17%
Fixed Income Securities	32%	38%
Cash and Equivalents	—	5%

The actual allocation percentages at any given time may vary from the targeted amounts due to changes in stock and bond valuations as well as timing of contributions to, and benefit payments from, the pension plan trusts. The Lux Pension Plan's investment policy intends that any divergence from the targeted allocations should be of a short duration, but the appropriate duration of the divergence will be determined by the Investment Subcommittee of the Luxottica Group Employee Retirement Income Security Act of 1974 ("ERISA") Plans Compliance and Investment Committee with the advice of investment managers and/or investment consultants based on current market conditions. During 2010, the Committee reviewed the Lux Pension Plan's asset allocation monthly and if the allocation was not within the above ranges, the Committee re-balanced the allocations if appropriate based on current market conditions.

Plan assets are invested in diversified portfolios consisting of an array of asset classes within the above target allocations and using a combination of active and passive strategies. Passive strategies involve investment in an exchange-traded fund that closely tracks an index fund. Active strategies employ multiple investment management firms. Risk is controlled through diversification among asset classes, managers, styles, market capitalization (equity investments) and individual securities. Certain transactions and securities are prohibited from being held in the Lux Pension Plan's trusts, such as ownership of real estate other than real estate investment trusts, commodity contracts, and American Depositary Receipts ("ADR") or common stock of the Group. Risk is further controlled both at the asset class and manager level by assigning benchmarks and excess return targets. The investment managers are monitored on an ongoing basis to evaluate performance against the established market benchmarks and return targets.

Quoted market prices are used to measure the fair value of plan assets, when available. If quoted market prices are not available, the inputs utilized by the fund manager to derive net asset value are observable and no significant adjustments to net asset value are necessary.

Contributions—US Holdings expects to contribute Euro 48,104 thousand to its pension plan and Euro 421 thousand to the SERP in 2011.

Other Benefits—US Holdings provides certain post-employment medical, disability and life insurance benefits. The Group's accrued liability related to this obligation as of December 31, 2010 and 2009 was Euro 1,880 thousand and Euro 1,360 thousand, respectively, and is included in other long-term liabilities in the consolidated statement of financial position.

US Holdings sponsors the following additional benefit plans, which cover certain present and past employees of some of its U.S. subsidiaries:

(a) US Holdings provides, under individual agreements, post-employment benefits for continuation of health care benefits and life insurance coverage to former employees after employment. As of December 31, 2010 and 2009, the accrued liability related to these benefits was Euro 582 thousand and Euro 627 thousand, respectively, and is included in other long-term liabilities in the consolidated statement of financial position.

(b) US Holdings established and maintains the Cole National Group, Inc. Supplemental Retirement Benefit Plan, which provides supplemental retirement benefits for certain highly compensated and management employees who were previously designated by the former Board of Directors of Cole as participants. This is an unfunded noncontributory defined contribution plan. Each participant's account is credited with interest earned on the average balance during the year. This plan was frozen as to future salary credits on the effective date of the Cole acquisition in 2004. The plan liability of Euro 848 thousand and Euro 869 thousand at December 31, 2010 and 2009, respectively, is included in other long-term liabilities in the consolidated statement of financial position.

The Group continues to participate in superannuation plans in Australia and Hong Kong. The plans provide benefits on a defined contribution basis for employees upon retirement, resignation, disablement or death. Contributions to defined contribution superannuation plans are recognized as an expense as the contributions are paid or become payable to the fund. Contributions are accrued based on legislated rates and annual compensation. The Group's accrued liability related to this obligation as of December 31, 2010 and 2009 was Euro 3,642 thousand and Euro 3,045 thousand, respectively, and is included in other long-term liabilities in the consolidated statement of financial position.

Health Benefit Plans—US Holdings partially subsidizes health care benefits for eligible retirees. Employees generally become eligible for retiree health care benefits when they retire from active service between the ages of 55 and 65. Benefits are discontinued at age 65. During 2009, US Holdings

provided for a one-time special election of early retirement to certain associates age 50 or older with 5 or more years of service. Benefits for this group are also discontinued at age 65 and the resulting special termination benefit is immaterial.

The plan liability of Euro 3,277 thousand and Euro 3,482 thousand at December 31, 2010 and 2009, respectively, is included in other long-term liabilities on the consolidated statement of financial position.

The cost of this plan in 2010 and 2009 as well as the 2011 expected contributions are immaterial.

For 2011, a 9.5 percent (10.0 percent for 2010) increase in the cost of covered health care benefits was assumed. This rate was assumed to decrease gradually to 5 percent for 2020 and remain at that level thereafter. The health care cost trend rate assumption could have a significant effect on the amounts reported. A 1.0 percent increase or decrease in the health care trend rate would not have a material impact on the consolidated financial statements. The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 5.5 percent at December 31, 2010 and 6.15 percent at December 31, 2009.

The weighted-average discount rate used in determining the net periodic benefit cost for 2010, 2009 and 2008 was 6.15 percent, 6.3 percent and 6.5 percent, respectively.

Demographic (including mortality) assumptions are determined in the light of local conditions. Mortality assumptions are reviewed annually to reflect the latest available standard mortality tables for individual countries concerned, adjusted where appropriate to reflect the experience of Shell.

The long-term assumptions for pensionable salary increases, used to determine benefit obligations at December 31, 2010, remained at similar levels to those used at December 31, 2009 (2009: 0.75% increase for UK plans and 0.25% increase for US plans).

The assumptions for discount rates reflected decreases of AA rated corporate bond yields of 0.40% in the Eurozone (2009: 0.70%), of 0.40% in the UK (2009: 0.30%) and of 0.50% in the USA (2009: 0.30%).

The effect of a one percentage point increase/(decrease), at December 31, 2010, in the principal pension benefit assumptions would be to increase/(decrease) the defined benefit obligation and annual pension benefit cost (pre-tax) as follows:

Sensitivity to Changes in Assumptions Relating to Pension Benefits	$ Million One Percentage Point	
	Increase	Decrease
Expected rates of increase in pensionable salaries		
Change in defined benefit obligation	2,126	(1,897)
Change in annual pension benefit cost (pre-tax)	240	(211)
Discount rates		
Change in defined benefit obligation	(8,390)	10,517
Change in annual pension benefit cost (pre-tax)	(103)	101
Expected rates of return on plan assets		
Change in annual pension benefit cost (pre-tax)	(629)	629

The effect of an increase/(decrease) of one year in life expectancy would be to increase/(decrease) the defined benefit obligation by approximately $2,069 million/($2,147 million).

The impact on the retirement benefit obligation reflected in Shell's Consolidated Balance Sheet and on Shell's annual pension benefit cost of changes in assumptions described above excludes the effects of any amortisation of actuarial gains and losses resulting from such changes. The amortisation would vary from year to year by fund depending on whether or not the cumulative unrecognised actuarial gains and losses exceed the corridor (see Note 2). Any amounts outside the corridor would be recognised in income over the expected average remaining working lives of employees for the relevant plan, the average of which across all pension plans at December 31, 2010, is 12 years (2009: 12 years).

Other Defined Benefit Plans

The weighted averages for the discount rate and healthcare cost trend rates applicable for the principal other benefit plans in Shell are:

Other Benefits Assumptions	2010	2009	2008
Discount rates (used to determine benefit obligations)	5.4%	5.9%	6.3%
Healthcare cost trend rate in year after reporting year	7.7%	7.9%	8.2%
Ultimate healthcare cost trend rate	4.3%	4.3%	4.2%
Year ultimate healthcare cost trend rate is applicable	2027	2027	2027

The effect of a one percentage point increase/(decrease) at December 31, 2010, in the annual rate of increase in the assumed healthcare cost trend rates would be to increase/(decrease) the defined benefit obligation by approximately $523 million/($430 million) and the annual benefit cost (pre-tax) by approximately $36 million/($29 million).

Postemployment Benefits—Corridor Method, Retirement Healthcare and Life Insurance Benefits

3.156

Royal Dutch Shell plc (Dec 2010)

CONSOLIDATED STATEMENT OF INCOME (in part)

		$ Million		
	Notes	2010	2009	2008
Revenue		368,056	278,188	458,361
Share of profit of equity-accounted investments	10	5,953	4,976	7,446
Interest and other income	4	4,143	1,965	5,133
Total revenue and other income		378,152	285,129	470,940
Purchases		283,176	203,075	359,587
Production and manufacturing expenses		24,458	25,301	25,565
Selling, distribution and administrative expenses		15,528	17,430	16,906
Research and development		1,019	1,125	1,230
Exploration		2,036	2,178	1,995
Depreciation, depletion and amortisation		15,595	14,458	13,656
Interest expense	5	996	542	1,181
Income before taxation		35,344	21,020	50,820

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Accounting Policies (in part)

Employee Benefits (in part)

A—Employee Retirement Plans (Pensions)

Retirement plans that define the amount of pension benefit to be provided ("defined benefit plans") generally are funded by payments to independent trusts. Where a plan is not funded, a provision is made. Valuations of both funded and unfunded plans are carried out annually by independent actuaries, using the projected unit credit method to calculate the defined benefit obligation. Pension cost primarily represents the increase in the actuarial present value of the obligation for pension benefits based on employee service during the year and the interest on this obligation in respect of employee service in previous years, net of the expected return on plan assets.

Actuarial gains and losses are accounted for using the corridor method. Under this method, to the extent that any cumulative unrecognised actuarial gain or loss exceeds 10% of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that excess is recognised in income over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

For retirement plans where benefits depend solely on the amount contributed to the employee's account and the investment returns earned on these contributions ("defined contribution plans"), pension cost is the amount of employer contributions payable for the period.

B—Retirement Benefits Other than Pensions

Retirement healthcare and life insurance benefits are provided to certain retirees, the entitlement to which is usually dependant upon the employee remaining in service up to retirement age and the completion of a minimum service period. These plans are not funded and a provision is made. Valuations of benefits are carried out annually by independent actuaries, using the projected unit credit method to calculate the defined benefit obligation.

The expected costs of retirement benefits other than pensions are accrued over the periods employees render service to Shell. Actuarial gains and losses are accounted for using the corridor method, as described above.

18. Retirement Benefits

Retirement plans are provided for employees of major subsidiaries. The nature of such plans varies according to the legal and fiscal requirements and economic conditions of the country in which the employees are engaged.

Shell's obligation in respect of defined benefit pension plans is based on employees' years of service and average/final pensionable remuneration. The calculation of the obligation depends on actuarial assumptions, as described in Note 3. Defined benefit plans are typically structured as separate legal entities managed by trustees, who hold the plan assets in trust.

For defined contribution plans, pension cost is the amount of employer contributions payable for the period.

Some subsidiaries have established unfunded defined benefit plans to provide certain other retirement healthcare and life insurance benefits (other benefits) to their retirees. Entitlement to these other benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period.

Pension and Other Benefits	$ Million			
	Pension Benefits		Other Benefits	
	2010	2009	2010	2009
Change in defined benefit obligation				
Obligations for benefits based on employee service to date at January 1	62,718	52,639	3,825	3,494
Increase in present value of the obligation for benefits based on employee service during the year	1,141	965	62	57
Interest on the obligation for benefits in respect of employee service in previous years	3,227	3,131	216	222
Benefit payments made	(3,079)	(2,862)	(151)	(138)
Actuarial losses/(gains)	4,414	5,472	123	(28)
Other movements	(21)	281	6	177
Currency translation differences	(2,552)	3,092	(14)	41
Obligations for benefits based on employee service to date at December 31	65,848	62,718	4,067	3,825
Change in plan assets				
Plan assets held in trust at fair value at January 1	59,425	44,299	—	—
Expected return on plan assets	3,645	3,142	—	—
Actuarial gains	3,555	6,256	—	—
Employer contributions	2,063	5,216	—	—
Plan participants' contributions	86	88	—	—
Benefit payments made	(3,079)	(2,862)	—	—
Other movements	89	25	—	—
Currency translation differences	(2,522)	3,261	—	—
Plan assets held in trust at fair value at December 31	63,262	59,425		
Plan assets (less than)/in excess of the present value of obligations for benefits at December 31	(2,586)	(3,293)	(4,067)	(3,825)
Unrecognised net actuarial losses since adoption of IFRS	10,494	10,640	173	43
Unrecognised past service cost	9	12	44	48
Net amount recognised	7,917	7,359	(3,850)	(3,734)

Amounts Recognised in the Consolidated Balance Sheet	$ Million					
	Total		Pension Benefits		Other Benefits	
	2010	2009	2010	2009	2010	2009
Prepaid pension costs	10,368	10,009	10,368	10,009	—	—
Retirement benefit obligations:						
Non-current	(5,924)	(5,923)	(2,275)	(2,387)	(3,649)	(3,536)
Current	(377)	(461)	(176)	(263)	(201)	(198)
Net amount recognised	4,067	3,625	7,917	7,359	(3,850)	(3,734)

Additional Information	$ Million Except Where Otherwise Indicated				
	2010	2009	2008	2007	2006
Pension Benefits					
Obligation for pension benefits in respect of unfunded plans	3,293	3,087	2,684	2,505	1,931
Obligation for pension benefits in respect of funded plans	62,555	59,631	49,955	60,018	58,327
Total defined benefit obligation	65,848	62,718	52,639	62,523	60,258
Experience adjustments as a percentage of the total benefit obligation	0.1%	(0.5)%	1.0%	0.7%	0.7%
Plan assets	63,262	59,425	44,299	76,198	67,479
Experience adjustments as a percentage of plan assets	5.6%	10.5%	(61.1)%	1.3%	6.1%
Plan (deficit)/surplus	(2,586)	(3,293)	(8,340)	13,675	7,221
Actual return on plan assets	7,200	9,398	(22,087)	5,846	8,133
Other Benefits					
Total benefit obligation (unfunded)	4,067	3,825	3,494	3,179	3,163
Experience adjustments as a percentage of the total benefit obligation	(3.4)%	(1.9)%	0.6%	6.0%	0.7%

Employer contributions to defined benefit pension plans during 2011 are estimated to be $2.0 billion.

	$ Million					
	Pension Benefits			Other Benefits		
Retirement Benefit Costs	**2010**	**2009**	**2008**	**2010**	**2009**	**2008**
Service cost	1,141	965	1,202	62	57	59
Interest cost	3,227	3,131	3,337	216	222	187
Expected return on plan assets	(3,645)	(3,142)	(4,974)			
Other components	641	1,033	(383)	9	144	7
Cost/(income) of defined benefit plans	1,364	1,987	(818)	287	423	253
Payments to defined contribution plans	329	269	263	—	—	—
Total	1,693	2,256	(555)	287	423	253

Retirement benefit costs are reported principally within production and manufacturing expenses in the Consolidated Statement of Income.

Weighted average plan asset allocations by asset category for the principal pension plans in Shell are:

	Target Allocation at Dec 31	Percentage of Plan Assets at Dec 31	
Asset Allocation	**2010**	**2010**	**2009**
Equities	53%	54%	53%
Debt securities	37%	38%	40%
Real estate	5%	2%	2%
Other	5%	6%	5%
Total	100%	100%	100%

Long-term investment strategies of plans are generally determined by the relevant pension fund trustees using a structured asset liability modelling approach to define the asset mix that best meets the objectives of optimising returns within agreed risk levels while maintaining adequate funding levels.

Assumptions and Sensitivities

Defined Benefit Pension Plans

The weighted averages for the principal assumptions applicable for the principal defined benefit pension plans in Shell are:

Pension Benefits Assumptions	**2010**	**2009**	**2008**
Assumptions used to determine benefit obligations at December 31			
Expected rates of increase in pensionable salaries	5.5%	5.5%	4.4%
Discount rates	5.1%	5.5%	6.0%
Assumptions used to determine benefit costs for year ended December 31			
Expected rates of increase in pensionable salaries	5.5%	4.4%	4.0%
Discount rates	5.5%	6.0%	5.7%
Expected rates of return on plan assets	6.6%	6.7%	6.9%
Average life expectancy assumptions for persons aged 60 at December 31			
Men (years)	86	86	85
Women (years)	88	88	87

Demographic (including mortality) assumptions are determined in the light of local conditions. Mortality assumptions are reviewed annually to reflect the latest available standard mortality tables for individual countries concerned, adjusted where appropriate to reflect the experience of Shell.

The long-term assumptions for pensionable salary increases, used to determine benefit obligations at December 31, 2010, remained at similar levels to those used at December 31, 2009 (2009: 0.75% increase for UK plans and 0.25% increase for US plans).

The assumptions for discount rates reflected decreases of AA rated corporate bond yields of 0.40% in the Eurozone (2009: 0.70%), of 0.40% in the UK (2009: 0.30%) and of 0.50% in the USA (2009: 0.30%).

The effect of a one percentage point increase/(decrease), at December 31, 2010, in the principal pension benefit assumptions would be to increase/(decrease) the defined benefit obligation and annual pension benefit cost (pre-tax) as follows:

Sensitivity to Changes in Assumptions Relating to Pension Benefits	$ Million One Percentage Point Increase	Decrease
Expected rates of increase in pensionable salaries		
Change in defined benefit obligation	2,126	(1,897)
Change in annual pension benefit cost (pre-tax)	240	(211)
Discount rates		
Change in defined benefit obligation	(8,390)	10,517
Change in annual pension benefit cost (pre-tax)	(103)	101
Expected rates of return on plan assets		
Change in annual pension benefit cost (pre-tax)	(629)	629

The effect of an increase/(decrease) of one year in life expectancy would be to increase/(decrease) the defined benefit obligation by approximately $2,069 million/($2,147 million).

The impact on the retirement benefit obligation reflected in Shell's Consolidated Balance Sheet and on Shell's annual pension benefit cost of changes in assumptions described above excludes the effects of any amortisation of actuarial gains and losses resulting from such changes. The amortisation would vary from year to year by fund depending on whether or not the cumulative unrecognised actuarial gains and losses exceed the corridor (see Note 2). Any amounts outside the corridor would be recognised in income over the expected average remaining working lives of employees for the relevant plan, the average of which across all pension plans at December 31, 2010, is 12 years (2009: 12 years).

Other Defined Benefit Plans

The weighted averages for the discount rate and healthcare cost trend rates applicable for the principal other benefit plans in Shell are:

Other Benefits Assumptions	2010	2009	2008
Discount rates (used to determine benefit obligations)	5.4%	5.9%	6.3%
Healthcare cost trend rate in year after reporting year	7.7%	7.9%	8.2%
Ultimate healthcare cost trend rate	4.3%	4.3%	4.2%
Year ultimate healthcare cost trend rate is applicable	2027	2027	2027

The effect of a one percentage point increase/(decrease) at December 31, 2010, in the annual rate of increase in the assumed healthcare cost trend rates would be to increase/(decrease) the defined benefit obligation by approximately $523 million/($430 million) and the annual benefit cost (pre-tax) by approximately $36 million/($29 million).

IFRS 2, *SHARE-BASED PAYMENT*

IFRS Overview and Comparison to U.S. GAAP

3.157 The objective of IFRS 2 is to reflect the effects of share-based payment transactions, whether with employees or others, in an entity's profit or loss and financial position for the reporting period. IFRS 2 defines *share-based payment transactions* as transfers of an entity's equity instruments by its shareholders to parties that have supplied goods or services to the entity, including employees, unless the transfer is clearly for a purpose other than payment for goods or services supplied to the entity. Included in this definition are transfers of equity instruments of the entity's parent, or equity instruments of another entity in the same group as the reporting entity, to parties that have supplied goods or services to the entity. The term *goods* includes inventories, consumables, PPE, intangible assets, and other nonfinancial assets.

3.158 Also within the scope of IFRS 2 are share options (for example, contracts giving the holder the right, but not the obligation, to subscribe to an entity's shares at a fixed or determinable price for a specific period of time) and other equity instruments granted to employees as part of their compensation for services rendered to the entity.

3.159 The revisions to IFRS 3, *Business Combinations*, in 2008 amended the guidance in IFRS 2 related to business combinations. An entity should apply those amendments for annual periods beginning on or after 1 July 2009. If an entity applies IFRS 3 (revised 2008) in an earlier period, the entity should apply the amendments to IFRS 2 from that earlier period.

Author's Note

See section 2, beginning with paragraph 2.355, for further discussion of accounting for share-based payments and comparison to U.S. GAAP.

Recognition and Measurement

IFRSs

3.160 An entity should apply the accounting for share-based payments in IFRS 2 to equity-settled, cash-settled, and other transactions in which it receives or acquires goods or services in exchange for its equity instruments (equity-settled), amounts based on the price or value of these instruments (cash settled), or when either the entity can settle with or the supplier (employee) can choose to receive the entity's equity instruments.

3.161 In the case in which the supplier chooses the settlement option, IFRS 2 considers the entity to have issued a compound financial instrument. This compound instrument includes both a debt component (that is, the supplier's right to demand payment in cash) and an equity component (that is, the supplier's right to demand settlement in equity instruments rather than in cash). When the fair value of the goods or services is measured directly, the entity should measure the debt component (that is, the right to receive cash) first and then measure the equity component as the difference

between the fair values of the goods and services and the debt component. In the case the entity chooses the settlement option, the entity may still recognize a liability if the option to issue equity has no commercial substance (for example, the entity is prohibited from issuing equity) or it has a past practice of always settling in cash. Only if no present obligation exists should the entity account for the transaction as equity-settled.

3.162 Under IFRS 2, at the time the entity receives goods or services, it should recognize the goods and services received and either a corresponding decrease in equity for equity-settled transactions or a liability for cash-settled transactions. When such transactions do not result in recognition of an asset, the entity recognizes an expense in profit or loss.

3.163 The entity should measure equity-settled transactions at the fair value of the goods and services received, unless the fair value cannot be measured reliably. Otherwise, the entity measures the transaction at the fair value of the equity instruments granted. The latter measurement is generally the case for services received from employees. In contrast, when goods or services are received from nonemployees, IFRS 2 states that there is a rebuttable presumption that transactions with others can be measured directly by reference to the fair value of the goods or services received.

3.164 An important issue with respect to share-based payments is whether the supplier is vested (entitled to the payment) at the time of the grant. When suppliers are vested immediately, the entity recognizes the transaction as if the services have been received in full. When the entity requires suppliers to complete an additional period of service before vesting, it should recognize the services received over the vesting period.

3.165 When share-based payment transactions are measured by reference to the fair value of the equity instruments granted, IFRS 2 requires an entity to measure the transaction at the grant date for transactions with employees and at the date the entity receives the goods or services for other suppliers. Only when market prices are not available should the entity estimate the fair value of the equity instruments using a valuation technique consistent with generally accepted valuation methodologies for financial instruments. An entity should incorporate in the formula the factors and assumptions that knowledgeable and willing parties to the transaction would incorporate.

3.166 An entity should incorporate market-vesting and nonvesting conditions into the fair value estimation process but not performance-vesting conditions or reload features.

3.167 An entity should not make subsequent adjustments to either the goods or services rendered or equity after the vesting date, even when employees forfeit the instruments granted.

3.168 In the rare case that the fair value of neither the goods and services nor the equity instruments can be measured reliably, the entity should measure the equity instruments at intrinsic value at the date the entity receives the goods or services. Subsequently, the entity should remeasure the intrinsic value of the equity instruments at each reporting date and the final settlement date and recognize the change in intrinsic value in profit or loss. The entity should also recognize the goods or services received based on the number of equity instruments that ultimately vest or are exercised.

3.169 An entity should only recognize the effects of modifications to the terms or conditions on which equity instruments are granted when the modifications increase the total fair value of the share-based payment transaction. When a grant is cancelled or settled during the vesting period, other than by forfeiture, the entity should consider this action to be an acceleration of vesting and recognize the remaining amount immediately. An entity should account for any payments to employees from such cancellation or modification as a return of equity. An entity should consider grants of new equity instruments as replacements of those cancelled and account for them as if they were modifications.

3.170 An entity should measure cash-settled transactions (for example, share appreciation rights) at the fair value of the liability incurred. Until the liability is settled, the entity remeasures the liability at the end of each reporting period and at settlement and recognizes the change in the liability in profit or loss for the period.

U.S. GAAP

3.171 FASB ASC provides guidance on equity-based payments in different sections. FASB ASC 718, *Compensation—Stock Compensation,* includes guidance on share-based payments to employees, whether classified as equity or liabilities, and FASB ASC 505, *Equity,* includes guidance on equity-based payments to nonemployees. The guidance in these sections differs in some respects. FASB ASC 505-50-30-6 requires measurement of share-based payments to nonemployees at either the fair value of the goods or services received or the fair value of the equity instruments, whichever is more reliably measurable. In contrast, when the fair value of the goods or services can be measured reliably, IFRS 2 requires an entity to use that measure. However, as expressed in SEC *Codification of Staff Accounting Bulletins* topic 14(A), "Share-Based Payment Transactions with Nonemployees," the SEC staff believes that, generally, an entity should apply by analogy the U.S. guidance for employee share-based payments to share-based payment transactions with nonemployees, unless other authoritative accounting literature more clearly addresses the appropriate accounting or the application of this guidance would be inconsistent with the terms of the instrument issued. Therefore, the remainder of this section only compares IFRS 2 with the requirements for employee share-based payments in FASB ASC 718.

3.172 Like IFRS 2, FASB ASC 718 prescribes different accounting treatments for equity-settled and cash-settled share-based payment transactions because this classification determines whether the entity recognizes a change in equity or a liability. Paragraphs 6–19 of FASB ASC 718-10-25 provide more extensive guidance to an entity in making this classification and addresses the following instruments specifically:

- Puttable or callable shares that do not meet certain conditions
- Options or similar instruments related to shares that the entity either has recognized as a liability or could be required to settle in cash or other assets
- Awards indexed to another factor besides the entity's share price
- Awards with substantive terms that differ from the written terms

- Awards with a provision permitting broker-assisted cashless exercise
- Awards with a provision related to the entity's minimum statutory withholding requirements

For all other instruments, FASB ASC 718-10-25-6 directs the entity to the general requirements of U.S. GAAP for distinguishing liabilities from equity. IFRS 2 does not specifically address the preceding instruments.

3.173 For employee share-based payments, FASB ASC 718-10-30-2 generally requires an entity to measure the transaction at the fair value of the equity instruments at the grant date, except as previously noted in FASB ASC 718-10-30-4 when a reasonable estimate of fair value is not possible. As stated by paragraphs 6–7 of FASB ASC 718-10-30, an entity should measure these instruments based on observable market prices for options or other instruments with similar features and conditions and include factors such as volatility.

3.174 Like IFRSs, FASB ASC 718-10-30 includes specific requirements for whether and how to incorporate vesting conditions, nontransferability, performance or services conditions, market conditions, and reload and contingency features, among others, into the measurement of the transaction.

3.175 Like IFRSs, FASB ASC 718-10-30-22 requires an entity to use intrinsic value when the entity cannot reasonably estimate the fair value of the equity instrument, and FASB ASC 718-10-55-9 requires an entity to remeasure liabilities to their fair values at each reporting date until the liability is settled.

3.176 FASB ASC 718-40 and 718-50 also provide separate guidance on accounting for employee stock ownership plans and employee share purchase plans.

Presentation

IFRSs

3.177 For each class of share capital, IAS 1 requires an entity to present shares reserved for share issue under options and contracts for the sale of shares, including terms and amounts, either in the balance sheet, statement of changes in equity, or in the notes.

U.S. GAAP

3.178 FASB ASC 718 does not provide specific guidance on stock compensation presentation. Like other compensation, stock compensation could be included in cost of goods sold or administrative expenses as appropriate. See the discussion over presentation of related liabilities in paragraph 2.361 of section 2. However, for SEC registrants, SEC *Codification of Staff Accounting Bulletins* topic 14(F), "Classification of Compensation Expense Associated with Share-Based Payment Arrangements," requires this expense to be included in the same line item as cash compensation to the same employee. The SEC staff believes that SEC registrants should consider disclosing the portion of the expense related to the share-based payment, with appropriate disclosure, in a parenthetical note to the respective income statement line item, on the cash flow statement, in the notes to the financial statements, or in the management discussion and analysis.

Disclosure

IFRSs

3.179 IFRS 2 requires an entity to disclose information that enables users of its financial statements to understand the effect of share-based payments on the financial statements. At a minimum, IFRS 2 requires disclosures about the various share-based payment arrangements in existence during the period, including the following:

- Detailed descriptions, including general terms and conditions
- Number and weighted average exercise prices of share options outstanding at the beginning of the period; options granted, exercised, forfeited, and expired during the period; and options exercisable and outstanding at the end of the period
- For options exercised, weighted average share price on exercise dates
- For options outstanding at the end of the period, range of exercise prices and weighted average remaining lives

3.180 IFRS 2 also requires disclosures about the methods used to determine the fair value of the goods or services or the equity instruments granted. For share options, these disclosures include option pricing models used, inputs to those models, assumptions required, information about volatility, and how other features of the arrangement have been incorporated into the model. For other instruments, these disclosures include whether the entity used observable market data, how that data was determined, and whether the model took dividends into account. An entity should also disclose information about any modifications made to these arrangements.

3.181 With respect to the effects of share-based payment transactions on profit or loss, an entity should disclose the total expense recognized immediately in profit or loss during the period, with separate disclosure of the amount associated with equity-settled transactions. When the entity has recognized liabilities, the entity should disclose end of period amounts of the total carrying amount and total intrinsic value of liabilities for which the suppliers' rights are vested.

3.182 IAS 24, *Related Party Transactions*, also requires disclosures about share-based payments.

U.S. GAAP

3.183 U.S. GAAP disclosure requirements are very similar to those in IFRS 2. IFRSs rely more heavily on the principle that an entity should disclose information that enables users to understand the effects of share-based payment transactions on the balance sheet and the statement of comprehensive income. In contrast, FASB ASC 718-10-50 specifies more items that an entity should disclose (for example, cash flow effects and amount capitalized as part of the cost of an asset).

Presentation and Disclosure Excerpts

Author's Note

For completeness, related excerpts from the statement of changes in equity are provided for each of the provided disclosure excerpts.

Stock Option Plan—Cash Settled and Equity Settled

3.184

Siemens Aktiengesellschaft (Sep 2010)

CONSOLIDATED STATEMENTS OF INCOME (in part)

For the fiscal years ended September 30, 2010, 2009 and 2008
(In millions of €, per share amounts in €)

	Note	2010	2009	2008
Revenue		75,978	76,651	77,327
Cost of goods sold and services rendered		(54,331)	(55,941)	(56,284)
Gross profit		21,647	20,710	21,043
Research and development expenses		(3,846)	(3,900)	(3,784)
Marketing, selling and general administrative expenses		(11,130)	(10,896)	(13,586)
Other operating income	6	856	1,065	1,047
Other operating expense	7	(1,611)	(632)	(2,228)
Income (loss) from investments accounted for using the equity method, net	8	(40)	(1,946)	260
Interest income	9	2,161	2,136	2,404
Interest expense	9	(1,890)	(2,213)	(2,208)
Other financial income (expense), net	9	(336)	(433)	(74)
Income from continuing operations before income taxes		5,811	3,891	2,874

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Summary of Significant Accounting Policies (in part)

The accounting policies set out below have been applied consistently to all periods presented in these Consolidated Financial Statements.

Share-based payment—IFRS 2 distinguishes between cash-settled and equity-settled share-based payment transactions. For both types, the fair value is measured at grant date and compensation expense is recognized over the vesting period during which the employees become unconditionally entitled to the awards granted. Cash-settled awards are re-measured at fair value at the end of each reporting period and upon settlement. Siemens uses an option pricing model to determine the fair value of stock options. The fair value of other share-based awards, such as stock awards, matching shares, and shares granted under the Jubilee Share Program, is determined as the market price of Siemens shares, considering dividends during the vesting period the grantees are not entitled to and certain non-vesting conditions, if applicable. See Note 34 for further information on share-based awards.

Treasury Stock

The Company is authorized by its shareholders to acquire up to 91,420,342 Siemens shares. The authorization became effective on March 1, 2010 and remains in force through July 25, 2011. The previous authorization to acquire up to 91,420,342 Siemens shares was superseded as of the effective date of the new resolution. The previous authorization was adopted on January 27, 2009 and valid until July 26, 2010. According to the current resolution, repurchased shares may be (i) sold via a stock exchange or through a public sales offer made to all shareholders: (ii) retired, (iii) used to meet the obligations under the 2001 Siemens Stock Option Plan (iv) offered for purchase to individuals currently or formerly employed by the Company or any of its subsidiaries or granted and transferred to such individuals with a holding period of at least two years: (v) offered and transferred with the approval of the Supervisory Board to third parties against contributions in kind, particularly in connection with business combinations or the acquisition of companies or interests therein: (vi) with the approval of the Supervisory Board sold to third parties against payment in cash if the price (excluding incidental transaction costs) at which such Siemens shares are to be sold is not significantly lower than the market price of the Siemens

stock on the trading day, as determined during the opening auction of the Xetra trading platform (or a comparable successor system); or (vii) used to service convertible bonds or warrants granted by the Company or any of its subsidiaries. In addition, the Supervisory Board is authorized to offer repurchased shares to the members of the Managing Board of the Company for purchase as stock-based compensation under the same terms and conditions as those offered to employees of the Company or to grant and transfer such shares to members of the Managing Board with a holding period of at least two years.

The authorization to acquire up to 91,420,342 Siemens shares is supplemented by an authorization to repurchase up to half of those shares by using equity derivatives, such as put and call options and a combination of put and call options. As in fiscal 2008 and 2009, the term of such options must be chosen in a way that any repurchase of the Company's own shares upon the exercise of the option will take place no later than on the expiration date of the supplemented authorization.

In November 2007, the Company announced a share buy back program. Under the program, the Company originally expected to conduct share repurchases with a total volume of up to €10 billion by 2010 for the purpose of cancellation and reduction of capital stock and, to a lesser extent, to fulfill obligations arising out of stock based compensation programs. As of September 30, 2010, 56,201,421 Treasury shares amounting to €4,350 have been repurchased.

In fiscal 2010, 3,411,245 Treasury Shares were re-issued in connection with share-based payment plans. As of September 30, 2010, 44,366,416 shares remained in treasury with a carrying amount of €3,373.

In fiscal 2009, 189 shares were re-deposited to the Company's Treasury Stock and 4,868,193 of Treasury Shares were re-issued in connection with share-based payment plans. As of September 30, 2009, 47,777,661 shares remained in treasury with a carrying amount of €3,632.

In fiscal 2008, the Company repurchased a total of 56,201,421 shares at an average price of €77.41 per share. In fiscal 2008, a total of 3,556,139 shares of treasury stock were sold. Thereof, 2,829,239 shares were issued to share-based compensation plan participants to accommodate the exercise of stock options and 720,292 shares were issued to employees under the employee share purchase program with compensation character, see Note 34 for additional information. As of September 30, 2008, 52,645,665 shares remained in treasury with a carrying amount of €4,002.

28. Additional Capital Disclosures (in part)

As of September 30, 2010 and 2009, our capital structure was as follows:

	September 30		
	2010	**2009**	**% Change**
Total equity attributable to shareholders of Siemens AG	28,346	26,646	6.4%
As percentage of total capital	59%	58%	—
Short-term debt	2,416	698	—
Long-term debt	17,497	18,940	—
Total debt	19,913	19,638	1.4%
As percentage of total capital	41%	42%	—
Total capital (total debt, as stated above, and total equity)	48,259	46,284	4.3%

In fiscal 2010, total equity attributable to shareholders of Siemens AG increased by 6 percent compared to fiscal 2009. Total debt increased by 1 percent in fiscal 2010, resulting in an increase in total equity as a percentage of total capital to 59 percent compared to 58 percent in fiscal 2009. Accordingly, total debt as a percentage of total capital decreased to 41 percent from 42 percent in the prior year. For further information on changes in total equity see Note 27 and on issuance and repayment of debt see Note 23.

Siemens has commitments to sell or otherwise issue common shares in connection with share-based compensation plans. In fiscal 2010, commitments arising from share-based compensation were met by re-issuing treasury shares. In fiscal 2011, we may again fulfill our commitments arising from share-based compensation by re-issuing treasury shares. For additional information on share-based compensation see Note 34 and on treasury shares see Note 27.

34. Share-Based Payment

Share-based payment awards at Siemens, including Stock Awards, Stock Options, the Share Matching Program and its underlying plans, the Monthly Investment Plan as well as the Jubilee Share Program are predominately designed as equity-settled plans and to a certain extent as cash-settled plans. Total pre-tax expense for share-based payment recognized in net income amounted to €132, €212 and €91 for the years ended September 30, 2010, 2009 and 2008, respectively, and refers primarily to equity-settled awards, including the Company's employee share purchase program.

I. Equity-Settled Awards

Stock Awards

The Company grants stock awards and phantom stock as another means for providing share-based compensation to members of the Managing Board and other eligible employees. Stock awards are subject to a four year vesting period for awards granted up to fiscal 2007 and a three year vesting period for awards granted thereafter. Upon expiration of the vesting period, the recipient receives Siemens shares without payment of consideration. Stock awards are forfeited if the grantee's employment with the Company terminates prior to the expiration of the vesting period. During the vesting period, grantees are not entitled to dividends. Stock awards may not be transferred, sold, pledged or otherwise encumbered. Stock awards may be settled in newly issued shares of common stock of Siemens AG, treasury stock or in cash. The settlement method will be determined by the Managing Board and the Supervisory Board.

Each fiscal year, the Company decides whether or not to grant Siemens stock awards. Siemens stock awards may be granted only once a year within thirty days following the date of publication of the business results for the previous fiscal year. The Supervisory Board decides annually after the end of each fiscal year how many stock awards to grant to the Managing Board and the Managing Board decides annually how many stock awards to grant to members of the top management of domestic and foreign subsidiaries and eligible employees.

In fiscal 2010, the Company granted 1,361,586 stock awards: 1,207,360 awards were granted to 4,305 employees and 154,226 awards were granted to members of the Managing Board. In fiscal 2009, the Company granted 1,992,392

stock awards: 1,740,063 awards were granted to 4,156 employees and 252,329 awards were granted to members of the Managing Board. In fiscal 2008, the Company granted 737,621 stock awards to 4,357 employees and members of the Managing Board, of which 79,133 awards were granted to the Managing Board. Details on stock award activity and weighted average grant-date fair value are summarized in the table below:

	Year Ended September 30, 2010		Year Ended September 30, 2009		Year Ended September 30, 2008	
	Awards	Weighted Average Grant-Date Fair Value	Awards	Weighted Average Grant-Date Fair Value	Awards	Weighted Average Grant-Date Fair Value
Non-vested, beginning of period	4,438,303	€57.22	3,489,768	€67.56	3,270,910	€60.58
Granted	1,361,586	€60.79	1,992,392	€37.65	737,621	€97.94
Vested	(824,694)	€57.28	(881,097)	€55.63	(79,068)	€79.03
Forfeited/settled	(187,877)[1]	€61.50[1]	(162,760)	€48.01	(439,695)	€64.50
Non-vested, end of period	4,787,318	€58.06	4,438,303	€57.22	3,489,768	€67.56

[1] Consists of 153,020 forfeited and 34,857 settled awards with weighted average grant-date fair values of €57.43 and €79.34, respectively, in fiscal 2010.

Fair value was determined as the market price of Siemens shares less the present value of dividends expected during the four year and three year vesting period, respectively, as stock awards do not carry dividend rights during the vesting period, which resulted in a fair value of €60.79, €37.65 and €97.94, respectively, per stock award granted in fiscal 2010, 2009 and 2008. Total fair value of stock awards granted in fiscal 2010, 2009 and 2008 amounted to €83, €75 and €72, respectively.

Forfeited/settled in fiscal 2010, includes rights to stock awards granted to former Managing and Supervisory Board members, who used their stock award rights to net their obligations towards the Company, which resulted from settlement agreements in connection with compliance matters. For further information see Note 30.

Share Matching Program and Its Underlying Plans

a) Base Share Program

Under the Base Share Program, members of the Managing Board and employees of Siemens AG and participating Siemens companies can purchase Siemens shares under favorable conditions once a year. The Base Share Program is measured at fair value at grant-date. Shares purchased under the Base Share Program grant the right to receive matching shares under the same conditions described below at *Share Matching Plan.*

In fiscal 2010, the Base Share Program allowed members of the Managing Board and employees of Siemens AG and participating Siemens companies to make an investment of a fixed amount of their compensation into Siemens shares, which is sponsored by Siemens with a tax beneficial allowance per plan participant. Shares were bought at market price at a predetermined date in the second quarter. In fiscal 2010, the Company incurred pre-tax expense of €27. In fiscal 2009, members of the Managing Board and employees of Siemens AG and participating Siemens companies could purchase a limited number of Siemens shares at a preferential price. Up to a stipulated date in the first quarter of the fiscal year, employees were allowed to order the shares, which were issued in the second quarter of the fiscal year. In fiscal 2009, the Company incurred pre-tax expense of €42, based on a preferential share price of €22 per share and a grant-date fair value of the equity instrument of €25.56 per share.

Fair value is determined as the market price of Siemens shares less the present value of expected dividends as investment shares of the Base Share Program do not carry dividend rights until they are issued in the second quarter, less the share price paid by the participating employee.

The previous employee share purchase program was superseded by the Base Share Program in fiscal 2009. In fiscal 2008, under the previous program, the Company incurred pre-tax compensation expense of €27, based on a preferential share price of €69.19 per share and a grant-date fair value of €37.20. Shares purchased in fiscal 2008, under the employee share purchase program were not eligible for matching shares under the Share Matching Plan.

b) Share Matching Plan

In the first quarter of fiscal 2010, Siemens issued a new Share Matching Plan (Share Matching Plan 2010). In contrast to the Share Matching Plan 2009 (described below), the Share Matching Plan 2010 is restricted to senior managers only. Senior managers of Siemens AG and participating Siemens companies may invest a certain amount of their compensation in Siemens shares. While for the Share Matching Plan 2009, the price of the investment shares was fixed at the resolution date, for the Share Matching Plan 2010 the shares are purchased at the market price at a predetermined date in the second quarter. Up to the stipulated grant-dates in the first quarter of each fiscal year, senior managers have to decide on their investment amount for which investment shares are purchased. The investment shares are then issued in the second quarter of the fiscal year. In exchange, plan participants receive the right to one free share (matching share) for every three investment shares continuously held over a period of three years (vesting period) provided the plan participant has been continuously employed by Siemens AG or another Siemens company until the end of the vesting period. During the vesting period, matching shares are not entitled to dividends. The right to receive matching shares forfeits if the

underlying investment shares are transferred, sold, pledged or otherwise encumbered. The Managing Board and the Supervisory Board of the Company will decide, each fiscal year, whether a new Share Matching Plan will be issued. The fair value at grant date of investment shares resulting from the Share Matching Plan 2010 is €—as the investment shares are offered at market price.

In the first quarter of fiscal 2009, the Company introduced the Share Matching Plan 2009 to members of the Managing Board and to employees of Siemens AG and participating Siemens companies. Plan participants could invest a certain percentage of their compensation in Siemens shares at a predetermined price set at the resolution date (investment shares). In exchange, plan participants receive the right to one free share (matching share) for every three investment shares continuously held over a period of three years (vesting period) provided the plan participant has been continuously employed by Siemens AG or another Siemens company until the end of the vesting period. Up to the stipulated grant-dates in the first quarter of fiscal year 2009 employees could order the investment shares, which were issued in the second quarter of the fiscal year. During the vesting period, matching shares are not entitled to dividends. The right to receive matching shares forfeits if the underlying investment shares are transferred, sold, pledged or otherwise encumbered. Investment Shares resulting from the Share Matching Plan 2009 are measured at fair value at grant-date, which is determined as the market price of Siemens shares less the present value of expected dividends as investment shares do not carry dividend rights until they are issued in the second quarter, less the share price paid by the participating employee. Depending on the grant-date being either November 30, 2008 or December 17, 2008, the fair values amount to €3.47 and €5.56, respectively, per instrument. The weighted average grant-date fair value amounts to €5.39 per instrument, based on the number of instruments granted.

c) Monthly Investment Plan

In the first quarter of fiscal 2010, the Company introduced the Monthly Investment Plan as a further component of the Share Matching Plan. The Monthly Investment Plan is available for employees—other than senior managers—of Siemens AG and participating Siemens companies. Plan participants may invest a certain percentage of their compensation in Siemens shares on a monthly basis. The Managing Board of the Company will decide annually, whether shares acquired under the Monthly Investment Plan (investment shares) may be transferred to the Share Matching Plan the following year. If management decides that shares acquired under the Monthly Investment Plan are transferred to the Share Matching Plan, plan participants will receive the right to one free share (matching share) for every three investment shares continuously held over a period of three years (vesting period) provided the plan participant had been continuously employed by Siemens AG or another Siemens company until the end of the vesting period. Up to the stipulated grant-dates in the first quarter of each fiscal year, employees may decide their participation in the Monthly Investment Plan and consequently the Share Matching Plan. The Managing Board will decide, each fiscal year, whether a new Monthly Investment Plan will be issued.

d) Resulting Matching Shares

	Year Ended September 30, 2010 Matching Shares	Year Ended September 30, 2009 Matching Shares
Outstanding, beginning of period	1,266,444	—
Granted[(1)]	446,324	1,324,596
Forfeited	(59,414)	(40,637)
Settled	(38,625)	(17,515)
Outstanding, end of period	1,614,729	1,266,444

(1) Thereof 6,837 and 25,962 to the Managing Board in fiscal 2010 and 2009.

Fair value was determined as the market price of Siemens shares less the present value of expected dividends during the vesting period as matching shares do not carry dividend rights during the vesting period. Non-vesting conditions, i.e. the condition neither to transfer, sell, pledge nor otherwise encumber the underlying shares, were considered in determining the fair values. The fair value of matching shares granted on December 17, 2009, amounts to €47.18 per share. The fair values of matching shares granted amounted to €20.32 and €21.34, per share, respectively, depending on the grant date being either November 30, 2008 or December 17, 2008. In fiscal 2010 and 2009, the weighted average grant-date fair value of the resulting matching shares is €47.18 and €21.29 per share respectively, based on the number of instruments granted. Total fair value of matching shares granted in fiscal 2010 and 2009 amounted to €21 and €28, respectively.

Jubilee Share Program

In fiscal 2009, Siemens changed its jubilee benefit program, which applies to a number of Siemens companies, from cash to share-based compensation. Under the Jubilee Share Program, eligible employees are granted jubilee shares after having been continuously employed by the Company for 25 and 40 years (vesting period), respectively. Settlement of jubilee grants is in shares. Jubilee shares are measured at fair value considering biometrical factors. The fair value is determined as the market price of Siemens shares at grant date less the present value of dividends expected to be paid during the vesting period for which the employees are not entitled to. The weighted average fair value of each jubilee share granted in fiscal 2010 for the 25th and the 40th anniversary is €43.41 and €39.54 respectively, based on the number of shares granted. The weighted average fair value of each jubilee share granted adjusted by biometrical factors (considering fluctuation) is €29.40 and €26.28, respectively, in fiscal 2010. The weighted average fair value of each jubilee share granted in fiscal 2009 for the 25th and the 40th anniversary is €34.46 and €29.01, respectively, based on the number of shares granted. The weighted average fair value of each jubilee share granted adjusted by biometrical factors (considering fluctuation) is €25.18 and €20.56, respectively, in fiscal 2009.

In fiscal 2010 and 2009, 0.45 million and 4.87 million jubilee shares were granted. 0.06 million and none were transferred, 0.18 million and 0.08 million forfeited, resulting in an outstanding balance of 5.0 million and 4.8 million jubilee shares as of September 30, 2010 and 2009. Considering biometrical

factors, 3.69 million and 3.52 million jubilee shares are expected to vest as of September 30, 2010 and 2009.

Stock Option Plan

2001 Siemens Stock Option Plan

At the Annual Shareholders' Meeting on February 22, 2001, shareholders authorized Siemens AG to establish the 2001 Siemens Stock Option Plan, making available up to 55 million options. The option grants are subject to a two-year vesting period, after which they may be exercised for a period of up to three years. The exercise price is equal to 120 percent of the reference price, which corresponds to the average opening market price of Siemens AG during the five trading days preceding the date of the stock option grant. However, an option may only be exercised if the trading price of the Company's shares reaches a performance target which is equal to the exercise price at least once during the life of the option. The terms of the plan allow the Company, at its discretion upon exercise of the option, to offer optionees settlement of the options in either newly issued shares of common stock of Siemens AG from the Conditional Capital reserved for this purpose, treasury stock or cash. The alternatives offered to optionees are determined by the Managing Board in each case as approved by the Supervisory Board. Compensation in cash shall be equal to the difference between the exercise price and the opening market price of the Company's stock on the day of exercising the stock options.

The issuance of stock options to members of the Managing Board on or after October 1, 2003, has been subject to the proviso that the Supervisory Board may restrict the stock option exercise in the event of extraordinary, unforeseen changes in the market price of the Siemens share. Those restrictions may reduce the number of options exercisable by each Board Member, provide for an exercise in cash for a constricted amount only, or suspend the exercise of the option until the extraordinary effects on the share price have ceased. The fair value of the options has not been adjusted for effects resulting from such restrictions. Reasonable estimates cannot be made until it is probable that such adverse events will occur. Since it is not possible to reliably estimate the fair value of those options at the grant date, compensation costs are determined based on the current intrinsic value of the option until the date at which the number of shares to which a Board member is entitled to and the exercise price are determinable. Upon that date, fair value will be determined in accordance with the fair value recognition provisions of IFRS 2, *Share-Based Payment,* based on an appropriate fair value option pricing model.

The authority to distribute options under the 2001 Siemens Stock Option Plan expired on December 13, 2006. Accordingly, no further options will be granted under this plan.

Details on option exercise activity and weighted average exercise prices for the years ended September 30, 2010, 2009 and 2008 are as follows:

	Year Ended September 30, 2010				Year Ended September 30, 2009		Year Ended September 30, 2008	
	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value in Millions of €	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of period	2,627,742	€73.89			5,097,083	€73.60	8,606,272	€72.13
Granted	—	—			—	—	—	—
Options exercised	(687,605)	€74.59			—	—	(2,832,839)	€69.91
Options expired	(888,210)	€72.54			(2,213,111)	€73.25	(232,582)	€86.52
Options forfeited	(116,495)	€74.42			(152,015)	€73.81	(234,660)	€74.43
Options settled	—	—			(104,215)	€73.39	(209,108)	€73.64
Outstanding, end of period	935,432	€74.59	0.13	3	2,627,742	€73.89	5,097,083	€73.60
Exercisable, end of period	935,432	€74.59	0.13	3	2,627,742	€73.89	5,097,083	€73.60

As of September 30, 2009 and 2008, for Options outstanding the weighted average remaining contractual term was 0.8 years and 1.1 years, respectively; the aggregate intrinsic value amounted to €—and €—, respectively.

The following table summarizes information on stock options outstanding at September 30, 2010 and 2009:

	September 30, 2010		September 30, 2009	
Exercise Prices	Number of Options Outstanding	Weighted Average Remaining Life (Years)	Number of Options Outstanding	Weighted Average Remaining Life (Years)
€72.54	—	—	898,050	0.1
€74.59	935,432	0.1	1,729,692	1.1

Fair Value Information

The Company's determination of the fair value of stock option grants is based on an option pricing model which was developed for use in estimating the fair values of options that have no vesting restrictions. Option valuation models require the input of highly subjective assumptions including the expected stock price volatility. The fair value per option outstanding as of September 30, 2010 amounts to €4.06 for grants made in fiscal 2006.

II. Cash-Settled Awards

Stock Appreciation Rights (SARs)

Where local regulations restrict the grant of stock options in certain jurisdictions, the Company grants SARs to employees under the same conditions as the 2001 Siemens Stock Option Plan except that SARs are exercisable in cash only.

Details on SARs activity and weighted average exercise prices are summarized in the table below:

	Year Ended September 30, 2010		Year Ended September 30, 2009		Year Ended September 30, 2008	
	SARs	Weighted Average Exercise Price	SARs	Weighted Average Exercise Price	SARs	Weighted Average Exercise Price
Outstanding, beginning of period	54,945	€73.85	138,485	€73.58	198,280	€73.63
Granted	—	—	—	—	—	—
SARs exercised	—	—	—	—	(40,555)	€73.72
SARs forfeited/settled/expired	(21,500)[(1)]	€72.69	(83,540)	€73.41	(19,240)	€73.79
Outstanding, end of period	33,445	€74.59	54,945	€73.85	138,485	€73.58
Exercisable, end of period	33,445	€74.59	54,945	€73.85	138,485	€73.58

(1) Consists of 19,890 expired SARs with a weighted average exercise price of €72.54 and 1,610 settled SARs with a weighted average exercise price of €74.59 in fiscal 2010.

For purposes of determining the fair value of SARs in fiscal 2010, 2009 and 2008, the expected volatility is based on historical volatility of Siemens shares, implied volatility for traded Siemens options with similar terms and features, and certain other factors. The expected term is derived by applying the simplified method and is determined as the average of the vesting term and the contractual term. The risk-free interest rate is based on applicable governmental bonds. Changes in subjective assumptions can materially affect the fair value of the SARs.

Phantom Stock

Where local regulations restrict the grants of stock awards in certain jurisdictions, the Company grants phantom stock to employees under the same conditions as the Siemens stock awards, except that grantees receive the share prices' equivalent value in cash only at the end of the four, respectively, three year vesting period. In fiscal 2008, 24,303 phantom stock rights were granted, 6,517 phantom stock rights forfeited and 12,952 phantom stock rights were settled, resulting in a balance of 93,294 phantom stock rights as of September 30, 2008. In fiscal 2009, 159,787 phantom stock rights were granted, 18,460 were vested and transferred, 14,327 phantom stock rights forfeited and 12,604 phantom stock rights were settled, resulting in a balance of 207,690 non-vested phantom stock rights as of September 30, 2009. In fiscal 2010, 11,372 phantom stock rights were granted, 18,768 vested and were transferred 14,478 phantom stock rights forfeited and 17,476 phantom stock rights were settled, resulting in a balance of 168,340 non-vested phantom stock rights as of September 30, 2010.

IAS 23, *BORROWING COSTS*

IFRS Overview and Comparison to U.S. GAAP

3.185 IAS 23, *Borrowing Costs* (revised 2007), establishes the accounting for interest and other costs that an entity incurs in borrowing funds. It does not cover the actual or imputed cost of equity, including the cost of preferred capital that is not classified as a liability. IAS 23 is also not applicable to borrowing costs in connection with an asset measured at fair value or inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis. The revised IAS 23 is effective for annual periods beginning on or after 1 January 2009. The 2007 revision to IAS 23 removed the option to expense all borrowing costs, and given the cost and difficulties associated with retrospective application in this case, IAS 23 requires prospective application. Early adoption is permitted.

Recognition and Measurement

IFRSs

3.186 IAS 23 requires an entity to account for borrowing costs as follows:

a. Capitalize borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset (that is, an asset that necessarily takes a substantial period of time to get ready for its intended use or sale)
b. Expense all other borrowing costs incurred during the period

3.187 Borrowing costs include interest cost measured using the effective interest method, finance charges related to finance leases, and foreign exchange differences from foreign currency borrowings to the extent they are interest cost adjustments.

3.188 Qualifying assets may be inventories, except as previously described, (for example, investment properties held for trading), PPE, intangibles assets, or investment properties.

3.189 An entity should calculate the amount of borrowing costs to be capitalized as follows:

a. To the extent that the entity borrowed funds specifically for the qualifying asset, it should capitalize the actual borrowing costs incurred less any investment income on any amount of the borrowing that it temporarily invested.
b. To the extent that the entity borrows funds generally and uses these funds to obtain the qualifying asset, it should apply a capitalization rate to its expenditures on the asset to determine the amount of borrowing costs to be capitalized.

3.190 An entity determines the capitalization rate as the weighted average interest rate applicable to borrowings outstanding during the period, not including any borrowings specifically for the qualifying asset.

3.191 An entity should not capitalize more than the actual amount of borrowing costs incurred during the period. An entity should continue to capitalize borrowing costs even when there are indicators that the qualifying asset is impaired. Depending upon the nature of the qualifying asset, an entity then should test that asset for impairment in accordance with the relevant standard. For example, an entity should test and measure any impairment losses for inventory in accordance with IAS 2 and for an item of PPE in accordance with IAS 36, *Impairment of Assets*.

3.192 IAS 23 requires an entity to begin capitalization when the following three conditions are met:

- The entity incurs expenditures for the asset.
- The entity incurs borrowing costs.
- The entity has begun activities necessary to get the asset ready for its intended use or sale.

An entity should suspend capitalization during extended periods of inactivity on development of the asset and stop capitalization when it completes substantially all of the activities necessary to get the asset ready for its intended use or sale.

U.S. GAAP

3.193 Despite the fact that IAS 23 and the corresponding U.S. GAAP guidance resulted from a convergence project, several differences between FASB ASC 835, *Interest,* and IFRSs remain.

3.194 U.S. GAAP uses the term *interest cost*, rather than the broader term *borrowing costs* used in IAS 23, which encompasses other costs such as foreign exchange differences considered interest cost adjustments. FASB ASC 835-20-30-7 explains that gains and losses on the effective portion of a fair value hedge are part of capitalized interest cost. IAS 23 does not discuss the treatment of gains and losses on hedging transactions.

3.195 A comparison of IFRSs to paragraphs 5–6 of FASB ASC 835-20-15 reveals the following differences in the types of assets (qualifying assets) for which interest can be capitalized:

- FASB ASC 835 only requires the asset to take a period of time for the activities necessary to get it ready for use or sale, not the substantial period of time required by IAS 23.
- FASB ASC 835 does not address assets held at fair value, which are excluded from the scope of IAS 23.
- FASB ASC 835 permits equity-method investments to be qualifying assets (while the investee has activities in progress necessary to begin its planned principal operations, and the investee's activities include the use of funds to acquire qualifying assets for its operations), but IAS 23 does not.
- FASB ASC 835 does not permit interest to be capitalized on assets acquired with gifts or grants. IAS 23 does not address such circumstances.

3.196 Rather than requiring an entity to capitalize the actual interest less investment income on temporarily invested funds, FASB ASC 835-20-30-3 requires an entity to determine the amount capitalized in an accounting period by applying a capitalization rate to the average amount of accumulated expenditures for the asset during the period. An entity should base the capitalization rates it uses on the rates applicable to borrowings outstanding during the period. If an entity's financing plans associate a specific new borrowing with a qualifying asset, this paragraph permits the entity to use the rate on that borrowing as the capitalization rate to be applied to that portion of the average accumulated expenditures for the asset up to the amount of that borrowing. If average accumulated expenditures for the asset exceed the amounts of specific new borrowings associated with the asset, the entity should determine the weighted average of the rates applicable to other borrowings of the entity and use that rate as the capitalization rate. In contrast to IAS 23, FASB ASC 835 does not permit an entity to reduce the amount of interest capitalized for investment income on temporary investment of the borrowed funds.

Presentation

IFRSs

3.197 IAS 1 requires an entity to present a separate line item for finance costs. IFRSs do not explicitly define *finance costs*, but they are generally understood to be interest costs and other finance charges that are included in the term *borrowing costs*. An entity should present separate line items for finance cost and finance income.

U.S. GAAP

3.198 Rule 5-03(b) of Regulation S-X requires SEC registrants to present interest expense, including amortization of debt premiums or discounts, as a separate line item on the income statement.

Author's Note

Companies reporting under U.S. GAAP generally offset interest income and interest expense on the face of the income statement.

Disclosure

IFRSs

3.199 IAS 1 requires disclosure of total finance costs during the period. IAS 23 requires an entity to disclose the amount of borrowing costs capitalized and the capitalization rate used.

U.S. GAAP

3.200 FASB ASC 835-20-50 does not require disclosure of the capitalization rate. However, FASB ASC 835-20-50-1 states that an entity should disclose total interest costs incurred, the amount capitalized, and the amount expensed during the period.

Presentation and Disclosure Excerpts

Finance Costs

3.201

GlaxoSmithKline plc (Dec 2010)

CONSOLIDATED INCOME STATEMENT (in part)

For the year ended 31st December 2010

		2010		
	Notes	Results Before Major Restructuring £m	Major Restructuring £m	Total £m
Turnover	6	28,392	—	28,392
Cost of sales		(7,405)	(187)	(7,592)
Gross profit		20,987	(187)	20,800
Selling, general and administration		(12,388)	(665)	(13,053)
Research and development		(3,964)	(493)	(4,457)
Other operating income	8	493	—	493
Operating profit	9	5,128	(1,345)	3,783
Finance income	11	116	—	116
Finance costs	12	(828)	(3)	(831)
Profit on disposal of interest in associates		8	—	8
Share of after tax profits of associates and joint ventures	13	81	—	81
Profit before taxation		4,505	(1,348)	3,157

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Accounting Principles and Policies (in part)

Discounting

Where the time effect of money is material, balances are discounted to current values using appropriate rates of interest. The unwinding of the discounts is recorded in finance income and finance costs.

6. Segment Information (in part)

During 2010, US pharmaceuticals and ViiV Healthcare made sales to three wholesalers of approximately £2,561 million (2009—£2,760 million; 2008—£2,460 million), £2,412 million (2009—£2,710 million; 2008—£2,710 million) and £1,642 million (2009—£1,680 million; 2008—£1,980 million) respectively, after allocating final-customer discounts to the wholesalers.

Segment Profit	2010 £m	2009 (Restated) £m	2008 (Restated) £m
US Pharmaceuticals	5,043	5,933	5,461
Europe Pharmaceuticals	3,744	3,993	3,229
Emerging Markets pharmaceuticals	1,271	948	837
Asia Pacific/Japan pharmaceuticals	1,730	1,352	1,016
ViiV Healthcare	851	1,071	1,005
Pharmaceuticals R&D	(3,105)	(3,082)	(2,840)
Other trading and unallocated pharmaceuticals costs	(783)	(705)	(110)
Pharmaceuticals operating profit	8,751	9,510	8,598
Consumer Healthcare operating profit	1,043	931	881
Segment profit	9,794	10,441	9,479
Corporate and other unallocated costs and disposal profits	(4,666)	(1,184)	(1,220)
Operating profit before major restructuring	5,128	9,257	8,259
Major restructuring	(1,345)	(832)	(1,118)
Total operating profit	3,783	8,425	7,141
Finance income	116	70	313
Finance costs	(831)	(783)	(843)
Profit on disposal of interest in associate	8	115	—
Share of after tax profits of associates and joint ventures	81	64	48
Profit before taxation	3,157	7,891	6,659
Taxation	(1,304)	(2,222)	(1,947)
Profit after taxation for the year	1,853	5,669	4,712

12. Finance Costs

	2010 £m	2009 £m	2008 £m
Interest expense arising on:			
Financial liabilities at amortised cost	(767)	(790)	(664)
Derivatives at fair value through profit or loss	—	20	(165)
Fair value hedges:			
Fair value movements on derivatives designated as hedging instruments	26	(37)	92
Fair value adjustments on hedged items	(27)	38	(90)
Fair value movements on other derivatives at fair value through profit or loss	(16)	(2)	—
Reclassification of cash flow hedge from other comprehensive income	(3)	(1)	—
Unwinding of discounts on provisions	(18)	(11)	(16)
Net investment hedge ineffectiveness	(1)	—	—
Other finance expense	(25)	—	—
	(831)	(783)	(843)

All derivatives at fair value through profit or loss except designated and effective hedging instruments are classified as held-for-trading financial instruments under IAS 39.

36. Adjustments Reconciling Profit After Tax to Operating Cash Flows

	2010 £m	2009 £m	2008 £m
Profit after tax	1,853	5,669	4,712
Tax on profits	1,304	2,222	1,947
Share of after tax profits of associates and joint ventures	(81)	(64)	(48)
Finance income net of finance costs	715	713	530
Depreciation	1,146	1,130	920
Amortisation of intangible assets	533	432	311
Impairment and assets written off	411	445	436
Profit on sale of intangible assets	(118)	(835)	(170)
Profit on sale of investments in associates	(8)	(115)	—
Profit on sale of equity investments	(17)	(40)	(33)
Changes in working capital:			
Decrease/(increase) in inventories	238	(132)	(411)
Decrease/(increase) in trade receivables	905	(473)	519
Decrease/(increase) in other receivables	6	(134)	22
Increase/(decrease) in trade payables	154	499	(39)
(Decrease)/increase in other payables	(179)	409	(162)
Increase/(decrease) in pension and other provisions	1,653	(320)	548
Share-based incentive plans	179	179	241
Other	(63)	(40)	(268)
	6,778	3,876	4,343
Cash generated from operations	8,631	9,545	9,055

The increase in pension and other provisions primarily reflects the charge for legal costs in the year of £4.0 billion, partly offset by legal settlements of £2.0 billion and further contributions to the defined benefit pension schemes.

41. Financial Instruments and Related Disclosures (in part)

Fair Value Hedges

The Group has designated a series of interest rate swaps as a fair value hedge. The risk being hedged is the variability of the fair value of the bond arising from interest rate fluctuations. Gains and losses on fair value hedges are disclosed in Note 12, ‘Finance costs’.

Capitalized Borrowing Costs

3.202

Anooraq Resources Corporation (Dec 2010)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (in part)

For the years ended 31 December 2010, 2009 and 2008
(Expressed in Canadian Dollars, unless otherwise stated)

	Note	2010	2009	2008
Revenue	24	148,286,833	62,627,868	—
Cost of sales	25	(173,151,188)	(80,966,467)	—
Gross loss		(24,864,355)	(18,338,599)	—
Administrative expenses		(18,291,753)	(11,781,689)	(12,071,398)
Transaction costs		(1,811,294)	(10,401,725)	—
Other income		426,617	1,138,850	5,779
Operating loss		(44,540,785)	(39,383,163)	(12,065,619)
Finance income	26	1,113,642	529,285	179,119
Finance expense	27	(67,521,703)	(20,340,287)	(1,848,574)
Net finance expense		(66,408,061)	(19,811,002)	(1,669,455)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

4. Accounting Policies (in part)

These consolidated financial statements are presented in (unless stated otherwise) Canadian Dollars (“$”), which is also the Company’s functional currency.

The accounting policies set out below are applied consistently to all years presented in these consolidated financial statements and have been applied consistently by Group entities.

4.4 Accounting for Borrowing Costs

In respect of borrowing costs relating to qualifying assets the Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The Group has capitalised borrowing costs with respect to property, plant and equipment under construction.

4.5 Property, Plant and Equipment

Mining assets, including mine development cost and infrastructure costs, mine plant facilities and buildings are measured at historical cost less accumulated depreciation and impairment losses.

Mining assets are capitalised to capital work-in-progress and transferred to mining property, plant and equipment when the mining venture reaches commercial production.

Capitalised mine development and infrastructure costs include expenditure incurred to develop new mining operations and to expand the capacity of the mine to the extent that it gives rise to future economic benefit. Costs include borrowing costs capitalised during the construction period where qualifying expenditure is financed by borrowings. Items of mine property, plant and equipment, excluding capitalised mine

development and infrastructure costs, are depreciated on a straight-line basis over their expected useful life. Capitalised mine development and infrastructure are depreciated on a units of production basis. Depreciation is charged on mining assets from the date on which they are available for use.

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.

Property, plant and equipment are depreciated over their estimated useful lives as follows:

Mine Development and Infrastructure	Units of Production
Plant and equipment	1–30 years
Buildings	5–30 years
Motor vehicles	1–5 years
Furniture and fittings	1–10 years

Items of property, plant and equipment that are withdrawn from use, or have no reasonable prospect of being recovered through use or sale, are regularly identified and written off.

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Non-mining assets are measured at historical cost less accumulated depreciation and impairment losses. Depreciation is charged on the straight-line basis over the useful lives of these assets.

Subsequent expenditure relating to an item of property, plant and equipment is capitalised when it is probable that future economic benefits from the use of the assets will be increased.

Repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the asset and are recognised net within profit or loss.

27. Finance Expenses

	2010	2009	2008
Financial Liabilities at Amortised Cost			
Bank and short-term facilities	13,617	72,158	—
"A" Preference shares (related party)	39,661,792	19,560,689	—
OCSF and funding facilities (related party)	22,779,618	8,439,108	1,848,574
Senior Term Loan Facility	11,512,806	5,028,432	—
Interest on fair value of interest rate swap	(195,702)	189,173	—
Other	563,219	324	—
	74,335,350	33,289,884	1,848,574
Non-Financial Liabilities			
Notional interest—rehabilitation provision	515,626	181,813	—
Commitment fees on OCSF	310,177	38,091	—
Transaction fees	631,929	411,058	—
	1,457,732	630,962	—
Total finance costs before interest capitalised	75,793,082	33,920,846	1,848,574
Interest capitalised	(8,271,379)	(13,580,559)	—
Total finance costs	67,521,703	20,340,287	1,848,574

The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation during the year is 13.2% (2009: 12.95%).

IAS 28, *INVESTMENTS IN ASSOCIATES*

IAS 31, *INTERESTS IN JOINT VENTURES*

IFRS Overview and Comparison to U.S. GAAP

Author's Note

In May 2011, the IASB issued a revised IAS 28*, Investments in Associates*, renamed IAS 28, *Investments in Associates and Joint Ventures*. At the same time, the IASB issued IFRS 11, *Joint Arrangements*, which replaces IAS 31, *Interests in Joint Ventures*, and IFRS 12, *Disclosures of Interests in Other Entities*. These new and revised standards are effective for annual reporting periods beginning on or after 1 January 2013, with early application permitted. See the author's note preceding paragraphs 2.139 and 2.169 in section 2 for a discussion of these standards.

Because the revised IAS 28, IFRS 11, and IFRS 12 were not issued until 2011, no survey entity could apply the new requirements in its 2010 financial statements. Therefore, the following commentary only describes the requirements in IAS 28 and IAS 3 that are applicable for 2010 financial statements.

3.203 When accounting for its investments in either associates or jointly controlled entities using the equity method, in accordance with IAS 28 or IAS 31, an investor-entity should recognize the following items in profit and loss:

- Investor's share of the profit or loss of the investee,
- Impairment loss or reversal of an impairment loss on the equity-method investment, and
- Difference between the carrying value of the investment and the fair value of any retained investment when it discontinues the equity method (which may be a gain or loss on disposal).

3.204 An investor-entity should recognize in other comprehensive income its share of items recognized by the investee in other comprehensive income.

Author's Note

The requirements of these standards with respect to recognition, measurement, presentation, and disclosure on the balance sheet are discussed in section 2, beginning with paragraph 2.139.

Recognition and Measurement

IFRSs

3.205 IAS 28 and IAS 31 require an entity that accounts for its investments in associates and joint ventures using the equity method to recognize in profit or loss its share of the profit of loss of its investee and to recognize in other comprehensive income its share of the investee's items of other comprehensive income.

3.206 In addition, IAS 28 requires an entity to stop applying the equity method when it no longer has significant influence. An entity should remeasure any retained investment at fair value and recognize in profit or loss the difference between this fair value and the carrying value before remeasurement.

3.207 With respect to impairment, IAS 28 requires an entity to recognize its share of the associate's losses and then apply the requirements of IAS 39 to determine whether it should recognize an additional impairment loss with respect to its net investment. If an entity recognizes this impairment loss, it should also assess whether an additional impairment loss is necessary for its interest in the associate that may exceed the carrying value of its net investment. Whenever application of the requirements of IAS 39 indicates that the investment may be impaired, an entity should then measure the impairment loss in accordance with IAS 36 in order to recognize any impairment on goodwill embedded in the carrying amount of the investment.

Author's Note

The requirements of IAS 36, are discussed in detail in this section, beginning with paragraph 3.243.

U.S. GAAP

3.208 Like IFRSs, FASB ASC 323-10-35-4 requires an entity to recognize in income its share of the earnings or losses of an equity-method investee in the same period the investee reports them in its financial statements. As stated by FASB ASC 323-10-35-5, the amount recognized in income should reflect adjustments similar to those for consolidation, including the following:

- Adjustments to eliminate intra-entity profits and losses
- Adjustments to amortize, if appropriate, any difference between investor cost and underlying equity in net assets of the investee at the date of investment
- Adjustments to reflect the investor's share of changes in the investee's capital
- Adjustments to other comprehensive income

3.209 With respect to recognition of the investees' losses, like IFRSs, FASB ASC 323-10-35-4 requires an entity to recognize its share of losses of an investee. As explained in FASB ASC 323-10-35-19, when these losses equal or exceed the carrying amount of an investment accounted for by the equity method plus advances by the entity, the entity should continue to report losses up to the carrying amount of the entity's investment, including any additional financial support, which may include capital contributions to the investee, investments in additional common stock or preferred stock, and loans or debt securities.

3.210 Like IFRSs, FASB ASC 323-10-35-35 requires an entity to recognize gains and losses on the sales of stock of an investee equal to the difference at the time of sale between the selling price and the carrying amount of the stock sold.

3.211 As discussed in FASB ASC 323-10-35-36, when an entity no longer has significant influence over its investee, it should discontinue use of the equity method. Unlike IFRSs, an entity is not required to immediately remeasure the investment to fair value. An entity is required to include any earnings or losses that relate to a retained investment as part of its carrying amount. Unlike IFRSs, an entity must reduce

the carrying value of the retained investment by any dividends it receives in a subsequent period that exceed its share of the investee's earnings, rather than recognize these dividends as income. FASB ASC 323-10-35-37 also provides guidance on the treatment of items recognized in other comprehensive income when an entity discontinues use of the equity method. Unless it elects the fair value option, in accordance with FASB ASC 320, *Investments—Debt and Equity Securities*, the entity should classify an investment with a readily determinable fair value as either trading or available for sale, as appropriate, with subsequent measurement based on the selected classification.

3.212 Paragraphs 31–32A of FASB ASC 323-10-35 also provide guidance to an entity when a series of operating losses or other factors may indicate that there has been an other than temporary decline in the investment exceeding that required by the equity method and the entity should recognize this additional impairment loss. Several factors are provided that the entity should consider when making this determination, including the absence of an ability to recover the investment's carrying amount, the inability of the investee to sustain an earnings capacity to justify the carrying amount, or a current fair value that is less than the carrying amount. However, an entity is required to evaluate all factors in making this determination. An equity method investor should not separately test an investee's underlying asset(s) for impairment. However, an equity investor should recognize its share of any impairment charge recorded by an investee and consider the effect, if any, of the impairment on the investor's basis difference in the assets that give rise to the investee's impairment charge.

Presentation

IFRSs

3.213 IAS 1 requires an entity to present its share of the profit or loss of an associate or jointly controlled entity as a separate line item in the income statement and its share of the associate's or jointly controlled entity's other comprehensive income in other comprehensive income.

U.S. GAAP

3.214 Like IFRSs, paragraphs 1–2 of FASB ASC 323-10-45 require an entity to show its share of earnings or losses from its investment in its income statement as a single amount. Unlike IFRSs, an entity should separately show its share of extraordinary items and its share of accounting changes reported in the financial statements of the investee.

3.215 Like IFRSs, FASB ASC 323-10-45-3 states that an entity may combine its proportionate share of the amounts of the investee's other comprehensive income items with its own other comprehensive income items and display the aggregate of those amounts.

Disclosure

IFRSs

3.216 IAS 28 requires an entity to disclose the amount of any unrecognized share of losses of an associate, both for the reporting period and cumulatively, if it has discontinued loss recognition. IAS 36 disclosures would also apply when an entity recognizes an impairment loss. However, IAS 31 does not include this requirement.

U.S. GAAP

3.217 Unlike IFRSs, FASB ASC 323-10 does not require additional disclosure about the effect of items recognized in the statement of comprehensive income. FASB ASC 323-10-50-3 requires disclosure of the difference between the carrying value of the investment and its share of the underlying net assets of the investee. Although not specifically stated, this disclosure requirement appears to require disclosure of unrecognized losses, if any.

Presentation and Disclosure Excerpts

Share of Post-Tax Profit or Loss of Associates and Joint Ventures Included in Pre-Tax Operating Profit, Associates and Joint Ventures Designated at Fair Value Through Profit or Loss, Impairment Losses

3.218

Absa Group Limited (Dec 2010)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (in part)

For the year ended 31 December

		Group	
	Note	2010 Rm	2009 Rm
Net interest income		23,340	21,854
Interest and similar income	29	54,241	65,247
Interest expense and similar charges	30	(30,901)	(43,393)
Impairment losses on loans and advances	9.1	(6,005)	(8,967)
Net interest income after impairment losses on loans and advances		17,335	12,887
Non-interest income		19,474	20,232
Net fee and commission income		14,391	14,289
Fee and commission income	31	16,454	16,301
Fee and commission expense	31	(2,063)	(2,012)
Net insurance premium income	32	4,602	3,787
Net insurance claims and benefits paid	33	(2,405)	(2,215)
Changes in investment and insurance liabilities	34	(1,059)	(560)
Gains and losses from banking and trading activities	35	2,349	2,575
Gains and losses from investment activities	36	884	1,464
Other operating income	37	712	892
Operating profit before operating expenditure		36,809	33,119
Operating expenditure		(24,949)	(23,227)
Operating expenses	38	(24,070)	(20,857)
Other impairments	39	(108)	(1,457)
Indirect taxation	40	(771)	(913)
Share of post-tax results of associates and joint ventures	12.1	(9)	(50)
Operating profit before income tax		11,851	9,842
Taxation expense	41	(3,262)	(2,340)
Profit for the year		8,589	7,502
Other comprehensive income			
Exchange differences on translation of foreign operations		(371)	(668)
Movement in cash flow hedging reserve		1,152	(665)
Fair value gains/(losses) arising during the year		3,421	(148)
Amount removed from other comprehensive income and recognised in the profit and loss component of the statement of comprehensive income		(1,820)	(776)
Deferred tax	16	(449)	259
Movement in available-for-sale reserve		166	(326)
Fair value gains/(losses) arising during the year		146	(306)
Amount removed from other comprehensive income and recognised in the profit and loss component of the statement of comprehensive income		—	(205)
Amortisation of government bonds—release to the profit and loss component of the statement of comprehensive income		92	104
Deferred tax	16	(72)	81
Movement in retirement benefit asset and liabilities		21	52
Increase in retirement benefit surplus		27	104
Decrease/(increase) in retirement benefit deficit		2	(33)
Deferred tax	16	(8)	(19)
Total comprehensive income for the year		9,557	5,895

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Accounting Policies (in Part)

For the year ended 31 December

1. Summary of Significant Accounting Policies (in part)

1.2.5 Impairment of Investments in Associates and Joint Ventures

When indications exist that the carrying amount of the investment in associates and joint ventures would not be recoverable, an impairment is recognised. The recoverable amount is the higher of value in use and fair value less cost to sell and is based on the Group's best estimate of the price the Group would achieve in a sale transaction of the investment.

1.3.2 Investments in Associates and Joint Ventures

Associates are those companies which are not subsidiaries and in which the Group exercises significant influence on the financial and operating policies. Significant influence is normally evident when the Group owns between 20% and 50% of a company's voting rights.

A joint venture is a contractual agreement between two or more parties to undertake an economic activity that is under joint control.

Investments in associates and joint ventures that are not deemed to be part of the Group's venture capital activities are held at cost plus equity-accounted earnings less any accumulated impairment. The Group's investment cost includes goodwill. Impairment of an associate or joint venture is evidenced by a significant or prolonged decline in fair value below cost and when the recoverable amount is the highest of value-in-use and fair value less cost to sell.

The results of associates and joint ventures are accounted for according to the equity method, based on their most recent audited financial statements. If the most recent available audited financial statements are for an accounting period that ended no more than three months prior to the Group's year end, these are adjusted in respect of material adjustments between their reporting date and the Group's reporting date. The Group's share of its post-acquisition profits or losses is recognised in the statement of comprehensive income and the Group's interest in the post-acquisition reserves of associates and joint ventures is treated as distributable reserves in the Group's financial statements. 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 nil 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.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates and joint ventures. The Group determines at each reporting date whether there is objective evidence that the investment in associate or joint venture is impaired. The primary indicators of potential impairment are considered to be adverse fair value movements, the disappearance of an active market for the investments, or adverse changes in the technological, economic, legal or tax environment that the entity operates in. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount (the higher of the asset's fair value less costs to sell and value in use) of the associate or joint venture and its carrying value and recognises the amount in the profit and loss component of the statement of comprehensive income.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the entities.

Investments in entities that form part of venture capital activities of the Group have been designated at fair value through profit or loss and disclosed under 'Investment securities'. The designation has been made in accordance with IAS 39, based on the scope exclusion that is provided in IAS 28.

Venture capital associated investments are distinguished from other investments by considering the nature of the investments, expected returns and the manner in which they are managed by the Group. These are private equity investments. Private equity is medium- to long-term finance that is provided in return for an equity stake in potentially high-growth unquoted entities. The fair value of these investments is determined in accordance with international private equity and venture capital valuation guidelines.

12. Investments in Associates and Joint Ventures

	Group	
	2010 Rm	2009 Rm
Listed investments	41	100
Unlisted investments	375	387
	416	487

12.1 Movement in Carrying Value

	Group	
	2010 Rm	2009 Rm
Balance at the beginning of the year	487	2,144
Share of current year's post-tax results	(9)	(50)
Share of current year's results before taxation	52	(7)
Taxation on current year's results	(16)	2
Dividends received	(45)	(45)
Net movement resulting from acquisitions, disposals and transfers (refer to note 12.4)	(32)	(291)
(Decrease)/increase in loans	(4)	4
Impairment charge (refer to note 39)	(29)	(1,328)
Movement in amount recognised in other liabilities for the Group's share of losses	3	8
Balance at the end of the year	416	487

12.2 Analysis of Carrying Value

	Group	
	2010 Rm	2009 Rm
Listed Investments		
Shares at book value	51	112
Shares at cost	57	1,440
Impairments	(6)	(1,328)
Share of post-acquisition reserves	(10)	(12)
	41	100
Unlisted Investments		
Shares at cost	114	133
Share of post-acquisition reserves	250	240
Share of non-distributable reserves	250	201
Amount recognised in other liabilities for the Group's share of losses	—	39
Loans and receivables	11	14
	375	387

A register of investments in associates and joint ventures is available for inspection at the registered office of the Company.

12.3 Market Value and Directors' Valuation

	Group	
	2010 Rm	2009 Rm
Directors' valuation of unlisted investments'[1]	375	387
Market value of listed investments	55	188
	430	575

[1] The directors' valuation of unlisted investments is measured at fair value.

12.4 Net Movement Resulting from Acquisitions, Disposals and Transfers

	Group			
	2010		2009	
	Effective Holding (%)	Movement Rm	Effective Holding (%)	Movement Rm
Acquired during the current year, at cost:				
One Commercial Investment Holdings (Proprietary) Limited	49,0	0	—	—
Pinnacle Point Group Limited	—	95	27,5	—
Acquired during the previous year, at cost:				
Kilkishen Investments (Proprietary) Limited	50,0	—	50,0	31
Meadowood Investments 8 (Proprietary) Limited	50,0	—	50,0	—
Stand 1135 Houghton (Proprietary) Limited	50,0	—	50,0	8
Disposed during the current year:				
Pinnacle Point Group Limited	—	(95)	27,5	—
Virgin Money South Africa (Proprietary) Limited	—	(0)	50,0	—
Disposed during the previous year:				
Ambit Properties Limited	—	—	—	(718)
Banco Commercial Angolano	—	—	—	(63)
Transferred to subsidiaries during the current year:				
Sanlam Home Loans (Proprietary) Limited	100,0	—	50,0	—
Transferred (to)/from investment securities during the current and previous year:				
Blue Financial Services Limited	6,7	(32)	20,2	451
		(32)		(291)

12.5 Details of Transfers and Purchase Consideration on Net Assets Acquired

	Group	
	2010 Rm	2009 Rm
Cash paid	95	61
Purchase as part of business combination	—	39
Transfer from investment securities	—	390
	95	490

12.6 Details of Transfers and Consideration Received on Net Assets Disposed

	Group	
	2010 Rm	2009 Rm
Cash consideration	(95)	(78)
Consideration in shares	—	(660)
Total consideration	(95)	(738)
Loss on disposal	(0)	(43)
Transfer to investment securities	(32)	—
	(127)	(781)

Refer to note 48 for the full disclosure of the Group's investments in associates and joint ventures.

27. Other Reserves (in part)

Associates' and Joint Ventures' Reserve

The associates' and joint ventures' reserve comprises the Group's share of its associates' and/or joint ventures' reserves.

39. Other Impairments

	Group	
	2010 Rm	2009 Rm
Financial instruments	37	38
Amortised cost instruments	12	2
Available-for-sale instruments (refer to note 11.1)	25	36
Other	71	1,419
Computer software development costs (refer to note 13)	4	19
Equipment (refer to note 15)	13	9
Goodwill (refer to note 13)	—	37
Investments in associates and joint ventures (refer to note 12.1)	29	1,328
Repossessed properties	25	26
	108	1,457

The current year's impairment losses are reported in the following segments:

- Impairments on investments in associates and joint ventures are reported in the 'Absa Capital' and 'ABB' segments.
- Impairments on available-for-sale financial instruments are reported in the 'Absa Capital' segment.
- Impairments on amortised cost financial instruments are reported in the 'Other' segment.
- Impairments on computer software development costs are reported in the 'Other' segment.
- Impairments on equipment are reported in the 'Absa Capital' segment.
- Impairments on repossessed properties are reported in the 'Retail Banking' segment.

The previous year's impairment losses are reported in the following segments:

- Impairments on available-for-sale financial instruments are reported in the 'Absa Capital' segment.
- Impairments on amortised cost financial instruments are reported in the 'Financial Services' segment.
- Impairments on computer software development costs are reported in the 'Financial Services' segment.
- Impairments on equipment are reported in the 'ABB' segment.
- Impairments on goodwill are reported in the 'Other' segment.
- Impairments on investments in associates and joint ventures are reported in the 'Absa Capital' and 'ABB' segments.
- Impairments on repossessed properties are reported in the 'Retail Banking' segments.

During the previous year, the Group sold contractual rights it had generated in Ambit Management Services (Proprietary) Limited. The company is now dormant and consequently the goodwill previously recognised on this investment was written off.

During the previous year, indications existed that the carrying amount of the investments in associates, that arose as a result of customer defaults on single stock futures within Absa Capital, would not be recoverable. The recoverable amount is the fair value less costs to sell and was based on the Group's best estimate of the price the Group would achieve in a sale of these investments. These investments were consequently impaired.

48. Related Parties (in part)

48.5 Associates, Joint Ventures and Retirement Benefit Fund

The Group provides certain banking and financial services to associates and joint ventures. The Group also provides a number of current and interest-bearing cash accounts to the Absa Group Pension Fund. These transactions are conducted on the same terms as third-party transactions and are not individually material.

In aggregate, the amounts included in the Group's financial statements are as follows:

	Group		
	Associates and Joint Ventures Rm	Retirement Benefit Fund Rm	Total Rm
Value of Absa Group Pension Fund investments managed by the Group	—	7,193	7,193
Value of Absa Group Limited ordinary shares held by the Absa Group Pension Fund	—	116	116
Value of other Absa Bank Limited securities held by the Absa Group Pension Fund	—	1,582	1,582
Statement of financial position			
Loans and advances	7,275	—	7,275
Other assets	17	—	17
Deposits	(0)	(30)	(30)
Other liabilities	(47)	—	(47)
Derivative transactions	4	—	4
Statement of comprehensive income			
Interest and similar income	(617)	—	(617)
Interest expense and similar charges	8	1	9
Fees received	(106)	(17)	(123)
Fees paid	173	—	173
Current service costs	—	635	635

	Group		
	Associates and Joint Ventures Rm	Retirement Benefit Fund Rm	Total Rm
Value of Absa Group Pension Fund investments managed by the Group	—	7,047	7,047
Value of Absa Group Limited ordinary shares held by the Absa Group Pension Fund	—	69	69
Value of other Absa Bank Limited securities held by the Absa Group Pension Fund	—	1,444	1,444
Statement of financial position			
Loans and advances	8,411	—	8,411
Other assets	2,218	—	2,218
Deposits	(177)	(45)	(222)
Other liabilities	(127)	—	(127)
Statement of comprehensive income			
Interest and similar income	(1,026)	—	(1,026)
Interest expense and similar charges	41	1	42
Fees received	(117)	(17)	(134)
Fees paid	4	—	4
Current service costs	—	551	551

Details on investments in associates and joint ventures are as follows:

Name	Nature of Business	Country of Incorporation
Equity-Accounted Associates		
Blue Financial Services Limited[1,2]	Financial services provider, specifically micro-finance in Africa.	South Africa
Pinnacle Point Group Limited[1,3]	Property development.	South Africa
Sekunjalo Investments Limited[1]	Investment holding company.	South Africa
Spring Valley Investments (Proprietary) Limited	Property development.	South Africa
Equity-Accounted Joint Ventures		
FFS Finance South Africa (Proprietary) Limited	Provides financing solutions to Ford Motor Company customers.	South Africa
Integrated Processing Solutions (Proprietary) Limited	Joint venture with Standard Bank Group Limited involved in cheque processing activities.	South Africa
Kilkishen Investments (Proprietary) Limited[1]	Property development.	South Africa
MAN Financial Services (S.A.) (Proprietary) Limited	Joint venture with MAN Financial Services GmbH for financing of trucks and buses.	South Africa
Meadowood Investments 8 (Proprietary) Limited[1]	SPE.	South Africa
One Commercial Investment Holdings (Proprietary) Limited[4]	Cell captive.	South Africa
Sanlam Home Loans (Proprietary) Limited[4]	Manages and administers the granting of loans as well as secure funding for these loans.	South Africa
Stand 1135 Houghton (Proprietary) Limited[1]	Property development.	South Africa
Virgin Money South Africa (Proprietary) Limited[3]	Joint venture with Virgin Money Group Limited to provide retail financial services products under the Virgin brand.	South Africa
Associates and Joint Ventures Designated at Fair Value Through Profit or Loss		
Absa Corob Trust Joint Venture[1]	Property investment.	South Africa
African Spirit Trading 309 (Proprietary) Limited[1]	Property development.	South Africa
Agrista (Proprietary) Limited[1,3]	Agriculture consulting.	South Africa
Amrichprop 49 Properties (Proprietary) Limited[1,5]	Property development.	South Africa
Barrie Island Property Investments (Proprietary) Limited[1]	Investment in mixed use property.	South Africa
Birchacres Mall (Proprietary) Limited (previously Tembisa Mall) (Proprietary) Limited[1]	Property development.	South Africa
Cherry Vanilla Investments (Proprietary) Limited	Retirement village development.	South Africa
Culemborg Investment Properties (Proprietary) Limited[1]	Residential property development.	South Africa
Mall on 14th Avenue (Proprietary) Limited[1]	Property development.	South Africa
Maxcity Homes (Proprietary) Limited[1]	Property development.	South Africa
Maxcity Properties (Proprietary) Limited[1,3]	Investment in mixed use property.	South Africa

(continued)

Name	Nature of Business	Country of Incorporation
Mogale City Mall (Proprietary) Limited[1]	Investment in commercial property.	South Africa
Northern Lights Trading 197 (Proprietary) Limited[1]	Investment in commercial property.	South Africa
Pacific Heights Investments 196 (Proprietary) Limited[1]	Property development.	South Africa
Palm Hill Property Investments (Proprietary) Limited[1,3]	Property development.	South Africa
Parsons Vlei Development (Proprietary) Limited[1]	Investment in residential property.	South Africa
Persistent Properties (Proprietary) Limited[1]	Investment in residential property.	South Africa
Retail Africa Wingspan Investments (Proprietary) Limited[1]	Property fund.	South Africa
Royal Bafokeng Nations Administration (Proprietary) Limited[6]	Consulting services.	South Africa
Somerset West Autopark (Proprietary) Limited[11]	Investment in auto dealers and fitment centres.	South Africa
Sovereign Seekers (Proprietary) Limited[1,6]	Oil and gas.	South Africa
Supreme Cylinders (Proprietary) Limited[1,6]	Engineering.	South Africa
The Racing Investment Trust[3]	Property development.	South Africa
Tropical Mushrooms (Proprietary) Limited[1,6]	Agriculture consulting.	South Africa

(1) The financial statements have different reporting dates to that of the Group, as these were the financial reporting dates established when the entities were incorporated. The impact is not considered to be material.
(2) Transferred to investment securities during the year.
(3) Disposed of during the year.
(4) Became a subsidiary during the year.
(5) Acquired during the year.
(6) Transferred from investment securities during the year.

Share of Income From Associates Not Included in Operating Profit and Share of Other Comprehensive Income of Associates

3.219

Eni S.p.A. (Dec 2010)

CONSOLIDATED PROFIT AND LOSS ACCOUNT (in part)

(Euro million except as otherwise stated)

		2008		2009		2010	
	Note	Total Amount	of Which With Related Parties	Total Amount	of Which With Related Parties	Total Amount	of Which With Related Parties
Revenues							
Net sales from operations	(35)	108,082	5,048	83,227	3,300	98,523	3,274
Other income and revenues		728	39	1,118	26	956	58
		108,810		84,345		99,479	
Operating Expenses	(36)						
Purchases, services and other		76,350	6,298	58,351	4,999	69,135	5,825
—of which non-recurring charge (income)		(21)		250		(246)	
Payroll and related costs		4,004		4,181		4,785	
Other Operating (Expense) Income		(124)	58	55	44	131	41
Depreciation, Depletion, Amortization and Impairments		9,815		9,813		9,579	
Operating profit		18,517		12,055		16,111	
Finance Income (Expense)	(37)						
Finance income		7,985	42	5,950	27	6,117	41
Finance expense		(8,198)	(17)	(6,497	(4)	(6,713)	
Derivative financial instruments		(427)		(4)		(131)	
		(640)		(551)		(727)	
Income (Expense) From Investments	(38)						
Share of profit (loss) of equity-accounted investments		640		393		537	
Other gain (loss) from investments		733		176		619	
		1,373		569		1,156	
Profit before income taxes		19,250		12,073		16,540	

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (in part)

(Euro million)

	Note	2008	2009	2010
Net profit		9,558	5,317	7,383
Other items of comprehensive income				
Foreign currency translation differences		1,077	(869)	2,169
Change in the fair value of cash flow hedging derivatives	(32)	1,969	(481)	443
Change in the fair value of available-for-sale securities	(32)	3	1	(9)
Share of "Other comprehensive income" on equity-accounted entities	—	—	2	(10)
Taxation	(32)	(767)	202	(175)
	—	2,282	(1,145)	2,418
Total comprehensive income		11,840	4,172	9,801

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

3. Summary of Significant Accounting Policies (in part)

Non-Current Assets (in part)

Financial Fixed Assets

Investments

Investments in subsidiaries excluded from consolidation, jointly controlled entities and associates are accounted for using the equity method. (In the case of step acquisition of a significant influence (or joint control), the investment is recognized at the acquisition date of significant influence (joint control) at the amount deriving from the use of the equity method assuming the adoption of this method since initial acquisition; the "step-up" of the carrying amount of interests owned before the acquisition of significant influence (joint control) is taken to equity.) When there is objective evidence of impairment (see also section "Current assets"), the recoverability is tested by comparing the carrying amount and the related recoverable amount determined by adopting the criteria indicated in the section "Property, plant and equipment."

Subsidiaries, joint ventures and associates excluded from consolidation are accounted for at cost, adjusted for impairment losses if this does not result in a misrepresentation of the company's financial condition. When the reasons for their impairment cease to exist, investments accounted for at cost are re-valued within the limit of the impairment made and their effects are included in "Other income (expense) from investments."

Other investments, included in non-current assets, are recognized at their fair value and their effects are included in the equity reserve related to other comprehensive income; the changes in fair value recognized in equity are charged to the profit and loss account when it is impaired or realized. When investments are not traded in a public market and fair value cannot be reasonably determined, investments are accounted for at cost, adjusted for impairment losses; impairment losses may not be reversed.

The risk deriving from losses exceeding shareholders' equity is recognized in a specific provision to the extent the parent company is required to fulfill legal or implicit obligations towards the subsidiary or to cover its losses.

17. Investments

Investments Accounted for Using the Equity Method

Equity-accounted investments were as follows:

(Euro Million)	Value at the Beginning of the Year	Acquisitions and Subscriptions	Sales and Reimbursements	Share of Profit of Equity-Accounted Investments	Share of Loss of Equity-Accounted Investments	Deduction for Dividends	Currency Translation Differences	Other Changes	Value at the End of the Year
Dec. 31, 2009									
Investments in unconsolidated entities controlled by Eni	177	1	(14)	42	(4)	(8)	(3)	26	217
Joint ventures	3,257	25	(111)	478	(81)	(254)	(54)	67	3,327
Associates	2,037	200	(24)	173	(156)	(122)	(31)	207	2,284
	5,471	226	(149)	693	(241)	(384)	(88)	300	5,828
Dec. 31, 2010									
Investments in unconsolidated entities controlled by Eni	217	32	(3)	75	(18)	(38)	9	(18)	256
Joint ventures	3,327	44	(526)	379	(124)	(312)	124	(177)	2,735
Associates	2,284	187	(33)	263	(7)	(130)	81	32	2,677
	5,828	263	(562)	717	(149)	(480)	214	(163)	5,668

Acquisitions and subscriptions for euro 263 million related to the subscription of capital increase, of which euro 183 million related to Angola LNG Ltd.

Sales and reimbursements of equity-accounted investments of euro 562 million mainly pertained to the capital reimbursement of Artic Russia BV (euro 526 million) following the divestment of a 51% stake in the Eni-Enel joint venture OOO “SeverEnergia” as Gazprom exercised a call option on September 23, 2009. On March 31, 2010, Eni collected a second installment of the transaction amounting to euro 526 million (as converted at the EUR/USD exchange rate of 1.35 as of the transaction date, corresponding to approximately $710 million).

Share of profit of equity-accounted investments and the decrease following the distribution of the dividends pertained to the following companies:

	Dec. 31, 2009			Dec. 31, 2010		
(Euro Million)	**Share of Profit of Equity-Accounted Investments**	**Deduction for Dividends**	**Eni's Interest %**	**Share of Profit of Equity-Accounted Investments**	**Deduction for Dividends**	**Eni's Interest %**
Galp Energia SGPS SA	116	64	33.34	147	55	33.34
Unión Fenosa Gas SA	108	138	50.00	116	126	50.00
Trans Austria Gasleitung GmbH	84	22	89.00	98	67	89.00
United Gas Derivatives Co	24	40	24.55(*)	47	44	24.55(*)
Eni BTC Ltd	35	—	100.00	37	35	100.00
Blue Stream Pipeline Co BV	33	—	50.00	36	—	50.00
Other investments	293	120	—	236	153	—
	693	384	—	717	480	—

(*) Equity ratio 33.33.

Share of losses of equity-accounted investments of euro 149 million primarily related to CARDÓN IV SA (euro 40 million) and Super Octanos CA (euro 36 million).

Other changes of euro 163 million included: (i) reclassification to assets held for sale of the carrying amounts relating to Trans Austria Gasleitung GmbH (euro 203 million), Transitgas AG (euro 40 million) and Trans Europa Naturgas Pipeline Gesellschaft mbH & Co KG (euro 8 million). More information is included in Note 31—Assets held for sale and liabilities directly associated with assets held for sale; (ii) the exclusion from joint ventures and the inclusion in the scope of consolidation following the acquisition of the controlling interest of Altergaz SA (euro 67 million); and (iii) as an increase the exclusion from the scope of consolidation and the inclusion in equity-accounted investments of GreenStream BV (euro 149 million) following the sale of 25% of its share capital.

The following table sets out the net carrying amount relating to equity-accounted investments:

	Dec. 31, 2009		Dec. 31, 2010	
(Euro Million)	**Net Carrying Amount**	**Eni's Interest %**	**Net Carrying Amount**	**Eni's Interest %**
Investments in Unconsolidated Entities Controlled by Eni:				
—Eni BTC Ltd	93	100.00	104	100.00
—Eni BBI Ltd	3	100.00	28	100.00
—other investments(1)	121	—	124	—
	217	—	256	—
Joint Ventures:				
—Unión Fenosa Gas SA	473	50.00	468	50.00
—Artic Russia BV	918	60.00	445	60.00
—Blue Stream Pipeline Co BV	371	50.00	435	50.00
—EnBW Eni Verwaltungsgesellschaft mbH	284	50.00	285	50.00
—Azienda Energia e Servizi Torino SpA	170	49.00	172	49.00
—Eteria Parohis Aeriou Thessalonikis AE	161	49.00	160	49.00
—Toscana Energia SpA	143	49.38	155	48.13
—GreenStream BV	—	—	147	50.00
—Raffineria di Milazzo ScpA	128	50.00	128	50.00

(continued)

(Euro Million)	Dec. 31, 2009 Net Carrying Amount	Dec. 31, 2009 Eni's Interest %	Dec. 31, 2010 Net Carrying Amount	Dec. 31, 2010 Eni's Interest %
—Unimar Llc	72	50.00	74	50.00
—Supermetanol CA	80	34.51	66	34.51
—Eteria Parohis Aeriou Thessalias AE	43	49.00	43	49.00
—Starstroi Llc	31	50.00	19	50.00
—Trans Austria Gasleitung GmbH	170	89.00	—	—
—Super Octanos CA	66	49.00	—	—
—Transitgas AG	33	46.00	—	—
—Altergaz SA	28	41.62	—	—
—other investments[1]	156	—	138	—
	3,327	—	2,735	—
Associates:				
—Galp Energia SGPS SA	914	33.34	1,005	33.34
—Angola LNG Ltd	612	13.60	841	13.60
—PetroSucre SA	176	26.00	198	26.00
—Ceska Rafinerska AS	184	32.44	189	32.44
—United Gas Derivatives Co	84	24.55[2]	94	24.55[2]
—Fertilizantes Nitrogenados de Oriente CEC	68	20.00	68	20.00
—ACAM Gas SpA	47	49.00	48	49.00
—Termica Milazzo Srl	23	40.00	40	40.00
—Distribuidora de Gas del Centro SA	29	31.35	32	31.35
—Gaz de Bordeaux SAS	13	17.00	27	34.00
—other investments[1]	134	—	135	—
	2,284	—	2,677	—
	5,828	—	5,668	—

[1] Each individual amount included herein did not exceed euro 25 million.
[2] Equity ratio 33.33.

Carrying amounts of investments in unconsolidated entities, including entities controlled by Eni, joint ventures and associates, comprised differences between the purchase price of relevant shareholdings and the corresponding Eni's share in the net equity of each entities amounting to euro 511 million, of which euro 347 million referred to goodwill. Such differences primarily related to Unión Fenosa Gas SA (euro 195 million of goodwill), EnBW—Eni Verwaltungsgesellschaft mbH (euro 181 million, of which euro 18 million of goodwill) and Galp Energia SGPS SA (euro 106 million of goodwill).

The fair value of listed investments was as follows:

	Shares	Ownership (%)	Price per Share (Euro)	Fair Value (Euro Million)
Galp Energia SGPS SA	276,472,161	33.34	14.34	3,965

The table below sets out the provisions for losses included in the provisions for contingencies of euro 124 million (euro 170 million at December 31, 2009), primarily related to the following equity-accounted investments:

(Euro Million)	Dec. 31, 2009	Dec. 31, 2010
Industria Siciliana Acido Fosforico—ISAF—SpA (under liquidation)	64	59
Southern Gas Constructors Ltd	13	31
Charville—Consultores e Serviços Lda	21	12
Other investments	72	22
	170	124

Other Investments

Other investments were as follows:

(Euro Million)	Net Value at the Beginning of the Year	Acquisition and Subscriptions	Currency Translation Differences	Other Changes	Net Value at the End of the Year	Gross Value at the End of the Year	Accumulated Impairment Charges
Dec. 31, 2009							
Investments in unconsolidated entities controlled by Eni	30	—	(1)	15	44	55	11
Associates	4	—	—	4	8	8	—
Other investments	376	4	(7)	(9)	364	371	7
	410	4	(8)	10	416	434	18
Dec. 31, 2010							
Investments in unconsolidated entities controlled by Eni	44	—	2	(17)	29	29	—
Associates	8	—	1	1	10	18	8
Other investments	364	4	16	(1)	383	390	7
	416	4	19	(17)	422	437	15

Investments in unconsolidated entities controlled by Eni and associates are stated at cost net of impairment losses. Other investments, for which fair value cannot be reliably determined, were recognized at cost and adjusted for impairment losses.

The net carrying amount of other investments of euro 422 million (euro 416 million at December 31, 2009) was related to the following entities:

(Euro Million)	Dec. 31, 2009		Dec. 31, 2010	
	Net Carrying Amount	Eni's Interest %	Net Carrying Amount	Eni's Interest %
Investments in unconsolidated entities controlled by Eni(*)	44	—	29	—
Associates	8	—	10	—
Other investments:	—	—	—	—
—Interconnector (UK) Ltd	134	16.06	136	16.07
—Nigeria LNG Ltd	82	10.40	89	10.40
—Darwin LNG Pty Ltd	78	10.99	79	10.99
—Other(*)	70	—	79	—
	364		383	—
	416		422	—

(*) Each individual amount included herein did not exceed euro 25 million.

Provisions for losses related to other investments, included within the provisions for contingencies, amounted to euro 76 million (euro 41 million at December 31, 2009) and were primarily in relation to the following entities:

(Euro Million)	Dec. 31, 2009	Dec. 31, 2010
Eni BB Ltd	—	28
Burren Energy Shipping & Transportation (Samara) Ltd	25	25
Caspian Pipeline Consortium R—Closed Joint Stock Co	15	19
Other investments	1	4
	41	76

Other Information About Investments

The following table summarizes key financial data of unconsolidated entities controlled by Eni, joint ventures and associates prepared in accordance with accounting policies adopted in the preparation of Eni's Consolidated Financial Statements and reflecting Eni's interest in such entities:

	Dec. 31, 2009			Dec. 31, 2010		
(Euro Million)	Unconsolidated Entities Controlled By Eni	Joint Ventures	Associates	Unconsolidated Entities Controlled By Eni	Joint Ventures	Associates
Total assets	2,215	6,981	4,218	2,383	5,711	5,087
Total liabilities	2,081	3,721	1,929	2,193	3,022	2,410
Net sales from operations	65	3,936	5,718	113	3,497	5,134
Operating profit	(48)	564	141	(9)	434	323
Net profit	(9)	474	101	32	252	225

The total assets and liabilities of unconsolidated controlled entities of euro 2,383 million and euro 2,193 million, respectively (euro 2,215 million and euro 2,081 million at December 31, 2009) pertained to entities acting as sole-operator in the management of oil and gas contracts for euro 2,172 million and euro 2,054 million (euro 1,873 million and euro 1,860 million at December 31, 2009). The residual amount pertained to not significant entities. More information is included in Note 1—Basis of presentation.

18. Other Financial Assets

Other financing receivables were as follows:

(Euro Million)	Dec. 31, 2009	Dec. 31, 2010
Receivables for financing operating activities	1,112	1,488
Securities held for operating purposes	36	35
	1,148	1,523

Receivables for financing operating activities are presented net of the allowance for impairment losses of euro 32 million (euro 29 million at December 31, 2009).

Operating financing receivables of euro 1,488 million (euro 1,112 million at December 31, 2009) primarily pertained to loans made by the Exploration & Production segment (euro 716 million), Gas & Power segment (euro 559 million) and Refining & Marketing segment (euro 96 million) to certain equity-accounted or cost-accounted entities which executed capital projects on behalf of Eni's Group companies. Financing receivables due from unconsolidated subsidiaries, joint ventures and associates amounted to euro 656 million. Receivables for financial leasing amounted to euro 78 million (euro 97 million at December 31, 2009) and pertained to the disposal of the Belgian gas network by Finpipe GIE.

42. Transactions With Related Parties (in part)

In the ordinary course of its business Eni enters into transactions regarding:

a. the exchange of goods, provision of services and financing with joint ventures, associates and non-consolidated subsidiaries;
b. the exchange of goods and provision of services with entities directly and indirectly owned or controlled by the Government;
c. transactions with the Gruppo Cosmi related to Eni through a member of the Board of Directors related to certain acquisition of engineering, construction and maintenance services. Relevant transactions which were executed on an arm's length basis, consisted of costs amounting to approximately euro 13 million, euro 21 million and euro 23 million in 2008, 2009 and 2010, respectively. At December 31, 2010 receivables for euro 1 million and payables for euro 8 million were outstanding (euro 4 million and euro 9 million at December 31, 2009, respectively); and
d. contributions to entities, controlled by Eni with the aim to develop solidarity, culture and research initiatives. In particular these related to: (i) Eni Foundation established by Eni as a non-profit entity with the aim of pursuing exclusively solidarity initiatives in the fields of social assistance, health, education, culture and environment as well as research and development. In 2010, transactions with Eni Foundation were not material; and (ii) Enrico Mattei Foundation established by Eni with the aim of enhancing, through studies, research and training initiatives, knowledge in the fields of economics, energy and environment, both at the national and international level. Transactions with Enrico Mattei Foundation were not material.

Transactions with related parties were conducted in the interest of Eni companies and, with exception of those with entities with the aim to develop solidarity, culture and research initiatives, on an arm's length basis.

Trade and other transactions with joint ventures, associates and non-consolidated subsidiaries as well as with entities directly and indirectly owned or controlled by the Government

in the 2008, 2009 and 2010, respectively, consisted of the following:

(Euro Million)	Dec. 31, 2010			2010						
				Costs			Revenues			
Name	Receivables and Other Assets	Payables and Other Liabilities	Guaran-tees	Goods	Services	Other	Goods	Services	Other	Other Operating (Expense) Income
Joint Ventures and Associates										
ACAM Clienti SpA	14	2	—	1	5	—	56	—	—	—
Agiba Petroleum Co	2	5	—	—	95	—	—	—	—	—
Altergaz SA	—	—	—	—	—	—	262	—	—	—
Azienda Energia e Servizi Torino SpA	1	65	—	—	78	—	—	1	—	—
Bayernoil Raffineriegesellschaft mbH	—	32	1	19	51	—	2	—	—	—
Bernhard Rosa Inh. Ingeborg Plöchinger GmbH	7	—	—	—	—	—	50	—	—	—
Blue Stream Pipeline Co BV	13	14	37	—	152	—	—	2	—	—
Bronberger & Kessler undGilg & Schweiger GmbH	20	—	—	—	—	—	121	—	—	—
CEPAV (Consorzio Eni per l'Alta Velocità) Uno	28	12	6,054	—	5	—	—	37	—	—
CEPAV (Consorzio Eni per l'Alta Velocità) Due	6	3	76	—	3	—	—	6	—	—
Gasversorgung Süddeutschland GmbH	3	—	—	—	—	—	62	—	—	—
GreenStream BV	4	13	—	—	95	—	1	2	—	—
Karachaganak Petroleum Operating BV	39	253	—	821	346	28	8	7	—	—
Kwanda Suporto Logistico Lda	51	1	—	—	—	—	—	17	—	—
Mellitah Oil & Gas BV	30	137	—	—	225	—	—	33	—	—
Petrobel Belayim Petroleum Co	8	34	—	—	714	—	—	3	2	—
Raffineria di Milazzo ScpA	21	20	—	—	266	—	157	7	1	—
Saipon Snc	2	—	53	—	—	—	—	29	—	—
Super Octanos CA	—	23	—	58	—	—	2	—	—	—
Supermetanol CA	—	13	—	57	—	—	—	—	1	—
Trans Austria Gasleitung GmbH	8	69	—	32	149	—	1	37	—	—
Transitgas AG	—	8	—	—	70	—	—	—	—	—
Unión Fenosa Gas SA	11	—	58	—	—	—	60	—	1	—
Other(*)	138	51	11	27	232	50	35	91	12	—
	406	755	6,290	1,015	2,486	78	817	272	17	—
Unconsolidated Entities Controlled by Eni										
Agip Kazakhstan North Caspian Operating Co NV	177	285	—	2	894	5	—	917	7	—
Eni BTC Ltd	—	—	152	—	—	—	—	—	—	—
Other(*)	22	22	3	4	48	2	5	23	4	—
	199	307	155	6	942	7	5	940	11	—
	605	1,062	6,445	1,021	3,428	85	822	1,212	28	—
Entities Owned or Controlled by the Government										
Gruppo Enel	83	44	—	20	318	1	128	471	—	—
Gruppo Finmeccanica	44	44	—	50	37	—	22	9	—	—
GSE—Gestore Servizi Elettrici	94	104	—	466	—	81	462	16	—	3
Terna SpA	35	41	—	115	71	31	55	28	9	38
Other(*)	62	44	—	—	74	4	44	5	21	—
	318	277	—	651	500	117	711	529	30	41
	923	1,339	6,445	1,672	3,928	202	1,533	1,741	58	41

(*) Each individual amount included herein does not exceed euro 50 million.

Most significant transactions with joint ventures, associates and non-consolidated subsidiaries concerned:

- sale of natural gas to ACAM Clienti SpA, Altergaz SA and Gasversorgung Süddeutschland GmbH;
- provisions of specialized services in upstream activities and Eni's share of expenses incurred to develop oil fields from Agiba Petroleum Co, Agip Kazakhstan North Caspian Operating Co NV, Karachaganak Petroleum Operating BV, Mellitah Oil & Gas BV, Petrobel Belayim Petroleum Co and, only for Karachaganak Petroleum Operating BV, purchase of oil products and to Agip Kazakhstan North Caspian Operating Co NV, provisions of services by the Engineering & Constuction segment; services charged to Eni's associates are invoiced on the basis of incurred costs;
- gas transportation and distribution services in behalf of Azienda Energia e Servizi Torino SpA;
- payments of refining services to Bayernoil Raffineriegesellschaft mbH and Raffineria di Milazzo ScpA in relation to incurred costs;
- supply of oil products to Bernhard Rosa Inh. Ingeborg Plöchinger GmbH, Bronberger & Kessler und Gilg & Schweiger GmbH and Raffineria di Milazzo ScpA on the basis of prices referred to the quotations on international markets of the main oil products, as they would be conducted on an arm's length basis;
- acquisition of natural gas transport services outside Italy from Blue Stream Pipeline Co BV, GreenStream BV, Trans Austria Gasleitung GmbH and Transitgas AG, the issuing of guarantees on behalf of Blue Stream Pipeline Co BV and charges of fuel gas, used as drive gas, to Trans Austria Gasleitung GmbH;
- transactions related to the planning and the construction of the tracks for high speed/high capacity trains from Milan to Bologna with CEPAV (Consorzio Eni per l'Alta Velocità) Uno and related guarantees;
- guarantees issued on behalf of CEPAV (Consorzio Eni per l'Alta Velocità) Due and Saipon Snc in relation to contractual commitments related to the execution of project planning and realization;
- planning, construction and technical assistance to Kwanda Suporto Logistico Lda;
- acquisition of petrochemical products from Super Octanos CA and Supermetanol CA on the basis of prices referred to the quotations on international markets of the main products;
- performance guarantees given on behalf of Unión Fenosa Gas SA in relation to contractual commitments related to the results of operations and sales of LNG; and
- guarantees issued in relation to the construction of an oil pipeline on behalf of Eni BTC Ltd.

Most significant transactions with entities owned or controlled by the Government concerned:

- sale and transportation service of natural gas, the sale of fuel oil and the sale and purchase of electricity and the acquisition of electricity transmission service with Gruppo Enel;
- a long-term contract for the maintenance of new combined cycle power plants with Gruppo Finmeccanica;
- sale and purchase of electricity, green certificates and the fair value of derivative financial instruments included in prices of electricity related to sale/purchase transactions with GSE—Gestore Servizi Elettrici; and
- sale and purchase of electricity, the acquisition of domestic electricity transmission service and the fair value of derivative financial instruments included in prices of electricity related to sale/purchase transactions with Terna SpA.

Financing transactions with joint ventures, associates and non-consolidated subsidiaries as well as with entities directly and indirectly owned or controlled by the Government in the 2008, 2009 and 2010, respectively, consisted of the following:

(Euro 000 Million)	Dec. 31, 2010			2010	
Name	Receivables	Payables	Guarantees	Charges	Gains
Joint Ventures and Associates					
Artic Russia BV	104	3	—	—	1
Bayernoil Raffineriegesellschaft mbH	119	—	—	—	—
Blue Stream Pipeline Co BV	—	8	648	—	9
GreenStream BV	459	2	—	—	19
Raffineria di Milazzo ScpA	—	—	120	—	—
Trans Austria Gasleitung GmbH	144	—	—	—	6
Transmediterranean Pipeline Co Ltd	141	—	—	—	5
Other(*)	105	75	24	—	—
	1,072	88	792	—	40
Unconsolidated Entities Controlled by Eni					
Other(*)	53	39	1	—	1
	53	39	1	—	1
	1,125	127	793	—	41

(*) Each individual amount included herein does not exceed euro 50 million.

Most significant transactions with joint ventures, associates and non-consolidated subsidiaries concerned:

- bank debt guarantee issued on behalf of Blue Stream Pipeline Co BV and Raffineria di Milazzo ScpA;

- financing loans and cash deposit at Eni's financial companies on behalf of Artic Russia BV and a loan to Bayernoil Raffineriegesellschaft mbH for expenditures in refining plants; and
- the financing of the Austrian section of the gasline from the Russian Federation to Italy and the construction of natural gas transmission facilities and transport services with Trans Austria Gasleitung GmbH, GreenStream BV and Transmediterranean Pipeline Co Ltd, respectively.

The impact of transactions with related parties on the profit and loss account consisted of the following:

	2008			2009			2010		
(Euro Million)	**Total**	**Related Parties**	**Impact %**	**Total**	**Related Parties**	**Impact %**	**Total**	**Related Parties**	**Impact %**
Net sales from operations	108,082	5,048	4.67	83,227	3,300	3.97	98,523	3,274	3.32
Other income and revenues	728	39	5.36	1,118	26	2.33	956	58	6.07
Purchases, services and other	76,350	6,298	8.25	58,351	4,999	8.57	69,135	5,825	8.43
Other operating income (expense)	(124)	58	—	55	44	80.00	131	41	31.30
Financial income	7,985	42	0.53	5,950	27	0.45	6,117	41	0.67
Financial expense	(8,198)	(17)	0.21	(6,497)	(4)	0.06	(6,713)	—	—

Transactions with related parties concerned the ordinary course of Eni's business and were mainly conducted at an arm's length basis.

IAS 17, *LEASES*

IFRS Overview and Comparison to U.S. GAAP

Author's Note

In August 2010, the IASB and FASB published an exposure draft on accounting for leases as part of their convergence agenda. An author's note in Section 2 under the subsection IAS 17, *Leases* provides brief update on the status of this project.

The discussion in this subsection addresses only the effect of IAS 17 on the statement of comprehensive income. Recognition, measurement, presentation, and disclosures related to leasehold assets and liabilities shown on the balance sheet are discussed in section 2.

3.220 IAS 17 establishes the criteria for revenue and expense recognition for both lessees and lessors, regardless of whether the entity accounts for the lease as an operating or finance lease. A *finance lease* is one that transfers substantially all of the risks and rewards of ownership to the lessee. Classification as a finance lease requires a lessee to recognize an asset and related liability on its balance sheet and a lessor to remove the leased asset from its balance sheet and recognize a receivable for the lease payments. When a lease does not meet the criteria for classification as a finance lease, both the lessee and lessor should classify it as an operating lease.

Recognition and Measurement

IFRSs

3.221 Lessees holding assets under finance leases should recognize depreciation expense on the leasehold asset and a finance charge (interest expense) on the leasehold liability using the effective interest method of amortization. A lessee should recognize contingent rents as an expense of the period in which they are incurred.

3.222 A lessee should test and measure impairment losses on leased assets in accordance with IAS 36.

3.223 A lessee holding leased assets under operating leases should recognize expense on a straight-line basis over the lease term, unless another systematic basis better represents the pattern of benefits it expects to receive from the asset's use.

3.224 At the inception of a finance lease, a lessor should recognize a receivable measured at its net investment in the leased asset. A lessor should treat the lease payment as a return of principal and finance income and recognize the latter based on the effective interest method. A manufacturer or dealer lessor should recognize selling profit or loss during the period in accordance with its policy for regular sales. However, if artificially low rates of interest are quoted, the entity should restrict its selling profit to what would be earned if it charged a market rate of interest. Manufacturer and dealer lessors should recognize costs incurred to negotiate or conclude the lease as an expense in the same period as they recognize selling profit or loss.

3.225 A lessor should recognize lease income on operating leases on a straight-line basis over the lease term, unless another systematic basis better represents the pattern of benefits it expects to receive from the asset's use. A lessor should recognize other costs, such as depreciation expense on the leased asset, as an expense. A lessor should add any initial

indirect costs of negotiating and concluding the lease agreement to the carrying value of the asset and recognize an expense over the lease term on the same basis as it recognizes income.

U.S. GAAP

3.226 Like IFRSs, FASB ASC 840-10-25 contains guidance for assessing whether a lessee holds an asset under an operating lease or a capital (finance) lease. These criteria are similar to those in IFRSs. Like IFRSs, when the lessee holds an asset under an operating lease, FASB ASC 840-20-25-1 requires the lessee to recognize operating lease payments as expense on a straight-line basis over the lease term, unless another systematic and rational basis is more representative of the time pattern in which use benefit is derived from the leased property. In the latter case, the entity should use that basis.

3.227 Like IFRSs, FASB ASC 840-30-25-1 requires a lessee that holds an asset under a capital lease to record a leased asset and a corresponding lease liability. In accordance with paragraphs 1 and 6 of FASB ASC 840-30-35, when the asset is depreciable, the lessee should recognize depreciation expense on the asset and recognize interest expense on the liability using the effective interest method.

3.228 Unlike IFRSs, when the lessee recognizes a capital lease, paragraphs 41–45 of FASB ASC 840-10-25 provide additional criteria that lessors should meet before recognizing a capital lease, and removing the asset from their balance sheet. Once a lessor meets those criteria, like IFRSs, FASB ASC 840-30 requires the entity to recognize a receivable measured at its net investment in the lease. The lessor should then recognize interest income using the effective interest method. Similar to the requirements for lessee recognition of rent expense, FASB ASC 840-20-25-1 explains that if the lessor has an operating lease, it should recognize lease income on a straight-line basis over the lease term, unless another systematic and rational basis is more representative of the time pattern in which use benefit is derived from the leased property. In the latter case, the entity should use that basis.

Presentation

IFRSs

3.229 Unless an item of income or expense is material, neither IAS 1 nor IAS 17 require an entity to present income or expense items associated with lease agreements separately in the statement of comprehensive income.

U.S. GAAP

3.230 FASB ASC 840-30-45-3 does not require a lessee to classify interest expense or amortization of leased assets as separate items in the income statement. However, when the lessee includes amortization of assets held under capital leases in depreciation expense and discloses that fact, the lessee should separately disclose the amount of the amortization in either the financial statements or notes. FASB ASC 840-30-45 does not address any lessor income statement presentation matters.

3.231 FASB ASC 840-20-45-1 states that lessees should include rental costs associated with an operating lease in income from continuing operations. However, like IFRSs, this paragraph does not require rental costs to be identified separately on the income statement. FASB ASC 840-20-45 does not address income statement presentation by a lessor.

Disclosure

IFRSs

3.232 A lessee holding assets under finance leases should disclose any contingent rents recognized as an expense during the period. A lessee holding assets under operating leases should disclose lease and sublease payments recognized as an expense during the period, separately disclosing the amounts of minimum lease payments, sublease payments, and contingent rents.

3.233 If an impairment loss is recognized or reversed with respect to leased assets, an entity should make the required disclosures, in accordance with IAS 36.

3.234 Leases are included within the scope of IFRS 7, *Financial Instruments: Disclosures*, the requirements of which are applicable to lessors. In addition, for a finance lease, a lessor should disclose a reconciliation of its gross investment in the lease and present value of the lease receivable and any unearned finance income and contingent rents recognized as income during the period. For an operating lease, a lessor should disclose the amounts of future minimum lease payments and contingent rents recognized as income during the period.

U.S. GAAP

3.235 Like IFRSs, FASB ASC 840-20-50-1 requires a lessee holding assets under an operating lease to disclose rental expense for each period for which an income statement is presented, with separate amounts for minimum rentals, contingent rentals, and sublease rentals. An entity need not include rental payments under leases with terms of one month or less that were not renewed. For operating leases having initial or remaining noncancelable lease terms of more than one year, FASB ASC 840-20-50-2 requires a lessee to disclose the following, as of the date of the latest balance sheet presented:

- Required future minimum rental payments (in the aggregate and for each of the five succeeding fiscal years)
- Total future minimum rentals to be received under noncancelable subleases

3.236 Like IFRSs, FASB ASC 840-30-50-1 requires a lessee holding assets under a capital lease to disclose the following:

- As of the date of the latest balance sheet presented, future minimum lease payments (in the aggregate and for each of the five succeeding fiscal years) and total future minimum sublease rentals to be received
- For each period for which an income statement is presented, contingent rentals payments actually incurred

3.237 Like IFRSs, FASB ASC 235-10-50-1 requires disclosures of accounting policies. However, paragraphs 4–5 of FASB ASC 840-10-50 include more specific guidance with respect to accounting policy disclosures when leasing is a significant part of the lessor's income and also require

disclosure of its policy on contingent rents. See paragraph 2.252 in section 2 for a discussion of lessors' disclosure requirements.

3.238 Like IFRSs, FASB ASC 840-20-50-4 requires lessors with operating leases to disclose future minimum lease payments and contingent rental income recognized during the period.

3.239 Unlike IFRSs, U.S. GAAP does not generally require reconciliation disclosures previously explained. Also, FASB ASC 840-30 does not direct an entity to the guidance on financial liabilities as IAS 17 directs lessees that are contractually obligated under finance leases to IFRS 7. FASB ASC 825-10-50-8 exempts an entity from providing the required fair value disclosures for its lease contracts. However, like IFRSs, paragraphs 20–23 of FASB ASC 825-10-50 require an entity to provide the required disclosures about concentrations of credit risk and market risk for its lease liabilities.

Presentation and Disclosure Excerpts

Lessee—Finance and Operating Leases, Lessor—Operating Leases

3.240

Delhaize Brothers and Co. "The Lion" (Delhaize Group) SA (Dec 2010)

CONSOLIDATED INCOME STATEMENT (in part)

(In Millions of EUR)	Note	2010	2009	2008
Revenues	—	20,850	19,938	19,024
Cost of sales	24, 25	(15,497)	(14,813)	(14,204)
Gross profit	—	5,353	5,125	4,820
Gross margin	—	25.7%	25.7%	25.3%
Other operating income	27	85	78	96
Selling, general and administrative expenses	24	(4,394)	(4,192)	(3,962)
Other operating expenses	28	(20)	(69)	(50)
Operating profit	—	1,024	942	904
Operating margin	—	4.9%	4.7%	4.8%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Significant Accounting Policies (in part)

2.3. Summary of Significant Accounting Policies (in part)

Intangible Assets

Intangible assets include trade names and favorable lease rights that have been acquired in business combinations (unfavorable lease rights are recognized as "Other liabilities" and released in analogy with SIC 15 Operating Leases—Incentives), computer software, various licenses and prescription files separately acquired. Separately acquired intangible assets are initially recognized at cost, while intangible assets acquired as part of a business combination are measured initially at fair value (see "Business Combinations and Goodwill"). Intangible assets acquired as part of a business combination that are held to prevent others from using them ("defensive assets")—often being trade names with no intended future usage—are recognized separately from goodwill.

Expenditures on advertising or promotional activities, training activities and start-up activities, and on relocating or reorganizing part or all of an entity are recognized as an expense as incurred, i.e., when Delhaize Group has access to the goods or has received the services in accordance with the underlying contract.

Intangible assets are subsequently carried at cost less accumulated amortization and accumulated impairment losses. Amortization begins when the asset is available for use, as intended by management. Residual values of intangible assets are assumed to be zero and are reviewed at each financial year-end.

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique "for-own-use software" controlled by the Group are recognized as intangible assets when the following criteria are met:

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

Directly attributable costs capitalized as part of the software product include software development employee costs and directly attributable overhead costs. Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs recognized in a previous reporting period as an expense are not recognized as an asset in a subsequent period.

Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives. The useful lives of intangible assets with finite lives are reviewed annually and are as follows:

• Prescription files	15 years
• Favorable lease rights	Remaining lease term
• Computer software	3 to 5 years
• Other intangible assets	3 to 15 years

Intangible assets with indefinite useful lives are not amortized, but are annually tested for impairment and when there is an indication that the asset may be impaired. The Group believes that acquired and used trade names have indefinite lives because they contribute directly to the Group's cash flows as a result of recognition by the customer of each banner's characteristics in the marketplace. There are no legal, regulatory, contractual, competitive, economic or other factors that limit the useful life of the trade names. The assessment of indefinite life is reviewed annually to determine whether the indefinite life assumption continues to be supportable. Changes, if any, would result in prospective amortization.

Property, Plant and Equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment, if any. Acquisition costs include expenditures that are directly attributable to the acquisition of the asset. Such costs include the cost of replacing part of the asset and dismantling and restoring the site of an asset if there is a legal or constructive obligation and borrowing costs for long-term construction projects if the recognition criteria are met. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Costs of day-to-day servicing of property, plant and equipment are recognized in the income statement as incurred.

Depreciation is calculated using the straight-line method based on the estimated useful lives of the related assets and starts when the asset is available for use as intended by management. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate components of property, plant and equipment. Land is not depreciated. The useful lives of tangible fixed assets are as follows:

• Buildings	33 to 40 years
• Permanent installations	3 to 25 years
• Machinery and equipment	3 to 14 years
• Furniture, fixtures, equipment and vehicles	5 to 10 years

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "Other operating income" (Note 27) or "Other operating expenses" (Note 28) in the income statement.

Residual values, useful lives and methods of depreciation are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

Investment Property

Investment property is defined as property (land or building—or part of a building—or both) held by Delhaize Group to earn rentals or for capital appreciation or both, but not for sale in the ordinary course of business or for use in supply of goods or services or for administrative purposes and includes investment property under construction. Delhaize Group recognizes any part of an owned (or leased under a finance lease) property that is leased to third-party retailers as investment property, unless it represents an insignificant portion of the property.

Investment property is measured initially at cost including transaction costs. Subsequent to initial recognition, Delhaize Group elected to measure investment property at cost, less accumulated depreciation and accumulated impairment losses, if any (i.e., applying the same accounting policies as for property, plant and equipment). The fair values, which reflect the market conditions at the balance sheet date, are disclosed in Note 9.

Leases

The determination of whether an agreement is, or contains a lease, is based on the substance of the agreement at inception date. Leases are classified as finance leases when the terms of the lease agreement transfer substantially all the risks and rewards incidental to ownership to the Group. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets at the lower of fair value or present value of the minimum lease payments at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are allocated between finance costs and a reduction of the lease obligation to achieve a constant rate of interest over the lease term. Finance lease assets and leasehold improvements are depreciated over the shorter of the expected useful life of similar owned assets or the relevant lease term.

Rents paid on operating leases are charged to income on a straight-line basis over the lease term. Benefits received and receivable as an incentive to enter into an operating lease are spread over the relevant lease term on a straight-line basis as a reduction of rent expense.

In connection with investment property, where the Group is the lessor, leases where the Group does not transfer substantially all the risk and rewards incident to the ownership of the investment property are classified as operating leases and are generating rental income. Contingent rents are recognized as other operating income (Note 27) in the period in which they are earned.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at the balance sheet date using management's best estimate of the expenditures expected to be required to settle the obligation, discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risk specific on the liability, if material. Where discounting is used, the increase in the provision due to the passage of time ("unwinding of the discount") is recognized within "Finance costs" (Note 29.1).

- *Store closing costs*: Delhaize Group regularly reviews its stores' operating performance and assesses the Group's plans for certain store closures. Closing stores results in a number of activities required by IFRS in order to appropriately reflect the value of assets and liabilities and related store closing costs, such as a review of net realizable value of inventory or review for impairment of assets or cash-generating units (for both activities see accounting policies described above). In addition, Delhaize Group recognizes "Closed store provisions," which consist primarily of provisions for onerous contracts and severance ("termination") costs (for both see further below). Costs recognized as part of store closings are included in "Other operating expenses" (Note 28), except for inventory write-downs, which are classified as "Cost of sales" (Note 25). If appropriate (see accounting policy for "Non-Current Assets/Disposal Groups and Discontinued Operations" above), stores are accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Onerous contracts: IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* requires the recognition of a provision for a present obligation arising under an onerous contract, which is defined as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. Judgment is required in determining if a present obligation exists, taking into account all available evidence. Once the existence has been established, at the latest upon actual closing, Delhaize Group recognizes provisions for the present value of the amount by which the unavoidable costs to fulfill the agreements exceeds the expected benefits from such agreements, which comprises the estimated non-cancellable lease payments, including contractually required real estate taxes, common area maintenance and insurance costs, net of anticipated subtenant income. The adequacy of the closed store provision is dependent upon the economic conditions in which stores are located which will impact the Group's ability to realize estimated sublease income. Owned and finance leased stores that are closed and rented out to third-parties are reclassified as investment property (Note 9).

When *termination costs* are incurred in connection with a store closing, a liability for the termination benefits is recognized in accordance with IAS 19 *Employee Benefits* , when the Group is demonstrably committed to the termination for the estimated settlement amount, which is when the implementation of a formal plan has started or the main features have been announced to those affected (see also "Employee Benefits" below).

Store closing provisions are reviewed regularly to ensure that accrued amounts appropriately reflect management's best estimate of the outstanding commitments and that additional expenses are provided for or amounts that are no longer needed for their originally intended purpose are released.

2.4. Significant Use of Estimates, Assumptions and Judgment

The preparation of financial statements in conformity with IFRS requires Delhaize Group to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and income and expenses, which inherently contain some degree of uncertainty. These estimates are based on experience and assumptions Delhaize Group believes to be reasonable under the circumstances. By definition, actual results could and will often differ from these estimates. In the past, the Group's estimates generally have not deviated significantly from actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts in the consolidated financial statements is included in, but not limited to, the following notes:

- Note 3—Identification and aggregation of operating segments;
- Notes 5.2, 5.3—Disposal Group Classified as Held for Sale and Discontinued Operations;
- Notes 6, 7, 8, 11, 14, 19—Assessing assets for impairment and fair values of financial instruments;
- Notes 13, 25—Accounting for vendor allowances;
- Note 18.3—Classification of leases;
- Note 20—Provisions;
- Note 21—Employee Benefits;
- Note 22—Income Taxes.

7. Intangible Assets (in part)

Intangible assets consist primarily of trade names, purchased and developed software, favorable lease rights, prescription files and other licenses.

Delhaize Group has determined that its trade names have an indefinite useful life and are not amortized, but are tested annually for impairment and whenever events or circumstances indicate that impairment may have occurred. Trade names are tested for impairment by comparing their recoverable amount, being their value in use, with their carrying amount. The value in use is estimated using revenue projections of each operating entity (see Note 6) and applying an estimated royalty rate of 0.45% and 0.70% for Food Lion and Hannaford, respectively. No impairment loss of trade names was recorded or reversed in 2010, 2009 or 2008.

See Note 8 for a description of the impairment test for assets with finite lives. During 2009, Delhaize Group impaired various software solutions that related to projects that the Group abandoned during the year.

(In Million of EUR)	Trade Names	Developed Software	Purchased Software	Favorable Lease Rights	Other	Total
Cost at January 1, 2010	362	151	175	201	49	938
Additions	—	43	43	—	6	92
Sales and disposals	—	(4)	(2)	(22)	—	(28)
Transfers to/from other accounts	—	(4)	5	—	(2)	(1)
Currency translation effect	28	6	9	16	3	62
Cost at December 31, 2010	390	192	230	195	56	1,063
Accumulated amortization at January 1, 2010	—	(71)	(103)	(123)	(24)	(321)
Accumulated impairment at January 1, 2010	(33)	(3)	(2)	(5)	—	(43)
Amortization expense	—	(21)	(32)	(12)	(4)	(69)
Sales and disposals	—	4	1	22	—	27
Transfers to/from other accounts	—	(1)	1	(1)	2	1
Currency translation effect	(2)	(4)	(6)	(10)	(2)	(24)
Accumulated amortization at December 31, 2010	—	(94)	(138)	(129)	(28)	(389)
Accumulated impairment at December 31, 2010	(35)	(2)	(3)	—	—	(40)
Net carrying amount at December 31, 2010	355	96	89	66	28	634

8. Property, Plant and Equipment (in part)

(In Millions of EUR)	Land and Buildings	Leasehold Improvements	Furniture, Fixtures, Equipment and Vehicles	Construction in Progress and Advance Payments	Property Under Finance Leases	Total Property, Plant and Equipment
Cost at January 1, 2010	1,764	1,652	2,891	62	845	7,214
Additions	59	82	228	184	54	607
Sales and disposals	(11)	(29)	(124)	—	(27)	(191)
Acquisitions through business combinations	1	1	2	—	—	4
Transfers to/from other accounts	45	58	55	(154)	—	4
Currency translation effect	72	97	165	2	58	394
Balance at December 31, 2010	1,930	1,861	3,217	94	930	8,032
Accumulated depreciation at January 1, 2010	(503)	(899)	(1,633)	—	(330)	(3,365)
Accumulated impairment at January 1, 2010	—	(14)	(34)	—	(16)	(64)
Depreciation expense	(71)	(127)	(254)	—	(51)	(503)
Impairment loss	—	(2)	(5)	—	(5)	(12)
Sales and disposals	8	29	115	—	27	179
Transfers to/from other accounts	(1)	(2)	1	—	—	(2)
Currency translation effect	(20)	(52)	(94)	—	(24)	(190)
Accumulated depreciation at December 31, 2010	(587)	(1,055)	(1,881)	—	(380)	(3,903)
Accumulated impairment at December 31, 2010	—	(12)	(23)	—	(19)	(54)
Net carrying amount at December 31, 2010	1,343	794	1,313	94	531	4,075

In accordance with the accounting policy summarized in Note 2.3, Delhaize Group tests assets with finite lives for impairment whenever events or circumstances indicate that impairment may exist. The Group monitors the carrying value of its retail stores, the lowest level asset group for which identifiable cash flows are independent of other (groups of) assets ("cash-generating unit" or CGU), for potential impairment based on historical and projected cash flows. The recoverable value is estimated using projected discounted cash flows based on past experience and knowledge of the markets in which the stores are located, adjusted for various factors, such as inflation and general economic conditions. Independent third-party appraisals are obtained in certain situations to help estimate fair values based on the location and condition of the stores.

Management believes that the assumptions applied when testing for impairment are reasonable estimates of the economic conditions and operating performance of the different CGUs. Changes in these conditions or performance will have an impact on the projected cash flows used to determine the recoverable amount of the CGUs and might result in additional stores identified as being possibly impaired and/or on the impairment amount calculated.

Impairment losses of property, plant and equipment, recorded in other operating expenses, amounted to EUR 12 million, EUR 13 million and EUR 24 million in 2010, 2009 and 2008, respectively. Impairment losses recognized in discontinued operations (related to assets classified as held for sale, see Note 5.3) were EUR 5 million in 2008.

The impairment losses of EUR 12 million recognized in 2010, relate to underperforming stores (2009: EUR 6 million), mainly in the United States, with only insignificant amounts incurred in connection with store closings (2009: EUR 5 million). In accordance with the Group's policy, closed stores held under finance lease agreements are reclassified to investment property (see Note 9). In 2009, the Group recorded on such closed stores additional impairment losses of EUR 4 million as other operating expenses. In 2008, the Group recognized an impairment loss of EUR 24 million mainly relating to Sweetbay stores (EUR 19 million) and stores operated in Germany (EUR 5 million).

The impairment charges can be summarized by property, plant and equipment categories as follows:

	December 31		
(In Millions of EUR)	2010	2009	2008
Leasehold improvements	2	5	9
Furniture, fixtures, equipment and vehicles	5	7	7
Buildings	—	1	—
Property under finance leases	5	—	8
Total	12	13	24

Property under finance leases consists mainly of buildings. The number of owned versus leased stores by segment at December 31, 2010 is as follows:

	Owned	Finance Leases	Operating Leases	Affiliated and Franchised Stores Owned by Their Operators or Directly Leased by Their Operators From a Third Party	Total
United States	144	671	812	—	1,627
Belgium	131	34	240	400	805
Greece	41	—	145	37	223
Rest of the World	15	—	130	—	145
Total	331	705	1,327	437	2,800

9. Investment Property (in part)

Investment property, principally comprised of owned rental space attached to supermarket buildings and excess real estate, is held for long-term rental yields or appreciation and is not occupied by the Group.

In accordance with the Group's accounting policy explained in Note 2.3, investment property is accounted for at cost, less accumulated depreciation and accumulated impairment losses, if any. When stores held under finance lease agreements are closed (see Note 20.1), they are reclassified to investment property and in 2009 the Group reclassified EUR 14 million, net of accumulated depreciation, of closed store related assets in the United States and recognized simultaneously an impairment loss of EUR 4 million (see also Note 8).

10. Financial Instruments by Category (in part)

10.2. Financial Liabilities

Financial Liabilities by Class and Measurement Category

	December 31, 2010					
		Financial Liabilities Measured at Fair Value				
(In Millions of EUR)	Note	Derivatives—Through Profit or Loss	Derivatives—Through Equity	Financial Liabilities Being Part of a Fair Value Hedge Relationship	Financial Liabilities at Amortized Cost	Total
Non-Current						
Long-term debt	18.1	—	—	544	1,422	1,966
Obligations under finance leases	18.3	—	—	—	684	684
Derivative instruments	19	3	13	—	—	16
Current						
Short-term borrowings	18.2	—	—	—	16	16
Long-term debt—current portion	18.1	—	—	—	40	40
Obligations under finance leases	18.3	—	—	—	57	57
Derivative instruments	19	—	—	—	—	—
Accounts payable	—	—	—	—	1,574	1,574
Total financial liabilities		3	13	544	3,793	4,353

15. Cash and Cash Equivalents

(In Millions of EUR)	2010	2009	2008
Term deposits with original maturity of three months or less	491	166	25
Cash at banks	203	200	249
Cash on hand	64	73	46
Cash and cash equivalents at December 31	758	439	320[1]

[1] Amount excludes EUR 1 million, which is classified as asset held for sale as of December 31, 2008.

Supplemental Cash Flow information:

(In Millions of EUR)	2010	2009	2008
Non-cash investing and financing activities:			
Finance lease obligations incurred for store properties and equipment	54	66	53

18. Financial Liabilities (in part)

18.3. Leases

As explained in Note 2.3, the classification of a lease agreement depends on the allocation of risk and rewards incidental to the ownership of the leased item. When assessing the classification of a lease agreement, certain estimates and assumptions need to be made and applied, which include, but are not limited to, the determination of the expected lease term and minimum lease payments, the assessment of the likelihood of exercising options and estimation of the fair value of the lease property.

Delhaize Group as Lessee—Finance and Operating Lease Commitments

As detailed in Note 8, Delhaize Group operates a significant number of its stores under finance and operating lease arrangements. Various properties leased are (partially or fully) subleased to third parties, where the Group is therefore acting as a lessor (see further below). Lease terms (including reasonably certain renewal options) generally range from 1 to 40 years with renewal options ranging from 3 to 36 years.

The schedule below provides the future minimum lease payments, which have not been reduced by expected minimum sublease income of EUR 50 million, due over the term of non-cancellable subleases, as of December 31, 2010:

(In Millions of EUR)	2011	2012	2013	2014	2015	Thereafter	Total
Finance Leases							
Future minimum lease payments	134	122	118	113	110	937	1,534
Less amount representing interest	(77)	(75)	(69)	(63)	(58)	(451)	(793)
Present value of minimum lease payments	57	47	49	50	52	486	741
Of which related to closed store lease obligations	3	3	3	2	3	15	29
Operating Leases							
Future minimum lease payments (for non-cancellable leases)	269	233	207	182	157	831	1,879
Of which related to closed store lease obligations	13	11	10	8	7	23	72

The average effective interest rate for finance leases was 12.0%, 11.8% and 11.9% at December 31, 2010, 2009 and 2008, respectively. The fair value of the Group's finance lease obligations using an average market rate of 5.1% at December 31, 2010 was EUR 994 million (2009: 6.1%, EUR 887 million; 2008: 8.3%, EUR 817 million).

The Group's obligation under finance leases is secured by the lessors' title to the leased assets.

Rent payments, including scheduled rent increases, are recognized on a straight-line basis over the minimum lease term. Total rent expense under operating leases was EUR 295 million, EUR 270 million and EUR 245 million in 2010, 2009 and 2008, respectively, being included predominately in "Selling, general and administrative expenses." Certain lease agreements also include contingent rent requirements which are generally based on store sales and were insignificant in 2010, 2009 and 2008.

Sublease payments received and recognized into income for 2010, 2009 and 2008 were EUR 22 million, EUR 22 million and EUR 19 million, respectively.

Delhaize Group signed lease agreements for additional store facilities under construction at December 31, 2010. The corresponding lease terms as well as the renewal options generally range from 15 to 25 years. Total future minimum lease payments for these agreements relating to stores under construction were approximately EUR 208 million.

Provisions for EUR 44 million, EUR 53 million and EUR 51 million at December 31, 2010, 2009 and 2008, respectively, representing the discounted value of remaining lease payments, net of expected sublease income, for closed stores, were included in "Closed Store Provisions" (see Note 20.1). The discount rate is based on the incremental borrowing rate for debt with similar terms to the lease at the time of the store closing.

Delhaize Group as Lessor—Finance and Operating Expected Lease Income

As noted above, occasionally, Delhaize Group acts as a lessor for certain owned or leased property, mainly in connection with closed stores that have been sub-leased to other parties, retail units in Delhaize Group shopping centers or within a Delhaize Group store. Currently the Group did not enter into any lease arrangements with independent third party lessees that would qualify as finance leases. Rental income is included in "Other Operating Income" in the income statement.

The undiscounted expected future minimum lease payments to be received under non-cancellable operating leases as at December 31, 2010 can be summarized as follows:

(In Millions of EUR)	2011	2012	2013	2014	2015	Thereafter	Total
Future minimum lease payments to be received	38	33	26	13	3	15	128
Of which related to sub-lease agreements	16	13	8	3	2	8	50

The total amount of EUR 128 million represents expected future lease income to be recognized as such in the income statement and excludes expected future sub-lease payments to receive in relation to stores being part of the "Closed Store Provision" (see Note 20.1).

Contracts including contingent rent clauses are insignificant to the Group.

3.241

Silver Fern Farms Limited (Sep 2010)

STATEMENT OF COMPREHENSIVE INCOME (in part)

For the 13 months ended 30 September 2010

NZD in Thousands ($000)	Notes	Parent		Consolidated	
		13 Months to 30 Sept 10	12 Months to 31 Aug 09	13 Months to 30 Sept 10	12 Months to 31 Aug 09
Continuing Operations					
Sale of goods		1,780,190	1,962,057	1,831,682	2,001,614
Other revenue	5	2,052	850	1,512	320
Revenue		1,782,242	1,962,907	1,833,194	2,001,934
Other income	6	49,623	10,258	45,536	12,656
Total income		1,831,865	1,973,165	1,878,730	2,014,590
Raw materials and consumables used		1,275,184	1,352,884	1,304,687	1,365,931
Employee benefits expense	7	271,544	274,863	274,971	283,104
Depreciation and amortisation		25,320	24,197	25,469	24,679
Finance costs	7	22,322	32,703	22,845	32,776
Other operational expenses	7	252,632	291,707	260,574	304,091
Share of profits of associate	29	—	—	(1,397)	(1,105)
Profit/(loss) from continuing operations before member distributions, income tax and non-recurring items		(15,137)	(3,189)	(8,419)	5,114
Member distributions	10	98	153	98	153
Profit/loss) before income tax and non-recurring items		(15,235)	(3,342)	(8,517)	4,961
Non-recurring items—income	8	11,341	48,476	11,378	48,476
Non-recurring items—costs	8	(15,028)	(9,851)	(18,276)	(10,078)
Total non-recurring items		(3,687)	38,625	(6,898)	38,398
Profit/(loss) before income tax		(18,922)	35,283	(15,415)	43,359
Income tax expense/(benefit)	9	(1,966)	66	(1,396)	(238)
Net profit/loss) for the period		(16,956)	35,217	(14,019)	43,597
Profit/loss) attributable to shareholders of the parent		(16,956)	35,217	(14,019)	43,597

NOTES TO THE FINANCIAL STATEMENTS (in part)

For the 13 months ended 30 September 2010

2. Summary of Significant Accounting Policies (in part)

p. Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as Lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are included in the statement of comprehensive income as finance costs.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term. These assets are measured at cost.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

Group as Lessor

Leases in which the Group retains substantial all the risks and benefits of ownership of the leased assets are classified as operating leases. Rental income is recognised over the life of the lease.

ii Significant Accounting Estimates and Assumptions (in part)

Estimate of Useful Lives of Assets

The estimation of useful lives of assets has been based on historical experience as well as manufacturer's warranties (for plant and equipment), lease terms (for leased equipment) and turnover policies (for motor vehicles). In addition, the condition of the assets is assessed at least once a year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary.

17. Property, Plant and Equipment (in part)

b. Reconciliation of the Carrying Amounts at the Beginning and End of the Period

Consolidated NZD in Thousands ($000)	Land	Buildings	Plant and Equipment	Vehicles	Work in Progress	Total
13 months ended 30 Sept 2010						
At 1 September 2009, net of accumulated depreciation	43,434	123,352	103,460	664	6,853	277,763
Additions	3,539	4,530	12,189	134	2,026	22,418
Disposals	(1,165)	(5,255)	(15,947)	(511)	(276)	(23,154)
Revaluations	18,458	51,770	—	—	—	70,228
Impairment of assets	—	—	(102)	—	—	(102)
Reclassification of assets	(1,499)	2,032	(537)	2	—	(2)
Transfers (to)/from assets held for sale	(1,076)	(447)	(22)	—	—	(1,545)
Depreciation charge for the year	(95)	(6,015)	(17,169)	(160)	(196)	(23,635)
Depreciation on disposals	90	1,685	13,430	489	—	15,694
Exchange adjustment	—	(25)	(24)	(8)	—	(57)
At 30 Sept 2010, net of accumulated depreciation	61,686	171,627	95,278	610	8,407	337,608
Cost or fair value	61,686	172,124	367,437	6,834	8,603	616,684
Accumulated depreciation and impairment	—	(497)	(272,159)	(6,224)	(196)	(279,076)
Net carrying value	61,686	171,627	95,278	610	8,407	337,608

g. Carrying Value of Plant and Equipment Under Finance Leases

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 30 September 2010 is $1,166,000 (2009: $531,000).

19. Interest Bearing Loans and Borrowings (in part)

			Parent		Consolidated	
NZD in Thousands ($000)	Average Effective Interest Rate (%)	Maturity	As at 30 Sept 10	As at 31 Aug 09	As at 30 Sept 10	As at 31 Aug 09
Current						
NZ bank overdraft (9.5m)	10.73%	On demand	860	437	860	437
GBP bank overdraft (GBP 1.5m)	2.12%	On demand	—	—	1,987	15
Total overdrafts			860	437	2,847	452
Obligations under finance leases	10.01%	Current	348	146	348	146
Secured loan	4.94%	Current	49	542	49	542
Total interest bearing loans and borrowings—current			397	688	397	688
Non-Current						
Obligations under finance leases	10.01%		832	183	832	183
Secured loan	4.94%	Sep-12	41,000	108,000	41,000	108,000
Total interest bearing loans and borrowings—non-current			41,832	108,183	41,832	108,183
Convertible redeemable preference shares						
Convertible redeemable preference shares	8.95%	Dec-11	1,595	1,622	1,595	1,622

Silver Fern Farms Limited has renewed its banking facilities effective 29 September 2010. The two year facility has an expiry date of September 2012 and is on similar terms to the previous arrangements. The renewed facilities include specific funding to repay the $75 m SFF030 Bond in November 2010.

27. Commitments and Contingencies (in part)

Operating Lease Commitments—Group as Lessee

The Group has entered into commercial leases on certain motor vehicles and items of machinery, office space, processing and coolstore facilities where it is not in the best interest of the Group to purchase these assets. These leases have an average life of between 4 and 15 years with renewal terms included in the contracts. Renewals are at the option of the specific entity that holds the lease. There are no restrictions placed upon the lessee by entering into these leases. Future minimum rentals payable under non-cancellable operating leases at balance date are as follows:

	Parent		Consolidated	
NZD in Thousands ($000)	**As at 30 Sept 10**	**As at 31 Aug 09**	**As at 30 Sept 10**	**As at 31 Aug 09**
Operating leases				
Within one year	7,486	7,402	7,578	7,501
After one year but not more than five years	13,822	14,015	13,947	14,521
More than five years	10,152	10,789	10,250	10,896
Total operating lease commitments	31,460	32,206	31,775	32,918

Finance Lease and Hire Purchase Commitments

The Group has finance leases for various items of plant and machinery, these leases have no terms of renewal or purchase options and escalation clauses. Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as follows:

Parent and Consolidated NZD in Thousands ($000)	**As at 30 Sept 10 Minimum Payments**	**As at 31 Aug 09 Minimum Payments**
Finance lease and hire purchase commitments		
Within one year	424	146
After one year but not more than five years	907	215
Total minimum lease payments	1,331	361
Less amounts representing finance charges	(151)	(32)
Present value of minimum payments	1,180	329

Operating Lease Commitments—Group as Lessor

The Group has entered into commercial property leases of the Group's surplus office and manufacturing buildings. These properties held under operating leases are measured under the fair value model as the properties are held to earn rentals. These non-cancellable leases have remaining non-cancellable lease terms of between one and six years. Future minimum rentals receivable under non-cancellable operating leases at balance date are as follows:

	Parent		Consolidated	
NZD in Thousands ($000)	**As at 30 Sept 10**	**As at 31 Aug 09**	**As at 30 Sept 10**	**As at 31 Aug 09**
Within one year	44	185	44	185
After one year but not more than five years	—	58	—	58
More than five years	—	—	—	—
Total operating lease commitments (as lessor)	44	243	44	243

Lessor—Finance Leases

3.242

Telecom Corporation of New Zealand Limited (Jun 2010)

INCOME STATEMENT (in part)

For the years ended 30 June 2010, 2009 and 2008

Year Ended 30 June (Dollars in Millions, Except per Share Amounts)	Notes	Group			Parent	
		2010 NZ$M	2009 NZ$M	2008 NZ$M	2010 NZ$M	2009 NZ$M
Operating revenues and other gains	3					
Local service		1,022	1,049	1,061	—	—
Calling	4	1,003	1,239	1,291	—	—
Interconnection		178	177	178	—	—
Mobile		826	822	875	—	—
Data		642	652	638	—	—
Broadband and internet		574	582	547	—	—
IT services		480	486	439	—	—
Resale		274	333	370	—	—
Other operating revenues	4	245	286	309	1,289	359
Other gains	6	27	12	7	367	—
		5,271	5,638	5,715	1,656	359
Operating expenses	5					
Labour		(893)	(909)	(886)	—	—
Intercarrier costs		(957)	(1,239)	(1,243)	—	—
Other operating expenses	5	(1,657)	(1,710)	(1,695)	(1)	(13)
Asset impairments	6	—	(101)	—	(300)	(107)
Other expenses	6	—	—	—	—	(66)
Depreciation		(757)	(683)	(574)	—	—
Amortisation		(275)	(234)	(187)	—	—
		(4,539)	(4,876)	(4,585)	(301)	(186)
Finance income	7	22	41	119	306	297
Finance expense	7	(202)	(242)	(271)	(453)	(467)
Share of associates' net profits/(losses)		1	(1)	(3)	—	—
		(179)	(202)	(155)	(147)	(170)
Net earnings before income tax		553	560	975	1,208	3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1. Statement of Accounting Policies (in part)

Specific Accounting Policies (in part)

As described below, these accounting policies have been applied consistently to all periods presented in these financial statements.

Leased Assets

Telecom is a lessor of equipment. Such leases are considered operating leases where substantially all the risks and rewards incidental to ownership remain with Telecom. Rental income is taken to revenue on a straight-line basis over the lease term. Leases are classified as finance leases where substantially all the risks and rewards of ownership transfer from Telecom to the lessee. Amounts due from lessees under finance leases are recorded as receivables at Telecom's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the net investment outstanding in respect of the leases.

Telecom is a lessee of certain plant, equipment, land and buildings under both operating and finance leases. Lease costs relating to operating leases are recognised on a straight-line basis over the life of the lease. Finance leases, which effectively transfer to Telecom substantially all the risks and benefits of ownership of the leased assets, are capitalised at the lower of the leased asset's fair value or the present value of the minimum lease payments at inception of the lease. The leased assets and corresponding liabilities are recognised and the leased assets are depreciated over their estimated useful lives.

Financial Instruments (in part)

Telecom has derivative and non-derivative financial instruments. Telecom's non-derivative financial instruments comprise investments in equity and debt securities, trade

receivables, other receivables, cash, loans and borrowings, trade payables and finance lease receivables.

Non-derivative financial instruments are recognised initially at fair value, plus for instruments not at fair value through profit and loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if Telecom becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised if Telecom's contractual rights to the cash flows from the financial assets expire or if Telecom transfers the financial asset to another party without retaining control or substantially all of the risks and rewards of the asset. Purchases and sales of financial assets are accounted for at trade date (i.e., the date Telecom commits itself to purchase or sell the asset). Financial liabilities are de-recognised if Telecom's obligations specified in the contract expire or are discharged or cancelled.

Note 5. Operating Expenses (in part)

Other Operating Expenses

	Group		
Year Ended 30 June	**2010 NZ$M**	**2009 NZ$M**	**2008 NZ$M**
Other Operating Expenses			
Direct costs	282	360	341
Mobile acquisition, updates and dealer commissions	295	292	322
Procurement and IT services expenses	292	319	264
Computer costs	200	202	197
Advertising costs	98	93	90
Broadband and internet	83	57	78
Accommodation—lease and rental costs	76	72	61
Accommodation—other costs	70	63	66
Outsourcing	36	45	52
Provision for doubtful debts	17	24	29
Equipment—lease and rental costs	10	11	11
Research costs	8	10	9
Movement in provision for inventory obsolescence	(3)	9	6
Directors' fees	1	1	2
Foreign exchange (gains)/losses	10	(9)	(1)
(Gain)/loss on disposal of property, plant and equipment	—	1	(3)
Other	182	160	171
	1,657	1,710	1,695

Telecom has revised the presentation of certain mobile handset revenues and cost of sales as detailed in note 3. Previously reported other operating expenses were NZ$1,671 million for the year ended 30 June 2009 and NZ$1,613 million for the year ended 30 June 2008.

Note 7. Finance Income and Expense

Year Ended 30 June	Group			Parent	
	2010 NZ$M	2009 NZ$M	2008 NZ$M	2010 NZ$M	2009 NZ$M
Finance income:					
Interest income from cash and deposits	8	28	98	—	—
Other interest income	13	13	21	—	—
Finance lease income	1	—	—	—	—
Interest income on loans to subsidiary companies	—	—	—	306	297
Finance income	22	41	119	306	297
Finance expense:					
Finance expense on long-term debt:					
—Euro Medium Term Notes (EMTN)[1]	154	187	203	—	—
—Capital notes	—	—	10	—	—
—TeleBonds	42	43	36	—	—
Revaluation of interest rate derivatives	2	(5)	(4)	—	—
Other interest and finance expenses	24	35	38	—	—
Interest expense on loans from subsidiary companies	—	—	—	453	467
	222	260	283	453	467
Less interest capitalised	(20)	(18)	(12)	—	—
Finance expense	202	242	271	453	467

[1] Includes NZ$68 million recycled from the cash flow hedge reserve for the year ended 30 June 2010 (30 June 2009: NZ$665 million, 30 June 2008: NZ$90 million).

Interest is capitalised on property, plant and equipment and intangible assets under development at an annualised rate of 7.8% (30 June 2009: 8.0%; 30 June 2008: 8.0%).

Note 11. Receivables and Prepayments

Year Ended 30 June	Group		Parent	
	2010 NZ$M	2009 NZ$M	2010 NZ$M	2009 NZ$M
Short-Term Receivables and Prepayments:				
Trade receivables	481	510	—	—
Less allowance for doubtful accounts receivable	(24)	(29)	—	—
	457	481	—	—
Unbilled rentals and tolls	132	182	—	—
Finance lease receivable (see note 25)	12	—	—	—
Prepaid expenses and other receivables	101	118	—	—
Due from subsidiaries	—	—	1,626	485
	702	781	1,626	485
Long-Term Receivables and Prepayments:				
Finance lease receivable (see note 25)	21	—	—	—
Other receivables	10	—	—	—
	31	—	—	—

Bad debts of NZ$22 million (30 June 2009: NZ$27 million) were written off against the allowance for doubtful accounts during the year.

Note 15. Property, Plant and Equipment (in part)

Group 30 June 2010	Telecommunications Equipment and Plant NZ$M	Freehold Land NZ$M	Building NZ$M	Other Assets NZ$M	Work in Progress NZ$M	Total NZ$M
Cost						
Balance as at 1 July 2009	10,752	94	612	517	454	12,429
Acquisitions	144	—	39	93	479	755
Transfers	456	—	—	(2)	(454)	—
Disposals	(218)	—	(5)	(4)	—	(227)
Currency movements	(20)	—	(2)	(1)	—	(23)
Balance as at 30 June 2010	11,114	94	644	603	479	12,934
Accumulated depreciation and impairment losses						
Balance as at 1 July 2009	(7,463)	—	(336)	(342)	—	(8,141)
Depreciation charge	(646)	—	(31)	(80)	—	(757)
Disposals	214	—	4	4	—	222
Currency movements	17	—	(2)	1	—	16
Balance as at 30 June 2010	(7,878)	—	(365)	(417)	—	(8,660)
Net book value at 30 June 2010	3,236	94	279	186	479	4,274

Operating Leases

Included in buildings at 30 June 2010 are buildings on leasehold land with a cost of NZ$14 million (30 June 2009: NZ$14 million) together with accumulated depreciation of NZ$6 million (30 June 2009: NZ$5 million).

Finance Leases

Telecom has certain eguipment subject to finance lease arrangements.This eguipment is included in the telecommunications eguipment category of property, plant and eguipment. As at 30 June 2010 the equipment capitalised under finance leases had a cost of NZ$88 million (30 June 2009: NZ$88 million) together with accumulated depreciation of NZ$76 million (30 June 2009: NZ$66 million). Telecom had prepaid all its minimum lease payments under these finance leases and as a result has no outstanding finance lease liability.

Note 17. Provisions (in part)

Group 30 June 2010	Commercial NZ$M	Restructuring NZ$M	Property NZ$M	Other NZ$M	Total NZ$M
Balance at 1 July 2009	11	9	17	24	61
Provisions made during the year	—	14	5	9	28
Provisions utilised during the year	(2)	(12)	—	(2)	(16)
Release of provision	(7)	—	(1)	(6)	(14)
Currency movements	—	—	(1)	—	(1)
Balance as at 30 June 2010	2	11	20	25	58
Current	2	11	1	5	19
Non-current	—	—	19	20	39
	2	11	20	25	58

Property

Property provisions relate primarily to make-good reguirements under property leases and onerous leases.

NZ$1 million is expected to be utilised during the year ended 30 June 2011. The remainder, disclosed as non-current, is expected to be utilised beyond one year.

Note 24. Financial Instruments and Risk Management (in part)

Telecom manages its treasury activities through a board-approved treasury constitution consisting of treasury governance and policy frameworks.Telecom is exposed to foreign currency, interest rate, credit, liquidity and equity risks. Each of these risks, the associated financial instruments and the management of those risks are detailed in this note.

Financial Instruments (in part)

Telecom's financial instruments are classified under IFRS as follows:

Group Year Ended 30 June 2010	Fair Value Through Profit or Loss NZ$M	Fair Value Through Other Comprehensive Income NZ$M	Designated in Hedging Relationships NZ$M	Amortised Cost NZ$M	Total NZ$M
Assets					
Current assets					
Cash	360	—	—	—	360
Short-term derivative assets	1	—	3	—	4
Trade and other receivables	—	—	—	461	461
Finance lease receivables	—	—	—	12	12
	361	—	3	473	837
Non-current assets					
Long-term derivative assets	—	—	51	—	51
Other receivables	—	—	—	10	10
Finance lease receivables	—	—	—	21	21
Long-term investments[(1)]	—	273	—	1	274
	—	273	51	32	356
Liabilities					
Current liabilities					
Short-term derivative liabilities	(1)	—	(21)	—	(22)
Trade accounts payable	—	—	—	(809)	(809)
Short-term debt	—	—	—	(163)	(163)
Long-term debt due within one year	—	—	—	(21)	(21)
	(1)	—	(21)	(993)	(1,015)
Non-current liabilities					
Long-term derivative liabilities	(49)	—	(391)	—	(440)
Long-term debt due after one year	—	—	—	(2,137)	(2,137)
	(49)	—	(391)	(2,137)	(2,577)

[(1)] Excludes associates.

Adoption of IFRS 9

As described in note 1. Telecom has adopted part 1 of IFRS 9 as at 31 December 2009, being the date of Telecom's initial application, resulting in changes in the categories and measurement of some of Telecom's financial assets. The table below illustrates the classification and carrying amount of Telecom's financial assets under IAS 39 and IFRS 9 on the date of initial application.

Group 31 December 2009	Original Classification—IAS 39	New Classification Category—IFRS 9	Original Carrying Amount—IAS 39 NZ$M	New Carrying Amount—IFRS 9 NZ$M
Cash	Held to maturity	Fair value through profit or loss	296	296
Forward exchange contracts	Fair value designated in hedging relationships	Fair value designated in hedging relationships	2	2
Interest rate swaps	Fair value designated in hedging relationships	Fair value designated in hedging relationships	1	1
Cross-currency interest rate swaps	Fair value designated in hedging relationships	Fair value designated in hedging relationships	28	28
Trade receivables	Loans and receivables	Amortised cost	430	430
Finance lease receivables	Loans and receivables	Amortised cost	21	21
Long-term investments[(1)]	Available for sale	Fair value through other comprehensive income	546	290
Long-term investments in Government stock	Held to maturity	Amortised cost	1	1

[(1)] Excludes associates and Government stock. The impact of the adoption of IFRS 9 on prior periods is presented in note 13.

Fair Value of Financial Instruments

Under IFRS, financial instruments are either carried at amortised cost, less any provision for impairment, or fair value.The only significant variances between instruments held at amortised cost and their fair value relates to long-term debt.

Finance Lease Receivable

The fair value of finance lease receivables is estimated to be NZ$37 million, using a discount rate based on the three-year swap rate and adding a credit margin that reflects the credit quality of the receivables.

Risk Management (in part)

Telecom is exposed to market risk due to foreign currency, interest rates and price risk, as well as credit risk, liquidity risk and equity price risk.

Credit Risk

In the normal course of its business, Telecom incurs credit risk from financial instruments including cash, short-term investments, advances to associate companies, trade receivables, other receivables, finance lease receivables and derivative financial instruments.

Telecom has a credit policy that is used to manage this exposure to credit risk. As part of this policy, limits on exposures with significant counterparties have been set and approved by the board of directors and are monitored on a regular basis. Telecom's financial instruments do not have significant concentration of risk with any single party.

Telecom has certain derivative and debt agreements that are subject to bilateral credit support agreements that require Telecom or the counterparty to post collateral to support the value of certain derivatives. As at 30 June 2010, US$15 million (NZ$21 million) of collateral was posted (30 June 2009: nil). In the event of a downgrade of Telecom's credit rating to either Baal (Moody's Investors Service), or BBB+ (Standard & Poor's) US$194 million (based on rates at 30 June 2010) of additional collateral would be required to be posted.

Telecom places its cash, short-term investments and derivative financial instruments with high credit quality financial institutions and sovereign bodies and limits the amount of credit exposure to any one financial institution. These limits are monitored daily. There is no significant concentration of credit risk with respect to trade receivables.

NZ$1,148 million of Telecom's assets are subject to credit risk (30 June 2009: NZ$1,160 million). Telecom holds various letters of credit and guarantees over some of these amounts. Telecom does not hold any collateral over these amounts.

Finance lease receivables are secured over the underlying assets.

Note 25. Commitments (in part)

Operating Lease Commitments—Telecom as Lessee

Telecom has entered into commercial leases on properties, network infrastructure, motor vehicles and other items of equipment. Certain leases are subject to Telecom being able to renew or extend the lease period based on terms that would then be agreed with the lessor. There are no other significant lease terms that relate to contingent rents, purchase options or other restrictions on Telecom.

Future minimum rental commitments for all non-cancellable operating leases are:

	Group	
Year Ended 30 June	2010 NZ$M	2009 NZ$M
Less than 1 year	86	79
Between 1 and 5 years	253	258
More than 5 years	317	332
	656	669

Finance Lease Commitments—Telecom as Lessee

At 30 June 2010 and 2009, Telecom had no remaining minimum lease payments in respect of capitalised finance leases, as discussed in note 15.

Finance Lease Receivables—Telecom as Lessor

Telecom has entered into commercial finance leases on a range of information and communication technology equipment for Telecom business customers. The profile of lease payments is set out below:

Year Ended 30 June	Undiscounted 2010 NZ$M	Discounted 2010 NZ$M
Less than 1 year	15	12
Between 1 and 5 years	23	20
Total minimum future lease payments	38	32
Unguaranteed residual value	1	1
Gross finance lease receivable	39	33
Less unearned finance income	(6)	N/A
Present value of minimum lease payments	33	33
Minimum lease payments—short term	12	—
Minimum lease payments—long term	21	—
Allowance for uncollectable lease payments	1	1

There are no contingent rents recognised as income in the year ended 30 June 2010 (2009: nil).

The interest rate inherent in the leases is fixed at the contract date for the entire lease term.

Finance lease receivable balances are secured over the equipment leased. Telecom is not permitted to sell or repledge the collateral in the absence of a default by the lessee.

The maximum credit risk exposure for finance lease receivables is the carrying amount of the receivables. The finance lease receivables at 30 June 2010 are neither past due or impaired.

Note 26. Contingencies (in part)

Cross Border Lease Guarantees

Telecom has cross border leases in respect of certain telecommunication assets, which provides certain undertakings (including letters of credit) in accordance with guarantees entered into as part of the transactions. The

maximum exposure under these guarantees is now assessed as NZ$22 million (30 June 2009: NZ$18 million) and the last guarantee expires in 2014.

IAS 36, *IMPAIRMENT OF ASSETS*

IFRS Overview and Comparison to U.S. GAAP

3.243 IAS 36, *Impairment of Assets*, establishes the procedures that an entity applies to ensure that an asset is carried at no more than its recoverable amount. *Recoverable amount* is the higher of fair value less costs to sell and value in use. An entity should apply IAS 36 in testing and measuring impairment losses, or reversals of such losses, for all assets, except the following:

- Inventories
- Assets arising from construction contracts
- Deferred tax assets
- Assets arising from employee benefits
- Financial assets within the scope of IAS 39
- Investment property measured at fair value
- Biological assets related to agricultural activity measured at fair value
- Deferred acquisition costs and intangible assets arising from insurance contracts
- Noncurrent assets or disposal groups classified as held for sale within the scope of IFRS 5

3.244 Financial assets classified as subsidiaries, associates, and jointly controlled entities are included in the scope of IAS 36. IAS 36 also applies to assets held at revalued amount in accordance with IAS 16 and IAS 38.

3.245 IAS 36 also applies to cash generating units (CGU). A *CGU* is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets.

Recognition and Measurement

IFRSs

3.246 At the end of each reporting period, an entity should assess whether there is any indication that an asset may be impaired. If any indication exists, the entity should test the asset for impairment in accordance with the procedures in IAS 36. IAS 36 provides examples of both internal and external indicators of impairment. An entity should test assets individually, unless the recoverable amount cannot be determined without other assets. In that case, an entity should test the CGU to which the asset belongs. An entity should only include a liability in a CGU when a recoverable amount cannot be determined without including that liability.

3.247 However, an entity should test the following assets annually for impairment even when no indicator exists:

- Goodwill
- Indefinite-life intangible asset
- Intangible asset not yet available for use (for example, development costs)

3.248 An entity can perform the impairment test on these assets at any time during the year, but it should perform the test at the same time each year. Different intangible assets may be tested at different times during the year. Even when an entity acquired an intangible asset during the year, it should test the asset for impairment before the end of the reporting period.

3.249 To perform an impairment test, an entity should determine the following amounts:

- Fair value less cost to sell (FVLCS)
- Value in use (VIU)

3.250 IAS 36 includes a hierarchical procedure for determining FVLCS. IAS 36 states that the best evidence of FVLCS is a price in a binding sales agreement in an arm's length transaction, adjusted for any incremental costs directly attributable to the asset's disposal. When there is no binding sales agreement, an entity should use a price determined in an active market reduced by costs to sell. When no binding sales agreement or active market exists, an entity should base its determination of FVLCS on the best available information of what the entity would obtain at the end of the reporting period in an arm's length transaction between knowledgeable and willing parties.

3.251 An entity calculates an asset's VIU on the basis of the following information:

- Estimates of future cash flows it expects to receive from the asset
- Expectations about variations in the amounts or timing of these cash flows
- Current market risk-free interest rate
- Price for bearing the risk inherent in the asset
- Other factors, such as lack of liquidity, which market participants would use in determining a price for the asset

An entity then calculates the present value of the estimated future cash flows, making the adjustment for risk to either the cash flows or the discount rate.

3.252 An entity should base its estimates of future cash flows on reasonable and supportable assumptions representing management's best estimates of the range of economic conditions that will exist over the asset's life. An entity should give greater weight to external evidence, rather than internal evidence. An entity should use management cash flow projections, up to a maximum of five years. Cash flows should relate to the asset in its current condition and exclude any cash flows resulting from future restructurings or other actions to improve the asset's performance. Cash flows should include cash flows from continuing use of the asset, other cash flows necessary to the continued use of the asset that the entity can directly attribute or allocate on a reasonable and supportable basis, and net cash flows from the asset's disposal. IAS 36 explicitly prohibits an entity from including cash flows relating to financing activities and income tax receipts or payments. An entity should extrapolate cash flows beyond the five-year limit for specific projections using a steady or declining growth rate. This growth rate should not exceed the long-term growth rate on similar products, industries, or countries, unless the entity can justify a higher rate.

3.253 An entity should use a pretax discount rate that reflects current market assessments of both the time value of money and the risks inherent in the asset itself. An entity may use surrogates when a market interest rate is not available.

3.254 The recoverable amount is determined as the higher of FVLCS and VIU. To test for an impairment loss, an entity should compare the recoverable amount with the asset's carrying value. Except for assets carried at a revalued amount, an entity should record an impairment loss, measured as the difference between the carrying value and the recoverable amount, in profit or loss when the recoverable amount is lower than the carrying value. An entity should recognize an impairment loss on an asset carried at a revalued amount as a revaluation decrease, in accordance with the relevant standard.

3.255 When the amount estimated for an impairment loss is greater than the carrying amount of the asset(s) to which it relates, an entity should recognize a liability if, and only if, recognition is required by another IFRS.

3.256 When an impairment loss is recognized on a depreciable asset, an entity should assess its remaining useful life and residual value and adjust depreciation or amortization expense prospectively.

3.257 An entity should test and measure a reversal of an impairment loss in the same manner as the original impairment test, based on internal and external indicators that the impairment no longer exists. An entity should reverse an impairment up to the amount that the carrying value would have been had an impairment loss not been recorded.

3.258 If it is not possible to test an individual asset for impairment, an entity identifies the smallest CGU to which the asset belongs and tests the CGU for impairment by calculating the recoverable amount of the CGU and comparing that amount with its carrying value. An entity should not include a liability in a CGU unless the recoverable amount cannot be calculated otherwise. When an active market exists for the output of an asset or group of assets, an entity should consider that asset or group of assets to be a CGU, even if some or all of the output is used internally. An entity should base its estimates of cash flows on external prices, not transfer prices. An entity should define its CGUs consistently from period to period and determine the carrying amount in a manner consistent with the determination of the recoverable amount.

3.259 An entity should allocate goodwill to the CGUs to which the goodwill relates. An entity should allocate goodwill acquired in a business combination to CGUs at the acquisition date. This allocation should be at the lowest CGU expected to benefit from the business combination but should be no larger than an operating segment defined in accordance with IFRS 8, *Operating Segments*. An entity should allocate goodwill no later than the end of the reporting period following the acquisition.

3.260 When an entity changes its reporting structure and, in consequence, the CGUs to which it had allocated goodwill, it should reallocate goodwill to the CGUs affected.

3.261 Similar to allocating goodwill, an entity should allocate to CGUs other corporate assets (for example, IT, headquarters building, and so on)) that do not generate cash flows in order to test these assets for impairment.

3.262 When either goodwill or corporate assets cannot be allocated to CGUs to which the goodwill or corporate assets relate, an entity should first test the CGU for impairment, excluding the goodwill or corporate asset, and recognize any impairment loss. The entity should then identify the smallest CGU that includes the CGU under review and to which the entity can allocate goodwill or the corporate asset and then test this new CGU for impairment and recognize any impairment loss.

3.263 When an entity recognizes an impairment loss on a CGU to which it allocated goodwill, the impairment loss is attributed first to goodwill and then proportionately to the other assets in the CGU based on their carrying values. In attributing the impairment loss to the other assets in the CGU, an entity should not decrease their carrying values below the highest of FVLCS, VIU, or zero. Any remaining impairment loss that would otherwise have been allocated to the asset should be allocated pro rata to the other assets of the CGU (or group of CGUs).

3.264 An entity should record a reversal of an impairment loss on a CGU by allocating that reversal on a pro rata basis to the assets in the CGU. An entity should not recognize a reversal of an impairment loss for any asset in the CGU above its recoverable amount or the carrying value that would have been determined if no impairment loss had been recorded. An entity should not reverse impairment losses recognized for goodwill.

U.S. GAAP

3.265 FASB ASC 350 and 360 include guidance on impairment testing and recognition for the same long-lived assets covered by IAS 36 (that is, PPE, intangible assets, and goodwill), and that guidance applies both to individual assets and asset groups. Unlike IFRSs, this guidance also applies to assets held for disposal. Like IFRSs, FASB ASC 350 recognizes that an entity cannot test goodwill for impairment as a separate asset.

3.266 The FASB ASC glossary defines an *asset group* as a unit of accounting for a long-lived asset or assets to be held and used, which represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. Although an asset group is similar to a CGU, unlike IFRSs, FASB ASC 360-10-35-25, in limited circumstances, permits an entity to include liabilities in an asset group without the constraint in IFRSs that an entity should only include liabilities necessary for conducting the impairment test. Therefore, an asset group may include all the assets and liabilities of the entity. For example, a corporate headquarters facility may not have identifiable cash flows that are largely independent of the cash flows of other assets and liabilities and other asset groups, and the entity would only test it for impairment at the reporting entity level.

3.267 FASB ASC 350-20-35-1 requires an entity to test goodwill for impairment at a level of reporting referred to as a reporting unit. As defined in the FASB ASC glossary, a *reporting unit* is an operating segment or one level below an operating segment (also known as a component). However, IFRSs do not permit a CGU to be larger than a reportable operating segment, and an entity should allocate corporate assets, such as a headquarters facility, to the CGUs to which these assets relate.

3.268 In contrast, like IFRSs, FASB ASC 360-10-35-21 requires an entity to test for recoverability an individual long-

lived asset or asset group that does not include goodwill whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. However, IFRSs specifically require an entity to assess at each reporting date whether such events or circumstances exist, whereas FASB ASC 360 does not require this assessment.

3.269 Unlike IFRSs, FASB ASC 360-10-35-17 requires an entity to determine recoverability by comparing the carrying amount of a long-lived asset or asset group that does not include goodwill with the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group. When the asset or asset group's carrying value exceeds the sum of the undiscounted cash flows, an entity should recognize an impairment loss as the amount by which the carrying amount exceeds its fair value.

3.270 Like IFRSs, FASB ASC 360-10-35-20 requires an entity to recognize the impairment loss by adjusting the asset's carrying amount by the loss, with the adjusted carrying amount becoming the new cost basis. When the asset is subject to depreciation or amortization, an entity should depreciate or amortize the new cost basis over the remaining useful life of the asset. Like IFRSs, FASB ASC 360-10-35-22 suggests that when an asset or asset group is tested for recoverability, an entity may also need to review its depreciation estimates and method or the amortization period.

3.271 Unlike IFRSs, for assets other than goodwill, FASB ASC 360-10-35-20 prohibits an entity from reversing a previously recognized impairment loss.

3.272 To test goodwill for impairment, IFRSs require an entity to allocate goodwill to the CGUs or groups of CGUs expected to benefit from the synergies from the business combination. An entity should allocate the goodwill to the lowest level at which goodwill is monitored, which should not be larger than an operating segment. In contrast, FASB ASC 360-10-35-26 requires an entity to include goodwill in an asset group only if the asset group is or includes a reporting unit and does not permit an entity to include goodwill in a lower-level asset group that includes only part of a reporting unit.

3.273 IFRSs require an entity to test a CGU with allocated goodwill by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the CGU. An entity should only record an impairment loss when the carrying amount of the unit exceeds the recoverable amount. Paragraphs 4–19 of FASB ASC 350-20-35 delineate a more complicated, two-step approach to impairment testing of a reporting unit that includes goodwill. First, the goodwill impairment test compares the fair value of a reporting unit with its carrying value, including goodwill. When the carrying value exceeds fair value, an entity should proceed to step two to measure the loss by comparing the implied fair value of the goodwill with its carrying value. An entity should determine implied fair value in the same way goodwill is measured in a business combination by assigning the fair value of a reporting unit to all the assets and liabilities of that unit (including any unrecognized intangible assets). An entity should then recognize the impairment loss by reducing the carrying value of goodwill.

Author's Note

In December 2010, FASB issued ASU No. 2010-28, *Intangibles—Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Test for Reporting Units with Zero or Negative Carrying Amounts (a consensus of the FASB Emerging Issues Task Force)*. This guidance is labeled as "Pending Content" due to the transition and open effective date information discussed in FASB ASC 350-10-65-2. This guidance is effective for a public entity for fiscal years, and interim periods within those years, beginning after December 15, 2010, and December 15, 2011, for nonpublic entities. Public entities are prohibited from early adopting this guidance; however, nonpublic entities may elect to early adopt using the effective date for public entities. Upon adoption, an entity should assess whether it is more likely than not that a goodwill impairment exists for each reporting unit with a zero or negative carrying amount. If it is more likely than not that a goodwill impairment exists, the entity should perform the second step of the goodwill impairment test to measure the amount of impairment loss, if any. In the period of adoption, an entity should record a cumulative effect adjustment to beginning retained earnings. Given the effective dates of this ASU, no survey entity will have adopted these requirements in its 2010 financial statements.

3.274 Like IFRSs, FASB ASC 360-10-35-28 requires an entity to reduce only the carrying amounts of a long-lived asset or assets of the group on a pro rata basis using the relative carrying amounts of those assets, except that the loss allocated to an individual long-lived asset of the group shall not reduce the carrying amount of that asset below its fair value whenever that fair value is determinable without undue cost and effort. However, unlike IFRSs, there is no need to allocate an impairment loss for a CGU first to goodwill because an entity recognizes an impairment loss on goodwill directly (as previously described).

Presentation

IFRSs

3.275 IAS 36 has no specific requirements for presentation of impairment losses. IAS 1 requires material items of expense to be presented separately. Otherwise, impairment losses can be included in various line items in profit or loss on the statement of comprehensive income.

U.S. GAAP

3.276 Paragraphs 2–3 of FASB ASC 350-20-45 require an entity to present the aggregate amount of goodwill impairment losses as a separate line item in the income statement within continuing operations, except when the goodwill impairment loss is associated with a discontinued operation. A goodwill impairment loss associated with a discontinued operation should be included (net of tax) within the results of discontinued operations. FASB ASC 350 and 360 allow for other impairment losses, including impairment losses on PPE and other intangibles, to be included in other line items on the income statement that the entity deems appropriate. SEC registrants should comply with the requirements of Rule

5-03 of Regulation S-X, which also does not include separate presentation of other impairment losses.

Disclosure

IFRSs

3.277 For each class of assets, an entity should disclose the amount of impairment losses recognized in profit or loss and the amount of reversals of impairment losses. An entity should also disclose the line item on the statement of comprehensive income in which the loss or reversal is presented. For revalued assets, an entity should disclose the amounts recorded in other comprehensive income either as an impairment loss or a reversal. An entity usually discloses these amounts in the reconciliation disclosure for the asset class to which the asset(s) belongs.

3.278 An entity should also disclose impairment losses and reversals in its operating segment disclosures in accordance with IFRS 8.

3.279 For each material impairment loss or reversal recognized during the period, an entity should discuss the facts and circumstances that led to the loss or reversal, including whether the recoverable amount was determined to be FVLCS or VIU, and disclose the amount of the reversal. When the recoverable amount is FVLCS or VIU, an entity should disclose the basis it used to determine FVLCS or the discount rates used in the current and previous estimate of VIU, respectively.

3.280 If the loss or reversal is related to an individual asset, an entity should disclose the nature of the asset and, if appropriate, the reportable segment to which the asset belongs. If the loss or reversal is related to a CGU, an entity should disclose a description of the CGU, the amount, and a description of any changes to the composition of the CGU since the entity's previous estimate of the recoverable amount.

3.281 For the aggregate impairment losses or reversals recognized during the period, excluding individually material losses or reversals, an entity should disclose the main asset classes affected by losses and reversals, respectively, and the main events or circumstances that led to their recognition.

3.282 For each CGU or group of CGUs with significant allocations of goodwill or indefinite-life intangible assets in comparison with the total amount of an entity's goodwill and indefinite-life intangible assets, an entity should disclose the following:

- Carrying amount of allocated goodwill
- Carrying amount of allocated indefinite-life intangible assets
- Basis for the recoverable amount

3.283 If the basis for the recoverable amount is VIU, the disclosures should include descriptions of key assumptions in the entity's cash flow projections, identifying those to which the recoverable amount is most sensitive. If the basis for the recoverable amount is FVLCS, the disclosures should include descriptions of key assumptions in the entity's estimate of FVLCS, identifying those to which the recoverable amount is most sensitive. In both cases, an entity should disclose management's approach to determining the values assigned to these assumptions (for example, past experience and external sources), the period over which management has projected cash flows based on the financial budgets or forecasts, the growth rate used for extrapolating beyond the forecast, and the discount rate used to calculate present value. If FVLCS is determined based on discounted cash flows, an entity should disclose the period over which cash flow projections were made, the growth rate used to extrapolate the cash flows, and discount rate used to calculate present value. Additional disclosure is required so that users of the financial statements understand the effects of reasonably possible changes in these key assumptions.

3.284 Similar disclosures are required, in the aggregate, for allocated goodwill or intangible assets with indefinite useful lives when the amount allocated to a CGU or group of CGUs is not significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives.

U.S. GAAP

3.285 U.S. GAAP disclosures are less extensive than those required by IFRSs. FASB ASC 360-10-50-2 requires an entity to disclose all of the following information in the period when an impairment loss is recognized for PPE classified as held and used:

- Description of the impaired long-lived asset or asset group and the facts and circumstances leading to the impairment
- Amount of the impairment loss and the income statement line item that includes the loss, if not separately presented on the face of the statement
- Method or methods for determining fair value (for example, whether based on a quoted market price, prices for similar assets, or another valuation technique)
- Segment in which the impaired long-lived asset (asset group) is reported, if applicable

3.286 Similarly, for each impairment loss recognized related to an intangible asset, FASB ASC 350-30-50-3 requires an entity to disclose the following in the notes to financial statements that include the period in which the impairment loss is recognized:

- Description of the impaired intangible asset and the facts and circumstances leading to the impairment
- Amount of the impairment loss and the method for determining fair value
- Caption in the income statement or the statement of activities in which the impairment loss is aggregated
- Segment in which the impaired intangible asset is reported, if applicable

3.287 FASB ASC 350-20-50-1 requires an entity to disclose a reconciliation of goodwill showing a separate line item for impairment losses. FASB ASC 350-20-50-2 requires that for each goodwill impairment loss recognized during the period, an entity should also disclose all of the following:

- Description of the facts and circumstances leading to the impairment.
- Amount of the impairment loss and the method used to determine the fair value of the associated reporting unit (for example, whether the fair value was based on quoted market prices, prices of comparable businesses or nonprofit activities, a present value or other valuation technique, or a combination of methods).
- If the recognized impairment loss was an initial estimate, an entity should disclose the fact and reasons that

the amount is not final and, in subsequent periods, the nature and amount of any significant adjustments made to the initial estimate of the impairment loss.

Presentation and Disclosure Excerpts

Impairment—Losses on Property, Plant, and Equipment, Goodwill and Other Intangible Assets

3.288

Alesco Corporation Limited (May 2010)

INCOME STATEMENTS

For the year ended 31 May 2010

		Consolidated		The Company	
	Note	2010 $000	2009 $000	2010 $000	2009 $000
Continuing operations					
Sale of goods		747,858	828,526	—	—
Rendering services		23,300	25,970	12,335	10,569
Other revenue		2,038	1,613	25,407	177
Total revenue		773,196	856,109	37,742	10,746
Cost of sales		(503,033)	(553,750)	—	—
Gross profit		270,163	302,359	37,742	10,746
Other income	3	244	459	—	—
Selling expenses		(92,492)	(97,593)	—	—
Marketing expenses		(11,427)	(12,739)	—	—
Customer service expenses		(20,324)	(22,157)	—	—
Purchasing and inventory management		(2,005)	(2,256)	—	—
Distribution expenses		(48,113)	(49,053)	—	—
Administration and general expenses		(60,086)	(65,703)	(16,895)	(15,480)
Restructuring and other expenses	6	—	(28,327)	—	(3,720)
Impairment of assets	6	(133,100)	(70,000)	(133,100)	(70,000)
Termination payment	6	(1,700)	—	(1,700)	—
Share loan plan expense	6	(5,120)	—	(5,120)	—
Results from operating activities		(103,960)	(45,010)	(119,073)	(78,454)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1: Statement of Significant Accounting Policies (in part)

(h) Property, Plant and Equipment (in part)

Recognition and Measurement

Items of property, plant and equipment are measured at cost or deemed cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 July 2004, the date of transition to AASBs, was determined by reference to its fair value at that date.

(i) Intangible Assets

Goodwill

Goodwill arises on the acquisition of subsidiaries and joint ventures.

Acquisitions Prior to 1 June 2004

As part of its transition to AASBs, the Group elected to restate only those business combinations that occurred on or after

1 June 2004. In respect of acquisitions prior to 1 June 2004, goodwill represents the amount recognised under the Group's previous accounting framework, Australian GAAP.

Acquisitions on or After 1 June 2004

For acquisitions on or after 1 June 2004, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

Subsequent Measurement

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.

Brand Names

Brand names represent the value of brands owned by controlled entities determined at acquisition that maintain a strong presence in the marketplace.

Patents and Trademarks

Patents and trademarks represent the value of patents, trademarks and registered designs owned by controlled entities determined at acquisition which provide the entity with a market advantage.

Agency Agreements

Agency agreements represent the value of agreements held by controlled entities with various agents which provide the entity with a market advantage due to the presence of these agents in the respective industry.

Lease Premium

Lease premium represents the value of leases assigned by the vendor to a controlled entity in the acquisition of the business of Robinson Industries Limited on 30 April 2003.

Development Costs

Information technology development includes systems re-engineering costs comprising development expenditure and associated implementation costs.

Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible, future economic benefits are probable, and the Group has sufficient resources to complete development.

The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

Customer Relationships

Customer relationship intangible assets were acquired by the Group, have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

Other Intangible Assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Subsequent Expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss when incurred.

Amortisation

Amortisation is calculated over the cost of the asset, or other amounts substituted for cost, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis from the date they are available for use over the estimated useful lives of intangible assets, unless such lives are indefinite.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

The estimated useful lives for the current and comparative periods are as follows:

	Useful Life Years
Intangibles	
Brands—B&D, Flextool, Concrete Technologies, Lincoln Sentry	Indefinite
Brands—others	5 to 20 years
Patents and trademarks	5 to 15 years
Lease premium	6 years
Development costs	3 to 7 years
Customer relationships	3 to 10 years

(I) Impairment

Financial Assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset that can be measured reliably.

Non-Financial Assets

The carrying amounts of the Group's non-financial assets, other than 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, assets that have an indefinite useful life and intangible assets that are not yet available-for-use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

The recoverable amount of an asset or cash-generating unit 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.

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 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.

Note 6: Significant Items (in part)

	Consolidated		The Company	
	2010 $000	2009 $000	2010 $000	2009 $000
Asset Write-Downs				
Impairment loss on goodwill	(116,341)	(59,980)	—	—
Impairment loss on brand names	—	(10,020)	—	—
Impairment loss on capitalised software development costs	(1,688)	—	—	—
Impairment loss on customer relationships	(12,705)	—	—	—
Impairment loss on property, plant and equipment	(2,366)	—	—	—
Impairment loss on loans to controlled entities	—	—	(133,100)	(70,000)
Impairment of assets	(1,33,100)	(70,000)	(133,100)	(70,000)
Related income tax benefit	1,216	—	—	—
	(131,884)	(70,000)	(133,100)	(70,000)

Note 12: Property, Plant and Equipment (in part)

	Consolidated		The Company	
	2010 $000	2009 $000	2010 $000	2009 $000
Land and buildings:				
At cost	20,302	20,286	—	—
Accumulated depreciation	(3,776)	(3,386)	—	—
	16,526	16,900	—	—
Leasehold improvements:				
At cost	8,528	8,433	239	239
Accumulated amortisation and impairment losses	(5,085)	(4,047)	(143)	(106)
	3,443	4,386	96	133
Motor vehicles:				
At cost	13,339	13,935	—	—
Accumulated depreciation and impairment losses	(11,456)	(10,572)	—	—
	1,883	3,363	—	—
Plant and equipment:				
At cost	99,802	105,443	3,541	3,336
Accumulated depreciation and impairment losses	(67,845)	(67,285)	(2,606)	(2,270)
	31,957	38,158	935	1,066
Leased plant and equipment:				
At cost	28	336	—	—
Accumulated amortisation	(20)	(235)	—	—
	8	101	—	—
Capital works in progress at cost	1,341	4,613	150	984
Total property, plant and equipment net book value	55,158	67,521	1,181	2,183

Reconciliations-Accumulated Depreciation and Impairment Losses

Reconciliations of the movement in accumulated depreciation for each class of property, plant and equipment are set out below:

	Note	Consolidated		The Company	
		2010 $000	2009 $000	2010 $000	2009 $000
Land and Buildings					
Accumulated depreciation at beginning of year		(3,386)	(3,025)	—	—
Depreciation expense	4	(390)	(391)	—	—
Disposals		—	30	—	—
Accumulated depreciation at end of year		(3,776)	(3,386)	—	—
Leasehold Improvements					
Accumulated depreciation at beginning of year		(4,047)	(4,010)	(106)	(95)
Disposals		314	152	—	31
Disposals of companies/businesses		—	913	—	—
Depreciation	4	(1,014)	(1,105)	(37)	(42)
Impairment write-down	6	(336)	—	—	—
Transfers to/(from) capital work in progress and other asset categories		9	(48)	—	—
Translation differences		(11)	51	—	—
Accumulated depreciation and impairment losses at end of year		(5,085)	(4,047)	(143)	(106)
Motor Vehicles					
Accumulated depreciation at beginning of year		(10,572)	(10,601)	—	—
Disposals		910	1,503	—	—
Disposals of companies/businesses		—	277	—	—
Depreciation	4	(1,241)	(1,514)	—	—
Impairment write down	6	(624)	—	—	—
Transfers to/(from) capital work in progress and other asset categories		84	(258)	—	—
Translation differences		(13)	21	—	—
Accumulated depreciation and impairment losses at end of year		(11,456)	(10,572)	—	—
Plant and Equipment					
Accumulated depreciation at beginning of year		(67,285)	(85,913)	(2,270)	(2,186)
Disposals		4,450	17,385	—	11
Disposals of companies/businesses		—	11,175	—	—
Depreciation	4	(7,766)	(12,734)	(338)	(526)
Impairment write down	6	(1,406)	—	—	—
Transfers to capital work in progress and other asset categories		3,712	2,464	2	365
Intragroup transfers		—	—	—	66
Translation differences		450	338	—	—
Accumulated depreciation and impairment losses at end of year		(67,845)	(67,285)	(2,606)	(2,270)
Leased Plant and Equipment					
Accumulated amortisation at beginning of year		(235)	(2,931)	—	—
Disposals		76	6	—	—
Disposals of companies/businesses		—	2,527	—	—
Amortisation	4	(1)	—	—	—
Transfers to capital work in progress and other asset categories		140	145	—	—
Translation differences		—	18	—	—
Accumulated amortisation at end of year		(20)	(235)	—	—

Note 13: Intangible Assets

	Consolidated		The Company	
	2010 $000	2009 $000	2010 $000	2009 $000
Goodwill:				
At cost	419,416	419,033	—	—
Accumulated impairment losses	(176,321)	(59,980)	—	—
	243,095	359,053	—	—
Brand names:				
At cost	117,669	117,607	—	—
Accumulated amortisation and impairment losses	(26,120)	(25,140)	—	—
	91,549	92,467	—	—
Patents and trademarks:				
At cost	6,719	6,717	—	—
Accumulated amortisation	(2,562)	(2,099)	—	—
	4,157	4,618	—	—
Agency agreements:				
At cost	—	—	—	—
Customer relationships:			—	—
At cost	43,337	43,337	—	—
Accumulated amortisation and impairment losses	(26,117)	(9,013)	—	—
	17,220	34,324	—	—
Development costs:				
At cost	34,917	28,364	1,681	1,414
Accumulated amortisation and impairment losses	(19,589)	(12,790)	(1,280)	(1,043)
	15,328	15,574	401	371
Lease premium:				
At cost	4,827	4,774	—	—
Accumulated amortisation	(4,827)	(4,774)	—	—
	—	—	—	—
Other intangibles:				
At cost	190	130	—	—
Accumulated amortisation	(126)	(72)	—	—
	64	58	—	—
	371,413	506,094	401	371

Reconciliations—Accumulated Amortisation and Impairment Losses

Reconciliations of the movement in accumulated amortisation and impairment losses for each class of intangible asset are set out below:

		Consolidated		The Company	
	Note	2010 $000	2009 $000	2010 $000	2009 $000
Goodwill					
Accumulated impairment at beginning of year		(59,980)	—	—	—
Impairment write down	6	(116,341)	(59,980)	—	—
Accumulated impairment losses at end of year		(176,321)	(59,980)	—	—
Brand Names					
Accumulated amortisation at beginning of year		(25,140)	(11,952)	—	—
Amortisation	4	(965)	(3,188)	—	—
Impairment write down	6	—	(10,020)	—	—
Transfers to other asset categories		—	(17)	—	—
Translation differences		(15)	37	—	—
Accumulated amortisation and impairment losses at end of year		(26,120)	(25,140)	—	—

(continued)

	Note	Consolidated 2010 $000	Consolidated 2009 $000	The Company 2010 $000	The Company 2009 $000
Patents and Trademarks					
Accumulated amortisation at beginning of year		(2,099)	(1,640)	—	—
Amortisation	4	(462)	(460)	—	—
Translation differences		(1)	1	—	—
Accumulated amortisation at end of year		(2,562)	(2,099)	—	—
Customer Relationships					
Accumulated amortisation at beginning of year		(9,013)	(2,789)	—	—
Disposal of companies/businesses		—	391	—	—
Amortisation	4	(4,399)	(6,847)	—	—
Impairment write down	6	(12,705)	—	—	—
Transfers to/(from) other asset categories		—	232	—	—
Accumulated amortisation and impairment losses at end of year		(26,117)	(9,013)	—	—
Development Costs					
Accumulated amortisation at beginning of year		(12,790)	(6,299)	(1,043)	(621)
Disposals		—	66	—	—
Amortisation	4	(4,960)	(3,521)	(235)	(56)
Impairment writedown[1]	6	(1,750)	—	—	—
Transfers to/(from) other asset categories		(65)	(3,074)	(2)	(366)
Translation differences		(24)	38	—	—
Accumulated amortisation and impairment losses at end of year		(19,589)	(12,790)	(1,280)	(1,043)

(1) This balance includes a $62,000 impairment charge against assets in the ordinary course of business which is not classifed as a significant item as at 31 May 2010.

Impairment Tests for Cash-Generating Units Containing Intangibles with Indefinite Useful Lives

At 31 May 2010, the carrying amounts of intangible assets with indefinite useful lives and all other intangibles with finite useful lives are allocated to cash-generating units ("CGUs") as follows:

	Indefinite Useful Life			Finite Useful Life	Total Intangibles
Consolidated	**Goodwill $000**	**Brands $000**	**Total $000**	**Total $000**	**Total $000**
2010					
Construction	51,220	9,500	60,720	3,345	64,065
Functional & Decorative Products	71,823	16,175	87,998	7,113	95,111
Garage Door & Openers	120,052	53,500	173,552	26,859	200,411
Water Products & Services	—	—	—	11,425	11,425
	243,095	79,175	322,270	48,742	371,012
Multiple units without significant goodwill	—	—	—	401	401
	243,095	79,175	322,270	49,143	371,413
2009					
Construction	51,170	9,500	60,670	3,959	64,629
Functional & Decorative Products	71,721	16,175	87,896	8,678	96,574
Garage Door & Openers	119,882	53,500	173,382	28,828	202,210
Water Products & Services	116,337	—	116,337	25,974	142,311
	359,110	79,175	438,285	67,439	505,724
Multiple units without significant goodwill	—	—	—	370	370
	359,110	79,175	438,285	67,809	506,094

Certain brand names have been determined as maintaining an indefinite useful life as they operate in markets where they are positioned as premium brands, command high margins and hold a strong market presence. Brands include B&D, Concrete Technologies, Flextool and other brands within Functional & Decorative Products.

Finite useful life intangible assets primarily include certain other patents, trademarks, customer relationships and development costs.

For Functional & Decorative Products, Water Products & Services and Garage Doors & Openers, the divisional level is viewed as the appropriate level of CGU to assess impairment as the Australian and New Zealand business units are viewed and managed as one operation. For Construction & Mining, the assessment is performed at a lower level where the Construction and Mining businesses are analysed separately.

In the financial years ended 31 May 2009 and 31 May 2010, the recoverable amounts of all the Group's CGUs were determined based upon a value-in-use basis.

Key Assumptions Used for Value-in-Use Calculations

Value-in-Use

The cash-generating unit impairment tests are based on value-in-use calculations, whereby the net present value of the future cash flows of each CGU is compared against the carrying amount of net operating assets of that CGU. The value-in-use methodology used is consistent with the prior year. Cash flow projections are based on the latest financial forecasts for 2011 and the latest management estimates of financial forecasts for the 2012–2014 financial years. A terminal value growth rate is then used for subsequent years (see table below) as the appropriate period to value these CGUs is assessed as an indefinite life since the primary assets held by these CGUs are indefinite life intangible assets. Management has based the assumptions in the models on current market conditions, past performance and future expectations and forecast growth rates found in industry reports.

Growth Rates

Growth rates used were generally determined by factors such as industry sector, the market to which the CGU is dedicated, the size of the business, geographic location, past performance and other industry factors.

	Consolidated		
	Revenue Growth Rate 2012 %	Revenue Growth Rate 2012 %	Revenue Growth Rate 2012 %
2010			
Construction	5.7	6.4	5.7
Functional & Decorative Products	8.3	5.8	5.8
Garage Doors & Openers	7.6	8.4	4.8
Water Products & Services	2.0	2.0	2.0

The growth rates used to extrapolate cash flows beyond the 2014 financial year were 3.0% and do not exceed the long-term average growth rates for the markets to which the assets are dedicated.

	Consolidated		
	Revenue Growth Rate 2011 %	Revenue Growth Rate 2012 %	Revenue Growth Rate 2013 %
2009			
Construction	3.0	3.0	3.0
Functional & Decorative Products	5.0	5.0	5.0
Garage Doors & Openers	8.5	10.2	5.5
Water Products & Services	6.8	8.5	5.6

The growth rates used to extrapolate cash flows beyond the 2013 financial year were 3.0% and do not exceed the long-term average growth rates for the markets to which the assets are dedicated.

Discount Rate

A pre-tax discount rate determined by reference to the Group's weighted average cost of capital has been used in discounting the projected cash flows.

	Consolidated	
	Pre-Tax Discount Rate 2010 %	Pre-Tax Discount Rate 2009 %
Construction	14.5	14.8
Functional & Decorative Products	14.8	14.7
Garage Doors & Openers	14.5	14.6
Water Products & Services	14.7	15.9

Impairment

During the year ended 31 May 2010, an impairment charge of $133.1 million was incurred in relation to the Water Products & Services division. The impairment was caused by the deterioration in the CGU's actual performance for the year to 31 May 2010 and decline in future year forecasts. An impairment charge of $116.3 million was taken against goodwill. A further impairment charge of $16.8 million was taken against other assets of the CGU on a prorata basis. Impairment charges were made against customer relationships ($12.7 million), fixed assets ($2.4 million) and software development ($1.7 million).

During the year ended 31 May 2009, an impairment charge of $70.0 million was incurred in relation to the Water Products & Services division. The impairment was caused by the deterioration in the CGU's actual performance for the year to 31 May 2009 and decline in future year forecasts. The impairment testing as at May 2009 used a higher pre-tax discount rate of 15.9% reflecting the increased pricing of risk. An impairment charge of $10.0 million was taken against brands subsequent to a reassessment of the useful lives of the CGU's brands. A further $60.0 million impairment charge was made against goodwill.

The Group determined that there is no impairment of any of its other cash-generating units containing goodwill or intangible assets with indefinite useful lives.

Impact of Possible Change in Assumptions

With regard to the assessment of the value-in-use of the CGUs, a sensitivity analysis (refer to table below) has been conducted on the effect of a change in the respective key assumptions on the carrying value of each CGU.

For the Construction, Functional & Decorative and Garage Doors & Openers CGUs, the excess of the recoverable amount over the carrying amount of net operating assets

("headroom") was significant. The aggregate amount of that excess is $180.5 million.

	Consolidated					
		Discount Rate		Terminal Growth Rate		Cash Flows[1]
	Headroom 2010 $M	Discount Rate 2010 %	Impact of +/ − 0.5% $M	Terminal Growth Rate %	Impact of +/ − 0.5% $M	Impact of +/ − 10.0% Change $M
2010						
Construction	30.8	14.5	5.7	3.0	3.7	11.1
Functional & Decorative Products	88.2	14.8	10.8	3.0	8.3	23.9
Garage Doors & Openers	61.5	14.5	13.2	3.0	10.2	31.9
Water Products & Services	Nil	14.7	1.1	3.0	0.8	2.7

	Consolidated					
		Discount Rate		Terminal Growth Rate		Cash Flows[1]
	Headroom 2009 $M	Discount Rate 2009 %	Impact of +/ − 0.5% $M	Terminal Growth Rate %	Impact of +/ − 0.5% $M	Impact of +/ − 10.0% Change $M
2009						
Construction	32.4	14.8	5.1	3.0	3.5	13.5
Functional & Decorative Products	136.2	14.7	11.5	3.0	7.9	29.0
Garage Doors & Openers	23.6	14.4	11.8	3.0	9.0	28.5
Water Products & Services	Nil	15.9	5.7	3.0	4.2	17.2

All sensitivities shown in the above table are on a pre-tax basis.
[1] Sensitivity has been applied to net present value of the cash flows over the forecast period including the terminal year.

For the Water Products & Services CGU, subsequent to the impairment charge discussed above, there is no excess of the recoverable amount over the carrying amount of net operating assets.

Impairment—Reversals of Losses on Property, Plant and Equipment Held at Revalued Amount

Author's Note

IAS 36 applies to assets carried at revalued amount (i.e., fair value). When an entity uses market value to determine fair value, the only difference between fair and FVLCS fair is any direct incremental costs to dispose of the asset. When such costs to dispose of the asset are not negligible, then FVLCS fair is necessarily less than revalued amount. After the entity revalues the assets, an entity applies IAS 36 to determine whether the asset is impaired. When an entity uses a basis other than market value to determine fair value, then revalued amount may be higher or lower than its recoverable amount and the entity applies IAS 36 to determine whether the asset is impaired.

3.289

Silver Fern Farms Limited (Sep 2010)

STATEMENT OF COMPREHENSIVE INCOME

For the 13 months ended 30 September 2010

		Parent		Consolidated	
NZD in Thousands ($000)	Notes	13 Months to 30 Sept 10	12 Months to 31 Aug 09	13 Months to 30 Sept 10	12 Months to 31 Aug 09
Continuing Operations					
Sale of goods		1,780,190	1,962,057	1,831,682	2,001,614
Other revenue	5	2,052	850	1,512	320
Revenue		1,782,242	1,962,907	1,833,194	2,001,934
Other income	6	49,623	10,258	45,536	12,656
Total income		1,831,865	1,973,165	1,878,730	2,014,590
Raw materials and consumables used		1,275,184	1,352,884	1,304,687	1,365,931
Employee benefits expense	7	271,544	274,863	274,971	283,104
Depreciation and amortisation		25,320	24,197	25,469	24,679
Finance costs	7	22,322	32,703	22,845	32,776
Other operational expenses	7	252,632	291,707	260,574	304,091
Share of profits of associate	29	—	—	(1,397)	(1,105)
Profit/(loss) from continuing operations before member distributions, income tax and non-recurring items		(15,137)	(31,89)	(8,419)	5,114
Member distributions	10	98	153	98	153
Profit/(loss) before income tax and non-recurring items		(15,235)	(3,342)	(8,517)	4,961
Non-recurring items—income	8	11,341	48,476	11,378	48,476
Non-recurring items—costs	8	(15,028)	(9,851)	(18,276)	(10,078)
Total non-recurring items		(3,687)	38,625	(6,898)	38,398
Profit/(loss) before income tax		(18,922)	35,283	(15,415)	43,359
Income tax expense/(benefit)	9	(1,966)	66	(1,396)	(238)
Net profit/(loss) for the period		(16,956)	35,217	(14,019)	43,597
Profit/(loss) attributable to shareholders of the parent		(16,956)	35,217	(14,019)	43,597
Other comprehensive income					
Foreign currency translation gain/(loss)		—	—	(4,454)	(3,501)
Revaluation gain on land and buildings		62,184	—	64,361	—
Income tax on items of other comprehensive income—(charged)/credited	9	(11,119)	267	(11,729)	267
Other comprehensive income for the period, net of tax		51,065	267	48,178	(3,234)
Total comprehensive income for the period attributable to shareholders of the parent		34,109	35,484	34,159	40,363

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Summary of Significant Accounting Policies (in part)

l. Non-Current Assets Held for Sale

Non-current assets and disposal groups are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction. They are not depreciated or amortised. For an asset or disposal group to be classified as held for sale, it must be available for immediate sale in its present condition and its sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

o. Property, Plant and Equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for

capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred.

Operational land and buildings are measured at fair value, based on periodic but at least five yearly valuations by external independent valuers who apply the International Valuations Standards Committee International Valuation Standards, less accumulated depreciation on buildings and less any impairment losses recognised after the date of the revaluation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the specific assets as follows:

- Land Improvements—5 to 50 years
- Buildings—5 to 50 years
- Plant and equipment—4 to 20 years
- Motor Vehicles—5 to 8 years

Certain assets are depreciated on a diminishing value basis.

Revaluations

Following initial recognition at cost, operational land and buildings are carried at a revalued amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and accumulated impairment losses.

Revaluations are performed on a periodic but at least five yearly cycle. Therefore land and buildings purchased inside the revaluation cycle are recognised at cost until they are subsequently revalued.

Any revaluation increment is credited to the asset revaluation reserve included in other comprehensive income, except to the extent that it reverses a revaluation decrement for the same asset previously recognised in profit or loss, in which case the increment is recognised in profit or loss.

Any revaluation decrement is recognised in profit or loss, except to the extent that it offsets a previous revaluation increment for the same asset, in which case the decrement is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the assets.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the statement of comprehensive income.

Upon disposal or derecognition, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date.

Disposals

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognised.

q. Impairment

At each balance sheet date, the group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

The recoverable amount is the greater of fair value less costs to sell and value in use. 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.

If the recoverable amount of an asset (cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

3. Significant Accounting Judgements, Estimates and Assumptions (in part)

In applying the Group's accounting policies, management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

Land and Buildings Revaluation

Operational land and buildings are periodically revalued to fair value by an independent valuer. As there is no active market for the buildings held by the Group, Depreciated Replacement Cost (DRC) is used to establish a fair value; this fair value is then optimised via economic adjustments. Certain economic adjustments are applied to a building's DRC to allow for any idle capacity included in the operation of the building. If any economic adjustments are required, these are completed by the independent valuer and included in the final valuation.

8. Non-Recurring Items

NZD in Thousands ($000)	Parent 13 Months to 30 Sept 10	Parent 12 Months to 31 Aug 09	Consolidated 13 Months to 30 Sept 10	Consolidated 12 Months to 31 Aug 09
Gains on disposal	97	4,976	97	4,976
Settlement received from PGG Wrightson Ltd	—	42,000	—	42,000
Reversal of previous impairment on land and buildings	10,991	—	10,991	—
Other income	253	1,500	290	1,500
Total income	11,341	48,476	11,378	48,476
Restructuring costs	3,304	767	3,518	767
Plant closure costs	7,411	—	10,445	527
Impairment of investments	—	4,800	—	4,800
Loss on disposal	—	3,984	—	3,984
Assets written down in value	4,313	300	4,313	—
Total expenses	15,028	9,851	18,276	10,078
Total non-recurring items income/(expense)	(3,687)	38,625	(6,898)	38,398

Settlement of PGG Wrightson Limited Liability

On 24 April 2009 Silver Fern Farms and PGG Wrightson Limited (PGW) agreed terms of a full and final settlement following PGW's default on the equity transaction agreed in 2008. PGW paid the Company $30m in cash and issued the Company ten million ordinary shares in PGW (fully paid and ranking equally with all other PGW shares on issue).

At 31 August 2009, the ten million ordinary shares in PGW were recorded at market value. An impairment of $4,800,000 was recognised within impairment of investments, reflecting the fall in value of the shares from $1.20 per share issue price to $0.72 per share market value.

17. Property, Plant and Equipment

a. Reconciliation of the Carrying Amounts at the Beginning and End of the Period

Parent NZD in Thousands ($000)	Land	Buildings	Plant and Equipment	Vehicles	Work in Progress	Total
13 months ended 30 Sept 2010						
At 1 September 2009, net of accumulated depreciation	41,514	124,326	102,294	592	6,853	275,579
Additions	3,459	4,578	12,188	132	2,026	22,383
Disposals	(1,165)	(5,177)	(10,824)	(442)	(276)	(17,884)
Revaluations	18,441	49,610	—	—	—	68,051
Impairment of assets	—	—	(102)	—	—	(102)
Transfers (to)/from assets held for sale	(1,076)	(447)	(22)	—	—	(1,545)
Depreciation charge for the year	(95)	(5,954)	(16,929)	(136)	(196)	(23,310)
Depreciation on disposals	90	1,668	8,415	438	—	10,611
At 30 Sept 2010, net of accumulated depreciation	61,168	168,604	95,020	584	8,407	333,783
Cost or fair value	61,168	169,101	366,422	6,751	8,603	612,045
Accumulated depreciation and impairment	—	(497)	(271,402)	(6,167)	(196)	(278,262)
Net carrying value	61,168	168,604	95,020	584	8,407	333,783

b. Reconciliation of the Carrying Amounts at the Beginning and End of the Period

Consolidated **NZD in Thousands ($000)**	**Land**	**Buildings**	**Plant and Equipment**	**Vehicles**	**Work in Progress**	**Total**
13 months ended 30 Sept 2010						
At 1 September 2009, net of accumulated depreciation	43,434	123,352	103,460	664	6,853	277,763
Additions	3,539	4,530	12,189	134	2,026	22,418
Disposals	(1,165)	(5,255)	(15,947)	(511)	(276)	(23,154)
Revaluations	18,458	51,770	—	—	—	70,228
Impairment of assets	—	—	(102)	—	—	(102)
Reclassification of assets	(1,499)	2,032	(537)	2	—	(2)
Transfers (to)/from assets held for sale	(1,076)	(447)	(22)	—	—	(1,545)
Depreciation charge for the year	(95)	(6,015)	(17,169)	(160)	(196)	(23,635)
Depreciation on disposals	90	1,685	13,430	489	—	15,694
Exchange adjustment	—	(25)	(24)	(8)	—	(57)
At 30 Sept 2010, net of accumulated depreciation	61,686	171,627	95,278	610	8,407	337,608
Cost or fair value	61,686	172,124	367,437	6,834	8,603	616,684
Accumulated depreciation and impairment	—	(497)	(272,159)	(6,224)	(196)	(279,076)
Net carrying value	61,686	171,627	95,278	610	8,407	337,608

c. Reconciliation of the Carrying Amounts at the Beginning and End of the Period

Parent **NZD in Thousands ($000)**	**Land**	**Buildings**	**Plant and Equipment**	**Vehicles**	**Work in Progress**	**Total**
12 months ended 31 Aug 2009						
At 1 September 2008, net of accumulated depreciation	39,461	119,807	97,157	707	12,563	269,695
Additions	1,083	10,408	24,032	189	—	35,712
Disposals	(38)	(531)	(12,845)	(1,328)	—	(14,742)
Assets capitalised during the year	—	—	—	—	(5,622)	(5,622)
Transfers (to)/from assets held for sale	1,072	—	—	—	—	1,072
Depreciation charge for the year	(74)	(5,538)	(17,108)	(272)	(88)	(23,080)
Depreciation on disposals	10	180	11,058	1,296	—	12,544
At 31 Aug 2009, net of accumulated depreciation	41,514	124,326	102,294	592	6,853	275,579
Cost or fair value	51,680	225,464	365,079	7,061	6,853	656,137
Accumulated depreciation and impairment	(10,166)	(101,138)	(262,785)	(6,469)	—	(380,558)
Net carrying value	41,514	124,326	102,294	592	6,853	275,579

d. Reconciliation of the Carrying Amounts at the Beginning and End of the Period

Consolidated **NZD in Thousands ($000)**	**Land**	**Buildings**	**Plant and Equipment**	**Vehicles**	**Work in Progress**	**Total**
12 months ended 31 Aug 2009						
At 1 September 2008, net of accumulated depreciation	39,124	120,693	99,061	943	12,563	272,384
Additions	3,340	8,606	23,654	251	—	35,851
Disposals	(38)	(639)	(13,624)	(1,774)	—	(16,075)
Transfers (to)/from assets held for sale	—	—	—	—	(5,622)	(5,622)
Impairment	1,072	—	—	—	—	1,072
Depreciation charge for the year	(74)	(5,599)	(17,391)	(329)	(88)	(23,481)
Depreciation on disposals	10	311	11,807	1,588	—	13,716
Exchange adjustment	—	(20)	(47)	(15)	—	(82)
At 31 Aug 2009, net of accumulated depreciation	43,434	123,352	103,460	664	6,853	277,763
Cost or fair value	53,831	224,240	372,532	7,226	6,853	664,682
Accumulated depreciation and impairment	(10,397)	(100,888)	(269,072)	(6,562)	—	(386,919)
Net carrying value	43,434	123,352	103,460	664	6,853	277,763

e. Revaluation of Operational Land and Buildings

The Group engages Darroch Limited, an accredited independent valuer that uses the International Valuation Standards Committee, International Valuation Standards as a reference, to determine the fair value of its operational land and buildings.

Fair value is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. Fair value is determined by direct reference to recent market transactions on arm's length terms for land and buildings comparable in size and location to those held by the Group, and to market based yields for comparable properties. Where there is limited information available relating to specialised assets that are rarely, if ever, sold on the open market, the Depreciated Replacement Cost (DRC) method is normally applied. DRC is based on an estimate of current gross replacement (or reproduction) cost less allowances for physical deterioration and all relevant forms of obsolescence.

The effective date of the revaluation was 30 September 2010.

If operational land and buildings were measured using the cost model the carrying amounts would be as follows:

	Parent		Consolidated	
NZD in Thousands ($000)	As at 30 Sept 10	As at 31 Aug 09	As at 30 Sept 10	As at 30 Sept 09
Cost	225,613	222,471	227,054	223,913
Accumulated depreciation	(115,594)	(111,303)	(116,172)	(111,841)
Net carrying amount	110,019	111,168	110,882	112,072

f. Assets Held for Sale

	Parent/Consolidated As at 30 Sept 10				Parent/Consolidated As at 31 Aug 09			
NZD in Thousands ($000)	Cost/ Valuation	Accum. Deprec.	Writedown	Book Value	Cost/ Valuation	Accum. Deprec.	Writedown	Book Value
Freehold land (at valuation)	1,102	—	—	1,102	191	—	—	191
Freehold buildings (at valuation)	447	—	—	447	—	—	—	—
Plant and equipment	714	(691)	—	23	—	—	—	—
Vehicles	—	—	—	—	—	—	—	—
Total assets held for sale	2,263	(691)	—	1,572	191	—	—	191

The Group intends to dispose of its Vital Petfood business, classified as non-core. All land, buildings, plant and equipment and vehicles associated with Vital are likely to be sold with the business. The sale is expected to be completed within 3 months of balance date. No impairment loss was recognised on reclassification of the assets held for sale at 30 September 2010.

g. Carrying Value of Plant and Equipment Under Finance Leases

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 30 September 2010 is $1,166,000 (2009: $531,000).

h. Expenditure Recognised in the Course of Construction

Included in Work in Progress at 30 September 2010 is an amount of $1,178,000 (2009: $4,158,000) relating to buildings and site developments currently under construction.

Impairment—Investment in Associate

3.290

Harmony Gold Mining Company Limited (Jun 2010)

GROUP INCOME STATEMENTS (in part)

For the years ended 30 June 2010

SA Rand				US Dollar	
2009[*]	2010	Figures in Million	Note	2010	2009*
		Continuing Operations			
11,496	11,284	Revenue		1,489	1,277
(9,659)	(10 484)	Cost of sales	5	(1,383)	(1,083)
(7,657)	(8,358)	Production costs		(1,103)	(850)
(1,253)	(1,375)	Amortisation and depreciation		(181)	(139)
(546)	(331)	Impairment of assets		(43)	(71)
(39)	(205)	Employment termination and restructuring costs		(27)	(4)
(164)	(215)	Other items		(29)	(19)
1,837	800	Gross profit		106	194
(329)	(382)	Corporate, administration and other expenditure		(50)	(36)
(33)	(81)	Social investment expenditure		(11)	(4)
(259)	(219)	Exploration expenditure		(29)	(29)
947	104	Profit on sale of property, plant and equipment	6	14	114
(101)	(58)	Other expenses—net	7	(8)	(3)
2,062	164	Operating profit	8	22	236
12	56	Profit from associates	21	7	1
1	—	Profit on sale of investment in associate		—	—
(112)	—	Impairment of investment in associate	21	—	(14)
—	(24)	Loss on sale of investment in subsidiary	9	(3)	—
(101)	38	Net gain/(loss) on financial instruments	10	5	(10)
443	187	Investment income	11	25	49
(212)	(246)	Finance cost	12	(32)	(24)
2,093	175	Profit before taxation		24	238
(188)	(335)	Taxation	13	(44)	(22)
1,905	(160)	Net (loss)/profit from continuing operations		(20)	216

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Accounting Policies (in part)

2.2. Consolidation (in part)

The consolidated financial information includes the financial statements of the company, its subsidiaries, its proportionate interest in joint ventures, special purpose entities (SPEs) and its interests in associates.

(ii) **Associates** are those entities over which the group has significant influence, but not control over operational and financial policies, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for by using the equity method of accounting, and are initially recognised at cost. The cost of an acquisition is measured as the fair value of the assets given, shares issued or liabilities assumed at the date of exchange plus costs directly attributable to the acquisition.

The group's share of the associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movement in reserves is recognised in other reserves. Cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment losses.

The carrying value of an associate is reviewed on a regular basis and, if an impairment in the carrying value has occurred, it is written off in the period in which such impairment is identified.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment that should be recognised.

Accounting policies of associates have been reviewed to ensure consistency with the policies adopted by the group.

Investments in associates are accounted for at cost and are adjusted for impairments where appropriate in the company's separate financial statements.

3. Critical Accounting Estimates and Judgements (in part)

3.2. Impairment of Investments in Associates

Investments in associates are evaluated annually for impairment by comparing the entire carrying value of the investment to the recoverable amount, which is the higher of value in use or fair value less costs to sell.

21. Investment in Associates

SA Rand			US Dollar	
2009	**2010**	**Figures in Million**	**2010**	**2009**
145	329	Balance at beginning of year	43	19
284	—	Subsidiary becoming associate	—	25
12	56	Share of profit after tax	7	1
(112)	—	Impairment of share in associate	—	(14)
—	—	Translation	—	12
329	385	Balance at end of year	50	43
		The carrying amount consists of:		
—	—	Pamodzi Gold Limited (a)	—	—
329	385	Rand Uranium (Proprietary) Limited (b)	50	43
329	385	Total investment in associates	50	43

(a) On 27 February 2008, Pamodzi Gold Limited (Pamodzi) bought the Orkney operations from the group for a consideration of 30 million Pamodzi shares. This resulted in Harmony owning 32.4% of Pamodzi valued at R345 million (US$46.5 million) being R11.50 (US$1.54) per share on acquisition date. Pamodzi was listed on the JSE and had interests in operating gold mines in South Africa.

On 30 September 2008, an impairment test was performed and an impairment of R112 million (US$13.5 million) was recorded, bringing the total impairment recorded on the investment to date to R207 million (US$25.8 million). After taking into account the group's share of losses of R33 million (US$3.7 million), the carrying value at 31 December 2008 was R0. Total share in losses to date was R110 million (US$14.3 million). Subsequently, the group has not recognised its share of any further losses.

Pamodzi was placed in liquidation and the trading of its shares on the JSE was suspended.

At the time of this report being finalised no audited financial statements were available for years ending 31 December 2009 and 2008. The extract below represents unaudited information for the nine months ended 31 March 2009. No financial information subsequent to this date is available and therefore no information has been disclosed for 2010.

SA Rand			US Dollar	
2009	**2010**	**Figures in Million**	**2010**	**2009**
100%				100%
623		Revenue		69
(801)		Production costs		(89)
(178)		Operating loss		(20)
(361)		Net loss		(40)

The financial position as at 31 March 2009 is disclosed below:

SA Rand			US Dollar	
2009	**2010**	**Figures in Million**	**2010**	**2009**
2,005		Non-current assets		260
145		Current assets		18
2,150		Total assets		278
1,863		Current liabilities		241
478		Non-current liabilities		62
2,341		Total liabilities		303

(b) The group owns a 40% share of Rand Uranium, which is an unlisted company registered in South Africa, with gold mining operations in the Gauteng province of South Africa.

The group's interest was obtained by the completion of two transactions, discussed below.

On 21 November 2008, the company's wholly-owned subsidiary Randfontein Estates Limited disposed of its Randfontein Cooke assets to a newly formed wholly-owned subsidiary Rand Uranium, for a consideration of US$328 million (R3, 484 million), settled with Rand Uranium shares. In a related transaction on the same date, 60% of these shares were sold to PRF for US$197 million (R2, 093 million). US$40 million was paid on the effective date and the balance of US$157 million was paid on 20 April 2009. Interest was charged on the outstanding balance at 5% per annum, resulting in R32 million (US$3.3 million) being recognised in the income statement. The interest was also received on 20 April 2009.

The conditions precedent for the second part of the Rand Uranium transaction relating to the sale of the Old Randfontein assets to Rand Uranium were fulfilled on 22 April 2009. These assets were valued at US$20 million (R212 million). Additional shares were issued in settlement and 60% of these shares were sold to PRF in terms of the agreement. PRF paid its portion of the purchase price, US$12 million (R109 million), in cash on 20 April 2009.

The shareholders' agreement includes certain restrictions on the group's ability to dispose of its shares in Rand Uranium for a period of up to four years from the effective date, being 21 November 2008. In addition, PRF has the right, for a period of up to four years after the effective date, to have first claim on the proceeds, up to a specified amount, in the event of a disposal of the operations. Harmony has first right of refusal in such an event. However due to the contingent nature of the provision, the group has made no adjustments to the associate's carrying amount.

The group recognised a profit of R1 786 million (US$171 million) (before tax) on these transactions during the 2009 financial year. This profit is included in the profit from discontinued operations. Refer to note 14.

The group recognised its share of the post-acquisition profits of R56 million (US$7 million) (7 months ending 30 June 2009: R46 million (US$5.1 million)).

Rand Uranium has a year end of 30 June. The audited financial information of Rand Uranium for the years ended 30 June 2010 and at 30 June 2010 and 30 June 2009 is as follows:

SA Rand			US Dollar	
2009	2010		2010	2009
100%	100%		100%	100%
913	1,691	Revenue	223	101
(678)	(1,306)	Production costs	(172)	(75)
235	385	Gross profit	51	26
112	137	Net profit	18	12
4,456	4,666	Non-current assets	612	577
222	206	Current assets	27	29
4,678	4,872	Total assets	639	606
183	173	Current liabilities	23	24
699	766	Non-current liabilities	100	91
882	939	Total liabilities	123	115

Impairment—Investment in Jointly Controlled Entities

3.291

Sims Metal Management Limited (Jun 2010)

CONSOLIDATED INCOME STATEMENTS (in part)

For the year ended 30 June 2010

	Note	2010 A$M	2009 A$M	2008 A$M
Revenue	5	7,458.5	8,641.0	7,670.5
Other income	6	25.2	33.7	55.7
Raw materials used and changes in inventories	10	(5,344.3)	(6,272.6)	(5,324.6)
Freight expense		(716.0)	(919.3)	(778.7)
Employee benefits expense		(433.0)	(592.4)	(404.9)
Depreciation and amortisation expense	7	(143.9)	(170.8)	(95.1)
Repairs and maintenance expense		(111.7)	(147.8)	(126.2)
Other expenses		(538.4)	(542.2)	(363.0)
Finance costs	7	(16.4)	(21.5)	(34.4)
Goodwill impairment charge	13	—	(191.1)	(3.3)
Share of pre-tax profit of investments accounted for using the equity method	29	14.5	60.8	64.6
Profit/(loss) before income tax		194.5	(122.2)	660.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1—Summary of Significant Accounting Policies (in part)

(C) Principles of Consolidation (in part)

(III) Joint Ventures (in part)

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control such that significant operating and financial decisions require the unanimous consent of the parties sharing control. In some situations, joint control exists even though the Group has an ownership interest of more than 50% because of the veto rights held by joint venture partners. The Group has two types of joint ventures:

Jointly Controlled Entities

A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venture has a long-term interest. Jointly controlled entities are accounted for using the equity method. In addition, for both associates and jointly controlled entities, the carrying value will include any long-term debt interests that in substance form part of the Group's net investment.

Note 29—Investments in Associates and Jointly Controlled Entities (in part)

(A) Carrying Amounts of Associates and Jointly Controlled Entities

		Ownership Interest %		Carrying Amount	
Name of Associate or Jointly Controlled Entity	**Country of Incorporation**	**2010**	**2009**	**2010 A$M**	**2009 A$M**
SA Recycling LLC	USA	50%	50%	314.3	329.9
Metal Management Nashville LLC	USA	50%	50%	14.0	22.4
Rondout Iron & Metal LLC	USA	50%	50%	0.9	0.6
Port Albany Ventures LLC[1]	USA	100%	50%	—	6.6
Richmond Steel Recycling Ltd	Canada	50%	50%	19.8	21.6
LMS Generation Pty Ltd	Australia	50%	50%	19.9	18.5
Australia Refined Alloys Pty Ltd	Australia	50%	50%	—	—
Extruded Metals Ltd	New Zealand	33%	33%	0.6	0.6
				369.5	400.2

[1] On 18 November 2009, the Group obtained control of Port Albany by acquiring the remaining 50% of the joint venture. As a result, the Group's equity interest in Port Albany increased from 50% to 100%.

(B) Movements in Carrying Amounts

	2010 A$M	**2009 A$M**
Balance at 1 July	400.2	332.2
Share of profit before tax	17.5	57.6
Associates share of income tax expense	(2.4)	(2.6)
Accretion of deferred gain to equity accounted profit	2.7	3.2
Dividends received	(19.6)	(41.5)
Return of capital from jointly controlled entities	(0.4)	(3.6)
Purchase of remaining 50% interest in Port Albany	(5.6)	—
Impairment of investment in Metal Management Nashville LLC	(5.7)	—
Other	—	1.7
Foreign exchange differences	(17.2)	53.2
Balance at 30 June	369.5	400.2
(c) Share of associates' and jointly controlled entities' profit		
Profit before income tax	14.5	60.8
Associates' share of income tax expense	(2.4)	(2.6)
Profit after income tax recognised in equity accounted investment	12.1	58.2
Jointly controlled entities income tax[1]	(2.4)	(19.2)
Associates' and jointly controlled entities' profit after tax	9.7	39.0

[1] The jointly controlled entities to which this relates are "pass-through" entities for taxation purposes. As such, the Group incurs the income tax expense and associated tax liability on its share of the profit and includes this amount as part of its income tax expense. Refer to Note 8.

(C) Port Albany

At 30 June 2009, the Group held a 50% interest in Port Albany. This jointly controlled entity was accounted for using the equity method. On 18 November 2009, the Group purchased the remaining 50% ownership interest in Port Albany that it previously did not own. In accordance with the revised AASB 3 (IFRS 3) and AASB 127 (IAS 27), the Group was required to remeasure its previously held equity interest in Port Albany at its acquisition-date fair value and recognise the resulting gain or loss in profit or loss. This transaction resulted in the recognition of a gain calculated as follows:

	A$M
Fair value of 50% interest in Port Albany	14.3
Carrying amount of Port Albany investment	(5.6)
Gain recognised on acquisition	8.7

(D) SA Recycling LLC

On 1 September 2007, the Group completed the merger of its Southern Californian metal recycling assets with those of Adams Steel LLC. The jointly controlled entity, SA Recycling LLC, operates within a territory encompassing Southern California, Arizona, Southern Nevada and Northern Mexico. In accordance with AASB 128 (IAS 28) *Investments in Associates* and AASB 131 (IAS 31) *Interests in Joint Ventures,* the SA Recycling LLC is a jointly controlled entity accounted for under the equity method.

The fair values of assets and liabilities contributed to SA Recycling LLC at 1 September 2007 were as follows:

	Book Value A$M	**Fair Value A$M**	**Non-Cash Gain A$M**
Property, plant and equipment	71.4	79.8	(8.4)
Goodwill and intangible assets	196.5	265.7	(69.2)
Non-current provisions	(3.2)	(3.2)	—
	264.7	342.3	(77.6)

In accordance with UIGI 113 (SIC 13) *Jointly Controlled Entities—Non-Monetary Contributions by Venturers,* the portion of the non-cash gain attributable to the equity interest of the other venturer, in this instance 50%, was recognised immediately on contribution of assets to the SA Recycling LLC jointly controlled entity. This has been recognised in other income as disclosed in Note 6. The remaining 50% of the non-cash gain for intangibles has been allocated to reduce the cost of the equity accounted investment and will be recognised progressively over the remaining useful life of the assets to which it relates. The remaining 50% of the non-cash gain for property, plant and equipment has been allocated to reduce the cost of the equity accounted investment and will be recognised if the land to which the gain relates is sold.

(E) Summarised Financial Information of Associates and Jointly Controlled Entities

Group's Share of Assets and Liabilities	**2010 A$M**	**2009 A$M**
Current assets	104.0	92.1
Non-current assets	289.8	313.4
Total assets	393.8	405.5
Current liabilities	30.0	34.1
Non-current liabilities	100.0	102.2
Total liabilities	130.0	136.3
Net assets	263.8	269.2

Group's Share of Revenue, Expenses and Results	**2010 A$M**	**2009 A$M**	**2008 A$M**
Revenues	596.3	814.2	699.9
Expenses	(578.8)	(756.6)	(637.6)
Profit before income tax	17.5	57.6	62.3

(F) Contingent Liabilities and Capital Commitments

The Group's share of the contingent liabilities of associates and jointly controlled entities is disclosed in Note 22. The Group's share of the capital commitments and other expenditure commitments of associates and jointly controlled entities is disclosed in Note 23.

Note 7—Expenses

	2010 A$M	2009 A$M	2008 A$M
(A) Profit/(Loss) Before Income Tax Includes the Following Specific Expenses:			
Depreciation and amortisation:			
Depreciation expense	109.1	120.7	65.8
Amortisation expense	34.8	50.1	29.3
	143.9	170.8	95.1
Finance costs	16.4	21.5	34.4
Net loss on disposal of property, plant and equipment	—	—	1.9
Net loss on held for trading derivatives	15.4	10.3	—
Rental expenses relating to operating leases	60.1	71.7	43.9
Net foreign exchange loss	15.6	—	—
Defined contribution superannuation expense	4.1	8.0	6.3
Share-based payments expense	17.0	9.3	13.4
(B) Profit/(Loss) Before Income Tax Includes the Following Expenses Which are Included Due to Their Size Or Nature:			
Write-down of inventory to net realisable value	18.5	119.4	—
Sarbanes-Oxley related professional fees(1)	—	9.7	—
Withdrawal liability related to a multi-employer pension plan(2)	—	3.4	—
Impairment provisions for trade receivables(3)	1.2	23.7	0.6
Professional fees and other costs incurred in connection with Fairless Iron 8 Metal acquisition(4)	(0.8)	2.5	—
Loss on sale of subsidiaries	—	2.6	—
Impairment loss on fire destroyed assets	—	—	0.1
Impairment of property, plant and equipment and yard closure costs(5)	14.5	13.7	4.6
Intangible asset impairments(6)	0.9	—	—
Impairment of jointly controlled entity (Note 29)(7)	5.7	—	—
Merger costs(8)	—	4.0	1.4
Redundancies	5.7	5.5	5.6

(1) In 2009, the Group was required to implement and comply with Section 404 of the Sarbanes-Oxley Act of 2002 (United States). Professional fees incurred in the first year of Sarbanes-Oxley implementation are much higher and thus listed above. No amount is provided for 2010 as the primary professional fees are inseparable and included in the overall statutory audit fee disclosed in Note 26.

(2) Represents a termination liability associated with the withdrawal from a multi-employer pension plan in the United States.

(3) Represents provisions recorded for trade debtors for which the Group believes collectability is in doubt. Refer to Note 1(m).

(4) In 2009, the Group incurred transaction costs associated with the acquisition of Fairless Iron & Metal which was completed in 2010 (3 July 2009).

In 2009, the Group applied the transitional principles consistent with the revised AASB 3 (IFRS 3) whereby transaction costs are expensed for all acquisitions prospectively from 1 July 2009. The amount in 2010 represents the reversal of accrued costs which were settled for a lower amount.

(5) In 2010, impairments on property, plant and equipment were recognised for the write-down of processing equipment located in idled yards (A$15.8 million) offset by the reversal of previously recognised processing equipment impairments (A$1.3 million). In 2009, the impact of the global financial crisis on the Group resulted in impairment charges for asset rationalisation, asset retirement and idling of certain yards. In 2008, impairments on property, plant and equipment were recognised for assets held by non-core businesses which were being considered for disposal.

(6) Represents the write-off of permits which the Group determined had no value.

(7) Represents an impairment of the Group's investment in Metal Management Nashville LLC. The jointly controlled entity operates in a very competitive market which has impacted its financial performance resulting in the impairment charge.

(8) Merger costs include integration bonuses, retention incentives and other costs associated with the post-merger rationalisation of the Sims Metal Management Limited and Metal Management businesses.

Impairment—Assets Classified as Held for Sale

3.292

Sterlite Industries (India) Limited (Mar 2010)

Author's Note

Sterlite Industries (India) Limited implemented IFRSs effective March 31, 2010, with a date of transition of April 1, 2008. The excerpt that follows reflects the initial application of IAS 36.

CONSOLIDATED STATEMENTS OF INCOME (in part)

(Indian Rupees in millions except share or per share amounts unless otherwise stated)

		For the Year Ended March 31		
	Notes	**2009 (Rs. in Millions)**	**2010 (Rs. in Millions)**	**2010 (US Dollars in Millions) (Note 2)**
Revenue	5	212,192	244,903	5,448.3
Cost of sales		(165,097)	(181,928)	(4,047.3)
Gross profit		47,095	62,975	1,401.0
Other operating income		3,750	1,907	42.4
Distribution expenses		(3,388)	(3,022)	(67.2)
Administration expenses		(4,367)	(8,026)	(178.6)
Operating profit		43,090	53,834	1,197.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

3. Significant Accounting Policies (in part)

F. Non-Current Assets Held for Sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets and disposal groups classified as held for sale are not depreciated and are measured at the lower of carrying amount and fair value less costs to sell. Such assets and disposal groups are presented separately on the face of the statement of financial position.

J. Impairment (in part)

Non-Financial Assets

The carrying amounts of the Company's non-financial assets, other than 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.

The recoverable amount of an asset or cash-generating unit 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. For the purpose of impairment testing, assets 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 groups of assets (the "cash-generating unit").

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount.

Impairment losses are recognized in the statement of income. Impairment losses recognized 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 amortization, if no impairment loss had been recognized.

18. Assets Held for Sale

In the year ended March 31, 2010, the Company recognized assets amounting to Rs. 188 million as assets held for sale. Such assets related to the Company's aluminum segment.

A description of the assets held for sale is as follows:

(Rs. in Millions)	As at March 31, 2010 Gross Value	Accumulated Depreciation and Impairment	Carrying Value
Building	192	179	13
Plant and machinery	1,254	1,079	175
Total	1,446	1,258	188

The relatively high cost of operation of BALCO's Plant I 100,000 tpa smelter which used the Vertical Stud Soderberg ("VSS") technology at Korba and the steep decline in LME prices made the existing operations at the smelter unviable. Consequently, operations at the smelter were being phased out of production commencing in February 2009 and operations at the smelter ceased on June 5, 2009.

Consequently, the Company recognised Plant 1 smelter assets at Korba, the main receiving station and distribution system used in the above mentioned smelter, Fume treatment plant ("FTP"), Profile tube shop and Bidhan Bagh Unit under the head "Assets held for sale." The Company obtained approval for dismantling and disposing of these assets from the appropriate level of management. Part of the assets recognised as held for sale with a carrying value of Rs. 122 million have been disposed off. The balance disposal is expected to be completed by December 2010.

The carrying value of FTP is Rs. 343 million and its net realizable value is Rs. 17 million. Consequently, an impairment loss of Rs. 326 million was recognized in the statement of income as part of administration expenses. The estimated fair value less costs to sell of the other assets held for sale is Rs. 383 million as at March 31, 2010 and the carrying value is Rs. 171 million. Since the estimated fair value less costs to sell of these assets is higher than the carrying value, no impairment was recognized. The carrying value of the assets has been shown separately in the statement of financial positions.

GAINS AND LOSSES ON DERECOGNITION OF NONCURRENT ASSETS

IFRS Overview and Comparison to U.S. GAAP

3.293 This subsection addresses recognition of gains or losses on derecognition of noncurrent assets accounted for in accordance with IAS 16, IAS 17, IAS 38, and IAS 40. The requirements of these standards with respect to recognition, measurement, presentation, and disclosure on the statement of financial position are discussed in section 2. The requirements of these standards with respect to depreciation, amortization, and impairment testing and recognition are discussed elsewhere in this section.

Recognition and Measurement

IFRSs

3.294 IAS 16 and IAS 38 require an entity to derecognize an item of PPE on disposal or when no future economic benefits are expected to flow to the entity from use or disposal. IAS 40 also adds the condition that the property be permanently withdrawn from use.

3.295 In all cases, an entity should recognize gains or losses in profit or loss as the difference between the net proceeds from disposal, if any, and the carrying value of the asset in the period in which the retirement or disposal occurs, unless the asset is the subject of a sale and leaseback transaction under IAS 17.

3.296 In accordance with IAS 17, an entity should recognize profit or loss immediately when the sale and leaseback results in an operating lease and either:

- it is clear that the transaction occurred at fair value, or
- the transaction occurred at less than fair value and the loss is not compensated by future lease payments at below market price.

Otherwise, an entity defers and amortizes any gain or loss over the period in which the entity expects to use the asset.

3.297 Both IAS 16 and IAS 38 prohibit an entity from recognizing gains on disposal or retirement as revenue.

3.298 When an asset is held at revalued amount, an entity transfers any remaining revaluation surplus account to retained earnings when the asset is derecognized. For the purpose of transferring the revaluation surplus to retained earnings, an entity may transfer either part of the revaluation surplus as the asset is depreciated or the entire revaluation surplus when it disposes of or retires the asset.

U.S. GAAP

3.299 FASB ASC 360-10-40 provides very little guidance on derecognition of long-lived assets on disposal or retirement. General guidance states that an entity should derecognize long-lived assets when it no longer has rights to the asset. An entity should recognize a gain or loss on the date of the sale, in accordance with FASB ASC 360-10-40-5.

3.300 However, FASB ASC 360-10-40 contains more guidance and conditions than IFRSs that must be met before an entity recognizes gains or losses on sale and leaseback transactions, referencing FASB ASC 840, *Leases*. Specifically, paragraphs 1–3 of FASB ASC 840-40-35 contain guidance on the recognition of profit or loss on sale-leaseback transactions.

Presentation

IFRSs

3.301 IAS 1 does not require separate presentation of gains and losses from disposals of noncurrent assets on the income statement.

U.S. GAAP

3.302 Like IFRSs, FASB ASC 360-10-45-5 does not require separate presentation of these transactions. However, this paragraph further states that if a subtotal, such as income from operations, is presented, an entity should include the amounts of gains or losses recognized on the sale of the noncurrent asset in that subtotal.

Disclosure

IFRSs

3.303 Unless a gain or loss on derecognition is material, IFRSs do not require an entity to disclose this information.

U.S. GAAP

3.304 Unlike IFRSs, when an entity does not separately present gains or losses on the sale of a long-lived asset on the face of the income statement, FASB 205-20-50-1 requires the entity to disclose in the notes to the relevant financial statements the caption of the income statement item that contains that gain or loss.

Presentation and Disclosure Excerpts

Gain on Sale of Property, Plant, and Equipment, Intangible Assets, and Assets Held for Sale

3.305

Magyar Telekom plc (Dec 2010)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (in part)

		For the Year Ended December 31			
	Note	**2008**	**2009**	**2010**	**2010 (Note 2.1)**
		(In HUF Millions, Except per Share Amounts)			**(Million USD)**
Revenue	22	673,056	643,989	609,579	2,922
Expenses directly related to revenues	23	(167,558)	(160,576)	(157,427)	(755)
Employee related expenses	24	(100,320)	(101,918)	(93,884)	(450)
Depreciation and amortization		(106,120)	(101,920)	(100,872)	(483)
Other operating expenses	25	(141,049)	(135,305)	(148,750)	(713)
Operating expenses		(515,047)	(499,719)	(500,933)	(2,401)
Other operating income	26	4,249	2,863	3,448	17
Operating profit		162,258	147,133	112,094	537

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

26. Other Operating Income

	For the Year Ended December 31		
(In HUF Millions)	**2008**	**2009**	**2010**
Gain on sale of PPE, Intangible assets and assets held for sale	2,126	326	327
Gain on sale of subsidiaries and associates (a)	1,233	1,371	—
Compensation for renaming (Note 34.1)	676	—	—
Other operating income	214	1,166	3,121
	4,249	2,863	3,448

(a) Gain on Sale of Subsidiaries and Associates

All the subsidiaries sold in the reported years conducted non-core operations and were insignificant to the Group, therefore they did not constitute discontinued operations. The results on the disposals of subsidiaries and associates are recognized as Other operating income in the years of disposal. All disposals impacted the total ownership in the subsidiaries and associates sold. No income or loss was incurred on the sale of Orbitel in 2010 after the impairment loss of the Orbitel goodwill recognized in 2009. The proceeds from the disposal included in the Consolidated statement of cash flows are disclosed net of the cash balances of the subsidiaries at date of disposal. These cash balances were not significant.

Gain (Loss) on Disposal of Hotels

3.306

InterContinental Hotels Group plc (Dec 2010)

CONSOLIDATED INCOME STATEMENT (in part)

	Year Ended December 31, 2010			Year Ended December 31, 2009			Year Ended December 31, 2008		
($ Million)	Before Exceptional Items	Exceptional Items (Note 5)	Total	Before Exceptional Items	Exceptional Items (Note 5)	Total	Before Exceptional Items	Exceptional Items (Note 5)	Total
Revenue (Note 2)	1,628	—	1,628	1,538	—	1,538	1,897	—	1,897
Cost of sales	(753)	—	(753)	(769)	(91)	(860)	(852)	—	(852)
Administrative expenses	(331)	(35)	(366)	(303)	(83)	(386)	(400)	(59)	(459)
Other operating income and expenses	8	35	43	6	(2)	4	14	25	39
	552	—	552	472	(176)	296	659	(34)	625
Depreciation and amortization (Note 2)	(108)	—	(108)	(109)	—	(109)	(110)	(2)	(112)
Impairment (Note 2)	—	(7)	(7)	—	(197)	(197)	—	(96)	(96)
Operating profit/(loss) (Note 2)	444	(7)	437	363	(373)	(10)	549	(132)	417
Financial income (Note 6)	2	—	2	3	—	3	12	—	12
Financial expenses (Note 6)	(64)	—	(64)	(57)	—	(57)	(113)	—	(113)
Profit/(loss) before tax	382	(7)	375	309	(373)	(64)	448	(132)	316
Tax (Note 7)	(98)	1	(97)	(15)	287	272	(101)	42	(59)
Profit for the year from continuing operations	284	(6)	278	294	(86)	208	347	(90)	257
Profit for the year from discontinued operations (Note 11)	—	2	2	—	6	6	—	5	5
Profit for the year	284	(4)	280	294	(80)	214	347	(85)	262

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 5—Exceptional Items

($ Million)	Year Ended December 31 2010	2009	2008
Continuing Operations			
Exceptional Operating Items			
Cost of sales:			
Onerous management contracts[(i)]	—	(91)	—
Administrative expenses:			
Holiday Inn brand relaunch[(ii)]	(9)	(19)	(35)
Reorganization and related costs[(iii)]	(4)	(43)	(24)
Litigation provision[(iv)]	(22)	—	—
Enhanced pension transfer[(v)]	—	(21)	—
	(35)	(83)	(59)
Other operating income and expenses:			
Gain on sale of associate investments	—	—	13
Gain on sale of other financial assets[(vi)]	8	—	14
Gain/(loss) on disposal of hotels (Note 11)[(*)]	27	(2)	(2)
	35	(2)	25
Depreciation and amortization:			
Reorganization and related costs[(iii)]	—	—	(2)
Impairment:			
Property, plant and equipment (Note 10)	(6)	(28)	(12)
Assets held for sale (Note 11)	—	(45)	—
Goodwill (Note 12)	—	(78)	(63)
Intangible assets (Note 13)	—	(32)	(21)
Other financial assets (Note 15)	(1)	(14)	—
	(7)	(197)	(96)
	(7)	(373)	(132)
Tax			
Tax on exceptional operating items	1	112	17
Exceptional tax credit[(vii)]	—	175	25
	(6)	287	42
Discontinued Operations[(viii)]			
Gain on Disposal of Assets (Note 11)			
Gain on disposal of hotels[(**)]	—	2	—
Tax credit	2	4	5
	2	6	5
	(4)	(80)	(85)

(*) Relates to hotels classified as continuing operations.
(**) Relates to hotels classified as discontinued operations.
The above items are treated as exceptional by reason of their size or nature.

(i) An onerous contract provision of $65 million was recognized at December 31, 2009 for the future net unavoidable costs under the performance guarantee related to certain management contracts with one US hotel owner. In addition to the provision, a deposit of $26 million was written off as it is no longer considered recoverable under the terms of the same management contracts.

(ii) Relates to costs incurred in support of the worldwide relaunch of the Holiday Inn brand family that was announced on October 24, 2007.

(iii) Primarily relates to the closure of certain corporate offices together with severance costs arising from a review of the Group's cost base.

(iv) Estimate of the amount potentially payable in respect of a prior year claim following an unfavorable court judgment on February 23, 2011. Any final amount will not be known until the court process is complete.

(v) Related to the payment of enhanced pension transfers to those deferred members of the InterContinental Hotels UK Pension Plan who had accepted an offer to receive the enhancement either as a cash lump sum or as an additional transfer value to an alternative pension plan provider. The exceptional item in 2009 comprised the lump sum payments ($9 million), the IAS 19 settlement loss arising on the pension transfers ($11 million) and the costs of the arrangement ($1 million). The payments and transfers were made in January 2009.

(vi) Relates to the gain on sale of an investment in the EMEA region, in both 2010 and 2008.

(vii) Represents the release of provisions of $7 million (2009 $175 million, 2008 $25 million) which are exceptional by reason of their size or nature relating to tax matters which had been settled or in respect of which the relevant statutory limitation period has expired, together with, in 2010, a $7 million charge relating to an internal reorganization. This charge comprises the recognition of deferred tax assets of $24 million for capital losses and other deductible amounts, offset by tax charges of $31 million.

(viii) In 2010, relates to tax refunded relating to the sale of a hotel in a prior year. In 2009 and 2008, related to tax arising on disposals together with the release of provisions no longer required in respect of hotels disposed of in prior years.

Profit and Loss on Sales of Property, Plant and Equipment and Waste Products

3.307

Barry Callebaut AG (Aug 2010)

CONSOLIDATED INCOME STATEMENT

For the Fiscal Year Ended August 31, in Thousands of CHF	Notes	2009/10	2008/09
Revenue from sales and services		5,213,779	4,880,177
Cost of goods sold		(4,477,608)	(4,172,355)
Gross profit		736,171	707,822
Marketing and sales expenses		(120,781)	(120,324)
General and administration expenses		(248,794)	(250,608)
Other income	6	20,456	34,357
Other expenses	7	(16,641)	(20,494)
Operating profit (EBIT)		370,411	350,753
Financial income	8	2,021	5,904
Financial expenses	9	(83,122)	(97,493)
Result from investments in associates and joint ventures	17	(225)	484
Profit before income taxes		289,085	259,648

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

6. Other Income

In Thousands of CHF	2009/10	2008/09
Gain on disposal of property, plant and equipment	6,177	1,615
Group training centers, museums, outlets and rental income	3,799	3,522
Sale of shells of cocoa beans and waste	3,198	3,285
Litigations, claims and insurance	2,902	1,923
Release of unused provisions and accruals	1,678	837
Gain on disposal of subsidiaries (note 2)	—	17,950
Recognition of negative goodwill on acquisitions (note 1)	—	1,385
Other	2,702	3,840
Total other income	20,456	34,357

7. Other Expenses

In Thousands of CHF	2009/10	2008/09
Restructuring costs	(8,916)	(9,947)
Loss on sale of waste	(2,088)	(2,910)
Litigations and claims	(1,741)	(1,518)
Costs related to chocolate museums	(1,022)	(696)
Loss on sale of property, plant and equipment	(25)	(1,585)
Impairment on property, plant and equipment (note 15)	—	(566)
Other	(2,849)	(3,272)
Total other expenses	(16,641)	(20,494)

CHANGE IN FAIR VALUE OF NONFINANCIAL ASSETS

IFRS Overview and Comparison to U.S. GAAP

3.308 When permitted or required by IFRSs, an entity may measure a nonfinancial asset at fair value subsequent to initial recognition. When an entity applies this accounting policy, by electing to apply a fair value model or revaluation model, as appropriate, the subsequent measurement of these assets affects its statement of comprehensive income. The following standards permit or require these models and are addressed in this subsection:

- IAS 16—revaluation model
- IAS 38—revaluation model
- IAS 40—fair value model
- IAS 41, *Agriculture*—fair value model

Author's Note

Recognition, measurement, presentation, and disclosure requirements for the assets within the scope of these standards are discussed in section 2. This subsection only addresses the effects on the statement of comprehensive income.

Recognition and Measurement

IFRSs

3.309 IAS 16 permits an entity to remeasure the carrying value of items of PPE to *revalued amount*, which is fair value on the date of revaluation. An entity should revalue all assets in the relevant class of PPE with sufficient regularity such that the carrying value of the class is not materially different from fair value at the balance sheet date. An entity should recognize an increase in carrying value from revaluation in other comprehensive income (revaluation surplus), except that the entity should recognize the increase to profit and loss to the extent that the increase reverses accumulated prior decreases. Similarly, an entity should recognize a decrease in carrying value in profit or loss, except that the entity should recognize the decrease in other comprehensive income to the extent it reverses an existing revaluation surplus.

3.310 IAS 38 permits an entity to select the revaluation model only if the class of intangible assets has an active market. The effect of a change in carrying value revaluation on the statement of comprehensive income is the same as IAS 16.

3.311 IAS 40 permits an entity to remeasure the carrying value of all investment properties to fair value at the reporting date. When the fair value model is selected, an entity should recognize the change in fair value in profit or loss.

3.312 IAS 41 requires an entity to recognize biological assets initially and in subsequent reporting periods and agricultural produce initially and at the point of harvest at FVLCS and recognize the change in fair value in profit or loss. An entity should recognize any gains or losses on initial recognition at FVLCS and on remeasurement in profit or loss.

U.S. GAAP

3.313 Unlike IFRSs, FASB ASC does not permit an entity to remeasure nonfinancial assets to fair value, revalued amount, or FVLCS, subsequent to initial recognition, except in rare circumstances. For example, when an entity recognizes an impairment loss, it remeasures the asset to fair value. (See the guidance related to the recognition and measurement of asset impairments starting with paragraph 3.264)

Presentation

IFRSs

3.314 Changes in fair value, revalued amount, or FVLCS are, by nature, different from other income and expense items. In contrast to the alternative to present expenses by nature or function in profit or loss, IAS 1 requires an entity to present information of other comprehensive income by nature. When an entity presents information recognized in profit or loss by function, it should disclose an analysis of expenses by nature in a note disclosure.

U.S. GAAP

3.315 Because FASB ASC does not permit nonfinancial assets to be remeasured to fair value, revalued amount, or FVLCS, there is no guidance to reference here.

Disclosure

IFRSs

3.316 IAS 16 and IAS 38 require an entity to disclose revaluation increases or decreases as a separate line in the reconciliation of the gross carrying amount of the relevant asset class.

3.317 IAS 40 requires an entity to disclose the net gains or losses from fair value adjustments of investment properties.

3.318 IAS 41 requires an entity to disclose any gains or losses from changes in FVLCS.

U.S. GAAP

3.319 Because FASB ASC does not permit nonfinancial assets to be remeasured to fair value, revalued amount, or FVLCS, there is no guidance to reference here.

Presentation and Disclosure Excerpts

Author's Note

None of the survey companies selected for this edition elected the revaluation model for intangible assets. Therefore, no disclosure excerpts were available for inclusion.

Changes in Fair Value of Biological Assets Recognized in Profit and Loss, Change in Revalued Amount Recognized in Other Comprehensive Income—Property, Plant and Equipment

3.320

Sasini Limited (Sep 2010)

CONSOLIDATED INCOME STATEMENT (in part)

For the year ended 30 September 2010

	Note	2010 KShs'000	2009 KShs'000
Revenue	23	2,297,927	2,182,090
Gains arising from changes in fair value of biological assets less estimated point of sale costs	6(a)	904,832	568,992
Cost of sales	24	(1,376,450)	(1,471,493)
Gross profit		1,826,309	1,279,589
Other income	25	177,192	48,495
Expenses			
Administration and establishment expenses	26	(563,550)	(513,913)
Selling and distribution costs	27	(13,427)	(11,297)
Interest income	28	27,774	28,497
Interest expense	28	(71,923)	(71,649)
Profit before tax	28	1,382,375	759,722

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME (in part)

For the year ended 30 September 2010

	2010 KShs'000	2009 KShs'000
Profit for the year	993,729	533,032
Other comprehensive income		
Revaluation of property, plant and equipment	28,818	572,217
Deferred tax on revaluation	—	(123,122)
Other comprehensive income after tax	28,818	449,095
Total comprehensive income for the year	1,022,547	982,127

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Significant Accounting Policies (in part)

(e) Critical Accounting Estimates and Assumptions (in part)

In the process of applying the Group's accounting policies, directors make certain estimates and assumptions about future events. In practice, the estimated and assumed results would differ from the actual results. Such estimates and assumptions, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

Biological Assets

In determining the fair value of biological assets, the Group uses the present value of expected future cash flows from the assets discounted at the current market determined pre tax rate. The objective of calculating the present value of expected cash flows is to determine the fair value of biological assets in their present location and condition. The Group considers this in determining an appropriate discount rate to be used and in estimating net cash flows. Management uses historical data relating to production and market prices of tea, coffee, livestock and trees. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed to reduce any differences between estimates and actual experience. The significant assumptions are set out in note 5 to the financial statements.

Property, Plant and Equipment

Directors make estimates in determining the depreciation rates for property, plant and equipment. The rates used are set out in the accounting policy for property, plant and equipment.

These estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the prevailing circumstances.

The Group measures its property, plant and equipment at revalued amounts with changes in revaluation values being recognized in equity. The Group engages independent valuers to determine fair values of property, plant and equipment. The valuation values are based on the prevailing market prices which are sensitive to economic conditions.

(k) Property, Plant & Equipment and Depreciation

Property, plant and equipment are stated at cost or revalued amounts less accumulated depreciation and any impairment losses. Revaluation increases arising on the revaluations are credited to a revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the statement of comprehensive income to the extent of the decrease previously charged. A decrease in carrying amount arising out of revaluation is charged as an expense to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset original cost. Additionally, accumulated depreciation at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any surplus remaining in the revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Revaluations are done every 5 years to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

No depreciation is provided on freehold land. Work-in-progress is not depreciated until the assets are completed and brought to use. Other items of property, plant and equipment are depreciated on the straight line basis to write down the cost or revalued amount of each asset to its residual value over its estimated useful life as follows;

Buildings and improvements	12–45 years
Plant, machinery and tools	12.5% p.a
Rolling stock	25.0% p.a
Farm implements and trailers	12.5% p.a
Furniture and fittings	12.5% p.a
Computers	33.3% p.a

Useful life, residual values and depreciation methods are reviewed on an annual basis.

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Statement of comprehensive income in the year the item is de-recognised. The carrying values of the property, plant and equipment are assessed annually and adjusted for impairment where it is considered necessary.

4. Property, Plant and Equipment (in part)

a) The Group

Year ended 30 September 2010

	Land and Development KShs'000	Buildings and Improvements KShs'000	Plant, Machinery and Tools KShs'000	Rolling Stock and Farm Implements KShs'000	Furniture, Computers and Equipment KShs'000	Total KShs'000
Cost or Valuation						
At start of the year	1,003,000	947,353	424,837	96,752	93,111	2,565,053
Additions and transfers	—	81,419	33,844	40,183	11,770	167,216
Disposals	—	(2,619)	—	(7,925)	—	(10,544)
At 30 September 2010	1,003,000	1,026,153	458,681	129,010	104,881	2,721,725
Comprising:						
At cost	—	251,635	143,834	63,142	89,800	548,411
At valuation	1,003,000	774,518	314,847	65,868	15,081	2,173,314
	1,003,000	1,026,153	458,681	129,010	104,881	2,721,725
Depreciation						
At start of the year	—	68,740	22,386	6,953	31,012	129,091
Charge for the year	—	79,266	39,327	22,322	20,748	161,663
Disposals	—	(537)	—	(2,212)	—	(2,749)
At 30 September 2010	—	147,469	61,713	27,063	51,760	288,005
Net book value						
At 30 September 2010	1,003,000	878,684	396,968	101,947	53,121	2,433,720

The Group's property was revalued on 30 September 2008 by Lloyd Masika Limited, registered valuers, on the market value existing use basis.

The Group's plant and equipment was revalued on 30 September 2009 by Lloyd Masika registered valuers, on the market value existing use basis.

The book values of the property, plant and equipment were adjusted to the revaluations and the resultant surplus and deferred tax effect, was recognised in equity as at that date.

Year ended 30 September 2009

	Land and Development KShs'000	Buildings and Improvements KShs'000	Plant, Machinery and Tools KShs'000	Rolling Stock and Farm Implements KShs'000	Furniture, Computers and Equipment KShs'000	Total KShs'000
Cost or Valuation						
At start of the year	843,000	860,892	537,181	195,241	126,422	2,562,736
Additions and transfers	—	1,417	4,492	2,074	30,637	38,620
Disposals	—	—	—	(3,844)	—	(3,844)
Revaluation surplus	160,000	85,044	(116,836)	(96,719)	(63,948)	(32,459)
At 30 September 2009	1,003,000	947,353	424,837	96,752	93,111	2,565,053
Comprising:						
At cost	—	170,216	109,990	22,959	78,030	381,195
At valuation	1,003,000	777,137	314,847	73,793	15,081	2,183,858
	1,003,000	947,353	424,837	96,752	93,111	2,565,053
Depreciation						
At start of the year	—	2,081	384,295	153,954	80,451	620,781
Charge for the year	—	66,659	19,499	11,937	17,714	115,809
Disposals	—	—	—	(2,822)	—	(2,822)
Eliminated on revaluation	—	—	(381,408)	(156,116)	(67,153)	(604,677)
At 30 September 2009	—	68,740	22,386	6,953	31,012	129,091
Net book value						
At 30 September 2009	1,003,000	878,613	402,451	89,799	62,099	2,435,962

(c) Capital Work-in-Progress

	Group		Company	
	2010 KShs'000	2009 KShs'000	2010 KShs'000	2009 KShs'000
Balance brought forward	78,573	14,013	68,328	6,717
Additions	2,154	64,560	—	61,611
Transfer to property, plant and equipment	(25,170)	—	(50,899)	—
Transfer to intangible assets	(49,165)	—	(17,429)	—
	6,392	78,573	—	68,328

Capital work-in-progress is not depreciated

6. Biological Assets (in part)

(a) The Group

Year ended 30 September 2010

	Coffee Trees KShs'000	Tea Bushes KShs'000	Other Trees KShs'000	Other Crops KShs'000	Livestock KShs'000	Total KShs'000
Carrying amount as at 1 October 2009	1,308,501	2,760,689	332,741	1,093	13,253	4,416,277
Gains/(losses) arising from changes in fair value less estimated point of sale costs	537,661	452,785	(57,946)	(1,093)	878	932,285
Increases due to purchases/planting	5,906	—	220	—	—	6,126
Decreases due to harvest	—	—	(27,453)	—	—	(27,453)
Carrying amount as at 30 September 2010	1,852,068	3,213,474	247,562	—	14,131	5,327,235

(a) The Group

Year ended 30 September 2009

	Coffee Trees KShs'000	Tea Bushes KShs'000	Other Trees KShs'000	Other Crops KShs'000	Livestock KShs'000	Total KShs'000
Carrying amount as at 1 October 2008	1,345,002	2,197,616	278,086	2,980	14,845	3,838,529
Gains/(losses) arising from changes in fair value less estimated point of sale costs	(37,280)	558,470	51,281	(1,887)	(1,592)	568,992
Increases due to purchases/planting	779	4,603	3,374	—	—	8,756
Carrying amount as at 30 September 2009	1,308,501	2,760,689	332,741	1,093	13,253	4,416,277

The Group is involved in the growing, processing and selling of coffee and tea and breeding of dairy cattle. At 30 September 2010, the Group had 127 (2009:108) cows able to produce milk, 131 (2009:82) calves that are raised to produce milk in the future, 41 (2009:113) bull calves and 150 (2009:352) sheep. The Group produced 646,832 (2009:649,751) litres of milk with a fair value less estimated point of sale costs of KShs 13,312,340 (2009: KShs 12,555,712) in the year.

The Group has 856 hectares of mature coffee bushes and 55 hectares of young coffee bushes. The Group harvested 1,106,883 (2009: 1,361,323) Kgs of coffee with a fair value less estimated point of sale costs of KShs 313 million (2009: KShs 261 million).

The Group has 1,391 (2009: 1,391) hectares of mature tea bushes and 46 (2009: 46) hectares of young tea bushes. The Group harvested 28,251,205 (2009: 23,704,270) Kgs of green tea leaves with a fair value less estimated point of sale costs of KShs 438 million (2009: KShs 332 million).

Where meaningful market-determined prices do not exist to assess the fair value of biological assets, the fair value is determined based on the net present value of the expected future cash flows from those assets, discounted at appropriate pre-tax rates. The discount rates used reflect the cost of capital, an assessment of the country risk and the risks associated with individual crops. Future cash flows have been discounted at 15%.

In determining the fair value of biological assets where the discounting of expected cash flows has been used, the directors have made certain assumptions as follows:-

- Expected lifespan of the plantations (Coffee trees 20 yrs and Tea bushes 30 yrs).
- The climatic conditions will remain constant.
- The selling prices to remain constant.
- The fair value of livestock is determined based on market prices of livestock of similar age and sex.
- Production is taken as an average of five years.
- The biological transformation rate will remain at 100%.

The Group does not anticipate that coffee and tea prices will decline significantly in the foreseeable future and therefore has not entered into derivative or other contracts to manage the risk of a decline in coffee and tea prices. The Group reviews its outlook for coffee and tea prices regularly in considering the need for active financial risk management.

25. Other Income

Gain on disposal of property, plant and equipment	79,407	101	79	101
Exchange gain	38,419	20,761	37,217	24,606
Management fees	—	—	27,300	27,300
Sundry income	59,366	27,633	35,250	19,112
	177,192	48,495	99,846	71,119

Change in Fair Value Recognized in Profit and Loss—Investment Property and Timber, Change in Revalued Amount Recognized in Other Comprehensive Income—Property, Plant and Equipment, including Renewable Power Generation and Utilities, Transport, and Energy Assets

3.321

Brookfield Asset Management, Inc. (Dec 2010)

Author's Note

Brookfield Asset Management implemented IFRSs effective December 31, 2010, with a date of transition of January 1, 2009. The excerpt that follows reflects the initial application of IFRSs.

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31 (Millions, Except per Share Amounts)	Note	2010	2009[1]
Total revenues		$13,623	$11,218
Asset management and other services	21	365	298
Revenues less direct operating costs			
Renewable power generation	21	748	777
Commercial properties	21	1,282	1,059
Infrastructure	21	221	95
Development activities	21	527	156
Private equity and finance	21	281	111
		3,424	2,496
Equity accounted income		494	353
Investment and other income		593	683
		4,511	3,532
Expenses			
Interest		1,829	1,480
Operating costs		417	396
Current income taxes	14	97	(5)
		2,168	1,661
Other items			
Fair value changes	22	1,865	(2,268)
Depreciation and amortization		(795)	(656)
Deferred income tax	14	(43)	287
Net income (loss)		$ 3,195	$ (976)

[1] Refer to Note 3 for the effects of the adoption of IFRS.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31 (Millions)	2010	2009[1]
Net income (loss)	$3,195	$ (976)
Other comprehensive income		
Foreign currency translation	653	2,212
Available-for-sale securities	107	142
Derivative instruments designated as cash flow hedges	(49)	99
Revaluations of property, plant and equipment	(948)	(236)
Equity accounted investments	(16)	(130)
Taxes on above items	448	98
	195	2,185
Comprehensive income	$3,390	$1,209

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Significant Accounting Policies (in part)

(e) Revaluation Method for Property, Plant and Equipment

For certain classes of property, plant and equipment, as described below, the company uses the revaluation method of accounting. Property, plant and equipment measured using the revaluation method is initially measured at cost and subsequently carried at its revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and any accumulated impairment losses. Revaluations are made on an annual basis to ensure that the carrying amount does not differ significantly from fair value. Where the carrying amount of an asset is increased as a result of a revaluation, the increase is recognized in other comprehensive income and accumulated in equity in revaluation surplus, unless the increase reverses a previously recognized impairment recorded through net income, in which case that portion of the increase is recognized in net income. Where the carrying amount of an asset is decreased, the decrease is recognized in other comprehensive income to the extent of any balance existing in revaluation surplus in respect of the asset, with the remainder of the decrease recognized in net income.

(f) Operating Assets (in part)

(i) Renewable Power Generation

Renewable power generating assets are classified as property, plant and equipment and are accounted for using the revaluation method. The company determines the fair value of its renewable power generation assets using a discounted cash flow model, which includes estimates of forecasted revenue, operating costs, maintenance and other capital expenditures. Discount rates are selected for each facility giving consideration to the expected proportion of contracted to uncontracted revenue and markets into which power is sold.

Generally, the first twenty years of cash flow are discounted with a residual value based on the terminal value cash flows. The fair value and estimated remaining service lives are reassessed on an annual basis. The company uses external appraisers to review fair values of our renewable power generating assets on a rotating basis every three to five years.

Depreciation on power generating assets is calculated on a straight-line basis over the estimated service lives of the assets, which are as follows:

(Years)	Useful Lives
Dams	Up to 115
Penstocks	Up to 60
Powerhouses	Up to 115
Generators	Up to 115
Other power generation assets	Up to 40

Cost is allocated to significant components of power generating assets and each component is depreciated separately.

Renewable power generating assets under development are initially recorded at cost, including pre-development expenditures, unless an impairment is identified requiring a write-down to estimated fair value.

(ii) Investment Properties

The company uses the fair value method to account for real estate classified as investment property. A property is determined to be an investment property when it is principally held to earn rental income or for capital appreciation, or both. Investment property also includes properties that are under development for future use as investment property. Investment property is initially measured at cost including transaction costs. Subsequent to initial recognition, investment properties are carried at fair value. Gains or losses arising from changes in fair value are included in net income during the period in which they arise. Fair values are primarily determined by discounting the expected future cash flows of each property, generally over a term of 10 years, using a discount and terminal capitalization rate reflective of the characteristics, location and market of each property. The future cash flows of each property are based upon, among other things, rental income from current leases and assumptions about rental income from future leases reflecting current conditions, less future cash outflows relating to such current and future leases. The company determines fair value using both internal and external valuations.

(iii) Timber

Standing timber is measured at fair value after deducting estimated selling costs and is recorded as Timber on the Consolidated Balance Sheets. Estimated selling costs include commissions, levies, delivery costs, transfer taxes and duties. The fair value of standing timber is calculated as the present value of anticipated future cash flows for standing timber before tax. Fair value is determined based on existing, sustainable felling plans and assessments regarding growth, timber prices and felling and silviculture costs. Changes in fair value are recorded in net income in the period of change. The company determines fair value using external valuations on an annual basis.

Harvested timber is included in inventory and is measured at the lower of fair value less estimated costs to sell at the time of harvest and net realizable value.

Land under standing timber is accounted for using the revaluation method and included in property, plant and equipment.

(iv) Utilities and Transport and Energy

Utilities and transport and energy assets classified as property, plant and equipment are accounted for using the revaluation method. The company determines the fair value of its utilities and transport and energy assets at their depreciated replacement cost. Depreciated replacement cost is determined as the current cost of reproduction or replacement of an asset less deductions for physical deterioration and obsolescence. Valuations are performed internally on an annual basis.

Depreciation on utilities and transport and energy assets is calculated on a straight-line basis over the estimated service lives of the components of the assets, which are as follows:

(Years)	Useful Lives
Buildings and infrastructure	Up to 50
Machinery and equipment	Up to 40
Other utilities and transport and energy assets	Up to 41

The fair value and the estimated remaining service lives are reassessed on an annual basis.

(v) Other Property, Plant and Equipment

The company accounts for its property, plant and equipment, which do not utilize the revaluation method, under the cost model. These assets are initially recorded at cost and are subsequently depreciated over the assets' useful lives, unless an impairment is identified requiring a write-down to estimated fair value.

9. Property, Plant and Equipment

(Millions)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Cost	$12,026	$ 8,911	$ 7,534
Accumulated fair value changes	7,417	8,373	8,063
Accumulated depreciation	(1,295)	(561)	—
Total	$18,148	$16,723	$15,597

Accumulated fair value changes include unrealized revaluations of property, plant and equipment using the revaluation method which are recorded in revaluation surplus as a component of equity, as well as unrealized impairment losses recorded in net income.

The company's property, plant and equipment relates to our business platforms as shown in the following table:

(Millions)	Note	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Renewable power generation	(a)	$12,443	$13,166	$12,413
Infrastructure				
Utilities	(b)	723	209	219
Transport and energy	(c)	1,727	298	—
Timberlands	(d)	688	737	809
Private equity and finance	(e)	2,497	2,114	1,940
Other property, plant and equipment	(f)	70	199	216
		$18,148	$16,723	$15,597

(a) Renewable Power Generation

(Millions)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Cost	$ 5,533	$ 5,035	$ 4,350
Accumulated fair value changes	7,804	8,531	8,063
Accumulated depreciation	(894)	(400)	—
Total	$12,443	$13,166	$12,413

Renewable power generation assets include the cost of the company's hydroelectric generating stations, wind energy, pumped storage and natural gas-fired cogeneration facilities. The company's hydroelectric power facilities operate under various agreements for water rights which extend to or are renewable over terms through the years up to 2046.

Renewable power generation assets are accounted for under the revaluation model and the most recent date of revaluation was December 31, 2010.

The key valuation metrics of our hydro and wind generating facilities at the end of 2010 and 2009 are summarized below. The valuations are impacted primarily by the discount rate and long-term power prices.

	United States		Canada		Brazil	
	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
Discount rate	7.7%	8.2%	6.1%	7.2%	10.8%	11.0%
Terminal capitalization rate	7.9%	8.4%	7.1%	7.9%	11.0%	11.0%
Exit date	2030	2029	2030	2029	2029	2029

The following table presents the changes to the cost of the company's renewable power generation assets:

(Millions)	2010	2009
Balance at beginning of year	$5,035	$4,350
Additions	335	146
Foreign currency translation	163	539
Balance at end of year	$5,533	$5,035

As at December 31, 2010, the cost of generating facilities under development includes $239 million of capitalized costs (December 31, 2009—$231 million; January 1, 2009—$253 million).

The following table presents the changes to the accumulated fair value changes of the company's power generation assets:

(Millions)	2010	2009
Balance at beginning of year	$8,531	$8,063
Accumulated fair value changes	(929)	(278)
Foreign currency translation	202	746
Balance at end of year	$7,804	$8,531

The following table presents the changes to the accumulated depreciation of the company's power generation assets:

(Millions)	2010	2009
Balance at beginning of year	$(400)	$ —
Depreciation expense	(488)	(379)
Foreign currency translation	(6)	(21)
Balance at end of year	$(894)	$(400)

(b) Utilities

(Millions)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Cost	$746	$220	$219
Accumulated depreciation	(23)	(11)	—
Total	$723	$209	$219

The company's utilities assets are primarily comprised of power transmission and distribution networks, and an Australian coal terminal, which are operated primarily under regulated rate base arrangements.

Utilities assets are accounted for under the revaluation model, and the most recent date of revaluation was December 31, 2010. The company determined fair value to be the current replacement cost. The Australasian and European operations were valued based on fair values attributed in connection with the Prime merger.

The following table presents the changes to the cost of the company's utilities assets:

(Millions)	2010	2009
Balance at beginning of year	$220	$219
Additions	12	12
Acquisitions through business combinations	513	4
Disposals	—	(45)
Foreign currency translation	1	30
Balance at end of year	$746	$220

The following table presents the changes to the accumulated depreciation of the company's utilities assets:

(Millions)	2010	2009
Balance at beginning of year	$(11)	$ —
Depreciation expense	(11)	(10)
Foreign currency translation	(1)	(1)
Balance at end of year	$(23)	$(11)

(c) Transport and Energy

(Millions)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Cost	$1,776	$299	$—
Accumulated fair value changes	(32)	—	—
Accumulated depreciation	(17)	(1)	—
Total	$1,727	$298	$—

The following table presents the changes to the cost of the company's transport and energy assets:

(Millions)	2010	2009
Balance at beginning of year	$ 299	$—
Additions	26	—
Acquisitions through business combinations	1,419	297
Foreign currency translation	32	2
Balance at end of year	$1,776	$299

The increase in transport and energy assets during 2010 relates primarily to the acquisition of Prime Infrastructure in December. Further details are included in Note 4.

The following table presents the changes to the accumulated fair value changes of the company's transport and energy assets:

(Millions)	2010	2009
Balance at beginning of year	$ —	$—
Accumulated fair value changes	(33)	—
Foreign currency translation	1	—
Balance at end of year	$(32)	$—

The following table presents the changes to the accumulated depreciation of the company's transport and energy assets:

(Millions)	2010	2009
Balance at beginning of year	$ (1)	$—
Depreciation expense	(15)	(1)
Foreign currency translation	(1)	—
Balance at end of year	$(17)	$(1)

(d) Timberlands

(Millions)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Cost	$922	$861	$809
Accumulated fair value changes	(224)	(119)	—
Accumulated depreciation	(10)	(5)	—
Total	$688	$737	$809

The following table presents the change in the balance of property, plant and equipment within the company's timberlands business.

(Millions)	2010	2009
Balance at beginning of year	$861	$809
Additions	40	33
Disposals	(3)	(11)
Foreign currency translation	24	30
Balance at end of year	$922	$861

Timberland assets are accounted for under the revaluation model and the most recent date of revaluations was December 31, 2010.

The following table presents the changes to the accumulated fair value changes of the company's timberland assets:

(Millions)	Dec. 31, 2010	Dec. 31, 2009
Balance at beginning of year	$(119)	$ —
Accumulated fair value changes	(104)	(119)
Foreign currency translation	(1)	—
Balance at end of year	$(224)	$(119)

The following table presents the changes to the accumulated depreciation of the property, plant and equipment within the company's timberlands business:

(Millions)	2010	2009
Balance at beginning of year	$ (5)	$—
Depreciation expense	(5)	(5)
Balance at end of year	$(10)	$(5)

(e) Private Equity and Finance

(Millions)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Cost	$2,951	$2,288	$1,940
Accumulated fair value changes	(131)	(39)	—
Accumulated depreciation	(323)	(135)	—
Total	$2,497	$2,114	$1,940

Private equity and finance includes capital assets owned by the company's investees held directly or consolidated through funds.

These assets are accounted for under the cost model, which requires the asset to be carried at its cost less any accumulated depreciation and any accumulated impairment losses. The following table presents the changes to the carrying value of the company's property, plant and equipment assets included in the company's private equity and finance operations:

(Millions)	2010	2009
Balance at beginning of year	$ 2,288	$ 1,940
Additions	184	216
Acquisitions through business combinations	538	21
Disposals	(123)	(70)
Foreign currency translation	64	181
Balance at end of year	$ 2,951	$ 2,288

The following table presents the changes to the accumulated fair value changes of the company's property, plant and equipment within its private equity and finance operations:

(Millions)	2010	2009
Balance at beginning of year	$ (39)	$ —
Accumulated fair value changes	(92)	(39)
Balance at end of year	$ (131)	$ (39)

The following table presents the changes to the accumulated depreciation of the company's other property, plant and equipment within its private equity and finance operations:

(Millions)	2010	2009
Balance at beginning of year	$ (135)	$ —
Depreciation expense	(185)	(180)
Disposals	—	53
Foreign currency translation	(3)	(8)
Balance at end of year	$ (323)	$ (135)

(f) Other Property, Plant and Equipment

Other property, plant and equipment includes construction in progress and development properties and totalled $70 million at December 31, 2010 (December 31, 2009—$199 million; January 1, 2009—$216 million).

10. Investment Properties

(Millions)	2010	2009
Fair value at beginning of year	$19,219	$16,719
Additions	689	1,480
Acquisitions through business combinations	1,416	321
Disposals	(859)	(360)
Fair value adjustments	835	(888)
Foreign currency translation	863	1,947
Fair value at end of year	$22,163	$19,219

The fair value of investment properties is generally determined by discounting the expected cash flows of the properties based upon internal or external valuations. All properties are externally valued on a three year rotation plan. Certain adjustments have been made to external valuations conducted by third parties as follows:

(Millions)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Properties where fair value is determined by external valuators	$ 5,161	$7,177	$3,587
Adjustment for straight-line rentals	(1)	87	12
	5,160	7,264	3,599
Internal appraisals	17,003	11,955	13,120
Fair value recorded in financial statements	$22,163	$19,219	$16,719

The key valuation metrics of our commercial office properties are presented in the following table:

	United States		Canada		Australia	
	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
Discount rate	8.1%	8.8%	6.9%	7.4%	9.1%	9.3%
Terminal capitalization rate	6.7%	6.9%	6.3%	6.7%	7.4%	7.8%
Investment horizon (years)	10	10	11	10	10	10

11. Timber

(Millions)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Timber	$ 2,807	$ 2,610	$ 2,604
Other agricultural assets	399	358	235
Total	$ 3,206	$ 2,968	$ 2,839

The company held 1,447 million acres of consumable freehold timber at December 31, 2010 (December 31, 2009—1,445 million), of which approximately 854 million (December 31, 2009—855 million) acres were classified as mature and available for harvest.

The following table presents the change in the balance of standing timber within the company's timber business:

(Millions)	2010	2009
Balance at beginning of year	$2,610	$2,604
Additions	52	—
Fair value adjustments	282	54
Decrease due to harvest	(139)	(88)
Foreign currency changes	2	40
Balance at end of year	$2,807	$2,610

The carrying values are based on external appraisals that are completed annually. Key valuation assumptions include a weighted average discount and terminal capitalization rate of 6.6% (2009—6.5%) and an average terminal valuation date of 75 years. Timber prices were based on a combination of forward prices available in the market and the price forecasts of each appraisal firm.

22. Fair Value Changes

Fair value changes consist of mark-to-market gains (losses) and are comprised of the following:

For the Years Ended December 31 (Millions)	2010	2009
Investment property	$ 835	$ (888)
Timber	143	(34)
Infrastructure	405	—
Equity accounted investments	271	(779)
Power contracts	588	3
Redeemable units	(159)	(244)
Interest rate contracts	(58)	74
Other	(160)	(400)
	$1,865	$(2,268)

IAS 12, *INCOME TAXES*

Author's Note

In December 2010, the IASB issued *Deferred Tax: Recovery of Underlying Assets: Proposed amendments to IAS 12*. The amendments are effective for annual periods beginning on or after 1 January 2012, with early application permitted. Given the issue and effective dates, no survey companies would have applied these amendments to their 2010 financial statements. See the author's note preceding paragraph 2.367 in section 2 for a discussion of these amendments and the remaining issues in this project. The IASB does not plan to address other issues in the IAS 12, *Income Taxes*, project until the latter half of 2011.

IFRS Overview and Comparison to U.S. GAAP

3.322 The objective of IAS 12 is to establish accounting for the current and future tax consequences of taxes levied on income by taxation authorities. Because accounting for financial reporting and accounting for tax purposes may be different, an entity should recognize in its financial statements the current and future tax consequences from the future recovery of the carrying amount of assets, the future settlement of its liabilities, transactions, and other events in the current period.

Author's Note

Both IAS 12 and U.S. GAAP use the asset-liability approach to measuring current and deferred tax expense and the carrying amounts of current and deferred tax assets and liabilities. Issues associated with income taxes not directly related to the effects of these requirements on the statement of comprehensive income are addressed in the "IAS 12" subsection of section 2.

Recognition and Measurement

IFRSs

3.323 IAS 12 generally requires an entity to recognize current and deferred tax income or expense in profit or loss for the period. However, to the extent that the temporary difference arises from a business combination or a transaction or an event recognized in other comprehensive income or directly in equity, an entity should recognize the current or deferred tax income or expense in other comprehensive income or directly in equity, respectively.

3.324 An entity should recognize current or deferred tax income or expense in other comprehensive income when it relates to items recognized in other comprehensive income and directly in equity when it relates to items recognized directly in equity. Examples of items recognized in other comprehensive income are changes in the carrying amount of PPE held under the revaluation method or changes in fair value of financial assets classified as available for sale. Examples of items recognized directly in equity include adjustments to retained earnings from a change in accounting policy and amounts arising on initial recognition of the equity component of a compound financial instrument.

3.325 IAS 12 provides additional specific guidance to entities in accounting for deferred tax arising in a business combination and share-based payment transactions.

U.S. GAAP

3.326 FASB ASC 740, *Income Taxes*, establishes standards for accounting and reporting for income taxes that are currently payable and for the tax consequences of all of the following:

- Revenues, expenses, gains, or losses that are included in taxable income in an earlier or later year than the year in which they are recognized in financial income
- Other events that create differences between the tax bases of assets and liabilities and their amounts for financial reporting
- Operating loss or tax credit carrybacks for refunds of taxes paid in prior years and carryforwards to reduce taxes payable in future years

3.327 Like IFRSs, FASB ASC 740-10-30-3 requires an entity to measure the total income tax expense (or benefit) for the year as the sum of deferred tax expense (or benefit) and income taxes currently payable or refundable. The measurement of the expense is dependent on an entity's measurement of the carrying values of related assets and liabilities. FASB ASC 740-10-30-2 requires entities to measure current and deferred tax expense in the following manner:

- Unlike IFRSs, an entity should measure current and deferred tax liabilities and assets based on provisions of the enacted tax law. The effects of future changes in tax laws or rates are not anticipated. IFRSs permit the use of substantially enacted tax laws.
- Like IFRSs, an entity should reduce the carrying value of deferred tax assets, if necessary, by the amount of any tax benefits that, based on available evidence, the entity does not expect to realize.

FASB ASC glossary defines *deferred tax expense (or benefit)* as the change during the year in an entity's deferred tax liabilities and assets.

3.328 FASB ASC 740 includes extensive guidance on accounting for income taxes that far exceeds the guidance in IAS 12 on measurement of current and deferred tax assets and liabilities and the resultant benefit or expense.

Presentation

IFRSs

3.329 An entity should present tax expense or income from ordinary activities in the statement of comprehensive income. When using the two-statement format and presenting the components of profit and loss in a separate statement, it should also present tax expense or income from ordinary activities in that statement.

3.330 IAS 1 permits an entity to show items of other comprehensive income either net of related tax effects or before tax effects, with one amount presented for the total tax effect of these items.

3.331 IAS 1 requires an entity to disclose separately the amount of income tax relating to each component of other comprehensive income. However, IAS 1 allows two alternative presentations of income tax effects in the statement of comprehensive income. An entity may present either

- each component of comprehensive income net of related tax or
- each component of comprehensive income pretax, with one line item for the aggregate amount of income tax on all components.

U.S. GAAP

3.332 Paragraphs 14 and 25 of FASB ASC 740-10-45 provide limited guidance to nonpublic entities on presentation in the income statement of interest and penalties and the effects of changes in deferred tax accounts caused by the following changes:

- In tax laws or rates
- In the tax status of an entity (for example, an entity's change from a corporation to a partnership)
- Affecting the valuation allowance for deferred tax assets related to the realizability of the deferred tax asset in future years
- Related to assets acquired outside of a business combination.

3.333 For public entities, SEC Regulation S-X and various SEC Staff Accounting Bulletin topics establish presentation requirements, including the requirement to separately present income tax expense on the face of the income statement.

Disclosure

IFRSs

3.334 IAS 12 requires entities to disclose the following major components of income tax expense:

- Current tax income or expense
- Adjustments in the period for current tax of other periods
- Deferred tax income or expense from origination or reversal of temporary differences
- Deferred tax income or expense from changes in tax rates or laws
- Benefits from previously unrecognized tax loss or tax credit carryforwards
- Deferred tax expense (income) from write-downs (or reversals) of deferred tax assets
- Tax income or expense resulting from a change in accounting policy or errors (when included in profit and loss because they cannot be accounted for retrospectively)

3.335 Entities should separately disclose the aggregate amount of current and deferred income tax income or expense

relating to items charged to other comprehensive income or directly to equity.

3.336 Entities should explain the relationship between tax income or expense and accounting profit by disclosing either or both of the following reconciliations:

- The amount of reported income tax income or expense to the expected amount based on applicable tax rate(s)
- The average effective tax rate to the applicable tax rate(s)

3.337 In both cases, entities should disclose the basis on which the applicable tax rate was computed. Entities should explain any differences in the applicable tax rate(s) from the previous period.

3.338 When an entity prepares the reconciliation disclosure, it should use an applicable tax rate that provides the most meaningful information to financial statement users. This tax rate is often the domestic tax rate of the country in which the entity is domiciled, taking into account both national and local tax rates. However, when an entity operates in multiple jurisdictions, it may determine that aggregating separate reconciliations prepared using the domestic rate in each individual jurisdiction is more meaningful.

3.339 With respect to discontinued operations, entities should disclose the tax expense or income from gains or losses on discontinuance and profit or loss of the discontinued operation for all periods presented.

U.S. GAAP

3.340 Like IFRSs, FASB ASC 740-10-50-9 requires entities to disclose the significant components of income tax expense, with the following additions:

- Government grants (to the extent recognized as a reduction of income tax expense)
- Benefits of operating loss carryforwards
- The tax expense from allocating certain tax benefits directly to contributed capital
- Adjustments to the deferred tax assets or liabilities as a result of enacted changes in tax laws or a change in the entity's tax status
- Adjustments to the beginning of a valuation allowance as a result of a change to the assessment of the ability of the entity to recover the deferred tax asset (IFRSs do not currently use valuation allowances)

3.341 FASB ASC 740-10-50-10 also requires an entity to disclose the amount of income tax benefit or expense allocated to continuing operations and the amounts separately allocated to other items (in accordance with the requirements for intraperiod tax allocation) for each year these items are presented. IAS 12 has no requirements or guidance on intraperiod tax allocation.

3.342 Like IFRSs, FASB ASC 740-10-50 requires reconciliations from reported to statutory amounts. As required by FASB ASC 740-10-50-12, a public entity should disclose a reconciliation of reported income tax benefit or expense to the expected amount using percentages or dollar amounts of the reported income tax income or expense attributable to continuing operations to the amount that would result from applying domestic federal statutory tax rates to pretax income from continuing operations. The entity should use the regular statutory tax rates even if there are alternatives. An entity should disclose both the estimated amount and the nature of each significant reconciling item. FASB ASC 740-10-50-13 states that a nonpublic entity should disclose the nature of significant reconciling items but may omit a numerical reconciliation.

Author's Note

Rule 4.08(h)(2) of SEC Regulation S-X requires SEC registrants applying U.S. GAAP to provide a reconciliation between the amount of reported total income tax expense (benefit) and the amount computed by multiplying the income (loss) before tax by the applicable statutory federal income tax rate, showing the estimated dollar amount of each of the underlying causes for the difference. However, when the reporting person is a foreign entity (foreign private issuer), the entity should normally use the income tax rate in that entity's country of domicile when making the preceding computation. Different rates should not be used for subsidiaries or other segments of a reporting entity. When the rate used by a reporting person is other than the United States federal corporate income tax rate, an entity should disclose the rate used and the basis for using such rate. When such foreign private issuers prepare their financial statements in accordance with U.S. GAAP, rather than IFRSs, they prepare this reconciliation based on the statutory rate in their country of domicile, whether they file their financial statements on Form 10-K or Form 20-F. In contrast, IAS 12 permits an entity to reconcile tax expense reported on the income statement to tax expense computed at either the statutory tax rate in the country of domicile or a weighted average tax rate.

Presentation and Disclosure Excerpts

Effects of Change in Tax Rate, Disaggregation of Tax Effects of Items Recognized in Other Comprehensive Income

3.343

Portugal Telecom, SGPS, S.A. (Dec 2010)

CONSOLIDATED INCOME STATEMENT

For the years ended 31 December 2010, 2009 and 2008
Euro

	Notes	2010	2009 (Restated)	2008 (Restated)
Continuing Operations				
Revenues				
Services rendered	6	3,516,023,963	3,491,970,083	3,503,372,062
Sales	6	165,615,850	197,167,935	217,715,279
Other revenues	6	60,614,025	44,266,786	40,107,789
	6	3,742,253,838	3,733,404,804	3,761,195,130
Costs, Losses and (Income)				
Wages and salaries	8	637,115,622	546,689,537	489,427,809
Direct costs	9	547,559,101	522,353,576	520,813,168
Costs of products sold	10	179,893,915	207,256,041	244,763,139
Marketing and publicity		81,096,858	78,608,913	87,875,463
Supplies and external services	11	724,519,676	733,310,901	695,635,262
Indirect taxes	13	45,418,246	57,816,564	45,932,970
Provisions and adjustments	39	34,951,944	30,505,493	28,960,873
Depreciation and amortization	33 and 34	758,567,813	716,851,789	647,458,683
Net post retirement benefits costs	14	38,209,838	89,630,520	44,759,000
Curtailment and settlement costs	14	145,513,252	14,804,659	99,955,165
Gains on disposal of fixed assets, net		(5,542,839)	(1,955,803)	(18,259,719)
Other costs, net	15	141,194,008	45,609,985	22,559,957
		3,328,497,434	3,041,482,175	2,909,881,770
Income before financial results and taxes		413,756,404	691,922,629	851,313,360
Financial Losses and (Gains)				
Net interest expenses	16	185,044,935	227,491,155	205,421,137
Net foreign currency exchange losses		6,814,213	212,867	(3,595,745)
Net gains on financial assets and other investments	17	(1,860,287)	(8,067,568)	(12,102,127)
Equity in earnings of associated companies, net	31	(141,709,104)	(456,043,545)	(170,975,397)
Net other financial losses	18	33,300,530	35,715,551	13,670,186
		81,590,287	(200,691,540)	32,418,054
Income before taxes		332,166,117	892,614,169	818,895,306
Income taxes	19	77,525,848	185,890,157	204,759,627
Net income from continuing operations		254,640,269	706,724,012	614,135,679
Discontinued Operations				
Net income from discontinued operations	20	5,565,426,533	82,462,164	81,686,075
Net income		5,820,066,802	789,186,176	695,821,754

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended 31 December 2010, 2009 and 2008
Euro

	Notes	2010	2009 (Restated)	2008 (Restated)
Income and Expenses Recognised Directly in Shareholders' Equity				
Foreign currency translation adjustments				
Translation of foreign operations(i)		433,946,646	942,188,037	(764,998,457)
Transferred to profit and loss(ii)		(1,166,099,952)	(21,603,864)	—
Post retirement benefits				
Net actuarial gains (losses)	14	(450,674,906)	164,773,415	(594,809,172)
Tax effect(iii)	19	85,748,128	(43,664,955)	157,624,431
Hedge accounting of financial instruments				
Change in fair value		(3,791,679)	(2,407,036)	(1,238,300)
Transferred to profit and loss	42	3,859,739	1,633,364	(44,646)
Tax effect	19	(18,037)	205,023	339,983
Other expenses recognised directly in shareholders' equity, net		(11,283,072)	(5,901,102)	(3,943,124)
		(1,108,313,133)	1,035,222,882	(1,207,069,285)
Reserves Recognised Directly in Shareholders' Equity				
Revaluation of real estate and of the wireline's ducts infrastructure	34	—	—	1,075,033,022
Reassessement of the deferred tax liability related to the revaluation of assets(iv)	19	14,181,908	12,116,738	(284,346,234)
		14,181,908	12,116,738	790,686,788
Total earnings and reserves recognised directly in shareholders' equity		(1,094,131,225)	1,047,339,620	(416,382,497)
Income recognised in the income statement		5,820,066,802	789,186,176	695,821,754
Total income recognised		4,725,935,577	1,836,525,796	279,439,257

(i) Gains recorded in the years ended 31 December 2010 and 2009 are mainly related to the appreciation of the Brazilian Real against the Euro, including primarily gains regarding Portugal Telecom's investment in Brasilcel amounting to Euro 337 million in 2010, up to the date of sale, and Euro 882 million in 2009. Losses recorded in the year ended 31 December 2008 are primarily related to the depreciation of the Brazilian Real against the Euro.

(ii) In 2010, this caption includes an amount of Euro 1,134,159,099 (Note 20) corresponding to the cumulative amount of foreign currency translation adjustments relating to the investment in Brasilcel, which was reclassified to profit and loss upon the disposal of this investment in September 2010 (Note 1). In addition, this caption includes the amounts of Euro 31,940,853 and Euro 21,603,864 in 2010 and 2009 (Note 20), respectively, resulting from the transfer of a portion of accumulated foreign currency translation adjustments related to the investment in Brasilcel, following a repayment of part of this investment through share capital reductions occurred at this company prior to its disposal.

(iii) This caption includes the tax effect related to the net actuarial losses and gains recorded in the years ended 31 December 2010, 2009 and 2008, respectively, and a loss of Euro 26,924,481 recognised in 2010 resulting from a reduction on the applicable tax rate from 26.5% to 25.0%, occurred during the year 2010.

(iv) In 2010, this caption corresponds to the impact on deferred tax liabilities resulting from a reduction on the applicable tax rate. In 2009, following the decision to transfer certain real estate assets to the pension funds, and in accordance with IAS 12 Income Taxes, the deferred tax liability related to the revaluation of these assets was adjusted in order to reflect the manner in which Portugal Telecom expected to recover the carrying amount of these assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

3. Accounting Policies, Judgments and Estimates (in part)

o) Taxation

Income tax is recognised in accordance with IAS 12, income tax expense represents the sum of the tax currently payable and deferred tax.

Portugal Telecom has adopted the tax consolidation regime in Portugal (currently known as the special regime for the taxation of groups of companies). The provision for income taxes is determined on the basis of the estimated taxable income for all the companies in which Portugal Telecom holds at least 90% of the share capital and that are domiciled in Portugal and subject to Corporate Income Tax (IRC). The remaining Group companies not covered by the tax consolidation regime of Portugal Telecom are taxed individually based on their respective taxable income, at the applicable tax rates.

The tax currently payable is based on taxable income for the period, and the deferred tax is based on differences between the carrying amounts of assets and liabilities of the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is reasonably likely that taxable income will be available against which deductible temporary differences can be used, or when there are deferred tax liabilities whose reversal is expected in the same period in which the deferred tax assets reverse. The carrying amount of deferred tax assets is reviewed at the date of the Consolidated Statement of Financial Position and is reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow for all or part of the asset to be recovered.

Deferred tax is charged to net income, except when it relates to items charged or credited directly to shareholders' equity, in which case the deferred tax is also recognised directly in shareholders' equity. Accordingly, the impact of changes in tax rate is also charged to net income, except when it relates to items charged or credited directly to shareholders' equity, in which case that impact is also recognised directly in shareholders' equity.

Cash flows are classified in the Consolidated Statement of Cash Flows according to three main categories, depending on their nature: (1) operating activities; (2) investing activities; and (3) financing activities. Cash flows from operating activities include primarily collections from clients, payments to suppliers, payments to employees, payments relating to post retirement benefits and net payments relating to income taxes and indirect taxes. Cash flows from investing activities include primarily acquisitions and disposals of investments, dividends received from associated companies and purchase and sale of property, plant and equipment. Cash flows from financing activities include primarily borrowings and repayments of debt, payments of lease rentals, payments relating to interest and related expenses, acquisition and sale of treasury shares and payments of dividends to shareholders.

19. Income Taxes

Portugal Telecom and its subsidiaries located in Portugal are subject to Corporate Income Tax at a rate of 25%, which is increased by a maximum of 1.5% of collectible profit through a municipal tax and, following a change in tax legislation occurred in 2010, by another 2.5% of collectible profit above Euro 2 million, leading to a maximum aggregate tax rate of approximately 29%. In 2009 and 2008, Portugal Telecom and its subsidiaries located in Portugal were subject to an aggregate tax rate of approximately 26.5%.

Portugal Telecom adopted the tax consolidation regime for groups of companies, which apply to all companies located in Portugal in which it holds at least 90% of the capital stock and that comply with Article 69 of the Portuguese Corporate Income Tax Law.

Subsidiaries located in Brazil are subject to income taxes at a nominal rate of 34%.

In accordance with Portuguese tax legislation, income tax returns are subject to review and adjustment by the tax authorities during a period of four calendar years (five years for social security, and ten years for the contributions made with respect to the years before 2001), except when there are tax losses, tax benefits were granted, or when tax inspections, claims or appeals are in progress, in which case the time periods are extended or suspended. In Brazil, income tax returns are subject to review and adjustment by the tax authorities during a period of five calendar years. The Board of Directors of Portugal Telecom, based on information from its tax advisors, believes that any adjustments which may result from such reviews, as well as other tax contingencies, will not have a material impact on the consolidated financial statements as at 31 December 2010, considering the provisions recognised by the Company (Note 39).

a) Deferred Taxes

During the years ended 31 December 2010 and 2009, the movements in deferred tax assets and liabilities were as follows:

		Increases and Reductions		Change in Tax Rate					
Euro	Balance 31 Dec 2009	Net Income[ii]	Other Reserves and Accumulated Earnings	Net Income[ii][iii]	Other Reserves and Accumulated Earnings	Foreign Currency Translation Adjustments[iv]	Transfers and Other Move-ments	Changes in the Consolidation Perimeter (Note 20)[i]	Balance 31 Dec 2010
Deferred Tax Assets									
Accrued post-retirement liability	395,049,525	(7,683,306)	112,672,609	(979,097)	(26,924,481)	—	—	—	472,135,250
Tax losses carryforward	211,674,665	(29,986,431)	—	—	—	18,238,721	—	(199,926,955)	—
Provisions and adjustments	123,278,281	8,382,717	—	3,143,037	—	6,786,636	(65,168)	(82,680,665)	58,844,838
Additional contribution to pension funds	124,179,032	(30,611,749)	—	(1,048,236)	—	—	—	—	92,519,047
Financial instruments	1,114,304	3,343,070	(18,037)	—	—	—	—	—	4,439,337
Other	164,215,321	(7,315,930)	—	(277,578)	—	13,613,254	4,612,194	(149,710,535)	25,136,726
	1,019,511,128	(63,871,629)	112,654,572	838,126	(26,924,481)	38,638,611	4,547,026	(432,318,155)	653,075,198
Deferred Tax Liabilities									
Revaluation of fixed assets	258,470,817	(15,782,658)	—	—	(14,181,908)	—	(94,241)	—	228,412,010
Gains on disposals of investments	2,050,322	(322,381)	—	(105,824)	—	—	—	—	1,622,117
Financial instruments[v]	—	—	15,143,542	—	—	—	—	—	15,143,542
Other[vi]	222,591,195	(43,609,089)	720,691	508,561	(23,354)	20,008,228	717,527	(134,494,091)	66,419,668
	483,112,334	(59,714,128)	15,864,233	402,737	(14,205,262)	20,008,228	623,286	(134,494,091)	311,597,337
		(4,157,501)	96,790,339	435,389	(12,719,219)	18,630,383	3,923,740	(297,824,064)	

[i] Changes in the consolidation perimeter correspond to 50% of Vivo's deferred tax assets and liabilities following the completion of the disposal of the 50% stake in Brasilcel in September 2010.

[ii] The split between continuing and discontinued operations of changes in deferred taxes recorded through net income in 2010 and 2009 is as follows:

Euro	2010	2009
Continuing operations	24,867,108	(74,556,616)
Discontinued operations	(28,589,220)	(1,683,596)
	(3,722,112)	(76,240,212)

[iii] The impacts on net income resulting from changes in tax rate correspond primarily to the revision of the tax rate applicable for certain companies located in Portugal, namely related to the above mentioned increase in the statutory tax rate in Portugal and to the decrease in the tax rate applicable for certain companies that are expected to present tax losses in the following years.

[iv] Foreign currency translation adjustments are primarily related to the impact of the appreciation of the Brazilian Real against the Euro up to the completion of the disposal of the 50% stake in Brasilcel.

[v] The increase in this caption corresponds to the tax effect associated with the equity component of the exchangeable bond obtained by Portugal Telecom in 2007 (Note 35), which was recognized as a result of changes occurred in the Portuguese tax legislation in 2010.

[vi] Other deferred tax liabilities correspond primarily to the tax effect on unpaid dividends from associated companies.

Euro	Balance 1 Jan 2009 (Restated)	Net Income	Other Comprehensive Income	Foreign Currency Translation Adjustments[i]	Transfers and Other Movements	Balance 31 Dec 2009 (Restated)
Deferred Tax Assets						
Accrued post-retirement liability	486,352,878	(47,638,398)	(43,664,955)	—	—	395,049,525
Tax losses carryforward	172,831,198	(9,617,812)	—	49,100,037	(638,758)	211,674,665
Provisions and adjustments	91,149,723	17,751,740	—	16,351,942	(1,975,124)	123,278,281
Additional contribution to pension funds	138,567,071	(14,388,039)	—	—	—	124,179,032
Financial instruments	14,380,500	(13,135,260)	205,023	(335,959)	—	1,114,304
Other	129,442,609	38,280	—	32,779,871	1,954,561	164,215,321
	1,032,723,979	(66,989,489)	(43,459,932)	97,895,891	(659,321)	1,019,511,128
Deferred Tax Liabilities						
Revaluation of fixed assets[ii]	290,970,684	(18,809,606)	(12,116,738)	—	(1,573,523)	258,470,817
Gains on disposals of investments	2,378,683	(328,361)	—	—	—	2,050,322
Other	168,843,403	28,388,690	—	27,625,503	(2,266,401)	222,591,195
	462,192,770	9,250,723	(12,116,738)	27,625,503	(3,839,924)	483,112,334
		(76,240,212)	(31,343,194)	70,270,388	3,180,603	

[i] Foreign currency translation adjustments are primarily related to the impact of the appreciation of the Brazilian Real against the Euro.

[ii] Following the contributions in kind to the pension funds of certain real estate properties made at the end of 2009, as mentioned in Note 14, the ddeferred tax liability related to the revaluation of these assets was adjusted in order to reflect the manner in which Portugal Telecom expected to recover the carrying amounts of these assets. This effect, amounting to Euro 12,116,738, was recognised in the Consolidated Statement of Comprehensive Income and, subsequently, the remaining deferred tax liability related to these assets was recognised in the Consolidated Income Statement.

As at 31 December 2010 and 2009, total deferred tax assets include respectively Euro 19 million and Euro 441 million from foreign countries, and total deferred tax liabilities include respectively Euro 64 million and Euro 221 million from foreign countries. As at 31 December 2009, deferred tax assets and liabilities from foreign countries were primarily related to Portugal Telecom's investment in Vivo.

b) Reconciliation of Income Tax Provision

The reconciliation between the nominal and the effective income tax expense for the years ended 31 December 2010, 2009 and 2008 is as follows:

Euro	2010	2009	2008
Income before taxes	332,166,117	892,614,169	818,895,306
Statutory tax rate	29.0%	26.5%	26.5%
	96,328,174	236,542,755	217,007,256
Gain resulting from a corporate restructuring[(i)]	(59,045,199)	—	—
Permanent differences[(ii)]	36,619,875	(56,177,090)	(12,890,872)
Increases and reductions in provisions for income tax contingencies (Notes 28 and 39)	13,795,652	(1,434,464)	7,555,841
Difference in tax rates[(iii)]	(8,276,417)	4,846,141	6,648,894
Tax losses from previous periods	4,520,000	(3,823,664)	(5,389,597)
Adjustments to the provision for income taxes of the previous year (Note 28)	(3,697,527)	6,541,389	(6,431,797)
Change in tax rate	(435,389)	—	—
Other	(2,283,321)	(604,910)	(1,740,098)
	77,525,848	185,890,157	204,759,627
Income tax			
Income tax-current (Note 28)	102,392,956	111,333,541	141,377,821
Deferred taxes[(iv)]	(24,867,108)	74,556,616	63,381,806
	77,525,848	185,890,157	204,759,627

[(i)] This gain is primarily related to a corporate restructuring of African businesses that resulted in the decrease of deferred tax liabilities related to unpaid dividends from associated companies, following a reduction in the estimated applicable tax rate from 26.5% to 10%.

[(ii)] In 2010, this caption is primarily related to the following non-taxable costs: (1) an impairment loss of Euro 28 million relating to the investment in UOL (Note 31), (2) interest expenses incurred by Portugal Telecom in connection with the acquisition of financial investments; and (3) expenses incurred in 2010 for services rendered in relation to the acquisition of an investment in Oi Group (Note 47). In 2009, this caption includes primarily Euro 70,748,542 resulting from the non-taxable gain amounting to Euro 266,975,632 related to the disposal of the investment in Médi Télécom. In 2008, this caption includes Euro 2,397,005 and Euro 2,304,973 resulting from the non-taxable gains amounting to Euro 9,045,300 and Euro 8,822,351 related to the disposals of the investments in Banco Best and Africatel, respectively.

[(iii)] This caption corresponds to the impact related to the difference between the statutory tax rate applicable in Portugal and other tax rates applicable to Group companies, namely foreign operations.

[(iv)] The change in this caption is primarily explained by the impact of the corporate restructuring of African businesses (Euro 59 million), as explained above, and a lower reduction in deferred tax assets related to accrued post-retirement liability as a result of lower payments and contributions deductible for tax purposes in 2010.

Tax Effects of Discontinued Operations, Items Recognized in Other Comprehensive Income Shown Net of Tax

3.344

China Yuchai International Limited (Dec 2010)

CONSOLIDATED INCOME STATEMENTS (in part)

(Rmb and US$ amounts expressed in thousands, except per share data)

	Note	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2010 Rmb'000	31.12.2010 US$'000
Continuing Operations					
Sales of goods	8	10,358,124	13,139,578	16,138,580	2,461,500
Rendering of services	8	46,664	36,325	69,604	10,616
Revenue	8	10,404,788	13,175,903	16,208,184	2,472,116
Cost of sales (goods)		(8,328,058)	(10,612,260)	(12,112,215)	(1,847,388)
Cost of sales (services)		(27,594)	(17,825)	(87,038)	(13,275)
Gross profit		2,049,136	2,545,818	4,008,931	611,453
Other operating income	9.2a	28,465	93,668	129,075	19,687
Other operating expenses	9.2b	(9,005)	(16,113)	(41,447)	(6,322)
Research and development costs	9.1, 9.3	(184,794)	(297,259)	(324,123)	(49,436)
Selling, distribution and administrative costs	9.1	(1,268,060)	(1,471,857)	(1,822,764)	(278,013)
Operating profit		615,742	854,257	1,949,672	297,369
Finance costs	9.4	(150,409)	(77,493)	(130,446)	(19,896)
Share of profit of associates	6	2,717	2,954	(121)	(18)
Share of results of joint ventures	7	13,692	(16,000)	(53,902)	(8,221)
Gain on acquisition of Guangxi Yulin Hotel Company in settlement of past loan	31	—	202,950	—	—
Profit before tax from continuing operations		481,742	966,668	1,765,203	269,234
Income tax expense	10	(110,526)	(147,223)	(327,946)	(50,019)
Profit for the year from continuing operations		371,216	819,445	1,437,257	219,215
Discontinued Operations					
(Loss)/profit after tax for the year from discontinued operations	11	(33,985)	13,022	12,655	1,930
Profit for the year		337,231	832,467	1,449,912	221,145

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Rmb and US$ amounts expressed in thousands, except per share data)

	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2010 Rmb'000	31.12.2010 US$'000
Profit for the year	337,231	832,467	1,449,912	221,145
Other Comprehensive (Loss)/Income				
Foreign currency translation	10,343	(11,201)	(22,084)	(3,369)
Share of other comprehensive (loss)/income of associates	(90,265)	21,038	—	—
Others	4,740	(647)	—	—
Other comprehensive (loss)/income for the year, net of tax	(75,182)	9,190	(22,084)	(3,369)
Total comprehensive income for the year, net of tax	262,049	841,657	1,427,828	217,776

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2.2 Summary of Significant Accounting Policies (in part)

(g) Taxes

Current Income Tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in consolidated statement of comprehensive income is recognised in consolidated statement of comprehensive income and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred Tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Income tax expense in the consolidated statements of operations consists of:

	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2010 Rmb'000	31.12.2010 US$'000
Current Income Tax:				
Current income tax charge	87,676	222,047	332,524	50,717
Adjustments in respect of current income tax of previous year	4,942	5,999	3,257	497
Deferred Tax:				
Relating to origination and reversal of temporary differences	17,908	(79,632)	(5,400)	(824)
Adjustments in respect of deferred tax of previous year	—	(1,191)	(2,435)	(371)
Income tax expense reported in the income statement	110,526	147,223	327,946	50,019

Income tax expense reported in the consolidated statements of income differs from the amount computed by applying the PRC income tax rate of 15% (being tax rate of Yuchai) for the years ended December 31 2008, 2009 and 2010 for the following reasons:

	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2010 Rmb'000	31.12.2010 US$'000
Computed tax expense	72,261	145,000	264,780	40,385
Adjustments resulting from:				
Non-deductible expenses	19,326	808	10,432	1,591
Tax-exempt income	—	(43,143)	(2,994)	(457)
Utilisation of deferred tax benefits previously not recognised	858	165	(1,792)	(273)
Deferred tax benefits not recognised	10,491	4,968	3,381	516
Tax credits for R&D expense	(10,169)	(14,563)	(17,556)	(2,678)
Tax rate differential	(2,017)	33,516	25,027	3,816
Underprovision in respect of prior years				
—Current	4,942	5,999	3,257	497
—Deferred	—	(1,191)	(2,435)	(371)
Withholding tax expense	15,282	15,664	45,846	6,993
Others	(448)	—	—	—
Total	110,526	147,223	327,946	50,019

Deferred Tax

Deferred tax relates to the following:

	Consolidated Statement of Financial Position			Consolidated Income Statement			
	31.12.2009 Rmb'000	31.12.2010 Rmb'000	31.12.2010 US$'000	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2010 Rmb'000	31.12.2010 US$'000
Deferred Income Tax Liabilities							
Accelerated tax depreciation	(354)	(42)	(6)	—	—	347	53
Unremitted earnings from overseas source income	(440)	(440)	(67)	—	—	—	—
Expenditure currently deferred for tax purpose	(100)	—	—	—	—	100	15
PRC withholding tax on dividend income	(30,946)	(76,792)	(11,713)	(15,282)	(15,664)	(45,846)	(6,993)
	(31,840)	(77,274)	(11,786)	(15,282)	(15,664)	(45,399)	(6,925)
Deferred Income Tax Assets							
Accelerated accounting depreciation	9,508	8,418	1,284	(22,781)	1,025	(1,090)	(166)
Write down of inventory	45,190	36,104	5,507	11,079	14,987	(9,086)	(1,386)
Allowance for doubtful debts	15,040	9,872	1,506	(8,431)	(5,861)	(5,168)	(788)
Accruals	120,931	192,173	29,311	7,383	45,526	71,242	10,866
Tax value of loss carried forward	1,191	2,480	378	2,323	(1,132)	1,307	199
Deferred income	41,312	35,669	5,440	7,918	33,395	(5,643)	(861)
Others	8,546	10,218	1,558	(117)	8,547	1,672	256
	241,718	294,934	44,984	(2,626)	96,487	53,234	8,120

Deferred tax assets and liabilities are recognised for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates, if any, is recognised in the statements of operations in the period that includes the enactment date.

Deferred tax expense related to share of other comprehensive income of associates amounted to Rmb nil (US$ nil) (2009: Rmb nil; 2008: Rmb nil).

The Group has been granted tax credits in relation to approved research and development costs. According to the relevant laws and regulations in the PRC prior to the new CIT law, the amount of credits relating to the purchase of certain domestic equipment entitled for deduction each year is limited to the incremental current income tax expense of the subsidiary for the year compared to the income tax expense of the subsidiary in the year immediately prior to the year the credit was approved.

The CIT law also provides for a tax of 10% to be withheld from dividends paid to foreign investors of PRC enterprises. This withholding tax provision does not apply to dividends paid out of profits earned prior to January 1, 2008. Beginning on January 1, 2008, a 10% withholding tax will be imposed on dividends paid to us, as a non-resident enterprise, unless an applicable tax treaty provides for a lower tax rate and the Company will recognise a provision for withholding tax payable for profits accumulated after December 31, 2007 for the earnings that we do not plan to indefinitely reinvest in the PRC enterprises. As at December 31, 2010, the provision for withholding tax payable was Rmb 76,792 (US$11,713) (2009: Rmb 30,946).

The following table represents the classification of the Group's net deferred tax assets:

	31.12.2009 Rmb'000	31.12.2010 Rmb'000	31.12.2010 US$'000
Deferred tax assets	241,718	294,934	44,984
Deferred tax liabilities	(31,840)	(77,274)	(11,786)
	209,878	217,660	33,198

11. Discontinued Operations

On December 1, 2009, we announced that concurrently with the capital reduction and cash distribution exercise to be undertaken by TCL, we intended to appoint a broker to sell 550,000,000 shares in TCL at a price of S$0.03 per share on an ex-distribution basis ("Placement"). As of December 31, 2009, a total of 536,000,000 shares out of 550,000,000 shares available in the Placement have been taken up. The Placement was conditional upon the completion of the capital reduction and cash distribution exercise and subject to all the shares in the Placement being sold, our total shareholding in TCL would decrease from 34.4% to 13.4%. The Company equity accounted for the result of TCL for 11 months in 2009. The investment in TCL was classified as a disposal group held for sale and as a discontinued operation as at December 31, 2009.

The results of TCL for the year are equity accounted for 11 months ended November 30, 2009 and presented as discontinued operations for the year ended December 31, 2009. The related reserves of TCL have been classified to "Reserve of asset classified as held for sale" on the statement of changes in equity as of December 31, 2009.

On July 7, 2010, TCL made payment of cash distribution to shareholders pursuant to the Capital Reduction Exercise. Subsequent to the cash distribution, the Company began to sell its shares in TCL in the market. As of December 31, 2010, 580,253,000 shares in TCL have been disposed of and the Company has recognised a gain on disposal of TCL shares of Rmb 12,655 (US$1,930).

Upon the disposal of TCL shares, the Company's shareholding interest in TCL has reduced from 34.4% to 12.2%. Meanwhile, the Company's representation in the board of directors of TCL also reduced to one out of eight directors on the board of TCL. As of December 31, 2010, the Company does not exercise significant influence over the operating and financial policies of TCL. The Company's investment in TCL is classified as held for trading (Note 22) as they are held for the purpose of selling in the near term. The Company's investment in TCL is measured at fair value with changes in fair value recognised in other income in the income statement of Rmb 17,123 (US$2,612).

	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2010 Rmb'000	31.12.2010 US$'000
Profit from discontinued operations:				
—Profit before tax	(33,731)	14,321	—	—
—Gain on disposal	—	—	12,655	1,930
—Taxation	(254)	(1,299)	—	—
	(33,985)	13,022	12,655	1,930
	31.12.2008 Rmb	**31.12.2009 Rmb**	**31.12.2010 Rmb**	**31.12.2010 US$**
Earnings per share:				
Basic, from discontinued operation	(0.91)	0.35	0.34	0.05
Diluted, from discontinued operation	(0.91)	0.35	0.34	0.05

Offsetting of Assets and Liabilities From the Same Tax Authority, Used and Unused Tax Loss Carryforwards, Items Recognized in Other Comprehensive Income Shown Net of Tax

3.345

Companhia de Bebidas das Américas—AmBev (Dec 2010)

CONSOLIDATED INCOME STATEMENT

Years ended December 31, 2010, 2009 and 2008

(Expressed in Millions of Brazilian Reais)	Note	2010	2009	2008
Net sales		25,233.3	23,194.0	20,713.2
Cost of sales		(8,449.0)	(7,731.9)	(7,217.7)
Gross profit		16,784.3	15,462.1	13,495.5
Sales and marketing expenses		(6,038.5)	(5,542.0)	(4,956.3)
Administrative expenses		(1,196.9)	(1,478.1)	(1,037.0)
Other operating income/(expenses)	7	624.9	539.3	383.5
Special items	8	(150.8)	196.6	(59.2)
Income from operations		10,023.0	9,177.9	7,826.5
Finance cost	11	(1,104.3)	(1,348.5)	(1,447.6)
Finance income	11	784.9	366.4	256.8
Net finance cost		(319.4)	(982.1)	(1,190.8)
Share of results of associates		0.2	0.7	2.3
Profit before income tax		9,703.7	8,196.5	6,638.0
Income tax expense	12	(2,084.4)	(2,208.1)	(1,447.2)
Profit		7,619.2	5,988.4	5,190.9

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31, 2010, 2009 and 2008

(Expressed in Millions of Brazilian Reais)	2010	2009	2008
Profit	7,619.2	5,988.4	5,190.9
Exchange differences on translation of foreign operations (gains/(losses)	(391.1)	(1,567.0)	1,192.9
Actuarial gains/(losses)	(234.5)	(82.6)	(26.8)
Cash flow hedges—gains/(losses)			
Recognized in equity (cash flow hedges)	96.8	(75.5)	12.5
Removed from equity and included in profit or loss	(48.7)	(232.4)	194.8
Change in deferred income tax in equity and other changes	95.6	188.1	(140.0)
Net income (charge) recognized directly in equity	(481.9)	(1,769.4)	1,233.4
Total comprehensive income	7,137.3	4,219.0	6,424.3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

3. Summary of Significant Accounting Policies (in part)

(w) Income Tax and Social Contribution

Income tax and social contribution for the year comprises current tax and deferred tax. Income tax and social contribution are recognized in the income statement, unless they relate to items recognized directly in Other comprehensive income or equity. In these cases the tax effect is also recognized directly in equity or Other comprehensive income (except interest on capital, see item (q)).

Current tax is the expectation of payment on the taxable income for the year, using tax rates enacted, or substantially enacted, at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Pursuant to IAS 12 *Income Taxes*, deferred taxes are recognized using the balance sheet/ liability method. This means

that, taking into account the IAS 12 requirements, a deferred tax liability or asset is recognized for all taxable and tax deductible temporary differences between the tax and accounting basis of assets and liabilities. Under this method, a provision for deferred taxes is also calculated on the differences between the fair value of assets and liabilities acquired in a business combination and their tax basis. IAS 12 prescribes that no deferred tax is recorded: (i) when recognizing goodwill; (ii) at the initial recognition of assets or liabilities arising from a transaction other than a business combination; and (iii) on differences related to investments in subsidiaries to the extent that they are not reversed in the foreseeable future. The amount of deferred tax provided is based on the expectation of the realization or settlement of the temporary difference, using currently or substantively enacted tax rates.

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 taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously.

12. Income Tax and Social Contribution

Income taxes reported in the income statement are analyzed as follows:

	2010	2009	2008
Income tax expense—current	(1,281.6)	(1,304.0)	(1,374.1)
Deferred tax (expense)/income	—	—	
Temporary differences	(644.8)	(510.9)	(6.8)
Utilization of tax loss carry forwards in the current period	(168.8)	(393.2)	(66.2)
Constitution of tax loss carry forwards offset in current period	1.4	—	—
Tax loss carry forwards	9.3	—	—
	(802.9)	(904.1)	(73.0)
Total income tax expense	(2,084.4)	(2,208.1)	(1,447.2)

The reconciliation from the weighted nominal to the effective tax rate is summarized as follows:

	2010	2009	2008
Profit before tax	9,703.7	8,196.5	6,638.0
Adjustment on taxable basis			
Non-taxable net financial and other income	(490.5)	(650.9)	(355.8)
Government grants (VAT)	(361.2)	(263.4)	(238.3)
Non-taxable intercompany dividends	—	—	(0.2)
Share of results of associates	(0.2)	(0.7)	(2.3)
Hedging results	0.4	348.0	(34.3)
Expenses not deductible for tax purposes	213.7	178.2	179.9
	9,065.9	7,807.7	6,186.9
Aggregated weighted nominal tax rate	32.81%	32.54%	32.69%
Taxes—nominal rate	(2,974.5)	(2,540.6)	(2,022.5)
Adjustment on tax expense			
Incentives related to income taxes	289.7	198.5	134.7
Tax benefit—Interest on shareholders' equity	393.9	346.8	337.4
Tax benefit—amortization on tax books	125.9	142.8	174.0
Withholding tax and other income	(131.0)	(130.8)	(71.5)
Changes in taxes rate	—	—	6.1
Non-deductible losses—foreign operations	(11.1)	(47.5)	(40.7)
Income tax provision reversal	64.7	1.7	—
Other tax adjustments	158,0	(179.0)	35.3
Income tax and social contribution expense	(2,084.4)	(2,208.1)	(1,447.2)
Effective tax rate	21.48%	26.94%	21.80%

The main events that impacted the effective tax rate in 2010 were: (a) increase in Government grant on income tax; (b) increase in dividends withholding tax; (c) decrease in the non-deductible expenses related mainly, to the reduction of hedging results; and (d) reversal of provisions related mainly to Canadian and Argentine income tax.

The Company has income tax incentives granted by the Brazilian Federal Government to encourage economic and social development in certain areas of the North and Northeast. These incentives are recorded in income on an accrual basis and directly impact the effective tax rate.

17. Deferred Income Tax and Social Contribution

Income tax and social contribution taxes are calculated on tax losses, the negative basis of social contribution and the temporary differences between the tax bases for calculating tax assets and liabilities and the carrying amounts in the financial statements. The rates of these taxes, currently set for the determination of deferred taxes, are 25% for income tax and 9% for social contribution in Brazil. For the other subsidiaries, applied rates are as follow:

HILA-ex	from 25% to 27%
Latin America—South	from 7% to 35%
Canada Holding	5%
Canada Operational	from 30% to 31%

The amount of deferred income tax and social contribution by type of temporary difference is detailed as follows:

	2010		
	Assets	Liabilities	Net
Property, plant and equipment	2.3	(184.4)	(182.1)
Intangible assets	7.2	(360.5)	(353.3)
Goodwill	115.6	—	115.6
Inventories	12.6	—	12.6
Investment securities	6.0	—	6.0
Trade and other receivables	25.7	—	25.7
Interest-bearing loans and borrowings	—	(35.8)	(35.8)
Employee benefits	329.5	(0.3)	329.2
Provisions	278.3	(0.2)	278.2
Derivatives	142.6	—	142.6
Other items	—	(171.3)	(171.3)
Loss carry forwards	373.6	—	373.6
Gross deferred tax assets/(liabilities)	1,293.5	(752.4)	541.0
Netting by taxable entity	(203.7)	203.7	—
Net deferred tax assets/(liabilities)	1,089.8	(548.7)	541.0

	2009		
	Assets	Liabilities	Net
Property, plant and equipment	3.6	(209.9)	(206.4)
Intangible assets	22.1	(399.7)	(377.6)
Goodwill	155.1	—	155.1
Inventories	10.2	(2.2)	8.0
Trade and other receivables	23.2	—	23.2
Interest-bearing loans and borrowings	1.8	(97.5)	(95.7)
Employee benefits	332.6	(39.8)	292.8
Provisions	426.3	(4.2)	422.1
Derivatives	174.9	—	174.9
Other items	59.7	(116.6)	(56.9)
Loss carry forwards	526.9	—	526.9
Gross deferred tax assets/(liabilities)	1,736.2	(869.8)	866.3
Netting by taxable entity	(367.6)	367.6	—
Net deferred tax assets/(liabilities)	1,368.5	(502.2)	866.3

Tax losses and negative bases of social contribution and temporary deductible differences in Brazil, on which the deferred income tax and social contribution were calculated, have no expiry date.

The expected utilization of consolidated tax losses is as follows:

2011	135.2
2012	196.3
2013	10.0
As of 2014	32.2
	373.6

Part of the tax benefit corresponding to the tax loss carryforwards and temporary differences of subsidiaries abroad was not recorded as an asset, as management is unable to determine whether realization is probable.

The total unrecognized deferred tax assets related to tax loss carryforwards for these subsidiaries amount to R$154.6 at December 31, 2010 (R$121.9 at December 31, 2009) for which the expiry term is on average five years. The tax loss carry forwards related to these unrecognized deferred tax assets are equivalent to R$673.6 at December 31, 2010 (R$514.7 at December 31, 2009).

Tax Expense Reconciliation Disclosure—Use of Single Domestic Statutory Tax Rate

3.346

Brookfield Asset Management, Inc. (Dec 2010)

Author's Note

Brookfield Asset Management implemented IFRSs effective December 31, 2010, with a date of transition of January 1, 2009. The excerpt that follows reflects the initial application of IAS 12.

CONSOLIDATED STATEMENTS OF OPERATIONS (in part)

Years Ended December 31 (Millions, Except per Share Amounts)	Note	2010	2009[1]
Total revenues		$13,623	$11,218
Asset management and other services	21	365	298
Revenues less direct operating costs			
Renewable power generation	21	748	777
Commercial properties	21	1,282	1,059
Infrastructure	21	221	95
Development activities	21	527	156
Private equity and finance	21	281	111
		3,424	2,496
Equity accounted income		494	353
Investment and other income		593	683
		4,511	3,532
Expenses			
Interest		1,829	1,480
Operating costs		417	396
Current income taxes	14	97	(5)
		2,168	1,661
Other items			
Fair value changes	22	1,865	(2,268)
Depreciation and amortization		(795)	(656)
Deferred income tax	14	(43)	287
Net income (loss)		$ 3,195	$ (976)

[1] Refer to Note 3 for the effects of the adoption of IFRS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Significant Accounting Policies (in part)

(m) Income Taxes

Current income tax assets and liabilities are measured at the amount expected to be paid to tax authorities, net of recoveries based on the tax rates and laws enacted or substantively enacted at the balance sheet date. Current and deferred income tax relating to items recognized directly in equity are also recognized in equity. Deferred income tax liabilities are

provided for using the liability method on temporary differences between the tax bases and carrying amounts of assets and liabilities. Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that deductions, tax credits and tax losses can be utilized. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent it is no longer probable that the income tax assets will be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability settled, based on the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

14. Income Taxes

The major components of income tax expense for the year ended December 31, 2010 and December 31, 2009 are set out below:

For the Years Ended December 31 (Millions)	2010	2009
Total current income tax	$ 97	$ (5)
Deferred income tax expense/(recovery)		
Origination and reversal of temporary differences	$ 60	$ (292)
Expense/(recovery) arising from previously unrecognized tax assets	(15)	13
Change of tax rates and imposition of new legislation	(2)	(8)
Total deferred income tax	$ 43	$ (287)

The company's effective tax rate is different from the company's domestic statutory income tax rate due to the differences set out below:

	2010	2009
Statutory income tax rate	31%	33%
Increase (reduction) in rate resulting from:		
Portion of income not subject to tax	(7)	(4)
International operations subject to different tax rates	(14)	(3)
Change in tax rates on temporary differences	1	(2)
Derecognition of future tax assets/(liabilities)	(6)	2
Non-recognition of the benefit of current year's tax losses	1	(5)
Other	(1)	(2)
Effective income tax rate	5%	19%

The following chart details the expiry date, if applicable, of the unrecognized deferred tax assets:

(Millions)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
2010	$ —	$ 5	$ —
2011	—	—	5
2012	—	—	—
2013	—	—	—
2014	1	29	—
2015	8	15	29
After 2020	284	257	205
Do not expire	519	432	432
Total	$812	$738	$671

The dividend payment on certain preferred shares of the company results in the payment of cash taxes and the company obtaining a deduction based on the amount of these taxes.

Deferred income tax assets and liabilities as at December 31, 2010, December 31, 2009 and January 1, 2009 relate to the following:

(Millions)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Non-capital losses (Canada)	$ 578	$ 433	$ 215
Capital losses (Canada)	171	129	82
Losses (U.S.)	360	165	177
Losses (International)	634	273	237
Difference in basis	(4,929)	(4,778)	(4,475)
Total net deferred tax liability	$(3,186)	$(3,778)	$(3,764)

(Millions)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Deferred income tax asset	$ 1,784	$ 1,454	$ 984
Deferred income tax liability	(4,970)	(5,232)	(4,748)
Total net deferred tax liability	$(3,186)	$(3,778)	$(3,764)

The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognized as at December 31, 2010 is $4,164 million (December 31, 2009—$2,497 million; January 1, 2009—$5,999 million).

The company regularly assesses the status of open tax examinations and its historical tax filing positions for the potential for adverse outcomes to determine the adequacy of the provision for income and other taxes. The company believes that it has adequately provided for any tax adjustments that are more likely than not to occur as a result of ongoing tax examinations or historical filing positions.

Effective Tax Rate Reconciliation Disclosure—Use of Weighted Average Statutory Tax Rate

3.347

Koninklijke Philips Electronics NV (Dec 2010)

CONSOLIDATED STATEMENTS OF INCOME (INCLUDING EARNINGS PER SHARE) OF THE PHILIPS GROUP FOR THE YEARS ENDED DECEMBER 31 (in part)

	2008	2009	2010
Sales	26,385	23,189	25,419
Cost of sales	(17,938)	(15,110)	(15,873)
Gross margin	8,447	8,079	9,546
Selling expenses	(5,518)	(5,159)	(5,246)
General and administrative expenses	(972	(734)	(735)
Research and development expenses	(1,777)	(1,631)	(1,576)
Impairment of goodwill	(301)	—	—
Other business income	261	97	100
Other business expenses	(86)	(38)	(24)
Income from operations	54	614	2,065
Financial income	1,594	225	214
Financial expenses	(1,506)	(391)	(336)
Income before taxes	142	448	1,943
Income tax expense	(256)	(100)	(509)
Income (loss) after taxes	(114)	348	1,434
Results relating to investments in associates:			
—Company's participation in income	81	23	14
—Other results	(62)	53	4
Income (loss) from continuing operations	(95)	424	1,452
Discontinued operations—net of income tax	3	—	—
Net income (loss)	(92)	424	1,452

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Significant Accounting Policies (in part)

Income Tax

Income tax comprises current and deferred tax. Income tax is recognized in the Statement of income except to the extent that it relates to a business combination, or items recognized directly within equity or in other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognized, using the balance sheet method, for the expected tax consequences of temporary differences between the carrying amounts of assets and liabilities and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. 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 been enacted or substantively enacted by the reporting date. 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 realized simultaneously.

A deferred tax asset is recognized 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 utilized.

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in the countries where the deferred tax assets originated and during the periods when the deferred tax assets become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

Deferred tax liabilities for withholding taxes are recognized for subsidiaries in situations where the income is to be paid out as dividend in the foreseeable future, and for undistributed earnings of unconsolidated companies to the extent that these withholding taxes are not expected to be refundable or deductible. Changes in tax rates are reflected in the period when the change has been enacted or substantively enacted by the reporting date.

3. Income Taxes

The tax expense on income before tax amounted to EUR 509 million (2009: EUR 100 million, 2008: EUR 256 million).

The components of income before taxes and income tax expense are as follows:

	2008	2009	2010
Netherlands	330	175	935
Foreign	(188)	273	1,008
Income before taxes	142	448	1,943
Netherlands:			
Current taxes	20	(16)	(106)
Deferred taxes	(120)	(72)	(144)
	(100)	(88)	(250)
Foreign:			
Current taxes	(289)	(201)	(207)
Deferred taxes	133	189	(52)
	(156)	(12)	(259)
Income tax expense	(256)	(100)	(509)

The components of deferred tax expense are as follows:

	2008	2009	2010
Previously unrecognized tax loss carried forwards realized	21	1	9
Current year tax loss carried forwards not realized	(98)	(60)	(55)
Temporary differences (not recognized) recognized	(2)	2	(5)
Prior year results	(7)	119	(16)
Tax rate changes	(1)	—	(4)
Origination and reversal of temporary differences	100	55	(125)
Deferred tax income (expense)	13	117	(196)

Philips' operations are subject to income taxes in various foreign jurisdictions. The statutory income tax rates vary from 10.0% to 40.7%, which causes a difference between the weighted average statutory income tax rate and the Netherlands' statutory income tax rate of 25.5% (2009: 25.5%; 2008: 25.5%).

A reconciliation of the weighted average statutory income tax rate to the effective income tax rate is as follows:

In %	2008	2009	2010
Weighted average statutory income tax rate	(18.5)	17.4	26.7
Tax rate effect of:			
Changes related to:			
—Utilization of previously reserved loss carryforwards	(14.5)	(0.3)	(0.5)
—New loss carryforwards not expected to be realized	69.3	13.3	2.8
—Addition (releases)	1.6	(0.4)	0.3
Non-tax-deductible impairment charges	283.1	3.1	—
Non-taxable income	(315.0)	(25.9)	(7.6)
Non-tax-deductible expenses	91.9	26.3	3.9
Withholding and other taxes	(5.1)	4.7	1.2
Tax rate changes	1.0	(0.1)	0.2
Tax expenses due to other liabilities	37.2	8.3	(0.4)
Tax incentives and other	49.2	(24.1)	(0.4)
Effective tax rate	180.2	22.3	26.2

The weighted average statutory income tax rate increased in 2010 compared to 2009, as a consequence of a change in the country mix of income tax rates, as well as a change of the mix of profits and losses in the various countries.

The effective income tax rate is lower than the weighted average statutory income tax rate in 2010, attributable to non-taxable gains on the sale of securities and other non-taxable income, and incidental tax benefits, which were partly offset by non-tax-deductible costs, new losses carried forward not expected to be realized, and income tax expenses due to tax provisions for uncertain tax positions.

Deferred Tax Assets and Liabilities

Net deferred tax assets relate to the following balance sheet captions and tax loss carryforwards (including tax credit carryforwards), of which the movements during the years 2010 and 2009, respectively are as follows:

	December 31, 2009	Recognized in Income	Recognized in Equity	Acquisitions/ Divestments	Other[(1)]	December 31, 2010
Intangible assets	(1,218)	97	—	(3)	(93)	(1,217)
Property, plant and equipment	15	34	—	—	(9)	40
Inventories	193	44	—	—	5	242
Prepaid pension assets	(387)	(75)	462	—	(1)	(1)
Other receivables	36	4	—	—	(2)	38
Other assets	118	(94)	—	—	4	28
Provisions:						
—Pensions	450	(58)	150	—	27	569
—Guarantees	11	—	—	—	—	11
—Termination benefits	100	(34)	—	—	2	68
—Other postretirement benefits	91	(7)	(10)	—	5	79
—Other provisions	567	(71)	5	(1)	45	545
Other liabilities	(29)	107	—	—	4	82
Tax loss carryforwards (including tax credit carryforwards)	766	(143)	(1)	1	73	696
Net deferred tax assets	713	(196)	606	(3)	60	1,180

(1) Primarily includes foreign currency translation differences which were recognized in equity.

	December 31, 2008	Recognized in Income	Recognized in Equity	Acquisitions/ Divestments	Other[1]	December 31, 2009
Intangible assets	(1,298)	115	—	(11)	(24)	(1,218)
Property, plant and equipment	(146)	28	—	7	126	15
Inventories	147	33	—	4	9	193
Prepaid pension costs	(510)	(80)	160	—	43	(387)
Other receivables	41	2	—	14	(21)	36
Other assets	61	(20)	(14)	—	91	118
Provisions:						
—Pensions	432	(9)	8	—	19	450
—Guarantees	9	1	—	1	—	11
—Termination benefits	61	34	—	—	5	100
—Other postretirement benefits	108	(15)	10	—	(12)	91
—Other provisions	751	(111)	3	3	(79)	567
Other liabilities	76	1	—	1	(107)	(29)
Tax loss carryforwards (including tax credit carryforwards)	615	138	—	12	1	766
Net deferred tax assets	347	117	167	31	51	713

[1] Primarily includes balance sheet changes amounting to EUR 46 million and foreign currency translation differences which were recognized in equity

Deferred tax assets and liabilities relate to the balance sheet captions, as follows:

	Assets	Liabilities	Net
2010			
Intangible assets	104	(1,321)	(1,217)
Property, plant & equipment	106	(66)	40
Inventories	267	(25)	242
Prepaid pension costs	2	(3)	(1)
Other receivables	53	(15)	38
Other assets	50	(22)	28
Provisions:			
—Pensions	571	(2)	569
—Guarantees	11	—	11
—Termination benefits	70	(2)	68
—Other postretirement	78	1	79
—Other	579	(34)	545
Other liabilities	110	(28)	82
Tax loss carryforwards (including tax credit carryforwards)	696	—	696
	2,697	(1,517)	1,180
Set-off of deferred tax positions	(1,346)	1,346	—
Net deferred tax assets	1,351	(171)	1,180

2009	Assets	Liabilities	Net
Intangible assets	172	(1,390)	(1,218)
Property, plant & equipment	109	(94)	15
Inventories	206	(13)	193
Prepaid pension costs	3	(390)	(387)
Other receivables	45	(9)	36
Other assets	135	(17)	118
Provisions:			
—Pensions	452	(2)	450
—Guarantees	11	—	11
—Termination benefits	105	(5)	100
—Other postretirement	91	—	91
—Other	590	(23)	567
Other liabilities	73	(102)	(29)
Tax loss carryforwards (including tax credit carryforwards)	766	—	766
	2,758	(2,045)	713
Set-off of deferred tax positions	(1,515)	1,515	—
Net deferred tax assets	1,243	(530)	713

Deferred tax assets are recognized for temporary differences, unused tax losses, and unused tax credits to the extent that realization of the related tax benefits are probable. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in the countries where the deferred tax assets originated and during the periods when the deferred tax assets become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

The net deferred tax assets of EUR 1,180 million (2009: EUR 713 million) consist of deferred tax assets of EUR 1,351 million (2009: EUR 1,243 million) in countries with a net deferred tax asset position and deferred tax liabilities of EUR 171 million (2009: EUR 530 million) in countries with a net deferred tax liability position. Of the total deferred tax assets of EUR 1,351 million at December 31, 2010, (2009: EUR 1,243 million), EUR 812 million (2009: EUR 616 million) is recognized in respect of fiscal entities in various countries where there have been fiscal losses in the current or preceding period. Management's projections support the assumption that it is probable that the results of future operations will generate sufficient taxable income to utilize these deferred tax assets.

At December 31, 2010 and 2009, there were no recognized deferred tax liabilities for taxes that would be payable on the unremitted earnings of certain foreign subsidiaries of Philips Holding USA (PHUSA) since it has been determined that undistributed profits of such subsidiaries will not be distributed in the foreseeable future. The temporary differences associated with the investments in subsidiaries of PHUSA, for which a deferred tax liability has not been recognized, aggregate to EUR 34 million (2009: EUR 29 million).

In the current year one of our acquisitions has recognized a deferred tax asset of EUR 18 million, which was not recognized at acquisition date. Based on an audit by the local tax authorities the intercompany loan policy has been reviewed and adjusted, which has led to a lower intercompany interest rate. As a consequence the related deferred tax asset became recoverable.

At December 31, 2010, operating loss carryforwards expire as follows:

Total	2011	2012	2013	2014	2015	2016/2020	Later	Unlimited
4,452	14	23	17	38	28	25	949	3,358

The Company also has tax credit carryforwards of EUR 112 million, which are available to offset future tax, if any, and which expire as follows:

Total	2011	2012	2013	2014	2015	2016/2020	Later	Unlimited
112	1	3	1	3	—	24	68	12

At December 31, 2010 , operating loss and tax credit carryforwards for which no deferred tax assets have been recognized in the balance sheet, expire as follows:

Total	2011	2012	2013	2014	2015	2016/2020	Later	Unlimited
1,689	—	2	—	6	5	28	16	1,632

Classification of the income tax payable and receivable is as follows:

	2009	2010
Income tax receivable	81	79
Income tax receivable—under non-current receivables	2	2
Income tax payable	(118)	(291)
Income tax payable—under non-current liabilities	(1)	(1)

Fiscal Risks

Philips is exposed to fiscal uncertainties. These uncertainties include the following:

Transfer Pricing Uncertainties

Philips has issued transfer pricing directives, which are in accordance with international guidelines such as those of the Organization for Economic Co-operation and Development. As transfer pricing has a cross-border effect, the focus of local

tax authorities on implemented transfer pricing procedures in a country may have an impact on results in another country. In order to mitigate the transfer pricing uncertainties, audits are executed by Corporate Fiscal and Internal Audit on a regular basis to safeguard the correct implementation of the transfer pricing directives.

Tax Uncertainties on General Service Agreements and Specific Allocation Contracts

Due to the centralization of certain activities in a limited number of countries (such as research and development, centralized IT, corporate functions and head office), costs are also centralized. As a consequence, for tax reasons these costs and/or revenues must be allocated to the beneficiaries, i.e. the various Philips entities. For that purpose, apart from specific allocation contracts for costs and revenues, general service agreements (GSAs) are signed with a large number of entities. Tax authorities review the implementation of GSAs, apply benefit tests for particular countries or audit the use of tax credits attached to GSAs and royalty payments, and may reject the implemented procedures. Furthermore, buy in/out situations in the case of (de)mergers could affect the tax allocation of GSAs between countries. The same applies to the specific allocation contracts.

Tax Uncertainties Due to Disentanglements and Acquisitions

When a subsidiary of Philips is disentangled, or a new company is acquired, related tax uncertainties arise. Philips creates merger and acquisition (M&A) teams for these disentanglements or acquisitions. In addition to representatives from the involved sector, these teams consist of specialists from various corporate functions and are formed, amongst other things, to identify hidden tax uncertainties that could subsequently surface when companies are acquired and to reduce tax claims related to disentangled entities. These tax uncertainties are investigated and assessed to mitigate tax uncertainties in the future as much as possible. Several tax uncertainties may surface from M&A activities. Examples of uncertainties are: applicability of the participation exemption, allocation issues, and non-deductibility of parts of the purchase price.

Tax Uncertainties Due to Permanent Establishments

In countries where e.g. Philips starts new operations or alters business models, the issue of permanent establishment may arise. This is because when operations in a country are led from another country, there is a risk that tax claims will arise in the former country as well as in the latter country.

IAS 33, *EARNINGS PER SHARE*

IFRS Overview and Comparison to U.S. GAAP

3.348 IAS 33, *Earnings per Share*, establishes the requirements for calculating and presenting earnings per share (EPS), including basic EPS and diluted EPS. IAS 33 applies to separate, individual, and consolidated financial statements of an entity whose ordinary or potential ordinary shares are traded in a public market or who files, or is in the process of filing, with a securities commission or other regulatory authority for the purpose of issuing such securities in a public market. However, any entity that discloses EPS should do so only in accordance with IAS 33.

Recognition and Measurement

IFRSs

3.349 IAS 33 requires an entity to calculate basic and diluted EPS, attributable to equity holders of the parent entity, for profit or loss from continuing operations, if presented, and profit or loss.

3.350 Basic EPS is calculated by dividing the relevant profit or loss amount attributable to the equity holders of the parent by the weighted average number of ordinary shares outstanding during the period. An entity should adjust reported earnings and earnings from continuing operations by subtracting any posttax dividends declared, and similar effects, on preference shares (classified as equity) to arrive at the relevant amounts attributable to the equity holders of the parent.

3.351 An entity should calculate diluted EPS by adjusting earnings and earnings from continuing operations, if presented, attributable to the equity holders of the parent for the posttax effects of the following:

- Dividends or other items related to dilutive potential ordinary shares deducted in arriving at earnings attributable to equity holders of the parent
- Any interest expense recognized in respect to dilutive potential ordinary shares
- Any other changes that would result from conversion of dilutive potential ordinary shares

3.352 An entity should also adjust the weighted average ordinary shares outstanding for the weighted average ordinary shares that would be issued on conversion of dilutive potential ordinary shares into ordinary shares. An entity should make these adjustments as if conversion of the dilutive potential ordinary shares occurred at the beginning of the reporting period or the issue date, if later.

3.353 An entity should consider a potential ordinary share to be dilutive only if its conversion will decrease EPS or EPS from continuing operations.

3.354 IAS 33 discusses the dilutive nature of the following potential ordinary shares: options, warrants and their equivalents, convertible instruments, contingently issuable shares, contracts that may be settled in ordinary shares or cash, purchased options, and written put options.

3.355 With respect to options, warrants, and similar instruments, an entity should assume exercise. The entity should

regard the assumed proceeds of these shares to have been received from the issue of shares at the average market price. Therefore, the assumed proceeds divided by the average market price of ordinary shares during the period will be the number of shares that would have been issued. The difference between the number of shares issued on exercise and the number of shares that would have been issued is the additional shares to be added to the weighted average number of shares outstanding in the diluted EPS calculation. Accordingly, these securities are dilutive when they are issued for less than the average market price of ordinary shares during the period and antidilutive if issued for more than the average price.

3.356 When dilutive, an entity should adjust both earnings and the weighted average ordinary shares outstanding for the effects of convertible securities. If the convertible securities are preferred shares, the entity should no longer deduct preferred share dividends from earnings and should increase the weighted average common shares outstanding for the additional number of ordinary shares issued on conversion. If the convertible securities are debt securities, the entity should adjust earnings for the posttax effect of interest expense and increase the weighted average ordinary shares outstanding by the additional shares issued on conversion.

3.357 An entity should treat any contingently issuable shares as outstanding when the specified conditions are satisfied (that is, the events have occurred on which issuance depends) and should make the necessary adjustments to the diluted EPS calculation as of the beginning of the period or the date of the contingent share agreement, whichever is later. If the conditions are not satisfied, an entity should base the adjustment to the diluted EPS calculation on the number of shares that would be issued if the end of the period were the end of the contingency period.

3.358 For contracts that may be settled in equity or cash at the entity's option, an entity should presume settlement would be in equity. For those contracts that may be settled at the holder's option, the entity should assume the more dilutive of the two cases.

3.359 An entity should not include contracts such as purchased options in the calculation of diluted EPS because exercise would be antidilutive.

3.360 An entity should include in the calculation of diluted EPS contracts that require it to repurchase its own shares when the effect is dilutive. If such contracts are "in the money" during the period, the entity should calculate the potential dilutive effect as follows:

a. Assume that sufficient ordinary shares will be issued at the beginning of the period at the average market price to raise the proceeds to fulfill the contract
b. Assume the proceeds are used to repurchase shares under the contract
c. Adjust the weighted average number of ordinary shares outstanding for any incremental number of ordinary shares issued over the number of shares repurchased

3.361 When the number of ordinary shares increases due to capitalizations, bonuses, stock splits, or dividends that occur after the balance sheet date but before the financial statements are issued, the entity should recalculate EPS for these changes.

U.S. GAAP

3.362 Like IFRSs, paragraphs 10–11 of FASB ASC 260-10-45 specify that an entity should calculate basic EPS by dividing income available to common stockholders (the numerator) by the weighted average number of common shares outstanding (the denominator) during the period. An entity should compute income available to common stockholders by deducting both the dividends declared in the period on preferred stock (regardless of whether they are paid) and the dividends accumulated for the period on cumulative preferred stock (regardless of whether they are earned) from income from continuing operations (if that amount appears in the income statement) and also from net income. If there is a loss from continuing operations or a net loss, the amount of the loss should be increased by those preferred dividends.

3.363 Both IFRSs and FASB ASC 260-10-45-11A require that, when computing EPS in consolidated financial statements, income from continuing operations and net income exclude income attributable to any noncontrolling interests.

3.364 Both IFRSs and FASB ASC 260-10-45-12A state that an entity should include contingently issuable shares in the EPS calculation only when there is no circumstance under which those shares would not be issued (that is, the necessary conditions upon which issuance is predicated have been met). However, paragraphs 12A–14 of FASB ASC 260-10-45 provide more guidance on what constitutes a contingently issuable share.

3.365 Like IFRSs, FASB ASC 260-10-45-16 requires an entity to adjust the numerator for any convertible preferred dividends and the post-tax amount of interest recognized in the period associated with any convertible debt in computing the dilutive effect of convertible securities. An entity should also adjust the numerator for any other changes in income or loss that would result from the assumed conversion of these potential common shares. FASB ASC 260-10-55-38 also provides an illustration of similar adjustments when a contract provides the issuer or holder with a choice between settlement methods.

3.366 Like IFRSs, FASB ASC 260-10-45-17 states that an entity should not include the conversion, exercise, or contingent issuance of any security that would be antidilutive in the calculation of EPS. An entity should determine whether potential common shares are dilutive or antidilutive separately for each issue or series of issues of potential common shares.

3.367 Like IFRSs, FASB ASC 260-10-45-21 requires an entity to base the calculation of diluted EPS on the most advantageous conversion rate or exercise price from the standpoint of the security holder when there is more than one basis for conversion.

3.368 Like IFRSs, FASB ASC 260-10-45-16 requires an entity to include in the denominator of the calculation the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued when calculating diluted EPS. As described in FASB ASC 260-10-45, calculation of the number of additional common shares to be included depends upon the type of potentially dilutive security. FASB ASC 260-10-45 specifies that an entity should use the treasury stock method for options, warrants, and similar instruments; reverse treasury stock method for written put options or forward purchase

contracts; and the if-converted method for convertible securities to determine the additional amounts.

3.369 Although the requirements are described differently than in IFRSs, paragraphs 22–27 of FASB ASC 260-10-45 requires an entity to apply what is known as the treasury stock method to determine the effect of an exercise of options, warrants, or similar instruments (for example, stock purchase contracts) on diluted EPS. This method assumes that the entity would take the entire proceeds from exercise and repurchase shares at the average market price for the period. Therefore, the entity should only include any excess shares issued over those repurchased in the diluted EPS calculation. Like IFRSs, FASB ASC 260-10-45-37 does not permit an entity to include purchased put or call options in the calculation because they are antidilutive. Paragraphs 28–32 of FASB ASC 260-10-45 provide more guidance than IAS 33 on including share-based compensation arrangements in the calculation, including guidance on how to account for excess tax benefits associated with these arrangements. IFRSs and FASB ASC 260-10-45-35 are also consistent in their treatment of written put options and forward purchase contracts, if dilutive, by assuming that the entity would issue sufficient shares and use the proceeds to satisfy the contract.

3.370 To determine the effect of convertible securities on diluted EPS, paragraphs 40–41 of FASB ASC 260-10-45 require an entity to use the if-converted method, which produces adjustments that are essentially the same as those required by IFRSs. An entity should adjust the numerator for the posttax consequences of reversing dividend declarations on preferred shares and interest expense on debt instruments with a corresponding increase in weighted average common shares outstanding. An entity should not include an antidilutive security in the calculation.

3.371 With respect to contracts with a settlement option, in contrast to IFRSs, paragraphs 45–47 of FASB ASC 260-10-45 require an entity to presume the most dilutive option, regardless of whether the entity or holder can select the method of settlement, unless past experience or a stated policy provides a reasonable basis to believe that the contract will be paid partially or wholly in cash.

3.372 Both IFRSs and paragraphs 59A–70 of FASB ASC 260-10-45 use the two-class method for calculating the effect of participating securities and two-class ordinary shares.

Presentation

IFRSs

3.373 For each class of ordinary shares and each period presented in the statement of comprehensive income, an entity should present basic and diluted EPS for profit or loss from continuing operations and profit or loss for the period, attributable to equity holders of the parent, in the statement of comprehensive income. An entity should present basic and diluted EPS with equal prominence.

3.374 An entity should disclose basic and diluted EPS even when the amount is negative. An entity should disclose EPS from discontinued operations either on the face of the statement or in the notes.

3.375 IAS 33 also constrains the location where EPS can be presented when the entity presents both separate and consolidated financial statements.

3.376 IAS 33 permits an entity to disclose EPS effects for additional components of the statement of comprehensive income with the caveat that it should calculate these per share amounts based on the weighted average ordinary shares outstanding, determined in accordance with IAS 33 and they are shown with equal prominence as the required EPS amounts. An entity should disclose the basis for the numerator and whether the amounts are before or after tax.

U.S. GAAP

3.377 Like IFRSs, FASB ASC 260-10-45-2 requires an entity to present EPS for income from continuing operations and net income on the face of the income statement. Unlike IFRSs, U.S. GAAP requires an entity with a simple capital structure (that is, only common stock outstanding) to present only basic EPS. Like IFRSs, U.S. GAAP requires all other entities to present basic and diluted EPS for income from continuing operations and net income on the face of the income statement with equal prominence.

3.378 Like IFRSs, FASB ASC 260-10-45-3 requires an entity that reports a discontinued operation to present basic and diluted EPS for this line item either on the face of the income statement or in the notes to the financial statements. However, U.S. GAAP requires an entity to also report basic and diluted EPS for a reported extraordinary item.

3.379 Like IFRSs, FASB ASC 260-10-45-5 permits an entity to present additional EPS amounts as long as they are calculated in accordance with FASB ASC 260-10 and only allows disclosure of these additional EPS amounts in the notes to financial statements. An entity should also disclose whether these amounts are calculated before or after tax.

3.380 Like IFRSs, FASB ASC 260-10-45-7 requires EPS data to be presented for all periods for which an income statement or summary of earnings is presented. If diluted EPS is reported for at least one period, an entity should report diluted EPS data for all periods presented, even if they are the same amounts as basic EPS. When basic and diluted EPS are the same amount, this paragraph permits a dual presentation in one line on the income statement.

Disclosure

IFRSs

3.381 IAS 33 requires an entity to disclose the following:

- Amounts used as the numerator in the basic and diluted EPS calculations and a reconciliation of the numerator to the amount reported in profit or loss attributed to the equity holders of the parent, with separate disclosure of the effects of each class of instrument included;
- Weighted average number of ordinary shares used as the denominator in the basic and diluted EPS calculations, a reconciliation of the amounts used for basic and diluted EPS, and a reconciliation showing the effects of each class of instrument included;
- Instruments that could potentially dilute EPS but were not included in the calculation because they were antidilutive, including any contingently issuable shares; and
- Description of any transaction (for example, issue of shares for cash), other than those for which an entity is required to adjust EPS, that occurred after the balance

sheet date and would have changed significantly the number of shares or potential shares outstanding if the shares had been issued before the balance sheet date.

3.382 If, in addition to the required basic and diluted EPS, an entity discloses amounts per share based on a component of the statement of comprehensive income (or a separate income statement) that is different from that required for IAS 33 (a non-IFRS EPS), IAS 33 requires the entity to calculate that non-IFRS EPS using the weighted average common shares outstanding, determined in accordance with IAS 33. In addition, an entity should do the following:

- Indicate the basis on which the numerator of the non-IFRS EPS was determined, including whether the amounts are pretax or posttax.
- Disclose the non-IFRS EPS with equal prominence to basic and diluted EPS presented in the notes.
- Reconcile the component used, if it is not a separate line item in the statement of comprehensive income (or separate income statement), with the relevant reported line item.

U.S. GAAP

3.383 Like IFRSs, FASB ASC 260-10-50-1 requires an entity to disclose all of the following for each income statement presented in the financial statements:

- A reconciliation of the numerators and denominators of the basic and diluted per-share computations for income from continuing operations, including individual income and share amounts for the effects of all securities that affect EPS (the entity is encouraged to refer readers to pertinent information about securities included in EPS computations addressed in other sections of the financial statements)
- The effect of preferred dividends on basic EPS
- Information about securities (including those contingently issuable shares) that could potentially dilute basic EPS in the future and were not included in the computation of diluted EPS because they were antidilutive, with disclosure of the terms and conditions of the securities, regardless of their exclusion from the calculation of diluted EPS in the current period

3.384 FASB ASC 260-10-50-2 also requires the same disclosure as IFRSs for any transaction that occurs after the end of the most recent period but before the financial statements are issued or are available for issue that would have changed materially the number of common shares or potential common shares outstanding at the end of the period if the transaction had occurred before the end of the period.

Presentation and Disclosure Excerpts

Basic and Diluted EPS Reported on One Line—No Dilutive Potential Shares

3.385

Yanzhou Coal Mining Company Limited (Dec 2010)

CONSOLIDATED INCOME STATEMENTS

		Year Ended December 31		
	Notes	2010 RMB'000	2009 RMB'000	2008 RMB'000
Gross sales of coal	7	32,590,911	19,947,748	24,933,349
Railway transportation service income		513,282	267,345	255,713
Gross sales of electricity power		185,542	187,540	59,811
Gross sales of methanol		629,290	258,867	38,550
Gross sales of heat supply		25,227	15,638	—
Total revenue		33,944,252	20,677,138	25,287,423
Transportation costs of coal	7	(1,160,470)	(403,311)	(508,712)
Cost of sales and service provided	8	(16,801,323)	(10,589,991)	(12,201,131)
Cost of electricity power		(195,536)	(190,802)	(88,253)
Cost of methanol		(716,802)	(352,943)	(37,834)
Cost of heat supply		(12,490)	(9,734)	—
Gross profit		15,057,631	9,130,357	12,451,493
Selling, general and administrative expenses	9	(5,093,904)	(3,820,241)	(3,832,031)
Share of income (loss) of associates	28	8,870	109,786	(67,367)
Other income	10	3,108,081	311,019	351,493
Interest expense	11	(603,343)	(45,115)	(38,360)
Profit before income taxes		12,477,335	5,685,806	8,865,228
Income taxes	12	(3,171,043)	(1,553,312)	(2,385,617)
Profit for the year	13	9,306,292	4,132,494	6,479,611
Attributable to:				
Equity holders of the company		9,281,386	4,117,322	6,488,908
Non-controlling interests		24,906	15,172	(9,297)
		9,306,292	4,132,494	6,479,611
Earnings per share, basic	16	RMB 1.89	RMB 0.84	RMB 1.32
Earnings per ads, basic	16	RMB 18.87	RMB 8.37	RMB 13.19

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

16. Earnings Per Share and Per ADS

The calculation of the earnings per share attributable to the equity holders of the Company for the years ended December 31, 2010, 2009 and 2008 is based on the profit attributable to the equity holders of the Company for the year of RMB9,281,386,000, RMB4,117,322,000 and RMB6,488,908,000 and on the 4,918,400,000 shares in issue, during each of the three years.

The earnings per ADS have been calculated based on the profit for the relevant periods and on one ADS, being equivalent to 10 H shares. The equivalent H shares to one ADS have been changed from 50 to 10 H shares from June 27, 2008. The new ADS were distributed to ADS holders on July 3, 2008.

No diluted earnings per share has been presented as there are no dilutive potential shares in issue during the years ended December 31, 2010, 2009 and 2008.

Basic and Diluted EPS—Two Classes of Ordinary Shares, Disclosure of EPS per American Depositary Receipt (ADS), Options and Warrants Anti-dilutive in Prior Year

3.386

Trinity Biotech plc (Dec 2010)

CONSOLIDATED STATEMENTS OF OPERATIONS

		Year Ended December 31		
	Notes	2010 Total US$'000	2009 Total US$'000	2008 Total US$'000
Revenues	2	89,635	125,907	140,139
Cost of sales		(45,690)	(68,891)	(77,645)
Gross profit		43,945	57,016	62,494
Other operating income	5	1,616	437	1,173
Research and development expenses		(4,603)	(7,341)	(7,544)
Selling, general and administrative expenses		(26,929)	(36,013)	(47,816)
Selling, general and administrative—impairment charges and restructuring expenses	28	—	—	(87,882)
Total selling, general and administrative expenses		(26,929)	(36,013)	(135,698)
Net gain on divestment of business and restructuring expenses	3	46,474	—	—
Operating profit/(loss)		60,503	14,099	(79,575)
Financial income	2, 4	1,352	8	65
Financial expenses	2, 4	(495)	(1,192)	(2,160)
Net financing income/(costs)		857	(1,184)	(2,095)
Profit/(loss) before tax	6	61,360	12,915	(81,670)
Total income tax (expense)/credit	2, 9	(942)	(1,091)	3,892
Profit/(loss) for the year (all attributable to owners of the parent)	2	60,418	11,824	(77,778)
Basic earnings/(loss) per ordinary share (US Dollars)	10	0.71	0.14	(0.96)
Basic earnings/(loss) per 'B' ordinary share (US Dollars)	10	1.43	0.28	(1.91)
Diluted earnings/(loss) per ordinary share (US Dollars)	10	0.70	0.14	(0.96)
Diluted earnings/(loss) per 'B' ordinary share (US Dollars)	10	1.39	0.28	(1.91)
Basic earnings/(loss) per ADS (US Dollars)	10	2.85	0.57	(3.82)
Diluted earnings/(loss) per ADS (US Dollars)	10	2.79	0.57	(3.82)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

10. Earnings/(Loss) Per Share

Basic Earnings/(Loss) Per Ordinary Share

Basic earnings/(loss) per ordinary share for the Group is computed by dividing the profit after taxation of US$60,418,000 (2009: profit after tax of US$11,824,000) (2008: loss after tax of US$77,778,000) for the financial year by the weighted average number of 'A' ordinary and 'B' ordinary shares in issue of 84,734,378 (2009: 83,737,884) (2008: 81,394,075). 1,400,000 of the total weighted average shares used as the EPS denominator relate to the 700,000 'B' ordinary shares in issue. In all respects these shares are treated the same as 'A' ordinary shares except for the fact that they have two voting rights per share, rights to participate in any liquidation or sale of the Group and to receive dividends as if each Class 'B' ordinary share were two Class 'A' ordinary shares. Hence the earnings/(loss) per share for a 'B' ordinary share is exactly twice the earnings/(loss) per share of an 'A' ordinary share.

	December 31, 2010	December 31, 2009	December 31, 2008
'A' ordinary shares	83,334,378	82,337,884	79,994,075
'B' ordinary shares (multiplied by 2)	1,400,000	1,400,000	1,400,000
Basic earnings/(loss) per share denominator	84,734,378	83,737,884	81,394,075
Reconciliation to weighted average earnings per share denominator:			
Number of A ordinary shares at January 1 (note 18)	82,952,037	82,017,581	74,756,765
Number of B ordinary shares at January 1 (multiplied by 2)	1,400,000	1,400,000	1,400,000
Weighted average number of shares issued during the year	382,341	320,303	5,237,310
Basic earnings/(loss) per share denominator	84,734,378	83,737,884	81,394,075

The weighted average number of shares issued during the year is calculated by taking the number of shares issued multiplied by the number of days in the year each share is in issue divided by 365 days.

Diluted Earnings/(Loss) Per Ordinary Share

Diluted earnings/(loss) per ordinary share is computed by dividing the profit after tax of US$60,418,000 (2009: profit after tax of US$11,824,000) (2008: loss after tax of US$77,778,000) for the financial year by the diluted weighted average number of ordinary shares in issue of 86,661,535 (2009: 83,772,094) (2008: 81,394,075).

The basic weighted average number of shares for the Group may be reconciled to the number used in the diluted earnings/(loss) per ordinary share calculation as follows:

	December 31, 2010	December 31, 2009	December 31, 2008
Basic earnings/(loss) per share denominator (see above)	84,734,378	83,737,884	81,394,075
Issuable on exercise of options and warrants	1,927,157	34,210	—
Diluted earnings/(loss) per share denominator(*)	86,661,535	83,772,094	81,394,075

(*) At December 31, 2010 and December 31, 2009 the number of shares issuable on the exercise of options and warrants was dilutive. At December 31, 2008, the number of shares issuable on the exercise of options and warrants was not dilutive.

Earnings per ADS

In June 2005, Trinity Biotech adjusted its ADS ratio from 1 ADS: 1 Ordinary Share to 1 ADS: 4 Ordinary Shares. Earnings per ADS for all periods presented have been restated to reflect this exchange ratio.

Basic earnings/(loss) per ADS for the Group is computed by dividing the profit after taxation of US$60,418,000 (2009: profit after tax of US$11,824,000) (2008: loss after tax of US$77,778,000) for the financial year by the weighted average number of ADS in issue of 21,183,594 (2009: 20,934,471); (2008: 20,348,519).

	December 31, 2010	December 31, 2009	December 31, 2008
'A' ordinary shares—ADS	20,833,594	20,584,471	19,998,519
'B' ordinary shares—ADS	350,000	350,000	350,000
Basic earnings/(loss) per share denominator	21,183,594	20,934,471	20,348,519

Diluted earnings/(loss) per ADS for the Group is computed by dividing the profit after taxation of US$60,418,000 (2009: profit after taxation of US$11,824,000) (2008: loss after tax of US$77,778,000) for the financial year, by the diluted weighted average number of ADS in issue of 21,665,383 (2009: 20,943,024) (2008: 20,348,519).

The basic weighted average number of ADS shares for the Group may be reconciled to the number used in the diluted earnings per ADS share calculation as follows:

	December 31, 2010	December 31, 2009	December 31, 2008
Basic earnings/(loss) per share denominator (see above)	21,183,594	20,934,471	20,348,519
Issuable on exercise of options and warrants	481,789	8,553	—
Diluted (loss)/earnings per share denominator(*)	21,665,383	20,943,024	20,348,519

(*) At December 31, 2010 and December 31, 2009, the number of shares issuable on the exercise of options and warrants was dilutive. At December 31, 2008, the number of ADSs issuable on the exercise of options and warrants was not dilutive.

27. Derivatives and Financial Instruments (in part)

Capital Management

The Group'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. The Board of Directors monitors earnings per share as a measure of performance, which the Group defines as profit after tax divided by the weighted average number of shares in issue.

Basic and Diluted EPS—Continuing Operations, Discontinued Operations

3.387

Millicom International Cellular S.A. (Dec 2010)

CONSOLIDATED INCOME STATEMENTS

For the years ended December 31, 2010, 2009 and 2008

	Notes	2010 US$'000	2009 US$'000	2008 US$'000
Revenues	9	3,920,249	3,372,727	3,150,559
Cost of sales		(1,331,003)	(1,202,902)	(1,114,822)
Gross profit		2,589,246	2,169,825	2,035,737
Sales and marketing		(737,691)	(647,009)	(657,480)
General and administrative expenses		(738,779)	(606,213)	(498,597)
Other operating expenses, net		(71,046)	(65,580)	(61,438)
Operating profit	9,10	1,041,730	851,023	818,222
Interest expense		(214,810)	(173,475)	(135,932)
Interest and other financial income		14,748	11,573	32,277
Revaluation of previously held interests	4	1,060,014	32,319	—
Other non operating expenses, net	12	(29,702)	(32,181)	(52,265)
(Loss) profit from associates	17	(1,817)	2,329	8,706
Profit before tax from continuing operations		1,870,163	691,588	671,008
Charge for taxes	13	(227,096)	(187,998)	(268,813)
Profit for the year from continuing operations		1,643,067	503,590	402,195
Profit for the year from discontinued operations, net of tax	6	11,857	300,342	2,246
Net profit for the year		1,654,924	803,932	404,441
Attributable to:				
Equity holders of the company		1,652,233	850,788	517,516
Non-controlling interest		2,691	(46,856)	(113,075)
Earnings per share for the year				
(expressed in US$ per common share)	14			
Basic earnings per share				
—From continuing operations attributable to equity holders		15.19	5.09	4.79
—From discontinued operations attributable to equity holders		0.08	2.75	0.01
—For the year attributable to equity holders		15.27	7.84	4.80
Diluted earnings per share				
—From continuing operations attributable to equity holders		15.16	5.08	4.76
—From discontinued operations attributable to equity holders		0.08	2.74	0.01
—For the year attributable to equity holders		15.24	7.82	4.77

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

14. Earnings Per Share

Basic earnings per share are calculated by dividing net profit for the year attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are calculated by dividing the net profit for the year attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of dilutive potential shares.

The following reflects the net profit and share data used in the basic and diluted earnings per share computations:

	2010 US$'000	2009 US$'000	2008 US$'000
Basic			
Net profit attributable to equity holders from continuing operations	1,643,447	551,390	516,316
Net profit attributable to equity holders from discontinued operations	8,786	298,858	1,200
Net profit attributable to equity holders used to determine the basic earnings per share	1,652,233	850,788	517,516
Diluted			
Net profit attributable to equity holders from continuing operations	1,643,447	551,390	516,316
Interest expense on convertible debt (note 26)	—	—	760
Net profit attributable to equity holders from continuing operations used to determine the diluted earnings per share	1,643,447	551,390	517,076
Net profit attributable to equity holders from discontinued operations	8,786	298,858	1,200
Net profit attributable to equity holders used to determine the diluted earnings per share	1,652,233	850,788	518,276

	2010 '000	2009 '000	2008 '000
Weighted average number of ordinary shares (excluding treasury shares) for basic earnings per share	108,219	108,527	107,869
Effect of dilution:			
Potential incremental shares as a result of share options	177	223	434
Assumed conversion of convertible debt	—	—	343
Weighted average number of ordinary shares (excluding treasury shares) adjusted for the effect of dilution	108,396	108,750	108,646

To calculate earnings per share amounts for the discontinued operations, the weighted average number of shares for both basic and diluted amounts is as per the table above.

Basic and Diluted EPS—Accounting Policy Disclosure, Net Loss, All Potentially Dilutive Shares Anti-Dilutive

3.388

Adecoagro S.A. (Dec 2010)

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2010, 2009 and 2008
(All amounts in US$ thousands, except shares and per share data and as otherwise indicated)

	Note	2010	2009	2008
Sales of manufactured products and services rendered	24	294,529	183,386	117,173
Cost of manufactured products sold and services rendered	25	(219,201)	(180,083)	(105,583)
Gross profit from manufacturing activities		75,328	3,303	11,590
Sales of agricultural produce and biological assets	24	131,738	130,217	127,036
Cost of agricultural produce sold and direct agricultural selling expenses	25	(131,738)	(130,217)	(127,036)
Initial recognition and changes in fair value of biological assets and agricultural produce		(30,528)	71,668	61,000
Changes in net realizable value of agricultural produce after harvest		7,999	12,787	1,261
Gross (loss)/profit from agricultural activities		(22,529)	84,455	62,261
Margin on manufacturing and agricultural activities before operating expenses		52,799	87,758	73,851
General and administrative expenses	25	(56,562)	(52,393)	(45,633)
Selling expenses	25	(52,528)	(31,169)	(24,496)
Other operating income, net	27	18,224	13,071	17,323
Excess of fair value of net assets acquired over cost	31	—	—	1,227
Share of loss of joint ventures	10	(50)	(294)	(838)
(Loss)/profit from operations before financing and taxation		(38,117)	16,973	21,434
Finance income	28	16,559	11,553	2,552
Finance costs	28	(39,496)	(34,216)	(50,860)
Financial results, net	28	(22,937)	(22,663)	(48,308)
Loss before income tax		(61,054)	(5,690)	(26,874)
Income tax benefit	21	16,263	5,415	10,449
Loss for the year		(44,791)	(275)	(16,425)
Attributable to:				
Equity holders of the parent		(43,904)	(260)	(18,947)
Non controlling interest		(887)	(15)	2,522
Loss per share attributable to the equity holders of the parent during the year:				
Basic	29	(0.361)	(0.002)	(0.168)
Diluted	29	n/a	n/a	n/a

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Summary of Significant Accounting Policies (in part)

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.26. Earnings Per Share

Basic loss per share is calculated by dividing the net loss for the period attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. Diluted net loss per share is computed by dividing the net loss for the period by the weighted average number of ordinary shares outstanding, and when dilutive, adjusted for the effect of all potentially dilutive shares, including share options, on an as-if converted basis. For all periods presented, there were no differences in the weighted-average number of ordinary shares used for basic and diluted net loss per share as the effect of all potentially dilutive shares outstanding was anti-dilutive.

29. Earnings Per Share

Basic and diluted loss per share is calculated by dividing the loss attributable to equity holders of the Group by the weighted average number of shares in issue during the year.

	2010	2009	2008
Loss attributable to equity holders of the Group	(43,904)	(260)	(18,947)
Weighted average number of shares in issue (thousands)	121,667	120,000	112,420
Basic and diluted losses per share	(0.361)	(0.002)	(0.168)

Diluted net loss per share is computed by dividing the net loss for the period by the weighted average number of ordinary shares outstanding, and when dilutive, adjusted for the effect of all potentially dilutive shares, including share options, on an as-if converted basis. For all periods presented, there were no differences in the weighted-average number of ordinary shares used for basic and diluted net loss per share as the effect of all potentially dilutive shares outstanding was anti-dilutive. As of December 31, 2010, there were 6.4 million (2009: 6.6 million and 2008: 5.6 million) share options outstanding that could potentially have a dilutive impact in the future but were antidilutive in all periods presented.

Basic and Diluted EPS—Net Loss Resulting in Outstanding Convertible Preference Shares, Convertible Debt, Share Options Anti-dilutive in Current Year, Dilutive in Prior Years

3.389

Seven Arts Pictures Plc (Jun 2010)

CONSOLIDATED STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE INCOME/(LOSS)

	Notes	Year Ended June 30, 2010	Year Ended June 30, 2009	Three Months Ended June 30, 2008	Year Ended March 31, 2008
Revenue:					
Film revenues	2	$ 1,974,516	$ 4,217,910	$ 2,792,836	$ 3,265,808
Fee related revenues—related party	2	4,442,919	6,014,313	—	—
Total revenues	2	6,417,435	10,232,223	2,792,836	3,265,808
Cost of sales					
Amortization and impairment of film costs	10	(1,770,650)	(2,559,932)	(781,030)	(490,239)
Other cost of sales		(628,326)	(2,103,391)	(520,541)	(3,597,469)
Cost of sales		(2,398,976)	(4,663,323)	(1,301,571)	(4,087,708)
Gross profit		4,018,459	5,568,900	1,491,265	(821,900)
Operating expenses					
General & administrative Expenses		(2,619,205)	(3,582,348)	(711,479)	(4,015,533)
Bad debt expense		(319,344)	(542,811)	—	—
Total operating expenses		(2,938,549)	(4,125,159)	(711,479)	(4,015,533)
Profit/(loss) before interest and taxes		1,079,910	1,443,741	779,786	(4,837,433)
Net interest (expense) income					
Interest expenses	3	(1,815,970)	(10,907,555)	(3,696,033)	(672,973)
Interest income	3	110,409	8,599,096	3,272,868	466,887
Net interest (expense)	3	(1,705,561)	(2,308,459)	(423,165)	(206,086)
Profit/(loss) before taxes and other income		(625,651)	(864,718)	356,621	(5,043,519)
Other income	4	150,000	5,601,683	—	—
Profit/(loss) before taxes		(475,651)	4,736,965	356,621	(5,043,519)
Provision for income tax (benefit)	5	—	—	—	(485,634)
Net Income (Loss)		(475,651)	4,736,965	356,621	(4,557,885)
Comprehensive Income(Loss):					
Net Income (Loss)		$ (475,651)	$ 4,736,965	$ 356,621	$ (4,557,885)
Foreign exchange translation gain (loss)		420,963	(1,413,066)	5,249	—
Comprehensive Income (Loss)		$ (54,688)	$ 3,323,899	$ 361,870	$ (4,557,885)
Basic profit/(loss) per share	6	$ (0.07)	$ 0.78	$ 0.07	$ (0.97)
Diluted profit/(loss) per share	6	$ (0.07)	$ 0.58	$ 0.04	$ (0.97)
Weighted average number of ordinary shares used in the profit (loss) per share calculation:					
Basic		7,013,601	6,051,453	4,870,800	4,676,301
Diluted		7,013,601	8,146,953	8,255,855	4,676,301

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

6. Earnings Per Share

The Group calculates net income (loss) per share in accordance with International Accounting Standard 33, *Earnings per Share* ("IAS 33"). Basic net income/(loss) per share is calculated based on the weighted average common shares outstanding for the period presented and all have been adjusted to reflect the Group's 5:1 reverse stock split which occurred on December 31, 2008.

The weighted average number of shares outstanding is calculated by time-apportioning the shares outstanding during the year. The diluted earnings per ordinary share are calculated based on the weighted average number of shares outstanding plus the weighted average number of potential ordinary shares, as follows:

	Year Ended June 30, 2010	Year Ended June 30, 2009	3 Months Ended June 30, 2008	Year Ended March 31, 2008
Weighted average number of ordinary shares—Basic	7,013,601	6,051,453	4,870,800	4,676,301
Effect of dilutive potential ordinary shares:				
—convertible preference shares	—	1,138,000	2,400,000	—
—convertible debt	—	700,000	700,000	—
—share options	—	257,500	285,055	—
Weighted average number of ordinary shares—Diluted	7,013,601	8,146,953	8,255,855	4,676,301

There were 361,644 and 2,400,000 potential ordinary shares from convertible preference shares, 803,562 and 700,000 potential ordinary shares from convertible debts, and 114,273 and 75,315 potential ordinary shares from options outstanding at June 30, 2010 and March 31, 2008, respectively. These outstanding potential ordinary shares were not included in the computation of diluted net loss per share as anti-dilution is not permitted because the Group incurred losses in these periods. In accordance with IAS 33, anti-dilutive potential shares are not included in the diluted loss per share calculation.

SECTION 4: STATEMENT OF CHANGES IN EQUITY AND RELATED DISCLOSURES*

IAS 1, *PRESENTATION OF FINANCIAL STATEMENTS*

IFRIC 17, *DISTRIBUTIONS OF NON-CASH ASSETS TO OWNERS*

IFRS Overview and Comparison to U.S. GAAP

4.01 International Accounting Standard (IAS) 1, *Presentation of Financial Statements*, establishes the basis for presentation of general purpose financial statements to ensure comparability both with the entity's financial statements of previous periods and the financial statements of other entities. This standard establishes overall requirements for the presentation of financial statements, guidelines for their structure, and minimum requirements for their content. IAS 1 requires the presentation of both a statement of comprehensive income and a statement of changes in equity as part of a complete set of financial statements (see section 3, "Statement of Comprehensive Income and Related Disclosures"). All changes related to owners in their capacity as owners are shown separately from nonowner changes. Effective for fiscal years beginning on or after 1 January 2009, an entity should allocate total comprehensive income to the components of equity. IAS 1 no longer permits components of comprehensive income to be presented in the statement of changes in equity.

4.02 IAS 1 also requires disclosures about an entity's capital and dividends, including dividends per share.

4.03 *General purpose financial statements* are those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs. Although referred to numerous times in U.S. generally accepted accounting principles (GAAP), general purpose financial statements are not explicitly defined in Financial Accounting Standards Board (FASB) *Accounting Standards Codification*™ (ASC).

Presentation

IFRSs

4.04 IAS 1 requires an entity to present a *statement of changes in equity*. This statement includes total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to noncontrolling interests. IAS 1 requires the components of other comprehensive income to be shown in either a single statement of comprehensive income or in a statement of other comprehensive income accompanying a statement of income. IAS 1 does not permit an entity to avoid preparing the statement of other comprehensive income by presenting these components in the statement of changes in equity. IAS 1 now requires an entity to allocate total comprehensive income to the separate components of equity.

4.05 In addition, for each component of equity, the statement should provide a reconciliation of the carrying amount at the beginning and end of the period. This reconciliation should disclose separately changes resulting from profit or loss, each item of other comprehensive income, and transactions with owners in their capacity as owners. Contributions from and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control also should be shown separately. International Financial Reporting Interpretations Committee (IFRIC) Interpretation 17, *Distributions of Non-cash Assets to Owners*, provides additional guidance for the following two types of nonreciprocal distributions of assets by an entity to its owners acting in their capacity as owners:

- Distributions of noncash assets (for example, items of property, plant, and equipment, and businesses as defined in International Financial Reporting Standards (IFRS) 3, *Business Combinations*, and ownership interests in another entity or disposal groups as defined in IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*)
- Distributions that give owners a choice of receiving either noncash assets or a cash alternative

IFRIC 17 was issued in October 2008 and is effective for annual periods beginning on or after 1 July 2009. Earlier application is permitted.

4.06 An entity should also show separately changes from retrospective application of a change in accounting policy or a retrospective restatement due to an error correction.

4.07 IAS 1 permits the following items to be presented either on the face of the statement of changes in equity or in the notes:

- amount of dividends recognized as distributions to owners during the period, and
- related dividends per share.

* Unless otherwise indicated, references to International Accounting Standards Board (IASB) standards and interpretations throughout this 2011 edition of *IFRS Accounting Trends & Techniques* refer to the version of those standards and interpretations included in the *IFRS 2011* bound volume, the official printed consolidated text of IASB standards and interpretations, including revisions, amendments, and supporting documents, issued as of 1 January 2011.

U.S. GAAP

Author's Note

Under the amendments to Accounting Standards Update (ASU) No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in this ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income.

The requirements of this ASU are shown as "Pending Content" in FASB ASC 220-10-4, with a date of transition of December 31, 2011, for public companies and December 31, 2012, for nonpublic companies. Transition guidance is available in FASB ASC 220-10-65-1.

4.08 Unlike IFRSs, which does not allow components of comprehensive income to only be included in a statement of changes in equity, FASB ASC 220-10-45-10 allows an entity to present components of comprehensive income in the statement of changes in equity. However, this paragraph also states that displaying comprehensive income and its components in an income-statement-type format is superior to display in a statement of changes in equity. In accordance with FASB 505-10-50-2, an entity may present changes in equity in either the basic financial statements or notes thereto or a separate statement. Under Rule 3-04 of Securities and Exchange Commission (SEC) Regulation S-X, an entity should provide an analysis of the changes in each caption of stockholders' equity and noncontrolling interests presented in the balance sheets either in a note or separate statement, FASB ASC 220-10-45-14 provides guidance for reporting other comprehensive income in the "Equity" section of a statement of financial position.

4.09 Under FASB ASC 220-10-45-3, financial statements should reflect both comprehensive income (total nonowner changes in equity) and investments by, and distributions to, owners during the period. Thus, it can be inferred, like IFRSs, that an entity should present owner-related changes separately from nonowner-related changes in the statement of changes in equity.

Disclosure

IFRSs

4.10 IAS 1 requires disclosure of information to enable users of the financial statements to evaluate the entity's objectives, policies, and processes for managing capital. This disclosure should include the following:

a. Qualitative information about its objectives, policies, and processes for managing capital, including the following:
   i. A description of what the entity manages as capital
   ii. When an entity is subject to externally imposed capital requirements, the nature of those requirements, and how an entity incorporates those requirements into its capital management policies and procedures
   iii. How the entity meets its objectives for managing capital
b. Summary quantitative data about what the entity manages as capital. Some entities regard certain financial liabilities (for example, some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (for example, components arising from cash flow hedges).
c. Any changes in (a) and (b) from the previous period.
d. Whether, during the period, the entity complied with any externally imposed capital requirements to which it was subject.
e. When the entity has not complied with such externally imposed capital requirements, the consequences of such noncompliance.

The entity should base these disclosures on the information provided internally to key management personnel.

4.11 Additional dividend disclosures include the following:

- Amount of dividends proposed or declared before the financial statements were authorized for issue, but not recognized as a distribution to owners during the period, and the related amount per share
- Amount of any cumulative preference dividends not recognized

U.S. GAAP

4.12 Rule 3-04 of SEC Regulation S-X requires an SEC registrant to disclose an analysis of the changes in each caption of other stockholders' equity and noncontrolling interests presented in the balance sheets in a note or separate statement (see also FASB ASC 505-10-S99-1). With respect to any dividends, the entity should state the amount per share and in the aggregate for each class of shares. The entity is not constrained to provide dividend information in either the notes or statement of changes in shareholders' equity but could provide this information in the statement of financial position. The latter is an additional option not available in IFRSs.

4.13 FASB ASC 810-10-50-1A (d) requires an entity to provide in a note disclosure a separate schedule that shows the effects of any changes in a parent's ownership interest in a subsidiary on the equity attributable to the parent.

TABLE 4-1: COMPONENTS OF SHAREHOLDERS' EQUITY

Components Included in the Statement of Shareholders' Equity:	2010	2009[1]
Number of shares of common (ordinary) shares	31	30
Number of shares of treasury (own) shares	6	6
Common (ordinary) share capital (stock)	163	140
Preference (preferred) share capital (stock)	8	5
Share premium (additional paid-in capital, paid-in capital in excess of nominal (par) value)	117	99
Share capital and share premium combined	8	8
Convertible securities	21	25
Other equity instruments	3	2
Treasury (own) shares	75	66
Shares held by employee benefit trusts (e.g., ESOPs, etc)	6	4
Foreign currency translation reserve	90	78
Revaluation reserve (surplus) (related to revaluation of tangible assets)	16	8
Investment valuation reserve (change in fair value of available for sale financial assets)	61	57
Hedging reserve (cash flow and net investment hedges)	62	52
Share-based compensation reserve	29	24
Actuarial gains and losses on pensions	6	5
Retained earnings or deficit (undistributed profits)	170	140
Noncontrolling (minority) interest	115	98
Other reserves	106	85

[1] Prior to 1 January 2009, IAS 1 did not require entities to present changes in equity in a separate statement. Of the 160 survey companies in the 2009 edition of *IFRS Accounting Trends & Techniques*, only 140 companies presented a statement of changes in equity. The remaining 20 companies included this information in a note disclosure. All 170 survey companies in the 2010 edition presented a statement of changes in equity.

TABLE 4-2: TYPES OF CHANGES IN SHAREHOLDERS' EQUITY

Companies Presenting a Statement of Changes in Shareholders' Equity	2010	2009[1]
Allocation of total comprehensive income only	57	58
Allocation of net income and one or more components of total comprehensive income	113	82
Total Companies	**170**	**140**
Changes Resulting From Transactions With Owners Presented		
Cash dividends	126	99
Preference share dividends	8	5
Other dividends and shares issued in lieu of dividends	8	16
Issue of common shares	72	57
Issue of preference shares	6	6
Rights issues	3	4
Treasury share transactions	86	76
Share-based compensation	115	89
Shares acquired by employee benefit trusts	17	20
Exercise of stock options	38	27
Transfers from revaluation reserve to retained earnings	33	30
Share issuance costs	4	11
Changes to the scope of consolidation	15	34
Acquisition and disposal of noncontrolling (minority) interest	47	54
Dividends paid to noncontrolling (minority) interests	19	19
Government contributions or returns of assets to government	2	3
Adjustment for hyperinflation (with respect to hyperinflation in subsidiaries)	2	2
Adjustment to beginning balance due to change in accounting policy	5	8
Adjustment to beginning balances due to error correction	0	1
Other	102	83

[1] Prior to 1 January 2009, IAS 1 did not require entities to present changes in equity in a separate statement. Of the 160 survey companies in the 2009 edition of *IFRS Accounting Trends & Techniques*, only 140 companies presented a statement of changes in equity. The remaining 20 companies included this information in a note disclosure. All 170 survey companies in the 2010 edition presented a statement of changes in equity.

Presentation and Disclosure Excerpts

Issue of Common and Preferred Shares

4.14

Brookfield Asset Management, Inc. (Dec 2010)

Author's Note

Brookfield Asset Management, Inc. implemented IFRSs effective December 31, 2010, with a date of transition of January 1, 2009. The excerpt that follows reflects the initial application of IAS 1.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Year Ended December 31, 2010 (Millions)	Common Share Capital	Contributed Surplus	Retained Earnings	Disposition Gains[1]	Accumulated Other Comprehensive Income: Revaluation Surplus	Accumulated Other Comprehensive Income: Currency Translation	Accumulated Other Comprehensive Income: Other Reserves	Common Equity	Preferred Equity	Non-Controlling Interests	Total Equity
Balance as at December 31, 2009	$1,289	$67	$3,560	$117	$ 5,193	$1,623	$(40)	$11,809	$1,144	$10,186	$23,139
Prior to: deferred income taxes, net	—	—	295	—	2,352	119	29	2,795	—	983	3,778
	1,289	67	3,855	117	7,545	1,742	(11)	14,604	1,144	11,169	26,917
Changes in period											
Net income											
Income and disposition gains prior to other items	—	—	1,049	414	—	—	—	1,463	—	1,119	2,582
Depreciation and amortization	—	—	(693)	—	—	—	—	(693)	—	(102)	(795)
Fair value changes	—	—	1,129	—	—	—	—	1,129	—	736	1,865
Less: disposition gains[1]	—	—	—	(414)	—	—	—	(414)	—	—	(414)
Associated deferred income taxes	—	—	(31)	—	—	—	—	(31)	—	(12)	(43)
	—	—	1,454	—	—	—	—	1,454	—	1,741	3,195
Other comprehensive income											
Fair value changes	—	—	—	—	(952)	—	(3)	(955)	—	49	(906)
Currency translation	—	—	—	—	—	276	—	276	—	377	653
Associated deferred income taxes	—	—	—	—	439	31	(17)	453	—	(5)	448
	—	—	—	—	(513)	307	(20)	(226)	—	421	195
Shareholder distributions											
Common equity	—	—	(298)	—	—	—	—	(298)	—	—	(298)
Preferred equity	—	—	(75)	—	—	—	—	(75)	—	—	(75)
Non-controlling interests	—	—	—	—	—	—	—	—	—	(444)	(444)
	—	—	(373)	—	—	—	—	(373)	—	(444)	(817)
Other items											
Equity issuances, net of redemptions	45	—	(14)	—	—	—	—	31	514	1,121	1,666
Share-based compensation	—	30	—	—	—	—	—	30	—	16	46
Acquisitions/dispositions	—	—	—	(162)	—	75	—	(87)	—	1,668	1,581
Associated deferred income taxes	—	—	—	232	—	(75)	—	157	—	30	187
	45	30	(14)	70	—	—	—	131	514	2,835	3,480
Reversal of in-period income taxes	—	—	31	(232)	(439)	44	17	(579)	—	(13)	(592)
	1,334	97	4,953	(45)	6,593	2,093	(14)	15,011	1,658	15,709	32,378
Less: deferred income taxes, net											
Opening balances	—	—	(295)	—	(2,352)	(119)	(29)	(2,795)	—	(983)	(3,778)
In-period amounts	—	—	(31)	232	439	(44)	(17)	579	—	13	592
Ending balances	—	—	(326)	232	(1,913)	(163)	(46)	(2,216)	—	(970)	(3,186)
Balance as at December 31, 2010	$1,334	$97	$4,627	$187	$4,680	$1,930	$(60)	$12,795	$1,658	$14,739	$29,192

(1) Disposition gains not recognized in net income under IFRS.
(2) Refer to Note 3 for the effects of the adoption of IFRS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

20. Equity

Equity is comprised of the following:

(Millions)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Preferred equity	$ 1,658	$ 1,144	$ 870
Non-controlling interests	14,739	10,186	8,038
Common equity	12,795	11,809	11,267
	$29,192	$23,139	$20,175

(a) Preferred Equity

Preferred equity represents perpetual preferred shares and consists of the following:

		Issued and Outstanding				
(Millions, Except Share Information)	Rate	2010	2009	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Class A preferred shares						
Series 2	70% P	10,465,100	10,465,100	$ 169	$ 169	$169
Series 4	70% P/8.5%	2,800,000	2,800,000	45	45	45
Series 8	Variable up to P	1,805,948	1,805,948	29	29	29
Series 9	4.35%	2,194,052	2,194,052	35	35	35
Series 13	70% P	9,297,700	9,297,700	195	195	195
Series 15	B.A. + 40 b.p.[1]	2,000,000	2,000,000	42	42	42
Series 17	4.75%	8,000,000	8,000,000	174	174	174
Series 18	4.75%	8,000,000	8,000,000	181	181	181
Series 22	7.00%	12,000,000	12,000,000	274	274	—
Series 24	5.40%	11,000,000	—	269	—	—
Series 26	4.50%	10,000,000	—	245	—	—
Total				$1,658	$1,144	$870

(1) Rate determined in a quarterly auction.
P—Prime Rate, B.A.—Bankers' Acceptance Rate, b.p.—Basis Points.

The company is authorized to issue an unlimited number of Class A preferred shares and an unlimited number of Class AA preferred shares, issuable in series. No Class AA preferred shares have been issued.

The Class A preferred shares have preference over the Class AA preferred shares, which in turn are entitled to preference over the Class A and Class B common shares on the declaration of dividends and other distributions to shareholders. All series of the outstanding preferred shares have a par value of C$25 per share.

In February 2011, the company issued 9,400,000 Class A Series 28, 4.6% preferred shares for cash proceeds of C$235 million, and incurred transaction costs of C$7 million.

(b) Non-Controlling Interests

Non-controlling interests represent the common and preferred equity in consolidated entities that is owned by other shareholders.

(Millions)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Common equity	$13,802	$ 9,798	$7,916
Preferred equity	937	388	122
Total	$14,739	$10,186	$8,038

Non-controlling interests in common and preferred equity increased by $4,553 and $2,148 million during 2010 and 2009 respectively, primarily as a result of equity issuances in the company's consolidated subsidiaries, the consolidation of net assets acquired through business combinations and the non-controlling interests' share of comprehensive income.

(c) Common Equity

The company's common share capital is comprised of the following:

(Millions)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Class A and B common shares	$ 1,334	$ 1,289	$ 1,278
Contributed surplus	97	67	49
Retained earnings	4,627	3,560	4,760
Disposition gains	187	117	—
Accumulated other comprehensive income	6,550	6,776	5,180
Common equity	$12,795	$11,809	$11,267

The company is authorized to issue an unlimited number of Class A Limited Voting Shares ("Class A common shares") and 85,120 Class B Limited Voting Shares ("Class B common shares"), together referred to as common shares. The company's common shares have no stated par value. The holders of Class A common shares and Class B common shares rank on parity with each other with respect to the payment of dividends and the return of capital on the liquidation, dissolution or winding up of the company or any other distribution of the assets of the company among its shareholders for the purpose of winding up its affairs. With respect to the Class A and Class B common shares, there are no dilutive factors, material or otherwise, that would result in different diluted earnings per share between the classes. This relationship holds true irrespective of the number of dilutive instruments issued in either one of the respective classes of common stock, as both classes of common shares participate equally, on a pro rata basis, in the dividends, earnings and net assets of the company, whether taken before or after dilutive instruments, regardless of which class of common shares is diluted.

The number of shares issued and outstanding and unexercised options at December 31, 2010, December 31, 2009 and January 1, 2009 are as follows:

	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Class A common shares	577,578,573	572,782,819	572,479,652
Class B common shares	85,120	85,120	85,120
	577,663,693	572,867,939	572,564,772
Unexercised options	38,401,076	34,883,426	27,761,269
Total diluted common shares	616,064,769	607,751,365	600,326,041

The authorized common share capital consists of an unlimited number of common voting shares. Common shares issued and outstanding changed as follows:

	Dec. 31, 2010	Dec. 31, 2009
Outstanding at beginning of year	572,867,939	572,564,772
Shares issued (repurchased)		
Dividend reinvestment plan	112,876	178,962
Management share option plan	4,681,614	1,622,444
Repurchases	—	(1,498,249)
Other	1,264	10
Outstanding at end of year	577,663,693	572,867,939

In January 2011, the company issued 27,500,000 Class A common shares in connection with the $1.7 billion acquisition of General Growth Properties common shares. In February 2011, the company issued 17,595,000 Class A common shares for cash proceeds of C$578 million pursuant to a public equity offering.

Rights Issue, Scrip Dividend, Issue of Treasury Shares, Shares Issued in Lieu of Dividends, Purchase of Treasury Shares

4.15

National Grid plc (Mar 2010)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (in part)

For the years ended 31 March

	Called-Up Share Capital £m	Share Premium Account £m	Retained Earnings £m	Other Equity Reserves[(i)] £m	Total Shareholders' Equity £m	Non-Controlling Interests £m	Total Equity £m
At 31 March 2010	298	1,366	7,316	(4,781)	4,199	12	4,211
Total comprehensive income for the year	—	—	2,549	(89)	2,460	4	2,464
Rights issue	113	—	—	3,101	3,214	—	3,214
Transfer between reserves	—	—	3,101	(3,101)	—	—	—
Equity dividends	—	—	(1,064)	—	(1,064)	—	(1,064)
Scrip dividend related share issue	5	(5)	206	—	206	—	206
Issue of treasury shares	—	—	18	—	18	—	18
Purchase of own shares	—	—	(3)	—	(3)	—	(3)
Other movements in non-controlling interests	—	—	—	—	—	(7)	(7)
Share-based payment	—	—	25	—	25	—	25
Tax on share-based payment	—	—	5	—	5	—	5
At 31 March 2011	416	1,361	12,153	(4,870)	9,060	9	9,069

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

3. Exceptional Items, Remeasurements and Stranded Cost Recoveries (in part)

Debt redemption costs represent costs arising from our debt repurchase programme, undertaken primarily in the first half of the year, to manage our cash resources efficiently following the rights issue. Debt redemption costs in the year ended 31 March 2010 represented costs relating to the early redemption of a significant loan.

7. Dividends

The following table shows the actual dividends paid to equity shareholders:

	2011 Pence per Share	2011 Total £m	2011 Settled via Scrip £m	2010 Pence per Share	2010 Total £m	2010 Settled via Scrip £m	2009 Pence per Share	2009 Total £m
Interim—year ended 31 March 2011	12.90	451	65	—	—	—	—	—
Final—year ended 31 March 2010	24.84	613	141	—	—	—	—	—
Interim—year ended 31 March 2010	—	—	—	13.65	336	68	—	—
Final—year ended 31 March 2009	—	—	—	23.00	557	137	—	—
Interim—year ended 31 March 2009	—	—	—	—	—	—	12.64	307
Final—year ended 31 March 2008	—	—	—	—	—	—	21.30	531
	37.74	1,064	206	36.65	893	205	33.94	838

For comparability purposes the table below presents rebased dividends per share after taking account of the impact of the rights issue:

	2011 Pence per Share (Actual)	2011 Impact of Rights Issue	2011 Pence per Share (Rebased)	2010 Pence per Share (Actual)	2010 Impact of Rights Issue	2010 Pence per Share (Rebased)	2009 Pence per Share (Actual)	2009 Pence per Share (Rebased)
Interim—year ended 31 March 2011	12.90	—	12.90	—	—	—	—	—
Final—year ended 31 March 2010	24.84	(3.10)	21.74	—	—	—	—	—
Interim—year ended 31 March 2010	—	—	—	13.65	(1.71)	11.94	—	—
Final—year ended 31 March 2009	—	—	—	23.00	(1.87)	20.13	—	—
Interim—year ended 31 March 2009	—	—	—	—	—	—	12.64	11.06
Final—year ended 31 March 2008	—	—	—	—	—	—	21.30	18.64
	37.74	(3.10)	34.64	36.65	(3.58)	32.07	33.94	29.70

The Directors are proposing a final dividend for 2011 of 23.47p per share that will absorb approximately £824m of shareholders' equity (assuming all amounts are settled in cash). It will be paid on 17 August 2011 to shareholders who are on the register of members at 3 June 2011 and a scrip dividend will be offered as an alternative, subject to shareholders' approval at the Annual General Meeting.

8. Earnings Per Share

Adjusted earnings per share, excluding exceptional items, remeasurements and stranded cost recoveries, are provided to reflect the business performance subtotals used by the Company. For further details of exceptional items, remeasurements and stranded cost recoveries, see note 3.

(a) Basic Earnings Per Share (in part)

	Earnings 2011 £m	Earnings per Share 2011 Pence	Earnings 2010 £m	Earnings per Share 2010(*) Pence	Earnings 2009 £m	Earnings per Share 2009(*) Pence
Adjusted earnings—continuing operations	1,747	51.7	1,418	49.5	1,250	43.3
Exceptional items after tax	(16)	(0.5)	(270)	(9.4)	(247)	(8.6)
Remeasurements after tax	219	6.5	17	0.6	(340)	(11.8)
Stranded cost recoveries after tax	209	6.2	221	7.7	256	8.9
Earnings—continuing operations	2,159	63.9	1,386	48.4	919	31.8
Earnings—discontinued operations	—	—	—	—	25	0.9
Earnings	2,159	63.9	1,386	48.4	944	32.7

	2011 Millions	2010 Millions	2009 Millions
Weighted average number of shares—basic(*)	3,378	2,864	2,886

(*) Comparative EPS data have been restated to reflect the impact of the bonus element of the rights issue and as a result of the additional shares issued as scrip dividends.

(b) Diluted Earnings Per Share

	Earnings 2011 £m	Earnings per Share 2011 Pence	Earnings 2010 £m	Earnings per Share 2010(*) Pence	Earnings 2009 £m	Earnings per Share 2009(*) Pence
Adjusted diluted earnings—continuing operations	1,747	51.4	1,418	49.3	1,250	43.1
Exceptional items after tax	(16)	(0.5)	(270)	(9.4)	(247)	(8.5)
Remeasurements after tax	219	6.5	17	0.6	(340)	(11.7)
Stranded cost recoveries after tax	209	6.2	221	7.7	256	8.8
Diluted earnings—continuing operations	2,159	63.6	1,386	48.2	919	31.7
Diluted earnings—discontinued operations	—	—	—	—	25	0.8
Diluted earnings	2,159	63.6	1,386	48.2	944	32.5

	2011 Millions	2010 Millions	2009 Millions
Weighted average number of shares—diluted(*)	3,397	2,877	2,903

(*) Comparative EPS data have been restated to reflect the impact of the bonus element of the rights issue and as a result of the additional shares issued as scrip dividends.

25. Share Capital

	Allotted, Called Up and Fully Paid	
Ordinary Shares	**Millions**	**£m**
At 31 March 2009	2,582	294
Issued during the year in lieu of dividends(i)	35	4
At 31 March 2010	2,617	298
Rights issue	990	113
Issued during the year in lieu of dividends(i)	41	5
At 31 March 2011	3,648	416

(i) The issue of shares in lieu of cash dividends is considered to be a bonus issue under the terms of the Companies Act 2006 and the nominal value of the shares is charged to the share premium account.

The share capital of the Company consists of ordinary shares of $11^{17}/_{43}$ pence nominal value each and American Depositary Shares. The ordinary and American Depositary Shares allow holders to receive dividends and vote at general meetings of the Company. The Company holds treasury shares but may not exercise any rights over these shares including the entitlement to vote or receive dividends. There are no restrictions on the transfer or sale of ordinary shares.

In line with the provisions of the Companies Act 2006, National Grid plc has adopted new Articles of Association, deleted the objects provisions of its Memorandum of Association and ceased to have authorised share capital.

Rights Issue

On 14 June 2010, the Company raised £3.2bn (net of expenses of £105m) through a rights issue of 990m new ordinary shares at 335 pence each on the basis of two new ordinary shares for every five existing ordinary shares. The issue price represented a discount of 44% to the closing ex-dividend share price on 20 May 2010, the announcement date of the rights issue.

The structure of the rights issue initially gave rise to a merger reserve under section 612 of the Companies Act 2006, representing the net proceeds of the rights issue less the nominal value of the new shares issued. Following the receipt of the cash proceeds through the structure, the excess of the net proceeds over the nominal value of the share capital issued has been transferred from the merger reserve to retained earnings.

The discount element inherent in the rights issue is treated as a bonus issue of 353m shares. Earnings per share data have been restated for all comparative periods presented, by adjusting the weighted average number of shares to include the impact of the bonus shares. For comparability, dividends per share are also presented after taking account of the bonus element of the rights issue, in note 7.

Treasury Shares

At 31 March 2011, the Company held 140m (2010: 144m) of its own shares. The market value of these shares as at 31 March 2011 was £833m (2010: £925m).

The maximum number of shares held during the year was 144m ordinary shares (2010: 154m) representing approximately 3.9% (2010: 5.9%) of the ordinary shares in issue as at 31 March 2011 and having a nominal value of £16m (2010: £18m). The shares held in treasury were not entitled to participate in the rights issue.

Dividends on Preference Shares (Classified as Equity), Dividends of Subsidiaries, Transfer of Revaluation Reserve to Retained Earnings on Depreciation and Disposal of Revalued Assets

4.16

JSC Halyk Bank (Dec 2010)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (in part)

For the years ended 31 December 2010, 2009 and 2008
(Millions of Kazakhstani Tenge)

		Share Capital			
	Notes	Common Shares	Non-Convertible Preferred Shares	Convertible Preferred Shares	Share Premium Reserve
31 December 2009		83,571	46,891	13,233	1,317
Net income		—	—	—	—
Other comprehensive income/(loss)		—	—	—	—
Total comprehensive income/(loss)		—	—	—	—
Treasury shares purchased	23	—	—	—	(16)
Treasury shares sold	23	—	—	—	51
Dividends—preferred shares		—	—	—	—
Dividends of subsidiaries		—	—	—	—
Release of property and equipment revaluation reserve on depreciation and disposal of previously revalued assets		—	—	—	—
Changes in non-controlling interest share of net assets		—	—	—	—
31 December 2010		83,571	46,891	13,233	1,352

Treasury Shares	Cumulative Translation Reserve(*)	Revaluation Reserve of Available-for-Sale Investment Securities(*)	Property and Equipment Revaluation Reserve(*)	Retained Earnings(*)	Total	Non-Controlling Interest	Total Equity
(103)	1,667	(976)	18,121	116,881	280,602	350	280,952
—	—	—	—	35,943	35,943	273	36,216
—	(307)	4,858	51	—	4,602	(8)	4,594
—	(307)	4,858	51	35,943	40,545	265	40,810
(8)	—	—	—	—	(24)	—	(24)
18	—	—	—	—	69	—	69
—	—	—	—	(4,494)	(4,494)	—	(4,494)
—	—	—	—	—	—	(69)	(69)
—	—	—	(1,197)	1,197	—	—	—
—	—	—	—	—	—	640	640
(93)	1,360	3,882	16,975	149,527	316,698	1,186	317,884

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

3. Significant Accounting Policies (in part)

Non-Controlling Interest

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Group.

Non-controlling interests are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Changes in the Group's Ownership Interests in Existing Subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amounts by which the non-controlling interests are adjusted is recognised directly in equity.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs).The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 "Financial Instruments: Recognition and Measurement" or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment except for the buildings and constructions which are carried at revaluated amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

The carrying amounts of property and equipment are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. An impairment loss is recognized in the respective period and is included in operating expenses.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings and constructions	20–100
Vehicles	5–7
Computers and banking equipment	5–10
Other	7–10

Buildings and constructions held for use in supply of services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of such buildings and constructions is credited to the property and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to the consolidated income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such buildings and constructions is charged as an expense to the extent that it exceeds the balance, if any, held in the property and equipment revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings and constructions is charged to the consolidated income statement. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property and equipment revaluation reserve is transferred directly to retained earnings.

Equity

Share Capital

The Group classifies a financial instrument that it issues as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement. An instrument is classified as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms. An instrument is classified as equity if it evidences a residual interest in the assets of the Group after the deduction of liabilities. The components of a compound financial instrument issued by the Group are classified and accounted for separately as financial assets, financial liabilities or equity as appropriate.

External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Prior to 13 May 2003, any excess of the fair value of consideration received over the nominal value of shares issued was recognized as share premium reserve. Effective 13 May 2003, upon change in law concerning "Joint Stock Companies," the nominal amount concept was restricted to placement of shares only between the founders of an entity. For all other investors, share

capital is recorded at placement value being the consideration received by an entity for its shares.

Treasury Shares

When the group acquires its own share capital, the amount of the consideration paid, including directly attributable costs, net of any related tax benefit, is recognised as a change in equity. Shares repurchased by the Group are cancelled. Repurchased shares are classified as treasury shares and are held at cost. These shares are treated as a deduction from the issued and weighted average number of shares, and the cost price of the shares is presented as a deduction from total equity. The par value of the shares is presented as a deduction from ordinary share capital and the remainder of the cost is presented as a deduction from ordinary share premium. Dividends received on treasury shares are eliminated on consolidation.

Dividends

Dividends are recognized as a liability and deducted from equity on the date they are declared. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorized for issue.

13. Property and Equipment (in part)

The movements in property and equipment are presented as follows:

	Buildings and Constructions	Vehicles	Computers and Banking Equipment	Other	Total
Revalued/initial cost:					
31 December 2009	42,437	1,591	16,566	15,894	76,488
Additions	1,628	279	1,145	5,681	8,733
Disposals	(1,393)	(287)	(627)	(2,128)	(4,435)
Transfers	4,388	16	698	(5,102)	—
Revaluation	82	—	—	—	82
Impairment	(27)	—	—	—	(27)
Translation differences	(79)	(3)	(13)	(12)	(107)
31 December 2010	47,036	1,596	17,769	14,333	80,734
Accumulated depreciation:					
31 December 2009	215	961	7,864	4,290	13,330
Charge	494	274	2,911	1,696	5,375
Disposals	—	(225)	(574)	(1,103)	(1,902)
Transfers	—	1	224	(225)	—
Write-off at revaluation	(67)	—	—	—	(67)
Translation differences	7	(1)	9	(5)	10
31 December 2010	649	1,010	10,434	4,653	16,746
Net book value:					
31 December 2010	46,387	586	7,335	9,680	63,988

The Group revalued its buildings and constructions as of 1 August 2009. The revaluation procedures were performed by an independent appraiser "Real Estate" LLP. The independent appraiser used three approaches to identify fair value of the property and equipment: the income approach with the method of realization as income capitalization, the comparative approach with application of market information, and the cost approach.

The income approach with the method of realization as income capitalization and the comparative approach with application of market information were used to identify the fair value of buildings and constructions in terms of active market for items that were subjects for revaluation. The cost approach was used when there was no active market for items that were subjects for revaluation. The total amount of fair value of buildings and constructions is KZT 24,977 million. The carrying amount of property and equipment that would have been recognized had the assets been carried under the cost model is KZT 33,289 million.

23. Equity

Authorized, issued and fully paid number of shares as at 31 December 2010, 2009 and 2008, were as follows:

31 December 2010	Share Capital Authorized	Share Capital Authorized and Not Issued	Fully Paid and Issued Share Capital	Share Capital Repurchased	Outstanding Shares
Common	2,400,000,000	(1,091,584,040)	1,308,415,960	(6,904,953)	1,301,511,007
Non-convertible preferred	600,000,000	(290,140,570)	309,859,430	(23,972,034)	285,887,396
Convertible preferred	80,225,222	—	80,225,222	(295,021)	79,930,201

31 December 2009	Share Capital Authorized	Share Capital Authorized and Not Issued	Fully Paid and Issued Share Capital	Share Capital Repurchased	Outstanding Shares
Common	2,400,000,000	(1,091,584,040)	1,308,415,960	(7,899,791)	1,300,516,169
Non-convertible preferred	600,000,000	(290,140,570)	309,859,430	(23,970,179)	285,889,251
Convertible preferred	80,225,222	—	80,225,222	(294,821)	79,930,401

31 December 2008	Share Capital Authorized	Share Capital Authorized and Not Issued	Fully Paid and Issued Share Capital	Share Capital Repurchased	Outstanding Shares
Common	1,129,016,660	(145,000,000)	984,016,660	(4,585,603)	979,431,057
Non-convertible preferred	24,742,000	—	24,742,000	(199,321)	24,542,679
Convertible preferred	80,225,222	—	80,225,222	(113,677)	80,111,545

All shares are KZT denominated. Movements of shares outstanding are as follows:

	Number of Shares			Nominal (Placement) Amount		
	Common	Number of Shares Non-Convertible Preferred	Convertible Preferred	Common	Number of Shares Non-Convertible Preferred	Convertible Preferred
31 December 2007	979,759,488	24,686,763	80,192,612	49,758	2,474	13,233
Purchase of treasury shares	(328,431)	(144,084)	(81,067)	(3)	—	—
31 December 2008	979,431,057	24,542,679	80,111,545	49,755	2,474	13,233
Capital contributions	324,399,300	285,117,430	—	33,747	48,019	—
Purchase of treasury shares	(4,663,879)	(24,023,569)	(181,344)	(47)	(3,602)	—
Sale of treasury shares	1,349,691	252,711	200	13	—	—
31 December 2009	1,300,516,169	285,889,251	79,930,401	83,468	46,891	13,233
Purchase of treasury shares	(769,463)	(32,964)	(200)	(8)	—	—
Sale of treasury shares	1,764,301	31,109	—	18	—	—
31 December 2010	1,301,511,007	285,887,396	79,930,201	83,478	46,891	13,233

At 31 December 2010, the Group held 6,904,953 of the Group's common shares as treasury shares at KZT 93 million (31 December 2009—7,899,791 at KZT 103 million; 31 December 2008—4,585,603 at KZT 69 million).

Common Shares

Each common share is entitled to one vote and dividends.

Preferred Shares

In accordance with IAS 32 “Financial Instruments: Presentation” both the non-convertible and convertible preferred shares (together, the “Preferred Shares”) are classified as compound instruments. On a return of capital on liquidation, the assets of the Group available for distribution are applied in priority to any payment to the holders of common shares in paying to the holders of the Preferred Shares an amount equal to the nominal capital paid up or credited as paid up.

The terms of the Preferred Shares require that the Group pay a nominal dividend amount of 0.01 KZT per share in order to comply with Kazakhstan legislation, which represents the liability component. This legislation requires joint stock companies to pay a certain guaranteed amount of dividends on preferred shares. According to Kazakhstan legislation on Joint Stock Companies, dividend payments on the preference shares cannot be less than the dividends paid on common shares. Furthermore, the dividends on common shares will not be paid until dividends on preference shares are fully paid.

The payment of additional dividends on the Preferred Shares is determined based on a formula specified in the share prospectus and is based on the Group’s profitability. Where the Group has net income no greater than KZT 160 times the quantity of issued Preferred Shares, multiplied by a factor of inflation as published by the NBK plus one per cent, the dividend per Preferred Share is determined as net income divided by the quantity of issued Preferred Shares. Where net income is greater than this, the dividend per Preferred Share is calculated as KZT 160 multiplied by a factor of inflation as published by the NBK plus one per cent. Inflation in either calculation will range between three and nine per cent. Dividends on the Preferred Shares are only paid if declared and approved by the Board of Directors at the Annual General Meeting of the Shareholders. The Preferred Shares do not have any voting rights, unless the payment of preferred dividends has been delayed for three months or more from the date they became due.

Share Premium Reserve

Share premium reserve represents an excess of contributions received over the nominal value of shares issued.

Convertible Preferred Shares

Each convertible preferred share is convertible to one common share at the discretion of the Board of Directors. In addition, the Group will pay a compensation amount to each convertible preferred shareholder on conversion based on a formula specified in the share prospectus. This payment is calculated such that, at the date of conversion, if the value of the common shares received by the preferred shareholder is less than KZT 160 per share, the Group will reimburse the preferred shareholders for the difference in cash at the time of conversion.

Reduction in Par Value, Reclassification of Equity Component of Convertible Debt, Capital Contribution From Non-Controlling Interests

4.17

Swiss Life Holding Ltd (Dec 2010)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010 (in part)

In CHF Million	Notes	Share Capital	Share Premium	Treasury Shares	Foreign Currency Translation Differences	Gains/ Losses Recognised Directly in Equity	Retained Earnings	Total Share-holders’ Equity	Non-Controlling Interests	Total Equity
Balance as at 1 January		385	1,697	-25	-216	-41	5,408	7,208	37	7,245
Total net comprehensive income	27	—	—	—	-546	250	557	261	-4	257
Reduction in par value	27	-77	0	—	—	—	—	-77	—	-77
Convertible debt, reclassification of equity component at maturity		—	-56	—	—	—	56	—	—	—
Equity-settled share-based payments		—	3	—	—	—	—	3	—	3
Purchases of treasury shares		—	—	-1	—	—	—	-1	—	-1
Sales of treasury shares		—	2	8	—	—	—	10	—	10
Capital contributions from non-controlling interests		—	—	—	—	—	—	—	0	0
Dividends		—	—	—	—	—	—	—	0	0
Balance as at end of period		308	1,646	-18	-762	209	6,021	7,404	33	7,437

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

21. Borrowings (in part)

In CHF Million	Notes	31.12.2010	31.12.2009
Money market instruments		—	23
Hybrid debt		2,141	2,487
Convertible debt		—	34
Bank loans		—	184
Finance lease obligations		1	3
Total borrowings	33	2,142	2,731

Convertible Debt

On 10 June 2004, Swiss Life Holding issued CHF 317 million in 0.625% convertible bonds due in 2010. The bonds could be converted into registered shares of Swiss Life Holding at any time at the option of the holder. Bondholders exercising their conversion right were entitled to receive the number of shares equal to the principal amount of CHF 1,000 divided by the original conversion price of CHF 209.625 (subject to adjustments, with effect from 29 July 2008 conversion price of CHF 200.20).

No convertible bonds were converted in 2010 or in 2009. On 10 June 2010, the remaining CHF 34 million in convertible debt matured and was redeemed (2009: repurchased CHF 8 million).

27. Equity

Share Capital

As approved by the shareholders at the General Meeting of Swiss Life Holding (SLH) on 6 May 2010, a reduction in the par value of CHF 2.40 per registered SLH share was effected in 2010 (2009: CHF 5 per registered share). The payout took place on 29 July 2010 and led to a reduction in the share capital of SLH of CHF 77 million (2009: CHF 160 million).

On 7 May 2009, the General Meeting of Shareholders authorised the Board of Directors to cancel the 3,003,500 SLH shares bought back through a second trading line as part of the share buyback programme. The reduction in share capital due to the share cancellation amounted to CHF 51 million.

No convertible bonds were converted in 2010 or in 2009.

As at 31 December 2010, the share capital of SLH consisted of 32,081,054 fully-paid shares with a par value of CHF 9.60 each. In exercising voting rights, no shareholder can collect more than 10% of the total share capital directly or indirectly in respect of own shares or shares they represent. As at 31 December 2009, SLH had 32,081,054 registered shares with a par value of CHF 12 per share. Conditional share capital was CHF 22,650,105.60 as at 31 December 2010 (2009: CHF 28,312,632.00).

Share Premium

Share premium comprises additional paid-in capital in excess of the par value (net of transaction costs), gains/losses on own equity instruments and equity compensation benefits.

Due to the reduction in the par value of CHF 2.40 per registered SLH share in 2010 (2009: CHF 5 per registered SLH share), an amount of CHF 0.4 million was credited to share premium in respect of treasury shares (2009: CHF 1 million).

In 2009, the reduction in share premium due to the cancellation of the SLH shares bought back through a second trading line amounted to CHF 635 million.

Number of Shares

The following table shows the development of SLH shares issued and treasury shares held by the Swiss Life Group during the period:

Number of Shares	2010	2009
Shares Issued		
Balance as at 1 January	32,081,054	35,084,554
Cancellation of treasury shares	—	-3,003,500
Balance as at end of period	32,081,054	32,081,054
Treasury Shares		
Balance as at 1 January	232,158	4,619,466
Purchases of treasury shares	11,217	1,965,033
Sales of treasury shares	-74,819	-3,348,841
Cancellation of treasury shares	—	-3,003,500
Balance as at end of period	168,556	232,158

Foreign Currency Translation Differences

Foreign currency translation differences comprise the resulting differences arising on the translation of assets, liabilities, income and expenses of Group entities denominated in foreign currencies into Swiss francs.

Gains/Losses Recognised Directly in Equity

Gains/losses recognised directly in equity comprise fair value changes of available-for-sale investments, revaluation surpluses on the transfer of owner-occupied property to investment property and the effective portion of the gain or loss on hedging derivatives in qualifying cash flow hedges. These amounts are net of certain policyholder bonuses and other policyholder liabilities and deferred acquisition costs, deferred income taxes and non-controlling interests.

Amounts Recognised Directly in Equity for the Year 2010

			Gains/Losses Recognised Directly in Equity			
In CHF Million	**Notes**	**Foreign Currency Translation Differences**	**Financial Assets Available for Sale**	**Cash Flow Hedges**	**Other**	**Total**
Net balance as at 1 January		-216	232	—	-273	-41
Gains/losses arising during the period		-596	917	—	—	917
Hedging gains/losses arising during the period	9	44	—	2	—	2
Revaluation surplus on owner-occupied property transferred to investment property	17	—	—	—	3	3
Gains/losses transferred to the income statement	8	—	-321	—	232	-89
Effects of						
policyholder participation		—	-355	—	-133	-488
shadow accounting		—	-62	—	36	-26
income tax		-1	-35	0	-25	-60
disposals of subsidiaries		0	—	—	—	—
foreign currency translation differences		—	-7	—	-2	-9
non-controlling interests		7	0	—	0	0
Net balance as at end of period		-762	369	2	-162	209

Amounts Recognised Directly in Equity for the Year 2009

			Gains/Losses Recognised Directly in Equity			
In CHF Million	**Notes**	**Foreign Currency Translation Differences**	**Financial Assets Available for Sale**	**Cash Flow Hedges**	**Other**	**Total**
Net balance as at 1 January		-195	-89	—	-356	-445
Gains/losses arising during the period		-22	1,689	—	—	1,689
Share of gains/losses of associates	16	—	—	—	0	0
Gains/losses transferred to the income statement	8	—	-321	—	241	-80
Effects of						
policyholder participation		—	-933	—	-54	-987
shadow accounting		—	12	—	-76	-64
income tax		3	-125	—	-28	-153
disposals of subsidiaries		1	—	—	—	—
foreign currency translation differences		—	-1	—	—	-1
non-controlling interests		-3	0	—	0	0
Net balance as at end of period		-216	232	—	-273	-41

The gains/losses transferred to the income statement of CHF 232 million in 2010 (2009: CHF 241 million) shown in "Other" relate to financial assets reclassified to loans and receivables.

Retained Earnings

Retained earnings comprise accumulated retained earnings of the Group entities which have not been distributed to the shareholders. The distribution of profit is subject to restrictions in the various jurisdictions where the Group entities are located.

The Group's insurance subsidiaries are subject to regulatory restrictions on the amount of dividends, cash loans and advances which can be remitted to the Group. Certain foreign jurisdictions have restrictions that allow the payment of dividends but may cause a delay in their remittance. Dividends payable are not accrued until they have been ratified at the General Meeting.

Fair Value of Net Assets Acquired in Reverse Acquisition, Shares Issued in Private Placement

4.18

Heatherdale Resources Ltd (Oct 2010)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in United States Dollars)

		Attributable to Equity Holders of the Company					
	Notes	Share Capital	Equity Settled Share-Based Payments Reserve	Deficit	Total	Non-Controlling Interest (Note 4)	Total Equity
Balance at November 1, 2008		$ 7,247,276	$ —	$ (1,506,514)	$5,740,762	$ —	$ 5,740,762
Non-controlling interest in Niblack Project LLC						14,411,765	14,411,765
Total comprehensive loss		—	—	(2,589,449)	(2,589,449)	—	(2,589,449)
Balance at October 31, 2009		$ 7,247,276	$ —	$ (4,095,963)	$3,151,313	$14,411,765	$17,563,078
Shares issued for cash on private placement		13,030,771	—	—	13,030,771	—	13,030,771
Shares issued for cash on exercise of options		42,403	—	—	42,403	—	42,403
Fair value of net assets acquired in reverse asset acquisition	2	105,311	—	—	105,311	—	105,311
Fair value of share options allocated to shares issued on exercise		46,797	(46,797)	—	—	—	—
Share-based compensation—share issue costs	9(d)	(69,000)	69,000	—	—	—	—
Share-based compensation		—	2,127,511	—	2,127,511	—	2,127,511
Total comprehensive loss		—	—	(15,640,509)	(15,640,509)	—	(15,640,509)
Balance at October 31, 2010		$20,403,558	$2,149,714	$(19,736,472)	$2,816,800	$14,411,765	$17,228,565

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Nature of Operations and Continuance of Operations

Heatherdale Resources Ltd. (formerly Brass Capital Corp.) (the "Company") was incorporated under the laws of the Province of Alberta, Canada on November 6, 2007 and continued under the laws of the Province of British Columbia, Canada on November 16, 2009. The Company's corporate office is located at Suite 1020,800 West Pender Street, Vancouver, British Columbia. These consolidated financial statements of the Company as at and for the year ended October 31, 2010 comprises Heatherdale Resources Ltd. and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). Heatherdale Resources Ltd. is the ultimate parent entity of the Group.

The Group holds a 51% interest in the Niblack copper–gold-zinc-silver project in southeast Alaska (the "Niblack Project") with additional earn-in options to increase its interest to 70% (note 4). The Group is in the process of exploring the Niblack Project and has not yet determined whether it contains economically recoverable mineral reserves. The Group's continuing operations and the underlying value and recoverability of the amount shown for the mineral property interest is entirely dependent upon the existence of economically recoverable mineral reserves, the ability of the Group to obtain the necessary financing to complete the exploration and development of the Niblack Project, obtaining the necessary permits to mine, and on future profitable production of the proceeds from the disposition of the Niblack Project.

These consolidated financial statements have been prepared on a going concern basis. As at October 31, 2010, the Group has $2.8 million in working capital and accumulated a deficit of $19.7 million since inception. The Group has not yet produced any revenue and further funds will be required in developing the Group's business plans and its mineral property interest. In November 2010, the Group completed a private placement equity financing of $7.8 million (note 14) to fund the exploration and development of the Niblack Project. While there can be no assurances that the Group's plans to raise additional financing in the future will be successful or at favourable terms, management is of the opinion that additional financing will be available to continue its planned activities in the normal course of operations. If the Group is unable to raise the necessary capital and generate sufficient cash flows to meet obligations as they come due, the Group may have to reduce or curtail its operations or obtain

financing at unfavourable terms. Furthermore, failure to continue as a going concern would require that the Group's assets and liabilities be restated on a liquidation basis which would differ significantly from the going concern basis. These Financial Statements do not include any adjustments to the amounts and classification of assets and liabilities that may be necessary should the Group be unable to continue as a going concern.

2. Qualifying Transaction and Reverse Asset Acquisition

On November 17, 2009, the Company completed a qualifying transaction ("QT") in accordance with TSX Venture Exchange Inc. ("TSX V") Policy 2.4 whereby the Company acquired all the issued shares of Heatherdale Holdings (Canada) Ltd. (formerly Heatherdale Resources Ltd.) on a one for one basis. Under the terms of the transaction the Company issued 32,600,001 common shares for 100% of the issued and outstanding shares of Heatherdale Holdings (Canada) Ltd. ("Heatherdale Holdings"). As well, the Company as part of the QT, consolidated its share capital on the basis of 2.5 old shares for 1 new share.

From the date of incorporation to the transaction date, the Company performed no significant business activities as its sole purpose was the identification and evaluation of assets or businesses with the view to completing a QT. On the date of the completion of the QT, the fair value of the net assets of the Company was $105,311 and comprised the following:

Cash and cash equivalents	$102,328
Trade and other receivables	25,310
Trade and other payables	(22,327)
	$105,311

Legally, the Company is the parent of Heatherdale Holdings; however, as a result of the share exchange, control of the combined companies passed to the former shareholders of Heatherdale Holdings, which for accounting purposes is deemed to be the acquirer. For financial reporting purposes the transaction has been treated as a reverse asset acquisition and therefore these consolidated financial statements have been prepared as a continuation of Heatherdale Holdings. The following accounting principles have been employed:

a. the assets and liabilities of Heatherdale Holdings were recognized and measured at their precombination carrying amounts;
b. the deficit and other equity balances are the retained deficit and other equity balances of Heatherdale Holdings immediately prior to the share exchange transaction;
c. the amount recognized as issued equity instruments is determined by adding the fair value attributable to the net assets of the Company (accounting acquiree) to the issued equity of Heatherdale Holdings (accounting acquirer) immediately prior to the share exchange transaction. However, the equity structure appearing in these consolidated financial statements (the number and type of equity instruments issued) reflect the equity structure of the Company, including the equity instruments issued by the Company to effect the combination; and
d. comparative information presented in these condensed consolidated financial statements is that of Heatherdale Holdings.

9. Capital and Reserves (in part)

(a) Authorized Share Capital

As described in Note 2, the equity structure of the Group represents the equity structure of the legal parent, Heatherdale Resources Ltd.

At October 31, 2010, the authorized share capital consisted of an unlimited (2009—unlimited) number of common shares without par value and an unlimited number (2009—unlimited) of preferred shares with no par value.

(b) Reconciliation of Changes in Share Capital (in part)

Common Shares:	**Number of Common Shares**
Balance at November 1, 2009	2,050,000
Balance after consolidation of 2.5 old shares for 1 new share (note 2)	820,000
Shares issued for 100% acquisition of Heatherdale Holdings (note 2)	32,600,001
Shares issued for cash on private placement (d)	14,358,500
Shares issued on exercise of share options (e)	89,960
Balance as at October 31, 2010	47,868,461

The retroactively adjusted number of common shares of the Company for October 31, 2009 was 33,420,001 (note 2).

(c) Basic and Diluted Loss Per Share

The calculation of basic and diluted loss per share for the year ended October 31, 2010 was based on the following:

	2010	**2009**
Loss attributable to common shareholders	$15,640,509	$2,589,449
Weighted average number of common shares outstanding	47,190,101	33,420,001

(d) Private Placement November 2009

The Company issued 14,358,500 common shares at Cdn$1.00 per common share on completion of a brokered and non-brokered private placement financing concurrent with the QT (note 2) for gross proceeds of $13,740,191 (Cdn$14,358,500). After share issue costs of $709,420 (Cdn$741,151) the Group raised net proceeds of $13,030,771 (Cdn$13,617,349).

In connection with the private placement, the Company issued the agents compensation options to purchase 162,000 common shares at Cdn$1.00 per share until May 17, 2011. The fair value of these options, determined using the Black-Scholes option model (using 96% expected volatility, a risk free rate of 1.31% and expected life of 1.5 years), was $69,000 or approximately $0.43 per option, and has been recorded as share issuance costs.

12. Subsidiaries

Name of Subsidiary	Place of Incorporation	Proportion of Ownership Interest	Principal Activity
Heatherdale Holdings (Canada) Ltd.	British Columbia, Canada	100%	Holds interest in Niblack Holdings (US) Inc.
Niblack Holdings (US) Inc.	Nevada, USA	100%	Holds interest in Niblack Project LLC
Niblack Project LLC	Delaware, USA	51%	Exploration of Niblack Project

Proposed Appropriation of Net Income, Equity Component of Convertible Bonds

4.19

Homburg Invest Inc. (Dec 2010)

Author's Note

The Homburg Capital Securities A, is a new bond secured by a corporate guarantee that has a 99 year life, and bears interest at 9.5% for the first five years. Homburg Invest Inc., which has the option to pay the interest on the Homburg Capital Securities A in either cash or shares of Homburg Invest Inc., has guaranteed that for the first two years, the interest payment will be made in cash. Homburg Invest, has announced that it is the Company's intention to have the Homburg Capital Securities A trading on the NYSE Euronext Amsterdam by June 30, 2010.

Also during 2010, Homburg Invest disposed of its long-term investment in DIM Vastgoed N.V. At the end of 2009, Homburg had a remaining obligation of $3.0 million to the shareholders of DIM Vastgoed, which was fully settled in 2010.

The effects of these two events on the statement of changes in equity are illustrated in the following excerpt.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year Ended December 31
(CAD $ thousands except per share amounts)

	Other Paid in Capital	Share Capital	Contributed Surplus	Accumulated Other Comprehensive (Loss) Income	Deficit	Total
December 31, 2008	11,489	698,535	7,206	649	(106,980)	610,899
Comprehensive income (loss)	—	—	—	18,575	(449,262)	(430,687)
Dividend re: DIM Vastgoed N.V. dividend guarantee	—	—	—	—	(260)	(260)
Homburg Capital Securities A (Note 17d)	22,946	—	—	—	(1,627)	21,319
Acquisition & cancellation of own shares	—	(6,750)	5,404	—	—	(1,346)
Stock based compensation	—	—	146	—	—	146
December 31, 2009	34,435	691,785	12,756	19,224	(558,129)	200,071
Equity contribution (net of tax) (Note 23j)	—	—	4,932	—	—	4,932
Comprehensive loss	—	—	—	(18,034)	(88,054)	(106,088)
Shares issued re DIM 2010	(11,489)	11,489	—	—	—	—
Acquisition & cancellation of own shares	—	(2,240)	1,821	—	—	(419)
Homburg Capital Securities A (Note 17d)	6,225	—	—	—	(3,133)	3,092
Stock based compensation	—	—	88	—	—	88
December 31, 2010	$29,171	$701,034	$19,597	$1,190	$(649,316)	$101,676

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Basis of Financial Statement Presentation

Homburg Invest Inc. (the "Company") is a Canadian resident corporation which trades on the Toronto Stock Exchange ("TSX") as well as the NYSE Euronext Amsterdam ("AEX"). To comply with TSX and AEX reporting requirements, these consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board on a historical cost basis, except for investment properties, development properties, derivative financial instruments and certain long term investments which are measured at fair value as more fully described in Note 4. The Company applied for and obtained approval of the OSC to file IFRS financial statements to meet its Canadian reporting obligations effective June 30, 2010.

The Company's reporting currency is Canadian dollars ("CAD") and all values are rounded to the nearest thousand except where otherwise indicated.

The Company has been negatively impacted by continuing global economic conditions which have resulted in a decrease in real estate transactions and declining real estate values. The Company incurred net losses of $88,054 and $449,262 for the years ended December 31, 2010 and 2009, respectively, and is highly levered with a debt to equity ratio of 16.55:1 at December 31, 2010 (Note 22) and an interest coverage ratio of below 1:1 for the year ended December 31, 2010.

The Company's liquidity risks are more fully described in Note 21. Through June 2012, the Company faces maturities of its mortgage bonds totalling €102,480 ($135,846), in addition to regularly scheduled principal payments and maturities related to other mortgage debts.

The Company will seek to extend the maturity or otherwise refinance amounts due on its mortgage bonds through the issue of new mortgage bonds. However, there is no certainty that these efforts will be successful. Subsequent to year end the Company arranged new thresholds for the interest coverage and tangible net worth covenants in respect of its junior subordinate notes amounting to $53,145 at December 31, 2010. The new interest coverage requirement is 0.8:1 and the new minimum tangible net worth requirement is $100 million throughout 2011. These thresholds increase gradually after December 31, 2011 thru December 31, 2015. The Company anticipates it will be below these thresholds in the first quarter of 2011 in which case the lender would have the right to demand repayment.

The Company could meet refinancing shortfalls through the sale of development assets, income producing properties, or additional units of Homburg Canada REIT ("HCREIT"). However, the Company's liquidity needs may limit its ability to maximize the price to be realized on such asset sales. The Company expects that it will be able to refinance its other mortgage maturities at similar amounts and terms.

The Company successfully completed the initial public offering ("IPO") of HCREIT, which now holds the Company's Canadian income producing real estate assets and related mortgage debt. As of year end, the Company has a 33.7% interest in HCREIT, however, subsequent to year end the Company sold 2.5 million of the units for net consideration of $26,800 which was used by the Company to reduce debt and for general operating purposes (Note 29).

As a result of the Company's limited partnership structure, with respect to certain debts the recourse of the lender is generally limited to the specific assets held in or below the limited partnerships ("ring fenced structure"). However, the Company's mortgage bonds and unsecured debts have recourse to the consolidated assets of the Company.

The consolidated financial statements of the Company have been prepared on a basis which contemplates the Company having sufficient liquidity to realize its assets and to discharge its liabilities in the normal course of business for the foreseeable future and do not give effect to any adjustments to recorded amounts and their classification should the Company be unable to realize its assets and discharge its liabilities in the normal course of business and at the amounts reflected in these consolidated financial statements.

2. Corporate Information

Homburg Invest Inc., a corporation incorporated under the laws of Alberta, Canada, is listed on The Toronto Stock Exchange ("TSX") and the NYSE Euronext Amsterdam ("AEX"). The Class A Subordinate Voting Shares trade under the symbol "HII.A", and the Class B Multiple Voting Shares trade as "HII.B" on the TSX and the Class A Subordinate Voting Shares trade under the symbol "HN" on the AEX. The principal place of business is 1741 Brunswick Street, Suite 600, Halifax, Nova Scotia B3J 3X8, Canada. These consolidated financial statements were authorized for issue in accordance with a resolution of the board of directors on March 31, 2011, and are subject to approval by the shareholders at the Company's annual general meeting.

The Company is directly and indirectly controlled by Mr. Richard Homburg, the former Chairman and Chief Executive Officer ("CEO"), through holding companies. The Company and its subsidiaries lease, build and sell commercial and residential real estate interests located in Canada, Germany, The Netherlands, the Baltic States (Lithuania, Estonia and Latvia) and the United States of America ("USA").

17. Shareholders' Equity

	2010	2009
Deficit	$(649,316)	$(558,129)
Accumulated other comprehensive income (a)	1,190	19,224
	(648,126)	(538,905)
Share capital (b)	701,034	691,785
Other paid in capital (d)	29,171	34,435
Contributed surplus (f)	14,665	12,756
	$96,744	$200,071

a) Accumulated Other Comprehensive Income

	2010	2009
Net unrealized foreign currency translation gains (loss)	$4,597	$23,890
Change in fair value of available for sale financial assets	—	231
Deferred tax expense	(3,407)	(4,897)
	$1,190	$19,224

Accumulated other comprehensive income represents the unrecognized exchange adjustment on the net assets of the Company's subsidiaries that operate in the United States of America, Germany, The Netherlands, and the Baltic States. The change reflects the impact of currency movements during the year on these net assets offset by effective hedges in place.

The deferred income tax amounts recognized directly in shareholders' equity are the result of the foreign exchange translation effects of certain foreign operations with a functional currency other than the Canadian dollar. These foreign operations are taxed in the relevant foreign jurisdiction; accordingly, the foreign operation has deferred income tax assets and liabilities determined using the tax and accounting basis in the foreign jurisdiction, each measured in the functional currency of the foreign operation. These deferred tax assets and liabilities are converted to Canadian dollars with the resulting translation effects recorded directly in equity. An additional Canadian deferred tax liability arises given that the foreign operation is also subject to certain incremental tax in Canada. The tax basis of the assets and liabilities for Canadian taxation purposes is determined based on their historical Canadian dollar costs. As a result, incremental Canadian deferred taxes are measured based on the difference between such Canadian dollar tax bases and the balance sheet date accounting carrying value of the assets and liabilities after translation from the functional currency of the foreign operation to Canadian dollars. The accounting carrying value is therefore impacted by translation gains and losses at each balance sheet date which gives rise to changes in the temporary differences and incremental Canadian deferred tax balances related to these assets and liabilities. Since the related foreign currency translation gains and losses giving rise to these changes in temporary differences are recognized directly in shareholders' equity, the resulting incremental Canadian deferred tax benefit or expense effects are also recorded directly in shareholders' equity.

The following are rates of exchange in effect:

	$1.00 USD	**€1.00 EUR**
December 31, 2010	$1.00020	$1.32560
December 31, 2009	$1.04940	$1.50410
Average rate for 2010	$1.03075	$1.36843
Average rate for 2009	$1.14172	$1.58706

b) Share Capital

The particulars of the issued and outstanding shares of the Company are as follows:

	Class A Subordinate Voting Shares (000's)	**Class B Multiple Voting Shares (000's)**	**Share Capital**
Issued and outstanding at December 31, 2008	16,790	3,151	$698,535
Shares acquired under Normal Course Issuer Bid	(171)	(2)	(6,750)
Issued and outstanding at December 31, 2009	16,619	3,149	691,785
Shares acquired under Normal Course Issuer Bid	(46)	(36)	(2,240)
Shares issued re DIM 2010	476	—	11,489
Issued and outstanding at December 31, 2010	17,049	3,113	$701,034

The Company is authorized to issue an unlimited number of Class A Subordinate Voting Shares ("Class A"), an unlimited number of Class B Multiple Voting Shares ("Class B"), an unlimited number of Class A Preferred Shares ("Preferred"), issuable in series and an unlimited number of Class B Preferred Shares ("Preferred"), issuable in series. The Company's share capital represents amounts received at the time of issuance. None of the Company's shares have a par value.

Holders of Class A shares shall be entitled to receive notice of, to attend, and to vote at, all meetings of the shareholders of the Company, voting together with holders of Class B shares, except for meetings at which only holders of a specified class or series are entitled to vote. Class A shares shall be entitled to one vote for each Class A share held. Holders of Class B shares shall be entitled to receive notice of, to attend, and to vote at, all meetings of the shareholders of the Company, voting together with holders of Class A shares, except for meetings at which only holders of a specified class or series are entitled to vote. Class B shares shall be entitled to 25 votes for each Class B share held. Class A shares will be convertible into Class B shares in certain limited circumstances involving offers made to all, or substantially all, of the holders of Class B shares. Dividends are payable on Class A shares and Class B shares when declared by the Board of Directors. The Class A and Class B shares rank equally in dividend eligibility. Preferred shares may be issued from time to time in one or more series, each series comprising the number of shares, designations, rights, privileges, restrictions and conditions which the Board of Directors determines by resolution prior to issuance. Preferred shares are non-voting and rank in priority to the Class A and Class B shares with respect to dividends and distribution upon dissolution. No Preferred shares have been issued.

c) Normal Course Issuer Bid ("NCIB")

On August 23, 2010, the Company announced plans, under an approved NCIB, to acquire up to 1,017,201 Class A Subordinate Voting shares and 157,426 Class B Multiple Voting shares over a one year period ending August 24, 2011. The NCIB enabled the Company to acquire up to 1,000 Class A Shares and up to 1,000 Class B Shares on any given trading day. Any shares acquired by the Company under the NCIB were cancelled. During the year ended December 31, 2010, the Company acquired and cancelled 46,300 Class A Shares at an average cost of $4.81 per share, and 35,700 Class B Shares at an average cost of $5.43 per share. Class A and Class B shares acquired are being cancelled and removed from share capital at the average issue price at the time of acquisition. The discount on repurchases made to date of $1,821 is credited to contributed surplus.

d) Other Paid in Capital

	2010	2009
Balance, beginning of year	34,435	11,489
Issue of shares re DIM 2010	(11,489)	—
Homburg Capital Securities A:		
Equity component, net of tax	6,350	24,147
Deferred transaction costs	(125)	(1,201)
Balance, end of year	$29,171	$34,435

During the year ended December 31, 2010, the Company issued EUR €3,217 ($4,598) (December 31, 2009—€23,568 ($37,116)) Homburg Capital Securities A ("HCSA"). The HCSA are 99 year securities maturing February 27, 2108, bearing an annual interest rate of 9.5%, payable quarterly.

The Company has the option to pay any and all of the quarterly interest payments in cash or through the issuance of a fixed number of Class A Preferred shares. The principal amount of HCSA must be paid in cash upon redemption or maturity. The HCSA are direct unsecured obligations of Homburg Invest Inc. and are subordinate to the Company's existing mortgage bonds payable and corporate non-asset backed bonds, and rank senior to the Company's Class A Subordinate Voting Shares and Class B Multiple Voting Shares. The Company will have the right to redeem the HCSA, at a price equal to 100% of the principal amount of the HCSA to be redeemed, plus accrued and unpaid interest to the date of redemption by giving not less than thirty (30) and no more than sixty (60) days prior notice on account of:

- certain changes in tax legislation or other tax events subjecting the issuer to additional taxes or other governmental charges;
- the termination of equity treatment for accounting purposes of future interest obligations under the HCSA or of the Class A Preferred Shares, subject to an insignificant amount of Class A Preferred Shares then issued and outstanding; and
- on February 27, 2014 or any subsequent interest payment date, in whole or in part.

Any Class A Preferred shares issued will be issued in series and will have the following terms and conditions: par value of one (1) Euro each; non-voting; cumulative dividends at the annual rate of 9.75%, as and when declared by the board of directors; have an indefinite life. The Class A Preferred shares will have a mandatory obligation for the Company to redeem all issued and outstanding Class A Preferred shares for an amount equal to their par value plus any accrued but unpaid dividends thereon at the earlier of:

- the next interest payment date on which the Company elects to pay interest on the HCSA in cash, in whole or in part; and
- the business day falling immediately prior to the date on which the Company redeems, purchases or otherwise acquires any shares or securities in the capital of the Company ranking junior to or pari passu with the HCSA.

In addition, any Class A Preferred shares issued in respect of quarterly interest payments prior to April 1, 2011, will be puttable at the holder's option back to the Company for cash equal to one (1) Euro per Class A Preferred share. The put option with respect to any such Class A Preferred shares issued will expire 30 days from the date of receipt of the Class A Preferred shares.

The Company has determined that the expected life of the HCSA is 50 years through March 31, 2059. The proceeds received on issuance during the year ended December 31, 2010 have been allocated to three components:

- The Company has recognized a liability of EUR €15 ($21) (December 31, 2009—€107 ($162)) equal to the present value of the HCSA principal that must be repaid at the end of the expected life of the instrument. This liability is being accreted using a rate of 11.0% to its full principal amount over the expected life of the instrument using the effective interest rate method with accretion recognized in interest expense.
- The Company has recognized a liability of EUR €309 ($442) (December 31, 2009—€2,447 ($3,704)) for the present value of the interest payments prior to April 1, 2011, given the holder put option with respect to any Class A Preferred shares received with respect to such interest payments. This liability has been discounted and is being accreted using the effective interest rate method at a rate of 11.0%, with accretion recognized in interest expense.
- The residual amount of EUR €2,891 ($4,135) (December 31, 2009—€21,014 ($33,250)) represents the future quarterly interest payments after March 31, 2011, that can be settled by the issuance of Class A Preferred shares at the Company's option. This residual amount has been included in other paid in capital. This amount is also being accreted over the expected life of the instrument using the effective interest rate method with accretion amounts charged directly to retained earnings. Interest payments made after March 31, 2011, whether in cash or Class A Preferred shares, will reduce the other paid in capital amount. The effective interest rate used results in other paid in capital reducing to nil at the end of the expected life of the instrument.

Foreign currency gains and losses on the liability components, whether realized or unrealized, will impact net income each quarter. Foreign currency fluctuations on interest payments made after March 31, 2011, will be charged to retained earnings. Basic and diluted earnings per share are being reduced by amounts charged directly to retained earnings as such amounts are in preference to earnings available to common shareholders. In addition, cumulative preferred dividends whether paid or unpaid on any Class A Preferred shares that may be outstanding will reduce basic and diluted earnings per share. Transaction costs related to the HCSA are being allocated to the liability and equity components in proportion to the initial allocation of the proceeds received. The transaction costs related to the liability components are included in deferred financing fees and are being amortized, on an effective interest basis, over the estimated life of the related liability component. The transaction costs related to the equity component are netted against other paid in capital and are being amortized to retained earnings, on an effective interest basis, over the expected life of 50 years for the HCSA.

e) Stock Options

	2010		2009	
	Shares (000's)	Weighted Average Exercise Price	Shares (000's)	Weighted Average Exercise Price
Outstanding at beginning of year	929	$52.50	929	$52.50
Expired	(184)	45.82	—	—
Outstanding at end of year	745	$54.16	929	$52.50

Date of Grant	Expiration Date	Exercise Price	Class A Subordinate Voting Shares Under Option (000's)	Class A Subordinate Voting Shares Fully Vested (000's)
July 16, 2007	July 15, 2012	$56.80	643	643
June 27, 2008	June 26, 2013	$37.60	102	77
			745	720

Under the Company's Stock Option Plan ("the Plan"), the Company may grant options to its directors and officers of the Company and employees of the management company. New stock options may not be granted under the Plan on Class B Multiple Voting Shares of the Company. The maximum number of Class A Subordinate Voting Shares issuable pursuant to stock options outstanding under the Plan shall not exceed 10% of the aggregate number of issued and outstanding Class A Subordinate Voting Shares and Class B Multiple Voting Shares at the time of grant. Under the Plan, the exercise price of each option shall not be less than the closing market price of the Class A Subordinate Voting Shares on the TSX on the last trading day prior to the date of granting of the stock option and an option's maximum term is 10 years. Options are granted and vest at the discretion of the Board of Directors, and are fully exercisable once vested. On December 31, 2010, and December 31, 2009 there were no Class B Multiple Voting Share Options granted and there were 745 Class A Subordinate Voting Share Options granted and unexercised (719 fully vested and exercisable).

The fair value of each option grant is estimated on the date of grant using the Binomial or similar option pricing model. The fair value of each option granted was estimated using the exercise price and the following weighted average assumptions for all outstanding options: Expected volatility 30.0–40.0%; Risk free interest rate 3.31–4.60%; Expected dividend yield 5.6–13.0%; Expected life 3.5–5 Years. The compensation cost that has been expensed against income in 2010 is $88 (December 31, 2009—$146).

f) Contributed Surplus

	2010	2009
Balance, beginning of year	$12,756	$ 7,206
Acquisition and cancellation of Class A shares	1,821	5,404
Stock based compensation	88	146
Equity contribution (net of tax) (Note 23j)	4,932	—
Balance, end of year	$19,597	$12,756
The Company's contributed surplus balance applies to:		
Class A stock option expense	$ 6,186	$ 6,098
Equity contribution (net tax)	4,932	—
Discount on cancellation of Class A Shares	8,479	6,658
	$19,597	$12,756

Class A Subordinate Voting Shares and Class B Multiple Voting Shares acquired by the Company under the Normal Course Issuer Bid ("NCIB") (Note 17(c)) are being cancelled and are removed from share capital at the average issue price at the time of acquisition. Any discount on acquisition is credited to contributed surplus.

23. Related Party Transactions

The Company's direct parent is Homburg Finance A.G., which is controlled by the former Chairman and Chief Executive Officer.

a) The Company has entered into agreements with companies commonly controlled by the former Chairman and Chief Executive Officer. A summary of the various transactions between related parties is as follows:

	2010	2009
Rental revenue earned	$ (482)	$ (788)
Interest income (h)	$ (574)	$ (768)
Management agreement termination fee (o)	$21,600	$
Asset and construction management fees (r)	$ 8,440	$24,756
Property management fees incurred (r)	$ 4,784	$ 6,555
Insurance costs incurred	$ 514	$ 1,281
Service fees incurred	$ 4,915	$ 6,489
Property acquisition/disposal fees incurred (r)	$ 1,302	$ 1,065
Mortgage bond guarantee fees incurred (j)	$17,134	$ 2,898
Bond and other debt issue costs incurred	$ 209	$ 1,434
Interest costs incurred (g) (h) (k)	$ 276	$ 2,798

j) The Company has ended a guarantee arrangement for the principal and interest amounts of the mortgage bonds payable, with a company under the control of the former Chairman and Chief Executive Officer, wherein it was protected against fluctuations in the Canadian dollar and the Euro. The cost of this guarantee per annum was 1.6% on the Series 4, Series 5, Series 6, and Series 7 Bonds. During the year this contract was cancelled, thus eliminating the Company's liability for $13,383 representing an approximate discount of 30% from the book value of the liability.

Adjustment for Hyperinflation, Reduction in Share Capital

4.20

Nestlé SA (Dec 2010)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

In Millions of CHF	Share Capital	Treasury Shares	Translation Reserve	Retained Earnings and Other Reserves	Total Equity Attributable to Shareholders of the Parent	Non-Controlling Interests	Total Equity
Equity as at 31 December 2008	383	(9,652)	(11,103)	71,146	50,774	4,142	54,916
Total comprehensive income	—	—	(72)	9,784	9,712	1,247	10,959
Dividend paid to shareholders of the parent	—	—	—	(5,047)	(5,047)	—	(5,047)
Dividends paid to non-controlling interests	—	—	—	—	—	(732)	(732)
Movement of treasury shares (net)	—	(6,891)	—	162	(6,729)	—	(6,729)
Changes in non-controlling interests	—	—	—	—	—	21	21
Equity compensation plans	—	142	—	63	205	38	243
Reduction in share capital	(18)	8,390	—	(8,372)	—	—	—
Equity as at 31 December 2009	365	(8,011)	(11,175)	67,736	48,915	4,716	53,631
Total comprehensive income	—	—	(4,619)	34,456	29,837	941	30,778
Dividend paid to shareholders of the parent	—	—	—	(5,443)	(5,443)	—	(5,443)
Dividends paid to non-controlling interests	—	—	—	—	—	(729)	(729)
Movement of treasury shares (net)	—	(11,859)	—	77	(11,782)	—	(11,782)
Changes in non-controlling interests	—	—	—	(146)	(146)	(4,216)	(4,362)
Equity compensation plans	—	179	—	2	181	19	200
Adjustment for hyperinflation[(a)]	—	—	—	305	305	—	305
Reduction in share capital	(18)	8,583	—	(8,565)	—	—	—
Equity as at 31 December 2010	347	(11,108)	(15,794)	88,422	61,867	731	62,598

[(a)] Relates to Venezuela, considered as a hyperinflationary economy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Accounting Policies

Foreign Currencies

The functional currency of the Group's entities is the currency of their primary economic environment.

In individual companies, transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at year-end rates. Any resulting exchange differences are taken to the income statement.

On consolidation, assets and liabilities of Group entities reported in their functional currencies are translated into Swiss Francs, the Group's presentation currency, at year-end exchange rates. Income and expense items are translated into Swiss Francs at the annual weighted average rates of exchange or at the rate on the date of the transaction for significant items.

Differences arising from the retranslation of opening net assets of Group entities, together with differences arising from the restatement of the net results for the year of Group entities, are recognised in other comprehensive income.

The balance sheet and net results of Group entities operating in hyperinflationary economies are restated for the changes in the general purchasing power of the local currency, using official indices at the balance sheet date, before translation into Swiss Francs at year-end rates.

18. Equity

18.1 Share Capital Issued

The ordinary share capital of Nestlé S.A. authorised, issued and fully paid is composed of 3,465,000,000 registered shares with a nominal value of CHF 0.10 each (2009: 3,650,000,000 registered shares). Each share confers the right to one vote. No shareholder may be registered with the right to vote for shares which it holds, directly or indirectly, in excess of 5% of the share capital. Shareholders have the right to receive dividends.

The share capital changed twice in the last two financial years as a consequence of the Share Buy-Back Programmes. The cancellation of shares was approved at the Annual General Meetings of 23 April 2009 and 15 April 2010. In 2009, the share capital was reduced by 180,000,000 shares from CHF 383 million to CHF 365 million. In 2010, the share capital was further reduced by 185,000,000 shares from CHF 365 million to CHF 347 million.

18.2 Conditional Share Capital

The conditional capital of Nestlé S.A. amounts to CHF 10 million as in the preceding year. It confers the right to increase the ordinary share capital, through the exercise of conversion or option rights in connection with debentures and other financial market instruments, by a maximum of CHF 10 million by the issue of a maximum of 100,000,000 registered shares with a nominal value of CHF 0.10 each. Thus the Board of Directors has at its disposal a flexible instrument enabling it, if necessary, to finance the activities of the Company through convertible debentures.

18.3 Treasury Shares

Number of Shares in Millions of Units	Notes	2010	2009
Purpose of holding			
Trading		40	10
Share Buy-Back Programme		149	142
Long-Term Incentive Plans	11	19	26
		208	178

At 31 December 2010, the treasury shares held by the Group represent 6% of the share capital (2009: 4.9%). Their market value amounts to CHF 11,393 million (2009: CHF 8,936 million).

18.4 Number of Shares Outstanding

Number of Shares in Millions of Units	Shares Issued	Treasury Shares	Outstanding Shares
At 1 January 2009	3,830	(214)	3,616
Purchase of treasury shares	—	(156)	(156)
Treasury shares delivered in respect of options exercised	—	9	9
Treasury shares delivered in respect of equity compensation plans	—	3	3
Treasury shares cancelled	(180)	180	—
At 31 December 2009	3,650	(178)	3,472
Purchase of treasury shares	—	(227)	(227)
Treasury shares delivered in respect of options exercised	—	9	9
Treasury shares delivered in respect of equity compensation plans	—	3	3
Treasury shares cancelled	(185)	185	—
At 31 December 2010	3,465	(208)	3,257

18.5 Translation Reserve

The translation reserve comprises the cumulative gains and losses arising from translating the financial statements of foreign operations that use functional currencies other than Swiss francs. It also includes the changes in the fair value of hedging instruments used for net investments in foreign operations.

18.6 Retained Earnings and Other Reserves

Retained earnings represent the cumulative profits, share premium, as well as actuarial gains and losses on defined benefit plans attributable to shareholders of the parent. Other reserves comprise the fair value reserve and the hedging reserve attributable to shareholders of the parent.

The fair value reserve includes the gains and losses on remeasuring available-for-sale financial instruments. At 31 December 2010, the reserve is positive of CHF 450 million (2009: positive of CHF 241 million).

The hedging reserve consists of the effective portion of the gains and losses on hedging instruments related to hedged transactions that have not yet occurred. At 31 December 2010, the reserve is positive of CHF 30 million (2009: positive of CHF 82 million).

18.7 Non-controlling Interests

The non-controlling interests comprise the portion of equity of subsidiaries that are not owned, directly or indirectly, by Nestle S.A. In 2009, a significant portion of non-controlling interests relates to Alcon.

18.8 Dividend

The dividend related to 2009 was paid on 22 April 2010 in conformity with the decision taken at the Annual General Meeting on 15 April 2010. Shareholders approved the proposed dividend of CHF 1.60 per share, resulting in a total dividend of CHF 5443 million.

Dividend payable is not accounted for until it has been ratified at the Annual General Meeting. At the meeting on 14 April 2011, a dividend of CHF 1.85 per share will be proposed, resulting in a total dividend of CHF 6,128 million. For further details, refer to the Financial Statements of Nestlé S.A.

The Financial Statements for the year ended 31 December 2010 do not reflect this proposed distribution, which will be treated as an appropriation of profit in the year ending 31 December 2011.

SECTION 5: STATEMENT OF CASH FLOWS AND RELATED DISCLOSURES*

IAS 7, *STATEMENT OF CASH FLOWS*

IFRSs Overview and Comparison to U.S. GAAP

5.01 International Accounting Standard (IAS) 1, *Presentation of Financial Statements*, requires a statement of cash flows as an integral part of a complete set of financial statements for each period for which financial statements are presented. IAS 7, *Statement of Cash Flows*, establishes the requirements for the preparation and presentation of a statement of cash flows.

Presentation

IFRSs

5.02 The statement of cash flows reports the changes to the balance sheet account, cash, and cash equivalents (as those terms are defined in IAS 7). In IAS 7, *cash* is defined as cash on hand and demand deposits. *Cash equivalents* are defined as short-term, highly liquid investments, readily convertible to known amounts of cash, and subject to insignificant risk of changes in value. An investment normally qualifies as short-term only when it has a maturity date of three months or less from the date of acquisition.

5.03 Entities that use bank overdrafts repayable on demand as part of their normal cash management activities may include those amounts as a component of cash and cash equivalents. IAS 7 does not prohibit an equity instrument from being included in cash equivalents if it is, in substance, a cash equivalent (that is, it meets the definition of a cash equivalent). An example of an equity instrument that could meet the definition of a cash equivalent is a preferred share that have a specified redemption date and are acquired within three months of their maturity.

5.04 Preparation of a statement of cash flows requires an entity to classify the inflows and outflows of cash and cash equivalents into three categories: operating activities, investing activities, and financing activities. An entity should exclude movements within cash and cash equivalents from this classification exercise because these movements are part of an entity's cash management activities rather than its operating, investing, and financing activities. This treatment is consistent with the principle set forth in IAS 7 that cash management includes the investment of excess cash in cash equivalents.

* Unless otherwise indicated, references to International Accounting Standards Board (IASB) standards and interpretations throughout this 2011 edition of *IFRS Accounting Trends & Techniques* refer to the version of those standards and interpretations included in the *IFRS 2011* bound volume, the official printed consolidated text of IASB standards and interpretations, including revisions, amendments, and supporting documents, issued as of 1 January 2011.

5.05 Operating activities are primarily derived from an entity's principal revenue producing activities (for example, collections from customer and payments to suppliers of goods or services, payments to employees, and payments of income taxes). IAS 7 provides entities two alternatives for presenting cash flows from operating activities—the direct method and the indirect method. However, the standard encourages, but does not require, entities to use the direct method. The *direct method* results in a presentation of gross cash collections and payments, except to the extent that the cash inflows and outflows are either with the same customer and reflect the activities of the customer rather than those of the entity, or for items with quick turnover, in large amounts, and with short maturities. Under the *indirect method*, an entity derives the net cash flow from operating activities by adjusting profit or loss (either before or after income taxes) for the effects of the following:

- Noncash income and expense items (for example, depreciation and amortization, deferred taxes, provisions, and share based payment expense)
- Changes in the entity's working capital balance sheet accounts (for example, changes in accounts receivable, inventories, accounts payable, and accrued liabilities)
- Items for which the cash effects are reported as investing or financing cash flows (for example, purchases and sales of property, plant, and equipment [PPE] and proceeds from and repayments of loans)

Entities should report cash flows arising from income taxes separately as an operating activity unless they can be specifically identified with financing and investing activities. Entities should also report cash payments to manufacture or acquire assets held for rental to others and subsequently held for sale (as described in paragraph 68A of IAS 16, *Property, Plant and Equipment*) in cash flows from operating activities. An entity should also classify cash receipts from rentals and subsequent sales of such assets as cash flows from operating activities.

5.06 Investing activities represent the extent to which the entity has made expenditures to support future income and cash flows (for example, acquisition and disposal of noncurrent assets, such as PPE, and investments in business combinations, joint ventures, and associates).

Author's Note

Improvements to IFRSs, issued in April 2009, clarified that only expenditures that result in a recognized asset in the statement of financial position are eligible for classification as investing activities. This amendment to IAS 7 is effective for annual reporting periods beginning on or after 1 January 2010, with early application permitted.

5.07 Financing activities represent sources of funding for both operations and investing activities and result in changes in the size and composition of the equity capital and borrowings of the entity (for example, issues and repurchases of

share capital, and proceeds and repayments of principal on borrowings).

5.08 Entities should report cash flows from investing and financing activities by major class of gross proceeds and gross cash payments unless an exception permitting net presentation applies. One exception to separate presentation of the cash inflows and outflows is the same exception previously described for operating activities presented under the direct method. Another exception applies to financial institutions for cash flows arising from acceptance or repayment of deposits with a fixed maturity date, cash flows arising from the placement or withdrawal of deposits from other financial institutions, or from cash advances and loans to customers and the respective repayments.

5.09 An entity should translate cash flows denominated in a foreign currency and cash flows of a foreign operation into its functional currency using the relevant exchange rate at the dates of the cash flows. An entity should report cash flows denominated in a foreign currency consistent with IAS 21, *The Effects of Changes in Foreign Exchange Rates*. Although its objective is to translate these transactions using the relevant exchange rate between the entity's functional currency and foreign currency, IAS 21 permits the use of a weighted-average exchange rate that approximates the actual rate. IAS 21 does not permit the use of an end-of-period exchange rate in translating the cash flows of a foreign subsidiary. Gains and losses arising on translation are not cash flows but IAS 7 requires these translation effects to be presented separately in the statement of cash flows.

5.10 Entities should disclose separately interest paid, interest received, dividends paid, and dividends received, and classify each consistently from period to period as an operating, an investing, or a financing activity. IAS 7 requires entities to disclose the total amount of interest paid during the period whether expensed in the statement of comprehensive income or capitalized in accordance with IAS 23, *Borrowing Costs*.

5.11 When accounting for an investment in another entity using the equity or cost method, an entity should only report those cash flows between itself and the investee (for example, dividends and advances). When using the proportionate consolidation method of accounting for a jointly controlled entity, the entity should include its proportionate share of the jointly controlled entity's cash flows in the relevant line item of its own cash flow statement.

5.12 Entities should report separately aggregate cash flows from gaining and losing control of subsidiaries and other businesses, classified as an *investing activity*. International Financial Reporting Standard (IFRS) 5, *Non-current Assets Held for Sale and Discontinued Operations*, requires separate disclosure of cash flows attributable to the operating, investing, and financing activities of discontinued operations either in the statement of cash flows or in the notes.

U.S. GAAP

5.13 The Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) glossary definitions of *cash* and *cash equivalents* are similar to those used in IAS 7, except that the FASB ASC definitions do not explicitly give entities the ability to include bank overdrafts in cash and cash equivalents. Paragraphs 5 and 7 of FASB ASC 230-10-45 explain that gross cash flows are generally more relevant than net cash flows unless the cash flows are part of the entity's cash management activities rather than its operating, and financing activities. Paragraphs 8–9 of FASB ASC 230-10-45 discuss the relevance of net cash flows on demand deposits of a bank or customer accounts payable of a broker-dealer, as well as investments (other than cash equivalents), loans receivable, and debt (provided that the original maturity of the asset or liability is three months or less). Despite no explicit prohibition in FASB ASC, current practice dictates that bank overdrafts are not considered cash or cash equivalents and are classified as a financing activity.

5.14 In addition, IFRSs are more lenient than FASB ASC and permit an entity to include equity instruments in cash equivalents. According to the FASB ASC glossary, generally, only investments with original maturities of three months or less qualify under the definition of *cash equivalent*, which would disqualify equity instruments, except for some mandatorily redeemable equity instruments.

5.15 The basic structure of the cash flow statement is the same under both IFRSs and U.S. generally accepted accounting principles. FASB ASC 230, *Statement of Cash Flows*, requires an entity to classify cash flows as operating, financing, or investing activities, and contains similar examples of events included in these classifications. However, paragraphs 16–17 of FASB ASC 230-10-45 require entities to classify interest paid, interest and dividends received (except dividends with long term donor restrictions), and income taxes paid as operating activities, even when associated with an investing or financing transaction. According to FASB ASC 230-10-45-15, entities should classify dividends paid as a financing activity.

Disclosure

IFRSs

5.16 IAS 7 requires entities to disclose the components of cash and cash equivalents and its policy for determining these components. An entity should reconcile the amount shown in the statement of cash flows with the equivalent balance sheet amount. Entities also should disclose any restricted amounts of cash and cash equivalents. When its policy for cash and cash equivalents changes, the entity should account for the change retrospectively as a change in accounting policy in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

5.17 An entity should not report noncash financing and investing activities (for example, the acquisition of an asset by assuming a mortgage or by means of a finance lease) in the statement of cash flows. However, an entity should disclose these activities elsewhere in the financial statements in order to provide information relevant to understanding these significant financing and investing activities.

5.18 When an entity gains or loses control of a subsidiary (or other business), in addition to reporting cash flows as previously described, it also should disclose the total consideration paid or received (including the portion consisting of cash and cash equivalents), the amount of the subsidiary's cash and cash equivalents, and the amounts of the subsidiary's other assets and liabilities (that is, assets and liabilities other

than cash or cash equivalents) by major class of asset and liability.

5.19 IAS 7 encourages entities to report additional information about the types of cash flows when relevant to users' understanding of the financial statements, including the following:

- Undrawn borrowing facilities
- Aggregate cash flows of proportionately consolidated joint ventures
- Aggregate amount of cash flows representing increases in operating capacity
- Operating, investing, and financing cash flows by segment

U.S. GAAP

5.20 Like IAS 7, FASB ASC 230-10-50-1 requires an entity to disclose its policy with respect to cash and cash equivalents and to account for any changes as a change in accounting principle with retrospective application and restatement of the comparative periods presented.

5.21 Like IFRSs, entities reporting under FASB ASC 230-10-45 can present operating activities using either the direct or indirect method. However, FASB ASC 230-10-45–30 also requires entities using the direct method to provide a reconciliation of net income to net cash flow from operating activities in a separate schedule. Essentially, this requirement results in an entity disclosing both the direct and indirect method of presenting its operating activities. IAS 7 does not require this additional disclosure. FASB ASC 230-10-45-24 states that separate disclosure of cash flows of extraordinary items or discontinued operations is not required. However, Securities and Exchange Commission registrants that elect to separately disclose cash flows of discontinued operations should classify the related cash receipts and payments as operating, investing, and financing activities.

5.22 FASB ASC 230-10-45-3 prohibits reporting cash flow per share in the financial statements. Cash flow per share is not discussed in IFRSs.

TABLE 5-1: METHOD OF REPORTING CASH FLOWS FROM OPERATING ACTIVITIES

	2010	2009	2008
Survey entities electing the indirect method	147	141	91
Survey entities electing the direct method	23	19	9
Total	**170**	**160**	**100**

TABLE 5-2: CLASSIFICATIONS OF REPORTED INCOME TAX, INTEREST, AND DIVIDEND CASH FLOWS

	2010	2009	2008
Survey Entities Reporting Income Tax Paid or Received			
Operating	164	159	99
Investing	0	0	0
Financing	0	0	0
Presented in both operating and investing	0	1	1
No taxes paid or received presented	6	0	0
Total	**170**	**160**	**100**
Survey Entities Reporting Interest Received			
Operating	91	86	61
Investing[(2)]	53	52	32
Financing	2	2	1
Presented in both operating and investing	1	0	1
No interest received presented	23	20	5
Total	**170**	**160**	**100**
Survey Entities Reporting Interest Paid			
Operating	112	110	70
Investing	0	1	0
Financing[(3)]	48	46	28
Presented in both operating and financing	2	1	1
Presented in both operating and investing	0	0	1
Presented in both investing and financing	1	0	0
No interest paid presented	7	2	0
Total	**170**	**160**	**100**
Survey Entities Reporting Dividends Received			
Operating	55	53	37
Investing	38	46	26
Financing	0	0	0
Presented in both operating and investing	1	—	—
No dividends received presented	76	71	37
Total	**170**	**160**	**100**
Survey Entities Reporting Dividends Paid			
Operating	2	3	0
Investing	0	0	0
Financing	142	128	88
Presented in both operating and financing	1	0	0
Presented between operating and investing	2	2	3
No dividends received presented	23	27	9
Total	**170**	**160**	**100**
Survey Entities Reporting Dividends Paid to Minority Interest			
Operating	3	4	3
Investing	1	1	1
Financing	47	45	39
No dividends paid to minority interest	119	110	57
Total	**170**	**160**	**100**

Presentation and Disclosure Excerpts

Presentation of Operating Activities Using the Direct Method—Interest Paid/Received Presented in Operating, Investing, and Financing Activities

5.23

Lan Airlines S.A. (Dec 2010)

CONSOLIDATED STATEMENT OF CASH FLOWS DIRECT METHOD

	Note	For the Year Ended December 31		
		2010 ThUS$	2009 ThUS$	2008 ThUS$
Cash Flows From Operating Activities				
Cash collection from operating activities				
Proceeds from sales of goods and services		4,831,963	3,871,189	4,648,591
Other cash receipts from operating activities		46,336	40,319	35,457
Payments for operating activities				
Payments to suppliers for goods and services		(3,058,168)	(2,475,716)	(3,318,680)
Payments to and on behalf of employees		(633,686)	(636,603)	(614,528)
Other payments for operating activities		(18,000)	(19,000)	—
Interest paid		(387)	—	—
Interest received		11,438	13,542	8,226
Income taxes refunded (paid)		(11,098)	10,304	(26,994)
Other cash inflows (outflows)		(43,061)	41,792	(100,997)
Net cash flows from operating activities		1,125,337	845,827	631,075
Cash Flows Used in Investing Activities				
Cash flows from disposal of subsidiaries		1,491	1,568	6,708
Cash flows used for acquisition of subsidiaries		(12,000)	(921)	(698)
Cash flows used in the purchase of non-controlling interest		—	(2,439)	—
Other cash receipts from sales of equity or debt instruments of other entities		12,915	8,743	14,511
Other payments to acquire equity or debt instruments of other entities		(60,000)	(58,983)	(2,607)
Amounts raised from sale of property, plant and equipment		577	10,777	6,625
Purchases of property, plant and equipment		(1,029,158)	(538,576)	(779,315)
Purchases of intangible assets		(19,236)	(12,888)	(23,388)
Dividends received		111	414	813
Interest received		4,048	2,637	2,743
Other cash inflows (outflows)		812	—	5
Net cash flow used in investing activities		(1,100,440)	(589,668)	(774,603)
Cash Flows From (Used in) Financing Activities				
Amounts raised from term loans		687,792	671,425	574,874
Loan payments		(554,539)	(261,705)	(102,644)
Payments of finance lease liabilities		(54,034)	(62,858)	(52,386)
Dividends paid		(155,407)	(139,937)	(222,803)
Interest paid		(128,722)	(129,323)	(81,421)
Other cash inflows		80,181	21,588	(15,210)
Net cash flows from (used in) financing activities		(124,729)	99,190	100,410
Net increase (decrease) in cash and cash equivalents before the effect of changes in the exchange rate		(99,832)	355,349	(43,118)
Effects of variation in the exchange rate on cash and cash equivalents		(613)	(24,824)	(1,525)
Net increase (decrease) in cash and cash equivalents		(100,445)	330,525	(44,643)
Cash and cash equivalents at beginning of period	6	731,497	400,972	445,615
Cash and cash equivalents at end of period	6	631,052	731,497	400,972

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 2—Summary of Significant Accounting Policies (in part)

2.13. Cash and Cash Equivalents

Cash and cash equivalents include cash and bank balances, time deposits in financial institutions, and other short-term and easily-liquidated investments.

Note 3—Financial Risk Management (in part)

3.1. Financial Risk Factors (in part)

(b) Credit Risk (in part)

Credit risk occurs when the counterparty to a financial agreement or instrument fails to discharge an obligation due.

The Company is exposed to credit risk due to its operative and financial activities, including deposits with banks and financial institutions, investments in other kinds of instruments, exchange-rate transactions and the contracting of derivative instruments or options.

(i) Financial Activities (in part)

Cash surpluses that remain after the financing of assets necessary for the operation are invested according to credit limits approved by the Company's board, mainly in time deposits with different financial institutions, short-term mutual funds, and easily-liquidated corporate and sovereign bonds with short remaining maturities. These investments are booked as cash and cash equivalents and as investments held to maturity.

(c) Liquidity Risk

Liquidity risk represents the risk that the Company has no funds to meet its obligations.

Because of the cyclical nature of the business, the operation, and its investment and financing needs related to the acquisition of new aircraft and renewal of its fleet, plus the financing needs related to market-risk hedges, the Company requires liquid funds to meet its payment obligations.

The Company therefore manages its cash and cash equivalents and its financial assets, matching the term of investments with those of its obligations. Its policy is that the average term of its investments may not exceed the average term of its obligations. This cash and cash equivalents position is invested in highly-liquid short-term instruments through first-class financial entities.

The Company has future obligations related to financial leases, operating leases, maturities of other bank borrowings, derivative contracts and aircraft purchase contracts.

Note 6—Cash and Cash Equivalents

	As of December 31, 2010 ThUS$	As of December 31, 2009 ThUS$
Cash	3,857	2,707
Bank balances	24,432	31,176
Time deposits	406,143	522,077
Others	196,620	175,537
Total	631,052	731,497

Cash and cash equivalents are denominated in the following currencies at December 31, 2010, and December 31, 2009, are as follows:

Currency	As of December 31, 2010 ThUS$	As of December 31, 2009 ThUS$
US Dollar	194,212	228,879
Chilean peso(*)	368,360	435,514
Euro	7,844	13,255
Argentine peso	11,230	6,105
Brazilian real	4,759	3,041
Other currencies	44,647	44,703
Total	631,052	731,497

(*) The Company entered into currency derivative contracts (forward exchange controls) for ThUS $ 169,357 at December 31, 2010 (ThUS $ 367,412 at December 31, 2009), for conversion into dollars of investments in Chilean pesos and currency derivative contracts (cross currency swaps) for ThUS $ 30,258 at December 31, 2010 (ThUS $ 0 at December 31, 2009), for conversion into dollars of investment in Unidades de Fomento ("UF").

In Venezuela, effective 2003, the authorities decreed that all remittances abroad should be approved by the Currency Management Commission (CADIVI). Despite having free availability of bolivars in Venezuela, the Company has certain restrictions for freely remitting these funds outside Venezuela. At December 31, 2010 the amount subject to such restrictions in dollar terms is ThUS$ 26,738 (ThUS$ 26,196 at 31 December 2009).

The Company has no significant non-monetary transactions that should be reported.

Presentation of Operating Activities Using the Direct Method, Reconciliation of Profit (Loss) to Net Cash Flows From Operating Activities Provided in a Note Disclosure

5.24

Sims Metal Management Limited (Jun 2010)

CONSOLIDATED STATEMENTS OF CASH FLOWS (in part)

For the year ended 30 June 2010

	Note	2010 A$M	2009 A$M	2008 A$M
Cash Flows From Operating Activities				
Receipts from customers (inclusive of goods and services tax)		7,230.3	9,232.8	7,353.9
Payments to suppliers and employees (inclusive of goods and services tax)		(7,305.1)	(8,475.6)	(6,943.1)
Interest received		2.8	2.3	2.9
Interest paid		(16.2)	(20.9)	(34.4)
Dividends from associates and jointly controlled entities	29	19.6	41.5	5.1
Insurance recoveries		1.0	12.3	7.6
Income taxes refunded (paid)		20.1	(238.0)	(144.5)
Net cash (outflow)/inflow from operating activities	33	(47.5)	554.4	247.5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1—Summary of Significant Accounting Policies (in part)

(L) Cash and Cash Equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Note 33—Cash Flow Information

(A) Reconciliation of Profit/(Loss) for the Year to Net Cash (Outflow)/Inflow from Operating Activities

	2010 A$M	2009 A$M	2008 A$M
Profit/(loss) for the year	126.7	(150.3)	440.1
Adjustments for non-cash items:			
Depreciation and amortisation	143.9	170.8	95.1
Net gain on contribution of assets to SA Recycling LLC	—	—	(38.8)
Unrealised (gain)/loss on held for trading derivatives	(3.7)	10.3	(3.9)
Impairment of goodwill	—	191.1	3.3
Impairment of property, plant and equipment	14.5	10.0	0.1
Impairment of intangible assets	0.9	—	—
Net (gain)/loss on disposal of non-current assets	(3.0)	(0.9)	1.9
Loss on sale of subsidiaries	—	2.6	—
Share-based payments	16.9	9.3	13.4
Non-cash pension expense	1.5	1.6	0.5
Non-cash compensation	—	0.8	—
Negative goodwill recognised on acquisition	—	(0.4)	—
Equity accounted profit net of dividends received	5.1	(16.7)	(55.3)
Gain on acquisition of Port Albany Ventures LLC	(8.7)	—	—
Other	(0.3)	0.2	0.3
Change in operating assets and liabilities, excluding the effects of acquisitions and disposals of entities:			
(Increase)/decrease in trade and other receivables	(240.7)	492.8	(176.6)
(Increase)/decrease in inventories	(339.6)	543.4	(407.6)
(Increase)/decrease in prepayments	(2.8)	1.7	18.6
(Decrease)/increase in provisions	(7.7)	(10.2)	24.2
Increase/(decrease) in income taxes	106.8	(194.8)	80.3
(Decrease)/increase in deferred taxes	(11.1)	38.8	(11.2)
Increase/(decrease) in trade and other payables	153.8	(545.7)	263.1
Net cash (outflow)/inflow from operating activities	(47.5)	554.4	247.5

(B) Reconciliation of Cash

Cash at the end of the Financial year as shown in the statements of cash flows is reconciled to the related items in the statements of Financial position as follows:

	2010 A$M	2009 A$M
Cash at bank and on hand	132.2	59.1
Short-term deposits	0.1	10.4
Cash and cash equivalents	132.3	69.5

The carrying amount of the Group's cash and cash equivalents is assumed to approximate their fair value.

(C) Non-Cash Investing and Financing Activities

(i) During the year ended 30 June 2010, dividends of A$9.2 million (2009: A$26.6 million; 2008: A$18.1 million) were paid via the issue of ordinary shares pursuant to the DRP. Refer to Note 21.

(ii) On 14 March 2008, the Company acquired 100% of the share capital of Metal Management Inc for A$1,500.6 million. The consideration given consists of 53,473,817 ordinary shares in Sims Metal Management Limited with a fair value of A$1,490.1 million and A$10.5 million of fully vested share options assumed at fair value. Refer to Note 27.

(iii) On 1 September 2007, the Group completed the merger of its Southern Californian metal recycling assets with those of Adams Steel LLC, amounting to an investment of A$342.3 million. For details of the assets and liabilities contributed to the SA Recycling joint venture, refer to Note 29.

Presentation of Operating Activities Using the Indirect Method—Adjustments to Income Before Tax, Adjustments for Accretion on Financial Liabilities, Dividends on Preferred Stock Subject to Mandatory Redemption

5.25

Philippine Long Distance Telephone Company (Dec 2010)

Author's Note

Excerpt at paragraph 5.32 illustrates Cash Flows from Investing Activities for Philippine Long Distance Telephone Company.

CONSOLIDATED STATEMENTS OF CASH FLOWS (in part)

For the Years Ended December 31, 2010, 2009 and 2008
(In million pesos)

	2010	2009	2008
Cash Flows From Operating Activities			
Income before income tax (Note 4)	53,685	54,839	54,049
Adjustments for:			
Depreciation and amortization (Notes 3, 4 and 9)	26,277	25,607	24,709
Interest on loans and other related items—net (Notes 4, 5, 9, 20 and 28)	5,471	5,317	5,083
Asset impairment (Notes 3, 4, 5, 9, 10, 14, 16, 17 and 28)	2,438	5,061	4,180
Losses (gains) on derivative financial instruments—net (Notes 4 and 28)	1,741	1,006	(3,115)
Incentive plans (Notes 3, 5 and 25)	1,392	1,833	1,281
Accretion on financial liabilities—net (Notes 5, 20 and 28)	1,177	1,062	956
Amortization of intangible assets (Notes 3 and 14)	388	368	377
Pension benefit costs (Notes 3, 5 and 25)	236	1,306	725
Gains on disposal of property, plant and equipment (Note 9)	(913)	(127)	(534)
Interest income (Notes 4, 5 and 15)	(1,200)	(1,539)	(1,668)
Equity share in net losses (earnings) of associates and joint ventures (Notes 4 and 10)	(1,408)	(2)	176
Foreign exchange losses (gains)—net (Notes 4, 9 and 28)	(1,807)	(909)	6,170
Dividends on preferred stock subject to mandatory redemption (Notes 5 and 8)	—	—	4
Others	(352)	(802)	830
Operating income before changes in assets and liabilities	87,125	93,020	93,223
Decrease (increase) in:			
Trade and other receivables	(3,132)	(1,324)	(3,003)
Inventories and supplies	89	(305)	(913)
Prepayments	(146)	(1,333)	(877)
Advances and refundable deposits	(15)	271	(1,338)
Increase (decrease) in:			
Accounts payable	6,407	130	5,244
Accrued expenses and other current liabilities	3,722	8,227	2,084
Pension and other employee benefits	(4,603)	(9,071)	(1,125)
Customers' deposits	57	32	27
Other noncurrent liabilities	50	(46)	1
Net cash generated from operations	89,554	89,601	93,323
Income taxes paid	(12,294)	(15,215)	(15,021)
Net cash provided by operating activities	77,260	74,386	78,302

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Summary of Significant Accounting Policies (in part)

Significant Accounting Policies (in part)

Financial Assets (in part)

Initial Recognition

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. We determine the classification of financial assets at initial recognition and, where allowed and appropriate, re-evaluate the designation of such assets at each financial year-end.

Financial assets are recognized initially at fair value plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way purchases or sales) are recognized on the trade date, i.e., the date that we commit to purchase or sell the asset.

Our financial assets include cash and cash equivalents, short-term investments, trade and other receivables, quoted and unquoted equity and debt securities, advances and refundable deposits, and derivative financial assets.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the date of acquisition, and for which there is an insignificant risk of change in value.

15. Cash and Cash Equivalents

As at December 31, 2010 and 2009, this account consists of:

(In Million Pesos)	2010	2009
Cash on hand and in banks (Note 28)	2,906	3,300
Temporary cash investments (Note 28)	33,772	35,019
	36,678	38,319

Cash in banks earns interest at prevailing bank deposit rates. Temporary cash investments are made for varying periods of up to three months depending on our immediate cash requirements, and earn interest at the prevailing temporary cash investment rates. Due to the short-term nature of such transactions, the carrying value approximates the fair value of our temporary cash investments. See *Note 28—Financial Assets and Liabilities*.

Interest income earned from cash in banks and temporary cash investments amounted to Php1,081 million, Php1,185 million and Php1,523 million for the years ended December 31, 2010, 2009 and 2008, respectively.

29. Cash Flow Information

The table below shows non-cash investing activities for the years ended December 31, 2010, 2009 and 2008:

(In Million Pesos)	2010	2009	2008
Transfer of Meralco shares to Beacon (Note 10)	15,083	—	—
Recognition of asset retirement obligations (Note 21)	49	17	70
Conversion of preferred stock subject to mandatory redemption	—	9	1,077

Operating Activities: Adjustments for Depreciation, Impairments, Inventory Writedowns, Labor Agreements, Litigation Provisions, Recycling of Deferred Hedging Gains

5.26

ArcelorMittal (Dec 2010)

CONSOLIDATED STATEMENTS OF CASH FLOWS (in part)

(Millions of U.S. dollars, except share and per share data)

	Year Ended December 31		
	2008	2009[1]	2010
Operating Activities:			
Net income (including non-controlling interests)	10,498	114	3,005
Discontinued operations	(247)	57	330
Net income from continuing operations (including non-controlling interests)	10,251	171	3,335
Adjustments to reconcile net income to net cash provided by operations and payments:			
Depreciation	4,722	4,574	4,395
Impairment	1,037	552	525
Net interest	1,501	1,500	1,445
Income tax expense (benefit)	1,104	(4,432)	(1,479)
Write-downs of inventories to net realizable value and expense related to onerous supply contracts[2]	3,287	2,596	1,189
Labor agreements and separation plans	2,503	252	46
Litigation provisions	629	(433)	145
Recycling of deferred gain on raw material hedges	—	(979)	(354)
Change in fair value of conversion options on convertible bonds and call options on ArcelorMittal shares	—	897	(427)
Unrealized foreign exchange effects, provisions and other non-cash operating expenses net	(135)	(970)	(528)
Changes in operating assets, liabilities, provision and other operating cash activities excluding the effect from acquisitions:			
Trade accounts receivable	1,969	1,355	(433)
Inventories	(7,818)	5,230	(5,540)
Interest paid and received	(1,921)	(1,419)	(1,320)
Taxes paid	(2,682)	(340)	(197)
Trade accounts payable	(2,005)	(110)	3,442
Cash received from settlement of hedges not recognized in the statement of operations	2,509	—	43
Cash paid for separation plans	—	(615)	(240)
Other working capital and provisions movements	(866)	(811)	(277)
Net cash flows provided by operating activities from discontinued operations	567	260	245
Net cash provided by operating activities	14,652	7,278	4,015

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1: Nature of Business, Basis of Presentation and Consolidation (in part)

Basis of Presentation (in part)

The consolidated financial statements have been prepared on a historical cost basis, except for available for sale financial assets, derivative financial instruments and certain non-current assets held for distribution, which are measured at fair value, and inventories, which are measured at the lower of net realizable value or cost. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and are presented in U.S. dollars with all amounts rounded to the nearest million, except for share and per share data.

Following the approval by the board of directors of ArcelorMittal held on December 7, 2010, to spin off the stainless steel business into a separate company known as Aperam, the results of the stainless steel operations are presented as discontinued operations in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations."

Consequently, the following presentation is applied:

Statements of Cash Flows

- For all periods presented, all line items of the Statement of Cash Flows are reclassified into continuing and discontinued operations. Contributions from discontinued operations are presented in three separate line items: "Cash flows provided by operating activities from discontinued operations", " Cash flows used in investing activities from discontinued operations" and "Cash flows used in financing activities from discontinued operations"

Note 2: Summary of Significant Accounting Policies (in part)

Significant Accounting Policies (in part)

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short-term highly liquid investments that are readily convertible to cash with original maturities of three months or less at the time of purchase and are carried at cost plus accrued interest, which approximates fair value.

Restricted Cash

Restricted cash represents cash and cash equivalents not readily available to the Company, mainly related to insurance deposits, escrow accounts created as a result of acquisitions, and various other deposits or required balance obligations related to letters of credit and credit arrangements. Changes in restricted cash are included within other investing activities (net) in the statement of cash flows.

Operating Activities: Adjustment for Repurchase of Bonds and Change in Estimates Related to Debentures

5.27

Gol Linhas Aéreas Inteligentes S.A. (Dec 2010)

CONSOLIDATED STATEMENTS OF CASH FLOWS (in part)

For the years ended December 31, 2010, 2009 and 2008
(In thousands of Brazilian Reais—R$)

	12/31/10	12/31/09	12/31/08
Cash Flows From Operating Activities			
Net income (loss) for the year	214,197	890,832	(1,239,347)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	281,604	142,853	125,127
Allowance for doubtful accounts	7,728	7,701	8,329
Litigation	18,842	13,000	(43,354)
Provision (reversion of provision) for onerous contracts	(445)	2,080	8,250
Provision for inventory obsolescence	8,402	4,327	(7,739)
Deferred income taxes	118,444	(135,305)	(13,033)
Share-based payments	24,743	4,540	5,362
Net foreign exchange fluctuations and interests	(46,549)	(708,240)	742,636
Interest on loans and other, net	297,256	275,466	—
Net results from financial derivatives instruments	117,022	80,332	(9,417)
Other provision	108,106	13,113	(29,211)
Deferred revenues	(106,299)	(38,714)	(28,297)
Other items	3,037	(8,832)	—
Changes in operating assets and liabilities:			
Trade and other receivables	208,526	(182,082)	549,805
Inventories	(41,433)	45,878	17,151
Deposits	78,369	(124,196)	(104,178)
Prepaid expenses, recoverable taxes and other credits	64,950	25,444	(1,829)
Other assets	9,865	47,771	(7,412)
Accounts payable	(146,590)	78,663	(42,645)
Advance ticket sales	(44,341)	(11,226)	99,713
Advances from customers	(162,150)	190,146	—
Salaries, wages and benefits	(27,168)	86,357	(16,632)
Sales tax and landing fees	8,809	(20,879)	12,891
Tax obligations	16,549	65,249	28,930
Provisions	(124,722)	(127,191)	10,272
Other liabilities	(4,650)	(13,250)	143,666
Cash provided by operating activities	882,102	603,837	209,038
Interest paid	(123,019)	(115,422)	—
Income tax paid	(35,186)	(31,156)	(57,338)
Net cash provided by operating activities	723,897	457,259	151,700

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Basis of Preparation and Summary of Significant Accounting Policies (in part)

2.2 Basis of Preparation (in part)

b) Cash and Cash Equivalents

Consists primarily of cash balances classified as loans granted and receivables, and short term investments that are measured at fair value through profit and loss. The short term investments have maturities of three months or less (or with no fixed time for redemption) with immediate liquidity, and are subject to an insignificant risk of changes in value.

Operating Activities: Note Disclosure of the Reconciliation of Profit Before Tax to Cash From Operating Activities, Adjustments for Fair Value Gains on Forestry Assets, Felling Costs, and Special Items, Change in Net Debt

5.28

Mondi Limited and Mondi plc (Dec 2010)

COMBINED AND CONSOLIDATED STATEMENT OF CASH FLOWS (in part)

For the year ended 31 December 2010

€ Million	Notes	2010	2009
Cash generated from operations	32a	778	867
Dividends from associates	14	2	2
Dividends from other investments		1	—
Income tax paid		(47)	(32)
Net cash generated from operating activities		734	837
Cash Flows From Investing Activities			
Acquisition of subsidiaries, net of cash and cash equivalents	29	—	(2)
Acquisition of associates, net of cash and cash equivalents		(2)	—
Proceeds from disposal of subsidiaries, net of cash and cash equivalents	30	100	54
Proceeds from disposal of associates	30	—	3
Investment in property, plant and equipment	2	(394)	(517)
Investment in intangible assets	11	(4)	(5)
Proceeds from the disposal of property, plant and equipment and intangible assets		14	11
Investment in forestry assets	13	(46)	(40)
Investment in financial asset investments	16	(11)	(7)
Proceeds from the sale of financial asset investments		3	—
Loan repayments from related parties	16	1	1
Loan repayments from external parties	16	2	1
Interest received		10	8
Other investing activities		(2)	1
Net cash used in investing activities		(329)	(492)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Accounting Policies (in part)

Basis of Consolidation

Dual Listed Structure

The Group has two separate legal parent entities, Mondi Limited and Mondi plc, which operate under a dual listed company (DLC) structure. The substance of the DLC structure is such that Mondi Limited, and its subsidiaries, and Mondi plc and its subsidiaries, operate together as a single economic entity through a sharing agreement, with neither parent entity assuming a dominant role. Accordingly, Mondi Limited and Mondi plc are reported on a combined and consolidated basis as a single reporting entity under IFRS.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with short-term, highly liquid investments of a maturity of three months or less from the date of acquisition that are readily convertible to a known amount of cash and that are subject to an insignificant risk of changes in value. Bank overdrafts are shown within short-term borrowings in current liabilities on the combined and consolidated statement of financial position. Cash and cash equivalents in the combined and consolidated statement of cash flows and in the presentation of net debt are reflected net of overdrafts.

Net Debt

Net debt is a non-IFRS measure and consists of short-term, medium and long-term borrowings, bank overdrafts less cash and cash equivalents and current financial asset investments.

32. Consolidated Cash Flow Analysis

(a) Reconciliation of Profit Before Tax to Cash Generated from Operations

€ Million	2010	2009
Profit before tax	372	49
Depreciation and amortisation	373	351
Share-based payments	8	5
Non-cash effect of special items	11	98
Net finance costs	117	114
Net income from associates	(2)	(2)
Decrease in provisions and post-employment benefits	(2)	(16)
(Increase)/decrease in inventories	(104)	80
(Increase)/decrease in operating receivables	(130)	170
Increase/(decrease) in operating payables	113	(2)
Fair value gains on forestry assets	(36)	(28)
Felling costs	65	50
Profit on disposal of tangible and intangible assets	(1)	(4)
Other adjustments	(6)	2
Cash generated from operations	778	867

(b) Cash and Cash Equivalents

€ Million	2010	2009
Cash and cash equivalents per combined and consolidated statement of financial position	83	123
Bank overdrafts included in short-term borrowings	(59)	(86)
Net cash and cash equivalents per combined and consolidated statement of cash flows	24	37

The fair value of cash and cash equivalents approximate the carrying values presented.

(c) Movement in Net Debt

The Group's net debt position, excluding disposal groups is as follows:

€ Million	Cash and Cash Equivalents[1]	Debt Due Within One Year[2]	Debt Due After One Year	Total Net Debt
At 1 January 2009	75	(298)	(1,467)	(1,690)
Cash flow	(19)	288	(38)	231
Business combinations (see note 29)	—	—	2	2
Disposal of businesses (see note 30)	—	8	—	8
Reclassification	(19)	(119)	153	15
Currency movements	—	(12)	(71)	(83)
At 31 December 2009	37	(133)	(1,421)	(1,517)
Cash flow	(4)	51	114	161
Business combinations (see note 29)	—	(1)	—	(1)
Disposal of businesses (see note 30)	—	23	52	75
Movement in unamortised loan costs	—	—	(4)	(4)
Reclassification	—	(273)	273	—
Currency movements	(9)	(18)	(51)	(78)
At 31 December 2010	24	(351)	(1,037)	(1,364)

Notes:

[1] The Group operates in certain countries (principally South Africa) where the existence of exchange controls may restrict the use of certain cash balances. These restrictions are not expected to have any material effect on the Group's ability to meet its ongoing obligations.

[2] Excludes overdrafts, which are included as cash and cash equivalents. As at 31 December 2010, short-term borrowings on the combined and consolidated statement of financial position of €410 million (2009: €219 million) include €59 million of overdrafts (2009: €86 million).

€ Million	Carrying Value Cash and Cash Equivalents	Debt Due Within One Year	Debt Due After One Year	Total Net Debt
Disposal groups—2010 (see note 31)	—	—	—	—
Disposal groups—2009 (see note 31)	—	—	—	—

Operating Activities: Adjustment for Provision for Doubtful Debts, Impairment of Guarantees, Fair Value Gain on Financial Assets Held for Trading

5.29

Sterlite Industries (India) Limited (Mar 2010)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Indian Rupees in millions except share or per share amounts unless otherwise stated)

	For the Year Ended March 31		
	2009 (Rs. in Millions)	2010 (Rs. in Millions)	2010 (US Dollars in Millions) (Note 2)
Cash Flows From Operating Activities			
Profit before taxes	52,458	69,910	1,555.3
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	8,024	8,061	179.3
Provision for doubtful debts/advances	12	46	1.0
Fair value gain on financial assets held for trading	(2,254)	(2,741)	(61.0)
Profit on sale of fixed asset, net	(10)	(104)	(2.3)
Share in consolidated (profit)/loss of associate	3,160	(2,051)	(45.6)
Impairment of guarantees	137	—	—
Exchange (gains)/loss, net	2,159	(6,074)	(135.1)
Gain on fair valuation of conversion option	—	(587)	(13.0)
Interest and dividend income	(13,779)	(13,076)	(290.9)
Interest expenses	4,688	3,910	87.0
Changes in assets and liabilities:			
Decrease in trade and other receivables	12,843	3,008	66.9
Decrease/(increase) in inventories	8,767	(5,167)	(115.0)
(Increase)/decrease in other current and non-current assets	(6,629)	1,313	29.2
(Decrease)/increase in trade and other payable	(8,520)	3,410	75.9
Increase/(decrease) in other current and non-current liabilities	1,759	(1,482)	(33.0)
Proceeds from short term investments	984,841	1,231,265	27,391.9
Purchases of short term investments	(976,457)	(1,270,518)	(28,265.1)
Cash generation from operation	71,199	19,123	425.5
Interest paid	(3,897)	(5,597)	(124.5)
Interest received	4,420	6,460	143.7
Dividend received	9,030	5,966	132.7
Income tax paid	(8,649)	(11,703)	(260.3)
Net cash from operating activities	72,103	14,249	317.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

3. Significant Accounting Policies (in part)

G. Financial Instruments (in part)

(c). Cash and Cash Equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand, and short-term deposits which have a maturity of three months or less from the date of acquisition.

16. Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents consist of the following:

	As at April 1	As at March 31		
	2008 (Rs. in Millions)	2009 (Rs. in Millions)	2010 (Rs. in Millions)	2010 (US Dollars in Millions)
Cash at banks	59	61	60	1.3
Short-term deposits	—	1,950	—	—
	59	2,011	60	1.3

Cash at banks is restricted in use as it relates to unclaimed deposits & debentures, dividends and interest on debentures.
Short term deposits have been pledged with banks for credit facilities.

17. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	As at April 1	As at March 31		
	2008 (Rs. in Millions)	2009 (Rs. in Millions)	2010 (Rs. in Millions)	2010 (US Dollars in Millions)
Cash at banks and in hand	2,349	1,222	1,789	39.8
Short-term deposits	10,014	1,479	232	5.2
	12,363	2,701	2,021	45.0

Short-term deposits are made for periods of between one day and three months, depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates.

Investing Activities: Purchase and Sale of Non-Current Assets, Government Subsidies

5.30

Vina Concha y Toro S.A. (Dec 2010)

Author's Note

Vina Concha y Toro S.A. implemented IFRSs effective December 31, 2010, with a date of transition of January 1, 2009. The excerpt that follows reflects the initial application of IAS 7.

CONSOLIDATED STATEMENTS OF DIRECT CASH FLOWS

Statements of Cash Flows	Balances Between 01-01-2010 and 12-31-2010 Th$	Balances Between 01-01-2009 and 12-31-2009 Th$
Cash Flows Provided by (Used in) Investing Activities		
Amounts provided by sale of property, plant and equipment	1,893,167	299,047
Purchases of property, plant and equipment	(17,165,492)	(33,857,055)
Purchases of intangible assets	(1,234,739)	(248,653)
Amounts provided by government subsidies	69,845	12,669
Net cash flows provided by (used in) investing activities	(16,437,219)	(33,793,992)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 2. Bases of Preparation and Presentation Used for These Financial Statements (in part)

2.5 Cash and Cash Equivalents

Cash equivalents correspond to short-term investments which are of a significant liquidity, that are easily convertible in cash known amounts and subject to a low exchange risk in its value with maturity no greater than three months.

2.12 Property, Plant and Equipment (in part)

2.12.3 Government Subsidy

The Company has received a government subsidy from the Chilean State, in conformity with The Law to Encourage Drainage and Irrigation, Law 18,450 related to the winegrowing activity developed.

These government subsidies in benefit of the Company are presented within item Plantations, Plants and Equipment, deducted from the construction value in-progress, and irrigation material.

2.22 Direct Statement of Cash Flow

For the purposes of the statement of cash flows, cash and cash equivalents relates to cash as defined previously.

The statement of cash flow gathers the cash movements performed during the year, determined by the direct method. In these statements of cash flow the following expressions are used as detailed below:

- Cash Flows: Incomes and egresses of cash or equivalents, including short term investments less than three months with high liquidity and low risk of value fluctuations.
- Operating activities: activities which constitute the main source of ordinary income for the Group, as well as other activities which cannot be classified as investment or financing.
- Investing activities: activities of acquisition, alienation or disposal by other means of assets and other investments not included in cash and its equivalents.
- Financing activities: activities which produce changes in the volume and composition of the net equity and of financial liabilities.

Investing Activities: Collections and Payments of Forward Agreements, Collection and Payments of Bank Deposits, Capital Increases in Associates

5.31

Embotelladora Andina S.A. (Dec 2010)

Author's Note

Embotelladora Andina S.A. implemented IFRSs effective December 31, 2010, with a date of transition of January 1, 2009. The excerpt that follows reflects the initial application of IAS 7.

CONSOLIDATED STATEMENTS OF CASH FLOWS (in part)

For the years ended December 31, 2010 and 2009
(Translation of consolidated financial statements originally issued in Spanish—See Note 2.3)

	Note	01/01/2010 12/31/2010 ThCh$	01/01/2009 12/31/2009 ThCh$
Cash Flows Provided by (Used in) Investing Activities			
Capital increases in equity investees		(15,229,291)	(937,607)
Proceeds from sale of property, plant and equipment		590,074	435,013
Purchase of property, plant and equipment		(95,461,555)	(49,482,837)
Collections from forward agreements		5,336,646	1,039,841
Payments derived from forward agreements		(2,368,356)	(342,213)
Payments of banks deposits		(47,156,718)	(102,760,277)
Collection of banks deposits		72,746,562	68,999,577
Cash flows provided by (used in) other investing activities		1,038,460	(1,270,238)
Net cash flows used in investing activities		(80,504,178)	(84,318,741)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 2—Basis of Preparation of Consolidated Financial Statements and Summary of Significant Accounting Policies (in part)

2.14 Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, time deposits in banks and other short-term, highly liquid investments with purchased maturities of three months or less.

Note 21—Hedge Assets and Liabilities (in part)

The company held the following hedge liabilities at December 31, 2010; December 31 and January 1, 2009.

21.1 Currency Forwards for Highly Probable Expected Transactions:

At December 31, 2010, the Company had contracts to hedge the foreign exchange rate in foreign currency purchases of property, plant and equipment to be made in 2011, for a total of Th€$ 4,841. They were valued at fair value, resulting in a net loss of ThCh$913,378. Since the contracts do not meet the documentation requirements to be considered hedges under IFRS, they have been valued at fair value and the effects have been recognized in income.

At December 31, 2010, the Company had contracts to mitigate changes in the foreign exchange rate on purchases of property, plant and equipment in foreign currencies to be made in 2011, for a total of ThUS$61,815. These were valued at fair value, resulting in a net loss of ThCh$485,983. Since the contracts do not meet the documentation requirements of the IFRS to be considered hedges, they have been measured at fair value with all changes being recorded through profit and loss.

During 2009, the Company had contracts to mitigate changes in the foreign exchange rate on purchases of property, plant and equipment in foreign currencies for a total of ThUS$10,483, which matured during the same year. They were valued at fair value, resulting in a net loss of ThCh$342,213. Since the contracts do not meet the IFRS documentation requirements to be considered hedges, they have been measured at fair value with all changes being recorded through profit and loss.

21.2 Foreign Currency Forward of Items Recognized in the Accounting:

At January 1, 2009, the Company had contracts to mitigate the foreign exchange impact of foreign-currency-denominated assets totaling ThUS$32,886. Those contracts expire in the first quarter of 2009. They were valued at fair value, which resulted in a net profit of ThCh$1,039,841. Since these contracts do not meet the documentation requirements of IFRS to be treated as hedging, they have been measured at fair value with all changes being recorded through profit and loss.

21.3 Forward of UF (Unidad de Fomento) Adjustment for Items Recognized in the Accounting:

At December 31, 2009, the Company had contracts to compensate cash flows in Chilean pesos of financial investments denominated in Unidades de Fomento, amounting to UF 143,115, Those contracts expire in the first quarter of 2010. They were valued at fair value, which resulted in a net profit of ThCh$13,083. Since these contracts do not meet the documentation requirements of IFRS to be treated as hedging, they have been measured at fair value with all changes being recorded through profit and loss.

Investing Activities: Interest and Dividends Received, Interest Paid and Capitalized, Purchase of Subsidiaries and Noncontrolling Interest, Decrease (Increase) in Advances and Refundable Deposits

5.32

Philippine Long Distance Telephone Company (Dec 2010)

Author's Note

Excerpt at paragraph 5.25 illustrates Cash Flows from Operating Activities for Philippine Long Distance Telephone Company and related note disclosures.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2010, 2009 and 2008
(In million pesos)

	2010	2009	2008
Cash Flows From Investing Activities			
Proceeds from:			
Maturity of short-term investments	6,256	9,728	28,476
Disposal of property, plant and equipment (Note 9)	859	932	1,015
Redemption of investment in debt securities	409	4,005	2,676
Disposal of investment properties (Note 12)	89	18	9
Disposal of investments held-for-sale	10	—	—
Disposal of available-for-sale financial assets	—	—	174
Disposal of investment in associates	—	—	3
Interest received	1,165	1,352	1,461
Dividends received	534	360	—
Payments for:			
Available-for-sale financial assets	(2)	—	(206)
Acquisition of intangibles (Notes 13 and 14)	(13)	(21)	(69)
Purchase of subsidiaries and non-controlling interests—net of cash acquired (Note 13)	(188)	(8,989)	(743)
Purchase of investment in debt securities (Note 10)	(403)	(3,572)	(3,457)
Short-term investments	(3,114)	(6,838)	(21,072)
Notes receivable	—	(80)	—
Purchase of investments in associates (Note 10)	—	(18,070)	—
Interest paid—capitalized to property, plant and equipment (Notes 4, 5, 9, 20 and 28)	(710)	(691)	(778)
Additions to property, plant and equipment (Notes 4 and 9)	(28,056)	(27,378)	(24,425)
Decrease (increase) in advances and refundable deposits	(119)	112	(78)
Net cash used in investing activities	(23,283)	(49,132)	(17,014)

Financing Activities: Issue of Share Capital, Sales and Leaseback of Aircraft, Repayment of Finance Lease Obligations, Refunds of Deposits Pledged for Finance Leases, Receipt and Payment of Restricted Bank Deposits

5.33

China Eastern Airlines Corporation Limited (Dec 2010)

CONSOLIDATED STATEMENTS OF CASH FLOWS (in part)

For the years ended December 31, 2010, 2009 and 2008
(Amounts in thousands)

		Year Ended December 31		
	Note	2010 RMB'000	2009 RMB'000	2008 RMB'000
Cash Flows From Financing Activities				
Proceeds from draw down of short-term bank loans		20,803,369	28,536,703	25,403,301
Proceeds from sales and leaseback of aircraft		—	590,253	—
Repayments of short-term bank loans		(21,942,900)	(39,535,319)	(19,986,723)
Proceeds from draw down of long-term bank loans		11,556,258	10,823,185	4,748,071
Repayments of long-term bank loans		(6,526,565)	(9,522,385)	(3,922,593)
Principal repayments of finance lease obligations		(2,201,176)	(2,005,264)	(2,593,656)
Receipts/(payments) of restricted bank deposits		1,174,066	1,347,525	(1,365,116)
Interest paid		(1,644,924)	(2,161,085)	(2,741,980)
Refunds of deposits pledged for finance leases upon maturities		—	—	419,604
Capital contribution from non-controlling interests of subsidiaries		519,300		
Proceeds from issuance of new shares		—	14,056,167	—
Dividends paid to non-controlling interests of subsidiaries		(41,738)	(44,156)	(52,700)
Net cash (outflow)/inflow from financing activities		(652,442)	2,085,624	(91,792)
Net increase/(decrease) in cash and cash equivalents		1,356,113	(1,721,019)	1,838,860
Cash and cash equivalents at January 1		1,735,248	3,451,010	1,655,244
Exchange adjustments		(13,133)	5,257	(43,094)
Cash and cash equivalents at December 31	27	3,078,228	1,735,248	3,451,010

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Summary of Significant Accounting Policies (in part)

(s) Cash and Cash Equivalents

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

27. Cash and Cash Equivalents

The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:

	2010 RMB'000	2009 RMB'000
Renminbi	2,642,109	816,538
US Dollars	263,051	253,776
Euro	30,592	43,519
Japanese Yen	12,705	30,889
Hong Kong Dollars	11,430	470,234
Others	118,341	120,292
	3,078,228	1,735,248

42. Note to Consolidated Cash Flow Statement

(a) Cash Generated From Operations

	Year Ended December 31		
	2010 RMB'000	2009 RMB'000	2008 RMB'000
Profit/(loss) before income tax	5,417,812	249,205	(15,256,009)
Adjustments for:			
Depreciation of property, plant and equipment and intangible assets	6,726,651	5,177,149	4,755,622
Loss/(gain) on disposals of property, plant and equipment	15,893	—	(267,084)
Loss on disposals of investment in associates	1,013	—	—
Gain on disposals of investment in subsidiaries	(45,147)	—	—
Share of results of associates	(39,228)	46,602	(69,668)
Share of results of jointly controlled entities	(28,154)	(23,803)	(24,050)
Amortization of lease prepayments	31,186	25,686	25,940
Net foreign exchange gains	(1,074,796)	(95,379)	(1,970,990)
Amortization of deferred revenue	—	8,138	(19,965)
Gain arising from fair value movements of derivative financial instruments	(915,804)	(5,333,546)	6,400,992
Consumption of flight equipment spare parts	601,407	351,151	476,282
Impairment provision of trade and other receivables	1,545	8,807	39,338
Provision for post-retirement benefits	479,514	440,878	200,603
Provision for return condition checks for aircraft under operating leases	586,364	588,745	618,556
Impairment loss	405,391	109,417	2,976,678
Interest income	(80,588)	(109,925)	(89,275)
Interest expenses	1,501,900	1,754,640	2,328,147
Gain on disposal of an associate and available-for-sale financial assets	—	—	(13,557)
Operating profit before working capital changes	13,584,959	3,197,765	111,560
Changes in working capital			
Flight equipment spare parts	(776,736)	(465,626)	(529,068)
Trade receivables	(202,667)	(210,188)	922,431
Prepayments, deposits and other receivables	337,365	540,134	(452,548)
Sales in advance of carriage	846,502	406,305	(197,331)
Trade payables and notes payables	(3,418,055)	1,021,365	1,792,556
Other payables and accrued expenses	292,530	(481,798)	1,928,495
Other long-term liabilities	569,577	(160,859)	(431,956)
Provision for return condition checks for aircraft under operating leases	(305,550)	(275,008)	(41,448)
Staff housing allowances	(166,871)	(90,514)	(100,428)
Post-retirement benefit obligations	(131,581)	(106,530)	(90,145)
Operating lease deposits	110,366	132,644	30,348
	(2,845,120)	309,925	2,830,906
Cash generated from operations	10,739,839	3,507,690	2,942,466

(b) Non-Cash Transactions

	Year Ended December 31		
	2010 RMB'000	2009 RMB'000	2008 RMB'000
Financing activities not affecting cash:			
Issuances of new shares for acquisition of Shanghai Airlines (Note 43)	9,118,433	—	—
Finance lease obligations incurred for acquisition of aircraft	1,455,152	—	7,964,792
	10,573,585	—	7,964,792

Financing Activities: Capital Increase, Issue and Repayment of Subordinated Long-Term Debt, Issuances of Preferred Securities, Issues of Capital Shares Under Share-Based Compensation Agreements

5.34

Deutsche Bank Aktiengesellschaft (Dec 2010)

CONSOLIDATED STATEMENT OF CASH FLOWS (in part)

In € M.	2010	2009	2008
Cash Flows From Financing Activities:			
Issuances of subordinated long-term debt	1,341	457	523
Repayments and extinguishments of subordinated long-term debt	(229)	(1,448)	(659)
Issuances of trust preferred securities	90	1,303	3,404
Repayments and extinguishments of trust preferred securities	(51)	—	—
Common shares issued under share-based compensation plans	—	—	19
Capital increase	10,060	—	2,200
Purchases of treasury shares	(15,366)	(19,238)	(21,736)
Sale of treasury shares	13,519	18,111	21,426
Dividends paid to noncontrolling interests	(7)	(5)	(14)
Net change in noncontrolling interests	200	109	331
Cash dividends paid	(465)	(309)	(2,274)
Net cash provided by (used in) financing activities	9,092	(1,020)	3,220
Net effect of exchange rate changes on cash and cash equivalents	1,911	690	(402)
Net increase (decrease) in cash and cash equivalents	14,804	(13,715)	39,166
Cash and cash equivalents at beginning of period	51,549	65,264	26,098
Cash and cash equivalents at end of period	66,353	51,549	65,264
Net cash provided by (used in) operating activities include			
Income taxes paid (received), net	784	(520)	(2,495)
Interest paid	13,740	15,878	43,724
Interest and dividends received	29,456	28,211	54,549
Cash and cash equivalents comprise			
Cash and due from banks	17,157	9,346	9,826
Interest-earning demand deposits with banks (not included: time deposits of €43,181 m. as of December 31, 2010, and €5,030 m. and €9,301 m. as of December 31, 2009 and 2008)	49,196	42,203	55,438
Total	66,353	51,549	65,264

The acquisition of Deutsche Postbank AG shares, including the non-cash portion, is described in detail in Note 04 "Acquisitions and Dispositions." The restructuring of loans the Group held with the Icelandic generic pharmaceutical group Actavis Group hF resulted in a non-cash reclassification of the subordinated financing arrangement from operating to investing activities for the purposes of the Consolidated Statement of Cash Flows. The transaction is described in detail in Note 17 "Equity Method Investments."

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

01—Significant Accounting Policies (in part)

Consolidated Statement of Cash Flows

For purposes of the consolidated statement of cash flows, the Group's cash and cash equivalents include highly liquid investments that are readily convertible into cash and which are subject to an insignificant risk of change in value. Such investments include cash and balances at central banks and demand deposits with banks.

The Group's assignment of cash flows to the operating, investing or financing category depends on the business model ("management approach"). For the Group the primary operating activity is to manage financial assets and financial liabilities. Therefore, the issuance and management of long-term borrowings is a core operating activity which is different than for a non-financial company, where borrowing is not a principal revenue producing activity and thus is part of the financing category.

The Group views the issuance of senior long-term debt as an operating activity. Senior long-term debt comprises structured notes and asset backed securities, which are designed and executed by CIB business lines and which are revenue generating activities. The other component is debt issued by Treasury, which is considered interchangeable with other funding sources; all of the funding costs are allocated to business activities to establish their profitability.

Cash flows related to subordinated long-term debt and trust preferred securities are viewed differently than those related

to senior-long term debt because they are managed as an integral part of the Group's capital, primarily to meet regulatory capital requirements. As a result they are not interchangeable with other operating liabilities, but can only be interchanged with equity and thus are considered part of the financing category.

The amounts shown in the consolidated statement of cash flows do not precisely match the movements in the consolidated balance sheet from one period to the next as they exclude non-cash items such as movements due to foreign exchange translation and movements due to changes in the group of consolidated companies.

Movements in balances carried at fair value through profit or loss represent all changes affecting the carrying value. This includes the effects of market movements and cash inflows and outflows. The movements in balances carried at fair value are usually presented in operating cash flows.

Financing Activities: Issue of Securities, Expenditures Paid by Third Party, Exercise of Stock Options

5.35

U308 Corp. (Dec 2010)

Author's Note

U308 Corp. implemented IFRSs effective December 31, 2010, with a date of transition of January 1, 2009. The excerpt that follows reflects the initial application of IAS 7.

CONSOLIDATED STATEMENTS OF CASH FLOWS (in part)

(Expressed in Canadian Dollars)
Years ended December 31,

	2010	2009 (Note 22)
Financing Activities		
Issue of securities, net of transaction costs (note 11)	6,699,019	—
South American expenditures paid by Mega Uranium Ltd. (note 20)	242,570	—
Repayment of Mega Uranium Ltd. (note 20)	(242,570)	—
Exercise of stock options	108,500	—
Net cash provided by financing activities	6,807,519	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

3. Significant Accounting Policies (in part)

(f) Financial Assets

The Company's financial instruments are comprised of the following:

Financial Assets:	Classification:
Cash and cash equivalents	Loans and receivables
Guaranteed investment certificates	Loans and receivables
Accounts receivable	Loans and receivables
Value-added taxes receivable	Loans and receivables
Restricted cash	Loans and receivables
Financial Liabilities:	**Classification:**
Accounts payable and other liabilities	Other financial liabilities
Due to Mega Uranium Ltd.	Other financial liabilities

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 initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

(j) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and on hand, and short-term deposits with an original maturity of three months or less, which are readily convertible into a known amount of cash. The Company's cash and cash equivalents are invested with major financial institutions in business accounts and guaranteed investment certificates which are available on demand by the Company for its programs.

11. Share Capital

a) Authorized Share Capital

At December 31, 2010, the authorized share capital consisted of an unlimited number of common shares.

The common shares do not have a par value. All issued shares are fully paid.

b) Common Shares Issued

At December 31, 2010, the issued share capital amounted to $48,564,060. The change in issued share capital for the periods was as follows:

	Number of Common Shares	Amount
Balance, January 1, 2009, December 31, 2009 (i)	23,057,700	$30,197,967
Acquisition of South American property interests, net of issue costs in the amount of $4,000 (note 20)	30,564,858	13,138,889
Issue of securities, net of transaction costs (ii)	23,989,100	5,040,969
Stock options exercised	280,000	108,500
Grant date fair value of stock options exercised	—	77,735
Balance, December 31, 2010	77,891,658	$48,564,060

(i) U308 Corp. has adopted a shareholder rights plan (the "Rights Plan"). The Rights Plan is designed to ensure the fair treatment of U308 Corp's shareholders in any transaction involving a change of control of the Company and will provide U308 Corp's Board of Directors and its shareholders with adequate time to evaluate any unsolicited take-over bid and, if appropriate, to seek out alternatives to maximize shareholder value.

Until the occurrence of certain specific events, the rights will trade with the shares of the Company and be represented by certificates representing the shares. The rights become exercisable only when a person, including any party related to it or acting jointly with it, acquires or announces its intention to acquire 20% or more of the outstanding shares of the Company without complying with the Permitted Bid provisions of the Rights Plan. Should a non-Permitted Bid be launched, each right would entitle each holder of shares (other than the acquiring person and persons related to it or acting jointly with it) to purchase additional shares of the Company at a 50% discount to the market price at the time.

It is not the intention of the Rights Plan to prevent take-over bids but to ensure their proper evaluation by the market. Under the Rights Plan, a Permitted Bid is a bid made to all shareholders for all of their shares on identical terms and conditions that is open for at least 60 days. If at the end of 60 days at least 50% of the outstanding shares, other than those owned by the offeror and certain related parties, have been tendered and not withdrawn, the offeror may take up and pay for the shares but must extend the bid for a further ten days to allow all other shareholders to tender.

On February 17, 2011, U308 Corp. announced that it had renewed its current shareholder rights plan, which was due to expire on March 4, 2011. The Rights Plan will be submitted to holders of U308 Corp's common shares for approval at the Company's 2011 annual meeting.

(ii) On October 14, 2010, U308 Corp. closed a fully subscribed brokered private placement (the "Offering). U308 Corp. issued 23,989,100 units (the "Units") at a price of $0.30 per Unit for gross proceeds of $7,196,730. Insiders of U308 Corp. purchased, directly or indirectly, approximately $2.2 million of the Offering.

Each Unit consists of one common share and one-half of one transferable common share purchase warrant. Each full warrant is exercisable into one common share for a period of two years after October 14, 2010 at a price of $0.45 per common share. In the event that at any time after February 15, 2011, the closing price for U308 Corp's common shares is greater than $0.70 per share for a period of 20 consecutive trading days, the Company may accelerate the expiry date of the warrants to the 30th day after notice of the accelerated expiry date has been given by U308 Corp. In connection with the Offering, the agents received broker warrants entitling them to acquire, in the aggregate, up to 1,239,342 common shares of U308 Corp. at an exercise price of $0.45 per share until October 14, 2012.

A value of $1,570,000 was estimated for the 11,994,550 warrants on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 116%; risk-free interest rate of 1.42%; and an expected average life of 2 years.

A value of $251,484 was estimated for the 1,239,342 broker warrants on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 116%; risk-free interest rate of 1.42%; and an expected average life of 2 years. This value charged $196,624 to share capital and $54,860 to warrants as transaction costs.

Total share issue costs of $497,711 were charged and allocated $389,137 to share capital and $108,574 to warrants.

20. Acquisition of South American Operations

On April 7, 2010, U308 Corp. completed the acquisition of Mega's South American uranium properties, adding assets in Colombia and Argentina to the Company's holdings in Guyana. Under the terms of the acquisition, U308 Corp. issued 30,564,858 common shares of U308 Corp. in exchange for Mega's South American properties and $4,060,991 in cash. The preliminary fair value estimates is provided below.

The transaction did not meet the definition of a business combination as the primary assets acquired are in the exploration stage therefore the transaction was recorded as an

acquisition of assets. The provisional values of assets and liabilities recognized on acquisition are their estimated fair values at the date of acquisition. IFRS permits up to twelve months for provisional acquisition accounting to be finalized following the acquisition date if any subsequent information provides better evidence of the item's fair value at the date of acquisition.

	Fair Value at Acquisition
Cost of Acquisition	
Fair value of common shares issued (30,564,858 common shares)	$13,142,889
Transaction costs	469,045
Total cost of acquisition	$13,611,934
Fair Value of Assets and Liabilities	
Assets	
Cash	$4,060,991
Total current asset	4,060,991
Non-current assets	
Value-added taxes receivable	487,810
Property and equipment	146,243
South American property interests	
—Argentina	1,916,730
—Colombia	7,666,922
	9,583,652
Total assets	$14,278,696
Liabilities	
Current liabilities	
Amounts payable and other liabilities	$178,952
Non-current liability	
Due to Mega Uranium Ltd.[b]	487,810
Total current liabilities	$666,762
Net identifiable assets	$13,611,934

[a] Mega provided bridge financing to the Company in the amount of $242,570. The amount was non-interest bearing and due on demand. On September 27, 2010, the amount was repaid in full.

[b] Under the terms of acquisition, if U308 Corp. recovers value-added taxes in the amount of $487,810 from government authorities in Argentina, the Company will be required to repay this amount to Mega in full.

Financing Activities: Commercial Property Debt Issue, Amortization and Repayment, Trust Unit and Class B Limited Partnership Distributions

5.36

Brookfield Office Properties Canada (Dec 2010)

Author's Note

Brookfield Office Properties Canada implemented IFRSs effective December 31, 2010, with a date of transition of January 1, 2009. The excerpt that follows reflects the initial application of IAS 7.

CONSOLIDATED STATEMENTS OF CASH FLOW

December 31 (US Millions)	Note	2010	2009(1)
Financing Activities			
Commercial property debt arranged		619	296
Commercial property debt repayments		(268)	(284)
Corporate credit facilities arranged		168	212
Corporate credit facilities repayments		(268)	(439)
Land development debt arranged		388	60
Land development debt repayments		(92)	(375)
Other debt arranged		—	92
Non-controlling interests issued		144	4
Distributions to non-controlling interests		(1)	(20)
Common shares issued		—	1,016
Preferred shares issued		544	259
Preferred share dividends		(39)	(7)
Common share dividends		(282)	(250)
		913	564

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 2: Significant Accounting Policies (in part)

(m) Financial Instruments and Derivatives (in part)

Derivative instruments are recorded in the consolidated balance sheets at fair value, including those derivatives that are embedded in financial or non-financial contracts and which are not closely related to the host contract.

The following summarizes the company's classification and measurement of financial assets and liabilities:

	Classification	Measurement
Financial Assets		
Participating loan notes	Loans and receivables	Amortized cost(2)
Non-current financial assets		
Equity securities designated as available-for-sale ("AFS")	AFS	Fair value
Derivative assets	FVTPL(1)	Fair value
Loans receivable	Loans and receivables	Amortized cost
Receivables and other assets		
Accounts receivable	Loans and receivables	Amortized cost
Loan receivable from affiliate	Loans and receivables	Amortized cost
Equity installment receivable	Loans and receivables	Amortized cost
Residential receivables	Loans and receivables	Amortized cost
Restricted cash and deposits	Loans and receivables	Amortized cost
Cash and cash equivalents	Loans and receivables	Amortized cost

(n) Cash and Cash Equivalents

Cash and cash equivalents include cash and short-term investments with original maturities of three months or less.

Note 31: Capital Management and Liquidity

The company employs a broad range of financing strategies to facilitate growth and manage financial risk. The company's objective is to reduce its weighted average cost of capital and improve common shareholders' equity returns through value enhancement initiatives and the consistent monitoring of the balance between debt and equity financing. As at December 31, 2010, the company's weighted average cost of capital, assuming a 12% return on common equity, was 7.95%.

The following schedule details the components of the company's capital as at December 31, 2010 and the related costs thereof:

	Cost of Capital(1)		Underlying Value(2)	
(Millions)	**Dec. 31, 2010**	**Dec. 31, 2009**	**Dec. 31, 2010**	**Dec. 31, 2009**
Liabilities				
Commercial property debt	5.90%	5.94%	$ 7,426	$ 5,307
Capital securities—corporate	5.43%	5.42%	1,038	1,009
Shareholders' Equity				
Preferred equity—corporate	4.11%	6.20%	848	304
Common equity(2)	12.00%	12.00%	8,813	6,076
Other Equity				
Preferred equity—subsidiaries	1.52%	4.83%	382	363
Non-controlling interests—fund subsidiaries(3)	10.00%	10.00%	375	300
Non-controlling interests—other subsidiaries(4)	12.00%	12.00%	582	169
Total(5)	7.95%	7.95%	$19,464	$13,528

(1) As a percentage of average book value unless otherwise noted.
(2) Underlying value of liabilities represents carrying value or the cost to retire on maturity. Underlying value of common equity is based on the closing stock price of Brookfield's common shares.
(3) Assuming 10% return on co-invested capital.
(4) Assuming 12% return on co-invested capital.
(5) In calculating the weighted average cost of capital, the cost of debt has been tax-effected.

Commercial property debt—The company's commercial property debt is primarily fixed-rate and non-recourse to the company. These financings are typically structured on a loan-to-appraised value basis of between 55% and 65% when the market permits. In addition, in certain circumstances where a building is leased almost exclusively to a high-credit quality tenant, a higher loan-to-value financing, based on the tenant's credit quality, is put in place at rates commensurate with the cost of funds for the tenant. This execution reduces the company's equity requirement and enhances its equity returns when financing certain commercial properties. The company currently has a level of indebtedness of 50% of fair value of its commercial properties. This level of indebtedness is considered by the company to be within its target.

Capital securities—corporate, Preferred equity—corporate and Preferred equity—subsidiaries. These represent sources of low-cost capital to the company, without dilution to the common equity base.

Non-controlling interest—fund subsidiaries—The company invests its liquidity alongside capital from strategic institutional partners in fund formats to acquire individual assets and portfolios. Non-controlling interest—fund subsidiaries represents investments by partners in consolidated fund subsidiaries.

The company is subject to certain covenants on its credit facilities. The covenants include a total and secured leverage ratio, an interest and fixed charge ratio, as well as a dividend payout ratio and a recourse debt requirement. No amount was drawn on the credit facilities as at December 31, 2010.

The company's strategy is to satisfy its liquidity needs using cash on hand, cashflows generated from operating activities and provided by financing activities, as well as proceeds from asset sales. The company also generates liquidity by accessing capital markets on an opportunistic basis. Rental revenue, recoveries from tenants, lot and home sale proceeds, interest and other income, available cash balances, draws on corporate credit facilities and refinancing of maturing indebtedness are the company's principal sources of capital used to pay operating expenses, dividends, debt service and recurring capital and leasing costs in its commercial property portfolio and residential development business. The company finances its residential development operations and ongoing working capital requirements with residential development debt and accounts payable. Another source of cashflow includes third-party fees generated by the company's asset management, leasing and development businesses.

The principal liquidity needs for periods beyond the next twelve months are for scheduled debt maturities, recurring and non-recurring capital expenditures, development costs and potential property acquisitions. The company's strategy is to meet these needs with one or more of the following:

- cashflows from operations;
- construction loans;
- creation of new funds;
- proceeds from disposition of residential business;
- proceeds from sales of assets;
- proceeds from sale of non-controlling interests in subsidiaries; and
- credit facilities and refinancing opportunities.

The company attempts to match the maturity of its commercial property debt portfolio with the average lease terms of its properties. At December 31, 2010, the average term to maturity of the company's commercial property debt was five years, compared to its average lease term of seven years.

The following table presents the contractual maturities of the company's financial liabilities at December 31, 2010:

		Payments Due By Period			
(Millions)	**Total**	**1 Year**	**2–3 Years**	**4–5 Years**	**After 5 Years**
Commercial property debt[1][2]	$8,978	$2,273	$2,763	$1,155	$2,787
Capital securities—corporate[2]	1,248	237	285	569	157
Residential development debt[3]	489	126	362	1	—
Other non-current financial liabilities	105	12	—	—	93
Equity installment payable[4]	79	79	—	—	—

[1] Includes $165 million of debt associated with assets held for sale.
[2] Includes repayment of principal and interest.
[3] Debt associated with assets held for sale.
[4] Represents the company's obligation to reimburse BAM subsidiaries for their share of the equity installment payment relating to Prime.

Note 34: Other Information

(a) Supplemental cashflow information

(Millions)	**2010**	**2009**
Acquisitions of real estate	$474	$ —
Mortgages and other balances assumed on acquisition	(37)	—
Net acquisitions	$437	$ —
Dispositions of real estate	$ 42	$ 69
Mortgages and other balances assumed by purchasers	(21)	(53)
Net dispositions	$ 21	$ 16
Cash taxes paid	$ 25	$ 34
Cash interest paid (excluding dividends on capital securities)	$371	$352

(b) In the second quarter of 2010, the company acquired an interest in loan receivables of $367 million through a cash collateralized total return swap (refer to Note 13(c)) in exchange for a reduction of loans receivable from affiliate of a corresponding amount.

(c) The assets and liabilities of certain of the company's subsidiaries are neither available to pay debts of, nor constitute legal obligations of, the parent or other subsidiaries, respectively.

SECTION 6: NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS*

IFRS 5, *NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS*

IFRSs Overview and Comparison to U.S. GAAP

6.01 International Financial Reporting Standard (IFRS) 5, *Non-current Assets Held for Sale and Discontinued Operations*, specifically addresses the accounting, classification, presentation, and disclosure of noncurrent assets and disposal groups held for sale and discontinued operations. IFRS 5 was developed as part of a Financial Accounting Standards Board (FASB) convergence project and with consideration of the requirements of FASB *Accounting Standards Codification* (ASC) 360, *Property, Plant, and Equipment*.

6.02 IFRS 5 applies to all *noncurrent assets* (assets that are not expected to be realized within 12 months after the reporting period or the entity's normal operating cycle) and *disposal groups* (groups of assets with associated liabilities expected to be disposed of in a single transaction), with the following exceptions: deferred tax assets, assets arising from employee benefits, financial assets within the scope of International Accounting Standard (IAS) 39, *Financial Instruments: Recognition and Measurement*, noncurrent assets accounted for using the fair value model in IAS 40, *Investment Property*, or measured at fair value through profit and loss in IAS 41, *Agriculture*, and contractual rights under insurance contracts in IFRS 4, *Insurance Contracts*.

6.03 IFRS 5 requires an entity to test assets within the scope of IFRSs for impairment in accordance with all applicable IFRSs immediately prior to classification as held for sale or discontinued operations. For example, an entity would test items of property, plant and equipment (PPE) in accordance with IAS 36, *Impairment of Assets*, which establishes the requirements of the impairment test and measurement of impairment losses and also permits reversals of impairment losses, recognized at the time of reclassification, that occur prior to disposal of an asset or disposal group.

Recognition and Measurement

IFRSs

6.04 An entity should classify noncurrent assets or disposal groups as *held for sale* if the carrying amount(s) will be recovered through a sale transaction rather than continued use. To be eligible for classification as *held for sale,* IFRS 5 requires that an asset or disposal group be available for immediate sale in its present condition subject only to the usual and customary terms for sales of such assets or disposal groups. Completion of the sale should be highly probable.

6.05 The entity can conclude that sale is highly probable if the appropriate level of management is committed to a plan to sell the asset or disposal group and has initiated an active program to locate a buyer. The entity should actively market an asset or disposal group at a reasonable price in relation to its current fair value. The entity should expect completion of the sale within one year of the classification, although the standard recognizes and allows for extension of this period when there is sufficient evidence that the entity remains committed to the sale. Actions required to complete the plan should indicate that it is unlikely the plan will be withdrawn or changed significantly. An entity should not reclassify as held for sale any assets to be abandoned.

6.06 At initial recognition as held for sale, an entity should measure assets and disposal groups within the scope of IFRS 5 at the lower of the carrying amount prior to reclassification and fair value less cost to sell as defined in IAS 36. If the asset or disposal group was acquired in a business combination, an entity should measure the asset at fair value less cost to sell when classified as held for sale. An entity should not record depreciation and amortization while the asset is classified as held for sale even if the asset or disposal group continues to be used in operations.

6.07 Disposal groups may include assets that are outside the scope of IFRS 5 (for example, investment property held at fair value in accordance with IAS 40 or financial instruments within the scope of IAS 39). IFRS 5 requires an entity to measure such assets in accordance with the relevant standards before measuring the disposal group as a whole at fair value less cost to sell.

6.08 An entity should recognize impairment losses for any write-downs of assets or disposal groups before or after classification as held for sale. An entity should first allocate any impairment losses on disposal groups (cash generating units) to any related goodwill, then to other assets on a pro rata basis. An entity should recognize reversals of impairment losses for increases in fair value less cost to sell that may occur after classification as held for sale. However, reversals of impairment losses are limited to the cumulative amount of impairment losses recognized either under IFRS 5 or previously under IAS 36. An entity should not reverse impairment losses allocated to goodwill.

6.09 Normally, an entity should recognize gains or impairment losses in the income statement (profit and loss) except when they relate to an asset held under a revaluation model (for example, in accordance with IAS 16, *Property, Plant and Equipment*). Gains or losses recognized on revalued assets are considered revaluations and an entity should recognize such gains or losses in the appropriate other comprehensive income account.

* Unless otherwise indicated, references to International Accounting Standards Board (IASB) standards and interpretations throughout this 2011 edition of *IFRS Accounting Trends & Techniques* refer to the version of those standards and interpretations included in the *IFRS 2011* bound volume, the official printed consolidated text of IASB standards and interpretations, including revisions, amendments, and supporting documents, issued as of 1 January 2011.

6.10 A discontinued operation is a *component of an entity*, defined as "operations and cash flows that can be clearly distinguished both operationally and for financial reporting purposes." Consequently, IFRS 5 concludes from this definition that a discontinued operation is a single cash generating unit or group of cash generating units. To be presented as a discontinued operation, IFRS 5 also requires the component to be a major line of business, geographical area of operations, or a subsidiary acquired solely with a view to resell (that either is classified as held for sale or has already been disposed of).

6.11 When an asset or disposal group no longer meets the IFRS 5 criteria to be classified as held for sale or discontinued operations, an entity should remove the assets or disposal groups from this classification and measure them at the lower of the carrying amount before reclassification, less the depreciation and amortization that the entity would otherwise have recorded, and recoverable amount on the date the decision to sell was rescinded. An entity should recognize any adjustments to carrying amounts in profit and loss from continuing operations in the current year.

U.S. GAAP

6.12 For assets classified as held for sale or discontinued operations, both IFRSs and FASB ASC 360 and 205-20 are similar with respect to measurement, timing of classification, and presentation within the financial statements. Although IFRS 5 narrowed the differences substantially between IFRSs and FASB ASC with respect to assets held for sale, some significant differences remain. Specifically, the FASB ASC glossary defines a *component of an entity* as one that comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. A component of an entity may be a reportable segment or an operating segment, a reporting unit, a subsidiary, or an asset group. Although this definition is similar to the definition in IFRSs, entities may apply the definitions differently. For example, IFRS 5 does not prohibit classification as discontinued operations when the entity retains a noncontrolling interest (for example, by an equity method investment) (see paragraph 6.19). However, for Securities and Exchange Commission (SEC) registrants, SEC *Codification of Staff Accounting Bulletins* topic 5(Z)(4), "Disposal of Operation With Significant Interest Retained," states that when the entity retains significant influence (equity method investment), it should not account for the disposal as a discontinued operation, only as a disposal of a group of assets classified within continuing operations.

6.13 Similarly, because FASB ASC does not permit measurement at fair value for assets that meet the definition of an investment property under IFRSs and biological assets, all items of PPE can be classified as held for sale or discontinued operations and would be subject to the same impairment and measurement requirements. FASB ASC 350-20-50-1 permits an entity to include goodwill in a disposal group classified as held for sale.

6.14 As noted previously, the definition of a component of an entity in the FASB ASC glossary is essentially the same as the definition in IFRS 5. However, FASB ASC 205-20-45-1 contains the following additional criteria, not included in IFRS 5, that an entity should meet before reporting a component as a discontinued operation:

- The entity has or will eliminate the operations and cash flows of the component from its continuing operations as a result of the disposal transaction.
- The entity will not have any significant continuing involvement in the operations of the component after the disposal transaction.

As a result of these criteria, fewer components of a business held for sale may qualify as discontinued operations under FASB ASC 205-20.

6.15 The IFRS 5 convergence project does not address impairment recognition and measurement and significant differences remain. For example, under FASB ASC 350-20-35-31, an entity recognizes impairment losses on assets within disposal groups without first allocating these losses to any allocated goodwill. An entity should test separately any goodwill allocated to the disposal group for impairment only after recording impairment losses on individual assets.

Presentation

IFRSs

6.16 An entity should present assets classified as held for sale separately from other assets as a single line item in the statement of financial position. Similarly, the entity should present any liabilities included in disposal groups separately from other liabilities as a single line item. An entity should not offset or show assets and liabilities as a single net asset or liability. IFRS 5 also requires an entity to show separately any cumulative income and expense recognized directly in other comprehensive income in respect of assets and disposal groups classified as held for sale.

6.17 Although further disaggregation is permitted, IFRS 5 requires presentation of a separate line item on the face of the statement of comprehensive income consisting of the sum of the following amounts:

- Posttax profit or loss of the discontinued operations
- Posttax gain or loss on measurement to fair value less cost to sell, or
- Posttax gain or loss on disposal of the relevant assets or disposal groups

6.18 Comparative information should reflect the new classification for assets or disposal groups classified as discontinued operations, but not for those classified as held for sale.

6.19 IFRS 5 also requires an entity that is committed to a sale plan involving loss of control of a subsidiary to classify all the assets and liabilities of that subsidiary as held for sale when the relevant criteria are met, regardless of whether the entity will retain a noncontrolling interest in the former subsidiary after the sale. In these circumstances, the entity should provide the same disclosures required for a discontinued operation. This amendment is included in *Improvements to IFRSs*, issued in May 2008 and effective for annual reporting periods beginning on or after 1 July 2009, and will apply to most survey companies.

U.S. GAAP

6.20 For those assets classified as held for sale or discontinued operations under IFRSs or FASB ASC 360-10-45, respectively, presentation requirements are essentially the same, except that under FASB ASC 230-10-45-24, an entity that chooses to report separately operating cash flows of discontinued operations should do so consistently for all periods affected, which may include periods long after sale or liquidation of the operations. In addition, unlike IFRS 5, FASB ASC 205-20-45-3 requires presentation of both pre- and posttax income from discontinued operations on the face of the income statement.

Disclosure

IFRSs

6.21 An entity may present the following disclosures either on the face of the financial statements or in the notes:

- Major classes of assets and liabilities classified as held for sale, unless the disposal group is a newly acquired subsidiary classified as held for sale
- Disaggregation of the posttax profit or loss on discontinued operations into the revenue, expenses, pretax profit and loss, gains or losses on measurement to fair value less cost to sell or on disposal, and related income tax effects of these two items respectively
- Net cash flows attributable to operating, financing, and investing activities of discontinued operations
- Amount of income from continuing operations and from discontinued operations attributable to the equity holders of the parent and the noncontrolling interest

When this information is provided in the notes, an entity should disclose the caption of the relevant line item in the financial statements.

6.22 When noncurrent assets or disposal groups are classified as held for sale or discontinued operations, IFRS 5 requires extensive narrative disclosures, including a description of the assets or disposal groups, facts and circumstances leading to the sale, the sale itself, and the expected manner and timing of disposal.

6.23 If applicable, an entity should disclose the reportable segment in which the asset or disposal group was previously reported and should also present the asset or disposal group in accordance with IFRS 8, *Operating Segments*. A disposal group classified as a discontinued operation often qualifies as a separate reportable segment under IFRS 8. IFRS 8 also requires the entity to disclose a reconciliation of the total profit and loss of reportable segments to the entity's profit and loss before tax and discontinued operations.

U.S. GAAP

6.24 Although disclosure requirements are essentially converged with IFRSs, several differences remain, including the following:

- According to FASB ASC 230-10-45-24, separate presentation or disclosure of cash flows from discontinued operations is not required.
- According to FASB ASC 205-20-50-2, an entity should disclose the major classes of assets and liabilities classified as held for sale. Unlike IFRS 5, entities are not exempt from this requirement for newly acquired subsidiaries classified as held for sale.

TABLE 6-1: NONCURRENT ASSETS HELD FOR SALE

	2010	2009	2008
Survey entities reporting assets classified as held for sale	35	31	45
Survey entities reporting assets and associated liabilities as held for sale	35	35	—
Total	**70**	**66**	**45**
Survey entities not reporting assets classified as held for sale	100	94	55
Total	**170**	**160**	**100**

TABLE 6-2: DISCONTINUED OPERATIONS

	2010	2009
Survey entities reporting discontinued operations	45	41
Survey entities not reporting discontinued operations	125	119
Total	**170**	**160**

Presentation and Disclosure Excerpts

Author's Note

Excerpts from survey companies with annual reporting periods beginning before 1 July 2009, may not reflect the amendment to IFRS 5, described in paragraph 6.19, issued in May 2008 in *Improvements to IFRSs*.

Noncurrent Assets Held for Sale

6.25

Lan Airlines S.A. (Dec 2010)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (in part)

Assets	Note	2010 ThUS$	2009 ThUS$
Current Assets			
Cash and cash equivalents	6–7	631,052	731,497
Other financial assets	7–11	245,451	110,667
Other non-financial assets	12	18,820	17,128
Trade and other accounts receivable	7–8	481,350	423,739
Accounts receivable from related entities	7–9	50	38
Inventories	10	53,193	46,563
Tax assets		97,656	68,420
Total current assets other than non-current assets (or disposal groups) classified as held for sale		1,527,572	1,398,052
Non-current assets (or disposal groups) classified as held for sale	13	5,497	10,919
Total current assets		1,533,069	1,408,971

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 2—Summary of Significant Accounting Policies (in part)

The following describes the principal accounting policies adopted in the preparation of these consolidated financial statements.

2.22. Non-Current Assets (or Disposal Groups) Classified as Held for Sale

Non-current assets (or disposal groups) are classified as assets held for sale and are shown at the lesser of their book value and the fair value less costs to sell.

Note 13—Non-Current Assets (or Disposal Groups) Classified as Held for Sale

Non-current assets and disposal groups held for sale as of December 31, 2010, and December 31, 2009 are as follows:

	As of December 31, 2010 ThUS$	As of December 31, 2009 ThUS$
Engines	2,204	5,603
Inventories on consignment	748	2,348
Aircraft	1,537	1,537
Scrapped aircraft	970	880
Rotables	38	551
Total	5,497	10,919

During the financial year 2010 sales were made of rotables, inventories held on consignment and three engines, all of the Boeing 737 fleet.

During the same period of 2009 sales were made of rotables, inventories held on consignment, sale of an aircraft and five engines, all of the Boeing 737 fleet.

The balances have been written down by ThUS$ 5,212 (ThUS$ 4,179 at December 31, 2009) to fair value less costs to sell.

The Company has no discontinued operations as of December 31, 2010.

Note 18—Property, Plant and Equipment (in part)

The movement in the different categories of property, plant and equipment from January 01, 2009 to December 31, 2010 is shown below:

As of December 31, 2010	Construction in Progress ThUS$	Land ThUS$	Buildings Net ThUS$	Plant and Equipment Net ThUS$	Information Technology Equipment Net ThUS$	Fixed Installations & Accessories Net ThUS$	Motor Vehicles Net ThUS$	Leasehold Improvements Net ThUS$	Property, Plant and Equipment Net ThUS$	Property, Plant and Equipment Net ThUS$
Opening balance as of January 01, 2010	264,259	35,538	81,966	3,231,682	15,043	23,659	951	50,286	493,172	4,196,556
Additions	10,229	—	115	571,422	9,516	2,341	420	2,410	6,673	603,126
Acquisitions through business combinations			1,006	490	137	335	107		480	2,555
Disposals	—	—	—	(190)	—	—	(7)	—	(2)	(199)
Transfers to (from) non-current assets (or disposal groups) classified as Held for Sale	—	—	—	2,552	—	—	—	—	—	2,552
Retirements	—	—	—	(6,633)	(536)	(2)	(12)	—	(2,550)	(9,733)
Depreciation	—	—	(2,315)	(235,800)	(5,217)	(3,997)	(172)	(16,797)	(32,315)	(296,613)
Increases (decreases) due to exchanges differences	(62)	—	—	(857)	16	(13)	(3)	—	(27)	(946)
Other increases (decreases)	441,177	—	(651)	100,470	(360)	4,680	6	8,221	(102,411)	451,132
Changes, total	451,344	—	(1,845)	431,454	3,556	3,344	339	(6,166)	(130,152)	751,874
Closing balance as of December 31, 2010	715,603	35,538	80,121	3,663,136	18,599	27,003	1,290	44,120	363,020	4,948,430

Note 29—Gains (Losses) on the Sale of Non-Current Assets Not Classified as Held for Sale

The gains (losses) on sales of non-current assets not classified as Held for Sale as of December 31, 2010 and 2009 are as follows:

	For the Year Ended December 31		
	2010 ThUS$	2009 ThUS$	2008 ThUS$
Property, plant and equipment	1,413	4,278	2,546
Investments in companies, associates and joint businesses	—	(2)	3,664
Total	1,413	4,276	6,210

The gain (loss) on sales of the period is presented in other operating income, by function.

Discontinued Operations, Withdrawal of Business from Held for Sale and Reclassification as Continuing Operations

6.26

Technicolor SA (Dec 2010)

9.1.1 CONSOLIDATED STATEMENTS OF OPERATIONS (in part)

(In € Millions)	Note	Year Ended December 31 2010	2009[1]	2008[1]
Continuing Operations				
Revenues		3,574	3,619	4,192
Cost of sales		(2,795)	(2,804)	(3,422)
Gross margin		779	815	770
Selling and administrative expenses	(7)	(397)	(404)	(482)
Research and development expenses	(8)	(148)	(155)	(171)
Restructuring costs	(29)	(41)	(41)	(166)
Net impairment losses on non-current operating assets	(9)	(183)	(128)	(700)
Other income (expense)	(7)	28	12	(25)
Profit (loss) from continuing operations before tax and net finance costs		38	99	(774)
Interest income	(10)	6	8	16
Interest expense	(10)	(145)	(51)	(89)
Gain on Technicolor's debt restructuring on May 26, 2010	(10)	381	—	—
Other financial income (expense)	(10)	(126)	(25)	(301)
Net finance costs		116	(68)	(374)
Share of profit (loss) from associates	(15)	—	—	(4)
Income tax	(11)	2	(35)	(105)
Profit (loss) from continuing operations		156	(4)	(1,257)
Discontinued Operations				
Net loss from discontinued operations	(12)	(225)	(338)	(676)
Net income (loss)		(69)	(342)	(1,933)

9.1.3 CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (in part)

(In € Millions)	Note	December 31, 2010	December 31, 2009	December 31, 2008
Assets				
Current assets				
Inventories	(19)	153	97	270
Trade accounts and notes receivable	(20)	666	555	968
Current accounts with associates and joint ventures		4	5	4
Derivative financial instruments	(25)	—	7	85
Income tax receivable		17	15	32
Other current assets	(21)	318	316	485
Cash collateral and security deposits	(22)	55	82	38
Cash and cash equivalents	(22)	332	569	769
Assets classified as held for sale	(12)	90	436	33
Total current assets		1,635	2,082	2,684

(In € Millions)	Note	December 31, 2010	December 31, 2009	December 31, 2008
Equity and Liabilities				
Current liabilities				
Borrowings	(26)	47	2,727	2,862
Derivative financial instruments	(25)	—	4	46
Retirement benefits obligations	(28)	46	60	71
Restructuring provisions	(29)	49	48	115
Other provisions	(29)	69	68	102
Trade accounts and notes payable		528	435	968
Accrued employee expenses		158	128	155
Income tax payable		17	7	32
Other current liabilities	(31)	374	345	548
Payables on acquisition of companies	(32)	—	2	1
Liabilities classified as held for sale	(12)	103	257	22
Total current liabilities		1,391	4,081	4,922
Total liabilities		3,429	4,773	5,725

9.1.4 CONSOLIDATED STATEMENTS OF CASH FLOWS (in part)

(In € Millions)	Note	Year Ended December 31 2010	2009	2008
Net income (loss)		(69)	(342)	(1,933)
Loss from discontinued operations		(225)	(338)	(676)
Profit (loss) from continuing operations		156	(4)	(1,257)
Net operating cash generated from/(used in) continuing activities		120	195	(143)
Net operating cash used in discontinued operations	(12.4)	(55)	(97)	(175)
Net cash from/(used in) operating activities (I)		65	98	(318)
Net investing cash generated/(used) in continuing activities		(99)	(194)	(280)
Net investing cash generated from/(used in) discontinued operations	(12.4)	(5)	(34)	(71)
Net cash used in investing activities (II)		(104)	(228)	(351)
Net financing cash generated from/(used in) continuing activities		(207)	(74)	878
Net financing cash used in discontinued operations	(12.4)	(2)	(1)	(8)
Net cash provided by/(used) in financing activities (III)		(209)	(75)	870

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 2. Summary of Significant Accounting Policies (in part)

2.19 Assets Held for Sale and Discontinued Operations

(a) Assets Held for Sale

A non-current asset (or disposal group) is classified as held for sale when its carrying amount will be recovered principally through a sale transaction rather than through continuing use. This means the asset (or disposal group) is available for immediate sale and its sale is highly probable. A non-current asset (or disposal group) classified as held for sale is measured at the lower of its fair value less costs to sell and its carrying amount. Any impairment loss for write-down of the asset (or disposal group) to fair value less costs to sell is recognized in the statement of operations.

(b) Discontinued Operations

A discontinued operation is a component of the Group that either has been disposed of (by sale or otherwise) or is held for sale. To be disclosed as discontinued, the operation must have been stopped or be classified as "asset held for sale." The component discontinued is clearly distinguishable operationally and for reporting purposes. It represents a separate major line of business (or geographical area of business), is part of a single major plan of disposal or is a subsidiary acquired exclusively for resale.

The profit (loss) from discontinued operations is presented as a separate line item on the face of the statement of operations with a detailed analysis provided in note 12. The statement of operations data for all prior periods presented are reclassified to present the results of operations meeting the criteria of IFRS 5 as discontinued operations (see note 4 for details on this reclassification). In the statement of cash flows, the amounts related to discontinued operations are disclosed separately and detailed in note 12.

When a non current asset or disposal group no longer met the held-for-sale criteria, the asset or disposal group ceases to be classified as held for sale.

It is then measured at the lower of:

- its carrying value before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortization that would have been recognized had the asset (or disposal group) not been classified as held for sale; and
- its recoverable amount at the date of the subsequent decision not to sell. Recoverable value is the higher of fair value less costs to sell and value in use.

Any adjustment to the carrying amount is included in profit and loss from continuing operations in which the assets ceased to be classified as held for sale.

Note 3. Critical Accounting Estimates and Judgments (in part)

3.4 Valuation of Businesses Held for Sale

Businesses held for sale should be recorded at the lower of their carrying amount and fair value less costs to sell. Estimating fair value less costs to sell requires management to make material judgments and estimates.

Technicolor's management believes its policies relating to such valuation are critical accounting policies involving critical accounting estimates because determining the fair value less costs to sell requires (1) determining the most probable selling price of the held for sale businesses based on all available facts and circumstances and (2) estimating the outcomes of ongoing negotiations with potential buyers.

In 2010 the Group reviewed the value of its held for sale businesses. This review led to an impairment of €17 million, impacting discontinued businesses (see notes 12.3 and 14), reflecting management's best estimates.

Note 4. Reconciliation with Consolidated Financial Statements Released as of December 31, 2009

According to IFRS 5, the statement of operations for the comparative period has to be restated in order to reflect the effect of the scope of discontinued operations defined as of December 31, 2010.

For the year 2010, there has been no change in discontinued perimeter compared to 2009 with the exception of PRN.

For PRN Technicolor has decided to end the disposal process. Accordingly, PRN which was classified as a discontinued activity in 2009, has been reclassified into continued activity and withdrawn from Assets Held for Sale classification.

Accordingly the consolidated statement of operations of 2008 and 2009 has been restated with this reclassification in continuing operations. In compliance with IFRS 5, the cumulative impact of adjusting the carrying value of non-current assets has been recognized entirely in 2010 (mainly for the depreciation for the year 2009 which was not recognized under IFRS 5).

For the year 2009, Grass Valley, Convergent, Screenvision and PRN were part of the divestment process announced on January 28, 2009 in the framework of the new strategy of the group. Grass Valley supplied content creators with production facilities and distributors with video-focused systems and equipments. PRN, Convergent and Screenvision, provided networks services to retailers, cinema exhibitors and other enterprises that provided their customers/audiences with video content.

The column "IFRS 5" below represents the statement of operations of PRN which is no more in discontinued operations compared to the one published in December 31, 2009.

4.1 Reconciliation for December 31, 2009 Statement of Operations

(In € Millions)	Year Ended December 31, 2009 (Released in 2009)	IFRS 5	Year Ended December 31, 2009 (Released in 2010)
Continuing Operations			
Revenues	3,529	90	3,619
Cost of sales	(2,747)	(57)	(2,804)
Gross margin	782	33	815
Selling and administrative expenses	(382)	(22)	(404)
Research and development expenses	(153)	(2)	(155)
Restructuring costs	(41)	—	(41)
Net impairment losses on non-current operating assets	(80)	(48)	(128)
Other income (expense)	10	2	12
Profit from continuing operations before tax and net finance costs	136	(37)	99
Finance costs—net	(68)	—	(68)
Share of income (loss) from associates	—	—	—
Income tax	(35)	—	(35)
Profit (loss) from continuing operations	33	(37)	(4)
Discontinued Operations			
Profit (loss) from discontinued operations—net	(375)	37	(338)
Net income (loss)	(342)	—	(342)

4.2 Reconciliation for December 31, 2008 Statement of Operations

(In € Millions)	Year Ended December 31, 2009 (Released In 2009)	IFRS 5	Year Ended December 31, 2009 (Released In 2010)
Continuing Operations			
Revenues	4,099	93	4,192
Cost of sales	(3,355)	(67)	(3,422)
Gross margin	744	26	770
Selling and administrative expenses	(459)	(23)	(482)
Research and development expenses	(169)	(2)	(171)
Restructuring costs	(166)	—	(166)
Net impairment losses on non-current operating assets	(666)	(34)	(700)
Other income (expense)	(25)	—	(25)
Profit from continuing operations before tax and net finance costs	(741)	(33)	(774)
Finance costs—net	(376)	2	(374)
Share of income (loss) from associates	(4)	—	(4)
Income Tax	(104)	(1)	(105)
Profit (loss) from continuing operations	(1,225)	(32)	(1,257)
Discontinued Operations			
Profit (loss) from discontinued operations—net	(708)	32	(676)
Net Income (Loss)	(1,933)	—	(1,933)

4.3 Reconciliation for December 31, 2009 and 2008 Statements of Cash Flows

The main variations in the statement of cash flows due to the changes in the scope of discontinued operations compared to December 31, 2009 are the following:

(In € Millions)	Year Ended December 31 2009	2008
Loss from discontinued operations	(37)	(32)
Profit from continuing operations	37	32
Net operating cash generated from continuing activities	(16)	(15)
Net operating cash used in discontinued operations	16	15
Net cash from operating activities	—	—
Net investing cash generated from continuing activities	1	7
Net investing cash generated used in discontinued operations	(1)	(7)
Net cash used in investing activities	—	—
Net financing cash generated from continuing activities	—	—
Net financing cash (used in)/generated from discontinued operations	—	—
Net cash (used in)/provided by financing activities	—	—

4.4 Assets and Liabilities Held for Sale Related to PRN Activity

As from the December 2010 closing, PRN activity has been reclassified into continued activity and withdrawn from Assets Held for Sale classification. The details of PRN assets and liabilities reclassified into held for sale in the 2009 publication is detailed in the table below:

(In € Millions)	December 31, 2009
Goodwill and intangible assets	38
Property, plant and equipment	17
Other assets	5
Inventories	—
Accounts receivable and other receivables	16
Total—assets classified as held for sale	76
Provisions	2
Pension provisions	—
Accounts payable and other liabilities	28
Total—liabilities directly associated with assets classified as held for sale	30

Note 5. Significant Changes in the Scope of Consolidation

For the years ended December 31, 2010, 2009 and 2008, Technicolor's consolidated balance sheets and statements of operations include the accounts of all investments in subsidiaries, jointly controlled entities and associates (the main ones being listed in note 40). The following is a summary of the number of companies consolidated and accounted for

under the full consolidation method, the equity method and the proportionate consolidation method.

	As of December 31											
	2010				2009				2008			
	Europe(*)	France	US	Others	Europe(*)	France	US	Others	Europe(*)	France	US	Others
Number of Companies:												
Parent company and consolidated subsidiaries	49	19	21	42	56	24	24	44	65	25	29	53
Companies consolidated under the proportionate method	6	2	2	5	6	3	3	3	11	3	2	4
Companies accounted for under the equity method	—	1	1	—	—	4	2	1	—	4	2	1
Sub-total by region	55	22	24	47	62	31	29	48	76	32	33	58
Total		148				170				199		

(*) Except France.

5.1 Changes In 2010

Main Disposals

- On October 14, 2010, Technicolor closed a transaction under which it sold the majority of its 50% interest in Technicolor Cinema Advertising, LLC ("Screenvision US") to a newly formed holding company, SV Holdco, LLC ("SV Holdco"), an affiliate of Shamrock Capital-Growth Fund II, a leading private equity fund focused on media, entertainment and communication. The sale price for the shares was $60 million (€43 million at October 14, 2010 rate), of which $55 million (€39 million) was paid in cash and $5 million (€4 million) was placed in escrow to satisfy post closing indemnity claims against Technicolor, if any. As part of the transaction, Technicolor also exchanged its remaining interest in Screenvision US for a minority interest in SV Holdco represented by Class A Common Units. Simultaneously at closing, Carmike Cinemas, Inc acquired Class C Common Units in SV Holdco representing 20% of the voting rights and 20% of profit and loss of SV Holdco, LLC, in exchange for entering into a Theater Agreement with Screenvision US. Technicolor's Class A Common Units represented an 18.8% interest in SV Holdco.

  Under the terms of the transaction, Technicolor will no longer have joint control of Screenvision US, but will retain one seat on the Board of SV Holdco and will continue to be Screenvision US's provider of both film and digital services. Accordingly, Technicolor will have a significant influence and will account for the stake in Screenvision US under the equity method.

  In accordance with IAS 31 paragraph 45, the residual interest has been accounted for at fair value (€9.1 million) after discount for lack of marketability and lack of control. The net loss recognized in net loss from discontinued operations on the disposal date was €16 million. The portion of that result attributable to recognizing the investment retained in the former subsidiary at its fair value when joint control was lost is €4 million. Technicolor applied the $60 million proceeds towards repayment of the DPN (see note 1.2).
- On July 26, 2010 Technicolor received a binding offer from Francisco Partners for the acquisition of the Grass Valley Broadcast business. This disposal process contributes to the strategic refocus around its content creators and network service providers customer base, initiated by the Group in 2009. The transaction was closed on December 31, 2010.

  The transaction with Francisco Partners comprised the following:
  - U.S.$80 million promissory note (€60 million at the transaction date) issued to Technicolor with a six-year maturity and bearing a capitalized interest of 5% per year. The amount of the note represents the value of the business minus the present value of retirement liabilities transferred;
  - the transfer by Technicolor of a net amount of €27 million of cash required for the ongoing management of the activity;
  - the right for Technicolor to receive additional consideration from the buyer based on the potential future remuneration of the new owners of the disposed entity.

  Based on the book value of the assets, the Group registered a loss for this disposal in its 2010 consolidated financial statements of €97 million. Given the structure of the deal, Technicolor did not receive cash proceeds from this disposal to be applied to its DPN issued in May 2010.
- On January 27, 2010, Technicolor entered into an agreement with Sony Electronics Inc. for the sale of Convergent Media System Corporation, specialized in digital signage and content distribution systems. Convergent lies outside the scope of Technicolor's strategic focus on content creators. The terms of this transaction are financially non-material to Technicolor. The impact of the disposal on the Group consolidated financial statements is a loss of €7 million at the date of transaction (the sale price amounts to €4.6 million at the date of transaction) recognized in net loss from discontinued operations. Technicolor applied the cash proceeds towards redemption of the DPN issued on May 26, 2010 (see note 1.2).

5.2 Changes in 2009

Main Acquisitions and Business Combinations

- In December 2009, the Group acquired the 37% of remaining interests in Technicolor India Pvte Ltd (formerly Paprikaas) for an amount of U.S.$7 million (equivalent to €5 million at the date of transaction). Technicolor India Pvte Ltd (formerly Paprikaas) is consolidated in the Entertainment Services segment. The main impact of this additional shares' acquisition was an increase in goodwill amounting to €3 million.

Main Disposals

- In July 2009, Technicolor sold its Software Technology Solutions (STS) business to Civolution B.V. The impact on the Group consolidated financial statements was a loss of €4 million.
- In December 2009, Technicolor sold its CNS business to Verdoso. As part of the agreement, Technicolor has an obligation towards this entity up to a maximum of €2 million (€0.4 million at December 31, 2010). This obligation has been recorded in Technicolor 2009 consolidated financial statements. The total impact of the disposal on the Group consolidated financial statements is a loss of €7 million (of which €2 million impacts restructuring costs).

Note 9. Impairment Losses on Non-Current Operating Assets

(In € Millions)	Technology	Digital Delivery(*)	Entertainment Services(*)	Other	Total
2010					
Impairment losses on goodwill[1]	—	(103)	(58)	—	(161)
Impairment losses on customer relationships[1]	—	—	(15)	—	(15)
Impairment losses on tangible assets[2]	—	(5)	(30)	—	(35)
Impairment losses on non-current operating assets	—	(108)	(103)	—	(211)
Reversal of impairment losses on customer relationships	—	—	25	—	25
Reversal of impairment losses on contracts and up-front prepaid discount	—	—	3	—	3
Net impairment losses on non-current operating assets	—	(108)	(75)	—	(183)
2009					
Impairment losses on goodwill[1]	—	—	(48)	—	(48)
Impairment losses on customer relationships[1]	—	—	(18)	—	(18)
Impairment losses on patents and trademarks[1]	(12)	—	—	—	(12)
Impairment losses on other intangible assets[1]	—	(8)	—	—	(8)
Impairment losses on tangible assets[2]	—	(1)	(13)	—	(14)
Impairment losses on contracts and up-front prepaid discount	—	—	(44)	—	(44)
Impairment losses on non-current operating assets	(12)	(9)	(123)	—	(144)
Reversal of impairment losses on patents and trademarks[1]	—	1	5	—	6
Reversal of impairment losses on customer relationships[1]	—	—	10	—	10
Net impairment losses on non-current operating assets	(12)	(8)	(108)	—	(128)
Impairment losses on activities classified under discontinued operations					(230)
Net Impairment losses on non-current operating assets (total group)					(358)
2008					
Impairment losses on goodwill[1]	(15)	(94)	(286)	—	(395)
Impairment losses on customer relationships[1]	—	(24)	(119)	—	(143)
Impairment losses on patents and trademarks[1]	(8)	—	(6)	—	(14)
Impairment losses on other intangible assets[1]	(4)	—	(7)	(1)	(12)
Impairment losses on tangible assets[2]	—	(56)	(70)	(1)	(127)
Impairment losses on contracts and up-front prepaid discount	—	—	(9)	—	(9)
Impairment Losses on non-current operating assets	(27)	(174)	(497)	(2)	(700)
Impairment losses on activities classified under discontinued operations	—	—	—	—	(406)
Impairment losses on non-current operating assets (total group)	—	—	—	—	(1,106)

(1) For details, see note 14 on Goodwill and intangible assets. For the year 2009, the €48 million impairment relates to PRN which has been reclassified in continuing operations in 2010 and presented into continuing operations for prior year periods.
(2) For details, see note 13 on Property, Plant and Equipment.
(3) Additional €1 million on tangible assets have been written-off in 2010 in the frame of a restructuring plan, apart from impairment process. Total impairment of assets amounts therefore to €184 million.
(4) Additional €17 million impairment was booked on current assets in the discontinued perimeter.
(*) As of June 1, 2010, the Digital Content Delivery Services (previously part of the Entertainment Services segment) and the Connect activities were integrated into a new segment called Digital Delivery.

Note 12. Discontinued Operations

12.1 Scope of the Discontinued Operations

Operations Included in Discontinued Operations in 2010

For the year 2010, there has been no change in discontinued perimeter compared to 2009 with the exception of the PRN business.

Operations within the discontinued perimeter in 2010 are:

- Disposal of Convergent: On January 27, 2010, Technicolor entered into an agreement with Sony Electronics Inc. for the sale of Convergent Corporation, specialized in digital signal and content distribution systems.
- Disposal of Screenvision US: On October 14, 2010, Technicolor sold the majority of its 50% interest in Technicolor Cinema Advertising, LLC ("Screenvision US") to a newly formed holding company, SV Holdco, LLC ("SV Holdco"), an affiliate of Shamrock Capital Growth Fund II (see note 5 for more details).
- Disposal of Grass Valley businesses: On December 31, 2010 Technicolor sold its Grass Valley Broadcast business to Francisco Partners. The remaining Grass Valley businesses (Transmission and Head-end) are expected to be sold in the course of the first semester 2011 (see note 39).
- Regarding the disposal of PRN, the offers received from potential buyers of this business did not provide satisfactory conditions for the Group. Taking into consideration a number of factors, including PRN's business achievements in 2010, the improvement in the advertising market in general, and the place based media market specifically, as seen over the past quarters, the Group believes greater value can be created by developing the PRN business. As a consequence, the Group has decided to end the disposal process for PRN, which will be consolidated as part of its Entertainment Services segment within continuing operations going forward.

Operations Discontinued in 2009 and Before 2009

- On January 28, 2009, Technicolor announced its decision to exit the Grass Valley and former Media Networks (MN) businesses made of Convergent, Screenvision and PRN. Grass Valley supplies content creators, production facilities and distributors with video-focused systems and equipment. MN includes PRN, Convergent and Screenvision and provides network services to retailers and cinema exhibitors and other enterprises that provide their customers/audiences with video content. These businesses were classified as discontinued operations in these consolidated financial statements since the IFRS 5 criteria were met at the beginning of the second quarter of 2009.
- In the first half of 2008, the Board decided to discontinue the Silicon Solutions business (named Thomson Silicon Solutions "TSS"). This business included the Group's remote control activity which was ceased in the course of the first half of 2008, the tuner activity which was sold on September 1, 2008 to a joint venture, NuTune, over which Technicolor has no control and holds a participation of 45%, and the integrated circuits design and sales activity, which was ceased as of June 30, 2008.
- In 2005 Technicolor decided to sell its audio-video, accessories and consumer marketing and sales activities (referred to as "AVA business" hereafter). Pursuant to the disposals which occurred in 2007 and 2008, the Group has completely exited the AVA business.

12.2 Results of Discontinued Operations

As of December 31, 2010, the results of these discontinued operations are as follows:

	Year Ended December 31, 2010			
(In € Millions)	Results Related to Activities Discontinued in 2008[*]	Results Related to the Grass Valley Businesses	Results Related to the Media Network (MN) Businesses	Total
Revenues	—	426	68	494
Cost of sales	3	(284)	(46)	(327)
Gross margin	3	142	22	167
Expenses other than impairment of assets[(1)]	(5)	(319)	(42)	(366)
Profit (loss) from operations before tax and finance cost and before impairment	(2)	(177)	(20)	(199)
Net interest expense	—	—	—	—
Other financial expense	(1)	(3)	—	(4)
Income tax	(1)	(2)	(2)	(5)
Profit (loss) for the year from discontinued operations before impairment	(4)	(182)	(22)	(208)
Loss on impairment of businesses held for sale[(2)]				(17)
Profit (loss) for the year from discontinued operations				(225)

[*] Corresponds mainly to the AVA business.

[(1)] Includes restructuring costs for €53 million, a net curtailment gain on pension plans for €4 million and net capital losses on the disposal of Convergent, Screenvision US and Grass Valley activities for €120 million.

[(2)] Corresponds to an impairment loss to adjust the held for sale businesses at their fair value less costs to sell. See note 12.3 below.

(In € Millions)	Year Ended December 31, 2009 Results Related to Activities Discontinued in 2008(*)	Results Related to the Grass Valley Businesses	Results Related to the Media Network (MN) Businesses	Total
Revenues	3	376	101	480
Cost of sales	6	(274)	(73)	(341)
Gross margin	9	102	28	139
Expenses other than impairment of assets	(5)	(189)	(27)	(221)
Profit (loss) from operations before tax and finance cost and before impairment	4	(87)	1	(82)
Net interest expense[1]	(4)	(21)	(1)	(26)
Other financial expense	3	1	1	5
Income tax	1	(2)	(4)	(5)
Profit (loss) for the year from discontinued operations before impairment	4	(109)	(3)	(108)
Loss on impairment of businesses held for sale[2]	—	—	—	(230)
Profit (loss) for the year from discontinued operations	—	—	—	(338)

(*) Corresponds mainly to the AVA business.
(1) Consists of interest expense of €27 million and interest income of €1 million for the year ended December 31, 2009.
(2) Corresponds to an impairment loss to adjust the held for sale businesses at their fair value less costs to sell. See note 12.3 below.

(In € Millions)	Year Ended December 31, 2008 Results Related to Businesses Discontinued in 2008 and Before	Results Related to the Grass Valley Businesses	Results Related to the Media Network (MN) Businesses	Total
Revenues	63	531	117	711
Cost of sales	(46)	(388)	(94)	(528)
Gross margin	17	143	23	183
Expenses other than impairment of assets	(118)	(248)	(36)	(402)
Loss from operations before tax and finance cost and before impairment	(101)	(105)	(13)	(219)
Net interest expense[2]	(2)	(16)	(1)	(19)
Other financial expense	(2)	(4)	—	(6)
Income tax	—	(2)	—	(2)
Profit (loss) for the year from discontinued operations before impairment	(105)	(127)	(14)	(246)
Loss on impairment of assets (including impairment losses against assets in the frame of restructuring plans)[1]	—	—	—	(430)
Profit (loss) for the year from discontinued operations	—	—	—	(676)

(1) 2008 loss from discontinued operations was impacted by a €430 million loss on impairment of assets, related mainly to:
The goodwill in relation to Grass Valley that was impaired by €329 million. This impairment was triggered by the following facts and circumstances:
- due to the economic crisis, during the second half of 2008, revenues from the Grass Valley business had been strongly impacted by reduction in the capital expenditure of some key customers. The uncertainties regarding spending in 2009 has led the company to revise downwards mid-term assumptions about the results of this business;
- significant delay in new key products introduction with significant impact on sales and margin opportunity.

The goodwill and intangible assets in relation to Media Network businesses that were impaired by €27 million.
The impairment of TSS assets in the frame of a restructuring plan.
(2) Consists of interest expense of €20 million less interest income of €1 million for the year ended December 31, 2008.

12.3 Losses on Impairment of Held for Sale Businesses

IFRS 5.15 requires that a disposal group classified as held for sale be measured at the lower of its carrying amount and fair value less costs to sell.

Based on the latest information available to the Group regarding the potential selling prices of the held for sale businesses and on the non-current assets carrying values of such businesses as of December 31, 2010 the Group recognized an impairment loss of €17 million for the discontinued businesses.

As of December 31, 2009 the Group recognized an impairment loss of €230 million that impacted goodwill for €90 million, and intangible and tangible assets for respectively €102 million and €38 million.

12.4 Net Cash Used in Discontinued Operations

(In € Millions)	Year Ended December 31 2010	2009	2008
Loss from discontinued operations	(225)	(338)	(676)
Summary adjustments to reconcile loss from discontinued operations to cash used in discontinued operations			
Depreciation and Amortization	1	16	78
Impairment of assets	17	230	429
Net changes in provisions	17	(27)	7
(Profit)/loss on asset sales[1]	120	(3)	20
Interest expense	—	26	19
Other non cash items (including tax)	3	6	7
Changes in working capital and other assets and liabilities	11	21	(31)
Cash generated used in discontinued operations	(56)	(69)	(147)
Net interest paid	1	(25)	(19)
Income tax received/paid	—	(3)	(9)
Net operating cash used in discontinued operations (I)	(55)	(97)	(175)
Acquisition of subsidiaries, associates and investments, net of cash acquired	—	(2)	(7)
Net cash impact from sale of investments	3	(2)	(24)
Purchases of property, plant and equipment (PPE)	—	(6)	(15)
Proceeds from sale of PPE	—	1	4
Purchases of intangible assets including capitalization of development costs	—	(6)	(30)
Cash collateral and security deposits granted to third parties	(13)	(19)	1
Cash collateral and security deposits reimbursed by third parties	5	—	—
Net investing cash used in discontinued operations (II)	(5)	(34)	(71)
Repayments of borrowings	(2)	(1)	(8)
Net financing cash used in discontinued operations (III)	(2)	(1)	(8)
Net decrease in cash and cash equivalents (I + II + III)	(62)	(132)	(254)

[1] Corresponds to the capital loss on the disposal of Convergent for €7 million, Screenvision US for €16 million and Grass Valley activities for €97 million.

12.5 Assets and Liabilities Held for Sale

The assets and liabilities attributable to the operations discontinued and not yet sold as of December 31, 2010 and December 31, 2009 have been classified as held for sale in the Group consolidated balance sheets and presented separately from other assets.

As of December 31, 2010 two main businesses are classified as held for sale: Grass Valley (Transmission and Head-end) and MN (Screenvision Europe).

The major classes of assets and liabilities comprising the businesses classified as held for sale are as follows:

(In € Millions)	December 31, 2010	December 31, 2009	December 31, 2008
Goodwill and intangible assets	—	72	4
Property, plant and equipment	—	31	2
Other assets	25	65	13
Inventories	23	93	1
Accounts receivable and other receivables	42	175	13
Total—assets classified as held for sale	90	436	33
Provisions	29	20	4
Pension provisions	8	40	—
Accounts payable and other liabilities	66	197	18
Total—liabilities directly associated with assets classified as held for sale	103	257	22

Note 16. Interest in Joint Ventures

As Screenvision US has been sold in the course of 2010, the remaining main interests of the Group in jointly controlled entities for 2010 closing are Screenvision Europe and Contentguard. For the 2010, 2009 and 2008 periods, Screenvision Europe and Screenvision US activities are discontinued activities.

The joint ventures' contribution to the Group's balance sheet and statement of operations items is summarized below:

	Year Ended December 31		
(In € Millions)	**2010**	**2009**	**2008**
Balance Sheet			
Total current assets	38	117	70
Total non-current assets	32	24	83
Total current liabilities	34	68	76
Total non-current liabilities	6	15	21
Statement of Operations			
Revenues	17	9	24
Expenses[(1)]	(23)	(64)	(54)
Contribution to the group's income for the period	(6)	(55)	(30)

[(1)] In 2010, includes for €3 million the net loss from joint ventures classified in discontinued operations.
In 2009, includes for €56 million the net loss from joint ventures classified in discontinued operations, including €59 million of impairment of non-current operating assets.
In 2008, includes for €34 million the net loss from joint ventures classified in discontinued operations.

Note 29. Provisions for Restructuring and Other Charges

29.1 Restructuring Provisions

(In € Millions)	**December 31, 2010**	**December 31, 2009**	**December 31, 2008**
Opening provisions	64	132	100
Current year expense[(1)]	55	60	266
Release of provision[(1)]	(11)	(27)	(11)
Usage during the period	(54)	(100)	(124)
Currency translation adjustment	2	1	—
Change in held for sale provision	1	(3)	—
Other movements[(2)]	(1)	1	(99)
Closing Provisions	56	64	132
Of which current	49	48	115
Of which non-current	7	16	17

[(1)] Restructuring expenses, net of release have been posted as follows in the consolidated statement of operations:

(In € Millions)	**December 31, 2010**	**December 31, 2009**	**December 31, 2008**
Profit (loss) from continuing operations			
Termination costs	(40)	(37)	(105)
Impairment of assets (part of a restructuring plan)[(2)]	(1)	(2)	(45)
Other costs related to disposal of activities[(2)]	—	(2)	(16)
Continuing restructuring expenses	(41)	(41)	(166)
Profit (loss) from discontinued operations[(2)(3)]	(53)	8	(89)
Total restructuring expenses	(94)	(33)	(255)

[(2)] These restructuring costs are reclassified in the balance sheet against assets prior to disposals and appeared therefore in the line "other movements" within the restructuring provision variation. The related reclassification for discontinued operations amounts to 0, 0 and €40 million for years ended December 31, 2010, 2009 and 2008, respectively.

[(3)] Restructuring costs related to activities discontinued and classified as held for sale since December 2009 closing represent €50 million. These are not presented in the variation of restructuring provision.

Note 35. Acquisitions, Disposals and Other Cash Operations Impacting the Consolidated Statements of Cash Flows (in part)

(c) Disposal of Subsidiaries, Activities

(In € Millions)	December 31, 2010	December 31, 2009	December 31, 2008
Disposals on Continuing Activities			
Videocon	40	28	8
Other disposal and cash of companies disposed of	(3)	(5)	(3)
Net cash impact in continuing activities	37	23	5
Disposals of Discontinued Activities			
Grass Valley activities[1]	(32)	—	—
Screenvision US	43	—	—
Convergent Media System Corporation	5	—	—
Other disposal and cash of companies disposed of	(13)	(2)	(24)
Net cash impact of discontinued activities	3	(2)	(24)
Total cash impact of disposals	40	21	(19)

[1] Cash out on disposal of Grass Valley activities of which €5 million will be cash back in 2011.

Spinoff, Discontinued Operations, Assets and Associated Liabilities Classified as Held for Sale

6.27

Homburg Invest Inc. (Dec)

Author's Note

As explained in its Management's Discussion and Analysis, in December 2009, Homburg Invest Inc. "outlined a strategy to spin off assets into four geographically based companies and a development company . . . On May 25, 2010, [Homburg] completed the first step in accomplishing this strategy by selling its portfolio of Canadian income producing investment properties to Homburg Canada Real Estate Investment Trust ("HCREIT") . . . The investment in HCREIT, in which [Homburg] retained a 33.7% equity interest as of December 31, 2010, is now valued at more than the market capitalization of Homburg Invest itself."

CONSOLIDATED BALANCE SHEET (in part)

(CAD $ Thousands Except Per Share Amounts)	Note	December 31, 2010	December 31, 2009
Assets			
Current assets			
Cash and cash equivalents		13,617	32,569
Properties under development for resale	9	36,932	73,957
Receivables and other	5	36,025	49,639
		86,574	156,165
Assets classified as held for sale	16	144,247	72,957
		230,821	229,122
Equity and Liabilities			
Current liabilities			
Accounts payable and other liabilities	11	102,783	195,891
Income taxes payable	15	8,243	13,760
Construction financing	13	40,231	94,999
Current portion of long term debt	14	185,168	624,284
Provisions	12	16,922	16,965
		353,347	945,899
Liabilities associated with assets classified as held for sale	16	91,989	43,358
		445,336	989,257
Total liabilities		1,961,205	3,092,178

CONSOLIDATED STATEMENT OF LOSS (in part)

Year Ended December 31

(CAD $ Thousands Except Per Share Amounts)	Note	2010	2009
Net income (loss) from continuing operations		18,323	(361,877)
Net loss from discontinued operations after tax	16	(106,377)	(87,385)
Net loss		$ (88,054)	$(449,262)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31

(CAD $ Thousands Except Per Share Amounts)	Note	2010	2009
Cash obtained from (used in)			
Operating Activities			
Net income (loss) from continuing operations		$ 18,323	$ (361,877)
Items not affecting cash:			
Gain on sale of subsidiary		(107,164)	
Gain on sale of investments		(3,600)	(2,239)
Fair market value changes on:			
investment properties		31,112	312,227
development properties		16,777	48,707
Impairment loss on properties under development		7,811	27,779
Change in provisions	12	(5,161)	34,089
Loss on derivative instruments		677	7,486
Distribution income from associate		8,188	
Amortization of financing fees		4,703	3,920
Loss from associate		12,628	
Deferred rental income		(4,849)	(6,722)
Deferred income taxes		42,794	(79,106)
Stock based compensation		88	146
Fair value change in financial assets		(88)	1,187
Accretion of discounted liabilities			1,453
Foreign exchange gain		(20,147)	(24,201)
		2,092	(37,151)
Change in non-cash working capital and other	20	(22,354)	91,311
Net cash (used in) from continuing operations		(20,262)	54,160
Net cash from discontinued operations	16	3,744	3,522
Net cash (used in) from operating activities		(16,518)	57,682
Investing Activities			
Investment in investment properties		(1,908)	(1,951)
Decrease in restricted cash		639	2,576
Proceeds on sale of investments		10,340	13,946
Purchase of long term investments		(1,079)	
Investment in development properties		(44,644)	(42,618)
Discontinued operations	16	103,332	(24,969)
Net cash used in investing activities		66,680	(53,016)
Financing Activities			
Decrease in demand loans		(41,648)	(10,468)
Increase (decrease) in mortgages payable		1,307	(23,373)
Proceeds (repayment) from bonds		(51,429)	11,043
Increase (decrease) in related party receivable		10,220	(10,220)
Increase (decrease) in deferred financing charges		2,499	(2,318)
Repurchase of common shares and issue costs		(419)	(1,346)
Decrease in related party payable		(3,556)	(14,180)
Increase (decrease) in construction financing		3,925	(7,434)
Homburg Capital Securities A proceeds	17d	4,598	37,116
Discontinued operations	16	5,389	32,724
Net cash from financing activities		(69,114)	11,544
Increase (decrease) in cash		(18,952)	16,210
Cash, beginning of year		32,569	16,359
Cash, end of year		$ 13,617	$ 32,569

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

16. Discontinued Operations

During 2009, the Company outlined a strategy to spin off assets into four geographically based companies and a development company. On May 25, 2010 the Company completed the first step in accomplishing this strategy by selling its portfolio of Canadian income producing investment properties to HCREIT for cash proceeds of $114,511, units in HCREIT at a fair value of $143,139 plus a bargain purchase gain of $69,380 resulting in a pre-tax loss of $150,962. The following represents the income statement amounts associated with the sale plus certain other Canadian investment properties held for sale from December 31, 2009 and presented as discontinued.

	2010	2009
Income Statement		
Property revenue	$ 57,773	$147,203
Property operating expenses	30,072	67,246
Gross income from operations	27,701	79,957
Other income	700	93
Interest expense	(13,000)	(36,356)
General and administrative	(3,526)	(9,846)
Fair value adjustment on investment properties	17,241	(132,734)
Loss on sale of assets	(775)	(6,739)
Net income (loss) from discontinued operations before income taxes	28,341	(105,625)
Current income tax recovery		(1,788)
Deferred income tax expense (recovery)	7,477	(16,452)
	20,864	(87,385)
Loss on disposal of discontinued operations	(158,943)	—
Deferred tax recovery	(31,702)	—
Net loss from discontinued operations after tax	$(106,377)	$(87,385)

The assets held for sale include an investment property in Canada and 9 Limited Partnerships in the United States

	2010	2009
Assets and Liabilities Held for Sale		
Investment properties	$139,434	$ 66,365
Restricted cash	485	5,324
Cash	2,067	
Deferred income tax asset	1,565	
Receivable and others	696	1,268
	$144,247	$ 72,957
Long term debt	$ 90,431	$ 21,030
Deferred income tax liabilities		6,618
Income taxes payable		14,552
Accounts payable	1,558	1,158
	$ 91,989	$ 43,358
Statement of Cash Flows		
Operating activities	$ 3,744	$ 3,522
Investing activities	$103,332	$(24,969)
Financing activities	$ 5,389	$ 32,724

Included in other comprehensive income is a loss in an amount of $2,389 relating to the foreign assets held for sale.

29. Subsequent Events (in part)

(a) Subsequent to year end, the Company secured a $10 million operating line secured by units in HCREIT.

(b) Subsequent to year end HCREIT completed a public offering of Units on a bought deal basis.The HCREIT issued 8,597,500 units, including 1,447,500 units issued through the exercise of the full over allotment option by the underwriters. Concurrent with the issue of 8,597,500 units by the REIT, the Company also sold 2,500,000 units for gross proceeds of $28.5 million. The issue by the HCREIT, and the sale by the Company will reduce the voting interest of the Company from 33.7% to approximately 23.1% which will result in a loss of approximately $11,500. The net proceeds will be utilized to repay the $10 million outlined in Note a) above, and for general corporate purposes.

SECTION 7: OPERATING SEGMENTS*

IFRS 8, *OPERATING SEGMENTS*

IFRSs Overview and Comparison to U.S. GAAP

Author's Note

In April 2009, the International Accounting Standards Board (IASB) issued *Improvements to IFRSs*, which revised International Financial Reporting Standard (IFRS) 8, *Operating Segments*, by clarifying that IFRS 8 requires an entity to disclose a measure of segment assets only if that amount is reviewed by the chief operating decision maker (CODM). This clarification also removed an unintended difference with U.S. generally accepted accounting principles (GAAP). This amendment is effective for annual reporting periods beginning on or after 1 July 2009, with early application permitted.

In November 2009, the IASB issued a revised IAS 24, *Related Party Disclosures*, which further revised IFRS 8. This amendment clarifies that an entity uses judgment to assess whether it should consider a government, including governmental agencies and similar bodies, whether local, national, or international, and other entities known by the reporting entity to be under the control of that government to be a single customer. In making this assessment, the reporting entity should consider the extent of economic integration among these entities. This amendment is effective for annual reporting periods beginning on or after 1 January 2011; however, if the reporting entity applies the revised IAS 24 in an earlier period, as permitted, it should also apply this amendment to IFRS 8.

Not all survey entities will have applied these two amendments. An author's note indicating whether the survey company has applied either or both of these amendments will be provided with the excerpts.

7.01 IFRS 8 establishes requirements for disclosures about an entity's operating segments, its products and services, the geographic areas where it operates, and its major customers. Although IFRS 8 is the result of a short-term convergence project to reduce the differences between International Accounting Standard (IAS) 14, *Segment Reporting*, and Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 280, *Segment Reporting*, several minor differences between IFRS 8 and FASB ASC remain.

7.02 IFRS 8 applies to the financial statements, whether consolidated or separate, of a parent entity whose debt or equity is traded in a public market or who files, or is in the process of filing, with a regulatory organization for the purpose of issuing any class of instruments in a public market. A public market includes domestic or foreign exchanges and both local and regional over-the-counter markets. Entities not required to apply IFRS 8 can voluntarily provide information labeled as segment information, only if that information fully complies with IFRS 8.

7.03 An *operating segment* is a component of the entity with the following characteristics:

- It engages in business activities that may earn revenues and incur expenses. These revenues and expenses need not be generated externally but may be solely generated through transactions with other components of the same entity.
- The entity's CODM regularly reviews its operating results when making resource allocation and performance assessment decisions (the CODM is a function within the entity, not necessarily an individual).
- Discrete financial information is available about the component's activities.

Note that the term *component of an entity* is not a defined term in IFRS 8. It is defined in IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, and in the glossary of the *IFRS 2011* bound volume, where its definition reflects the meaning as used in IFRS 5.

Recognition and Measurement

Author's Note

IFRS 8 is a disclosure standard. Its requirements do not affect recognition and measurement of items in the financial statements themselves. However, the standard does contain criteria for identifying the components of the entity to be shown in the required disclosures and for measuring the financial information provided. These criteria are described in this section.

IFRSs

7.04 IFRS 8 requires disclosure of information about reportable segments. *Reportable segments* are operating segments or aggregations of operating segments that meet certain specified criteria. The standard takes the management approach to identifying reportable segments and for measuring the required financial information to be disclosed.

7.05 Entities should identify operating segments based on information in internal reports reviewed by the CODM when making resource allocation and performance assessment decisions. An operating segment is not required to have revenues from external customers. Therefore, an entity can consider different stages of a vertically integrated operation to be separate operating segments if they meet the definition. Start-up operations that have not yet earned revenues, but are incurring expenses, also can be an operating segment.

* Unless otherwise indicated, references to International Accounting Standards Board (IASB) standards and interpretations throughout this 2011 edition of *IFRS Accounting Trends & Techniques* refer to the version of those standards and interpretations included in the *IFRS 2011* bound volume, the official printed consolidated text of IASB standards and interpretations, including revisions, amendments, and supporting documents, applicable as of 1 January 2011.

7.06 However, not every part of an entity is necessarily an operating segment or part of an operating segment. For example, corporate headquarters or certain functional departments, such as human resources or accounting, may not earn revenues or may earn revenues that are only incidental to the activities of the entity and would not meet the definition of an operating segment. IFRS 8 specifically excludes an entity's postemployment benefit plan from identification as a separate operating segment.

7.07 In matrix and similar forms of organization, managers are held responsible for two or more overlapping sets of components of an entity. For example, some managers are responsible for specific products or services, and other managers are responsible for specific geographic areas where the products and services are offered. Therefore, the CODM reviews financial reports for both types of components and discrete information is available for both. In this situation, IFRS 8 permits the entity to determine the identifying characteristics of the operating segments in accordance with the objective of the standard rather than providing more prescriptive guidance.

7.08 A reportable segment is either an individual operating segment or an aggregation of operating segments that meets or exceeds the following quantitative thresholds:

- *Revenue threshold*. The reported revenue, whether generated from sales to external customers or intersegment transactions, meets or exceeds 10 percent of the combined revenue (internal and external) of all operating segments.
- *Profit and loss threshold*. The absolute amount of profit and loss meets or exceeds 10 percent of the greater of the absolute amount of combined reported profit of all segments that did not report a loss and the combined reported loss of all segments that did not report a profit.
- *Asset threshold*. The assets meet or exceed 10 percent of the combined assets of all operating segments.

7.09 Entities can aggregate operating segments in order to meet the criteria for a reportable segment if the segments have similar economic characteristics with respect to the nature of segment products or services; the nature of the production process; the type or class of customer; distribution methods; and, when applicable, the nature of the regulatory environment.

7.10 Two circumstances exist in which entities should identify additional reportable segments, even if the operating segments do not meet the preceding thresholds:

- Total external revenue from reportable segments should meet or exceed 75 percent of the entity's reported revenue. An entity should identify additional operating segments as reportable until this criterion is met.
- If management believes that users of the financial statements would find information about an operating segment useful, the entity can choose to identify that operating segment as reportable.

7.11 Despite these criteria for identifying reportable segments, IFRS 8 also recognizes that there may be a practical limit (more than 10) to the number of reportable segments, after which the information disclosed is likely to be too detailed to be useful.

7.12 With respect to measurement of the financial information disclosed, the entity should use the same measurement bases that are reported internally to the CODM. Therefore, the measurements in the required disclosures are not necessarily based on the accounting policies used in the preparation of the consolidated financial statements.

U.S. GAAP

7.13 FASB ASC 280 normally requires more entities to provide segment disclosures than IFRS 8. Under FASB ASC 280-10-15, segment disclosures are required for all public entities, with certain exceptions noted in FASB 280-10-15-3 (such as not-for-profit entities, regardless of whether the entity meets the definition of a *public entity*, as defined within the FASB ASC glossary). The FASB ASC glossary defines *public entities* as business entities or not-for-profit entities that (*a*) have debt or equity securities or are a conduit bond obligor for conduit debt securities that are traded in a public market, (*b*) are required to file financial statements with a regulatory organization, or (*c*) provide financial statements for the purpose of issuing securities in a public market. The FASB ASC definition is similar to IFRSs, except that IFRSs do not apply to not-for-profit entities or specifically address conduit bond obligors for conduit debt securities. Conduit debt securities are issued by state or local governments on behalf of the obligor, not itself a governmental entity. The issuer itself has no obligation beyond resources provided by a lease or loan agreement with the obligor.

7.14 Like IFRSs, FASB ASC 280 uses the management approach to identify operating segments and measure the financial information disclosed based on information reported internally to the CODM to make resource allocation and performance assessment decisions. However, according to FASB ASC 280-10-50-9, entities that have a matrix organization should identify operating segments based on products and services when more than one type of component is reviewed by the CODM.

Disclosure

IFRSs

7.15 The core principle underlying IFRS 8 disclosure requirements is that an entity should disclose information to enable users of the financial statements to evaluate the nature and financial effects of its business activities and its economic environment. IFRS 8 requires the following types of disclosures:

- General descriptive information about reportable segments
- Information about profit or loss, assets, and liabilities
- Information about the measurement bases used
- Entity-wide disclosures about revenues from products and services, geographical areas, and major customers
- Reconciliations to reported financial statement amounts
- Restatements of prior period information

7.16 Required general descriptive information includes a description about the factors used to identify the entity's reportable segments. These factors include the basis of organization (for example, how segments are organized around products and services, geographical areas, regulatory environments, or a combination of these factors). The entity also should disclose whether operating segments are aggregated to arrive at reportable segments. Additionally, IFRS 8

requires an entity to describe the types of revenues generated by each reportable segment. Often this particular disclosure is included with other accounting policy disclosures.

7.17 IFRS 8 requires disclosure of a measure of segment profit or loss, total assets and, if reported to the CODM, liabilities. However, disclosure of the following additional measures is required only if they are reported to the CODM:

- Revenue, distinguished between external customers and intersegment transactions
- Interest income and expense
- Depreciation and amortization, and other similar non-cash items
- Material items of income and expense in accordance with IAS 1, *Presentation of Financial Statements*
- Share in the profit or loss of investments accounted for using the equity method (for example, associates and joint ventures)
- Income tax expense or income
- Additions to non-current assets, except financial instruments, deferred tax assets, postemployment benefit assets, rights under insurance contracts, and long-term customer relationships of financial institutions

7.18 IFRS 8 takes the management approach to measurement as well as segment identification. Because the measurement basis for the quantitative disclosures need not be the entity's IFRS accounting policies, IFRS 8 requires a description of the measurement basis used and discussion of various policies that affect those measurements (for example, transfer pricing policies and differences between segment amounts and amounts reported in the financial statement). This discussion includes the accounting policies and any policies that the entity used to allocate centrally incurred costs that are necessary for an understanding of the reported segment information, as well as any asymmetrical allocations.

7.19 An entity should measure the entity-wide disclosures about revenues based on the accounting policies used in the consolidated financial statements, rather than the bases used for internal measurements. Revenue disclosures include revenue from external customers by product or service (or group of products and services) by geographic area, and by major customer. Entities also should disclose non-current assets except financial instruments, deferred tax assets, postemployment benefit assets, and rights under insurance contracts by geographic area.

7.20 IFRS 8 requires a reconciliation of the total amounts of segment revenues, reported segment profit or loss, segment assets, segment liabilities, and other material segment items to the corresponding reported financial statements amounts. These reconciliations are required for each statement of financial position presented.

7.21 IFRS 8 requires an entity to discuss changes in the composition of reportable segments and changes in measurement bases used. An entity should restate comparative information when there is a change in the composition of segments or measurement basis, unless the information is not available or is excessively costly to develop. If the comparative information is not restated, the entity should present the current period's information on both the old and new basis, unless the information is not available or is excessively costly to develop.

U.S. GAAP

7.22 FASB ASC 280 and IFRS 8 requirements are largely converged. FASB ASC 280-10-50-22 requires disclosure of a measure of segment profit or loss and segment assets, but does not explicitly require disclosure of segment liabilities.

7.23 IFRS 8 requires disclosure of additional material items whereas FASB ASC 280-10-50-22(f) requires disclosure of unusual items of income and expense. This difference in choice of words is likely to lead to a difference in the items disclosed. FASB ASC 280-10-55-22(i) also requires disclosure of extraordinary items, which are prohibited in IFRSs.

7.24 IFRS 8 and FASB ASC 280 both require disclosure of additions to non-current assets with certain exclusions. In addition to the assets excluded from this requirement by IFRS 8, FASB ASC 280-10-50-25(b) also excludes mortgage and other servicing rights and certain other non-current assets (e.g., financial instruments, deferred policy acquisition costs).

TABLE 7-1: NUMBER OF BUSINESS SEGMENTS

	2010	2009
10 or more segments	1	0
9	2	3
8	1	2
7	10	5
6	8	9
5	15	17
4	33	27
3	27	25
2	44	38
1	28	33
Survey entity that is a subsidiary outside the scope of IFRS 8	0	1
Survey Entity's Chief Operating Decision Maker Does Not Review Segment Information	**1**	**0**
Total	**170**	**160**

TABLE 7-2: NUMBER OF GEOGRAPHIC SEGMENTS

	2010	2009
10 or more segments	7	8
9	6	6
8	2	3
7	5	6
6	16	11
5	14	15
4	28	30
3	34	33
2	24	21
1	32	26
Survey entity that is a subsidiary outside the scope of IFRS 8	0	1
Survey Entity's Chief Operating Decision Maker Does Not Review Segment Information	**1**	**0**
Total	**170**	**160**

Presentation and Disclosure Excerpts

Operating Segments Defined on the Basis of Business Activities

7.25

Adecoagro S.A. (Dec 2010)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Summary of Significant Accounting Policies (in part)

2.4. Segment Reporting

According to IFRS 8, operating segments are identified based on the 'management approach'. This approach stipulates external segment reporting based on the Group's internal organizational and management structure and on internal financial reporting to the chief operating decision maker. The Management Committee of the Group is responsible for measuring and steering the business success of the segments and is considered the chief operating decision maker within the meaning of IFRS 8.

5. Segment Information

IFRS 8 "Operating Segments" requires an entity to report financial and descriptive information about its reportable segments, which are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker ("CODM") in deciding how to allocate resources and in assessing performance. The CODM evaluates the business based on the differences in the nature of its operations, products and services. The amount reported for each segment item is the measure reported to the chief operating decision maker for these purposes.

The Group operates in three major lines of business, namely, Farming; Sugar, Ethanol and Energy; and Land Transformation.

- The Group's *'Farming'* is further comprised of five reportable segments;
- The Group's *'Crops'* Segment consists of planting, harvesting and sale of grains, oilseeds and fibers (including wheat, corn, soybeans, cotton and sunflowers, among others), and to a lesser extent the provision of grain warehousing/conditioning and handling and drying services to third parties. Each underlying crop in the Crops segment does not represent a separate operating segment. Management seeks to maximize the use of the land through the cultivation of one or more type of crops. Types and surface amount of crops cultivated may vary from harvest year to harvest year depending on several factors, some of them out of the Group's control. Management is focused on the long-term performance of the productive land, and to that extent, the performance is assessed considering the aggregated combination, if any, of crops planted in the land. A single manager is responsible for the management of operating activity of all crops rather than for each individual crop.
- The Group's *'Rice'* Segment consists of planting, harvesting, processing and marketing of rice;
- The Group's *'Dairy'* Segment consists of the production of raw milk, which is processed into manufactured products and marketed through the Group's joint venture La Lácteo;
- The Group's *'Coffee'* Segment consists of cultivating coffee beans and marketing own and third party's coffee production;
- The Group's *'Cattle'* Segment consists of purchasing and fattening of beef cattle for sale to meat processors and local livestock auction markets. In December 2009, the Group strategically decided to sell a significant amount of heads of cattle from owned farmlands to Quickfood S.A., an international third party meat processor. Additionally, the contract provides for the third party to lease the Group's farmland under an operating lease agreement to raise and fatten the purchased cattle. As required by the Antitrust Law, the Group reported this transaction to the Argentine Antitrust Commission for formal approval. As of the date of these consolidated financial statements, the authorization is still pending. The Group does not have any evidence which may indicate this transaction will not be formally approved.
- The Group's *'Sugar, Ethanol and Energy'* Segment consists of cultivating sugarcane which is processed in owned sugar mills, transformed into ethanol, sugar and electricity and marketed;
- The Group's *'Land Transformation'* Segment comprises the (i) identification and acquisition of underdeveloped and undermanaged farmland businesses for which the Group generally closes a deal for a price lower than the land's fair value (generating gains); and (ii) realization of value through the strategic disposition of assets (generating profits).

The measurement principles for the Group's segment reporting structure are based on the IFRS principles adopted in the consolidated financial statements. Revenue generated and goods and services exchanged between segments are calculated on the basis of market prices.

The following table presents information with respect to the Group's reportable segments. Certain other activities of a holding function nature not allocable to the segments are disclosed in the column 'Corporate'.

Segment Analysis for the Year Ended December 31, 2010

	Farming									
	Crops	Rice	Dairy	Coffee	Cattle	Farming Subtotal	Sugar, Ethanol and Energy	Land Trans-formation	Corporate	Total
Sales of manufactured products and services rendered	344	59,280	—	2,709	3,718	66,051	228,478	—	—	294,529
Cost of manufactured products sold and services rendered	—	(52,017)	—	(2,546)	—	(54,563)	(164,638)	—	—	(219,201)
Gross profit from manufacturing activities	344	7,263	—	163	3,718	11,488	63,840	—	—	75,328
Sales of agricultural produce and biological assets	107,818	2,305	14,297	4,863	2,407	131,690	48	—	—	131,738
Cost of agricultural produce sold and direct agricultural selling expenses	(107,818)	(2,305)	(14,297)	(4,863)	(2,407)	(131,690)	(48)	—	—	(131,738)
Initial recognition and changes in fair value of biological assets and agricultural produce	38,879	9,360	9,129	(2,630)	737	55,475	(86,003)	—	—	(30,528)
Gain from changes in net realizable value of agricultural produce after harvest	7,482	—	—	517	—	7,999	—	—	—	7,999
Gross profit/(loss) from agricultural activities	46,361	9,360	9,129	(2,113)	737	63,474	(86,003)	—	—	(22,529)
Margin on manufacturing and agricultural activities before operating expenses	46,705	16,623	9,129	(1,950)	4,455	74,962	(22,163)	—	—	52,799
General and administrative expenses	(7,087)	(3,773)	(2,910)	(983)	(350)	(15,103)	(19,080)	—	(22,379)	(56,562)
Selling expenses	(1,522)	(8,154)	(333)	(655)	(175)	(10,839)	(41,689)	—	—	(52,528)
Other operating income, net	(6,194)	345	—	(2,165)	70	(7,944)	5,305	20,837	26	18,224
Share of loss of joint ventures	—	—	(50)	—	—	(50)	—	—	—	(50)
Profit/(loss) from operations before financing and taxation	31,902	5,041	5,836	(5,753)	4,000	41,026	(77,627)	20,837	(22,353)	(38,117)
Depreciation and amortization	1,711	2,080	423	449	333	4,996	32,567	—	—	37,563
Initial recognition and changes in fair value of biological assets (unrealized)	8,719	6,273	3,610	(2,450)	(36)	16,116	(96,795)	—	—	(80,679)
Initial recognition and changes in fair value of agricultural produce (unrealized)	7,229	742	—	(71)	—	7,900	405	—	—	8,305
Initial recognition and changes in fair value of biological assets and agricultural produce (realized)	22,931	2,345	5,519	(109)	773	31,459	10,387	—	—	41,846
Gain from changes in net realizable value of agricultural produce after harvest (unrealized)	2,050	—	—	(523)	—	1,527	—	—	—	1,527
Gain from changes in net realizable value of agricultural produce after harvest (realized)	5,432	—	—	1,040	—	6,472	—	—	—	6,472
Property, plant and equipment, net	204,454	50,899	4,202	25,265	18,831	303,650	448,342	—	—	751,992
Investment property	—	1,168	—	—	20,249	21,417	—	—	—	21,417
Goodwill	4,931	7,023	—	1,115	319	13,388	13,106	—	—	26,494
Biological assets	31,247	21,555	7,130	21,577	401	81,910	104,847	—	—	186,757
Investment in joint ventures	—	—	6,271	—	—	6,271	—	—	—	6,271
Inventories	22,926	8,422	883	7,023	61	39,315	17,855	—	—	57,170
Total segment assets	263,299	89,066	19,063	54,980	39,542	465,950	584,151	—	—	1,051,101
Borrowings	(59,339)	(41,050)	(10,262)	(13,651)	—	(124,302)	(265,170)	—	—	(389,472)
Total segment liabilities	(59,339)	(41,050)	(10,262)	(13,651)	—	(124,302)	(265,170)	—	—	(389,472)

Segment Analysis for the Year Ended December 31, 2009

	Farming									
	Crops	Rice	Dairy	Coffee	Cattle	Farming Subtotal	Sugar, Ethanol and Energy	Land Trans-formation	Corporate	Total
Sales of manufactured products and services rendered	9,667	67,317	752	7,984	172	85,892	97,494	—	—	183,386
Cost of manufactured products sold and services rendered	(5,447)	(56,576)	(613)	(7,120)	—	(69,756)	(110,327)	—	—	(180,083)
Gross profit/(loss) from manufacturing activities	4,220	10,741	139	864	172	16,136	(12,833)	—	—	3,303
Sales of agricultural produce and biological assets	82,362	2,033	11,142	6,281	28,306	130,124	93	—	—	130,217
Cost of agricultural produce sold and direct agricultural selling expenses	(82,362)	(2,033)	(11,142)	(6,281)	(28,306)	(130,124)	(93)	—	—	(130,217)
Initial recognition and changes in fair value of biological assets and agricultural produce	6,563	12,170	3,374	(16,207)	4,704	10,604	61,064	—	—	71,668
Gain from changes in net realizable value of agricultural produce after harvest	11,362	191	—	1,234	—	12,787	—	—	—	12,787
Gross profit/(loss) from agricultural activities	17,925	12,361	3,374	(14,973)	4,704	23,391	61,064	—	—	84,455
Margin on manufacturing and agricultural activities before operating expenses	22,145	23,102	3,513	(14,109)	4,876	39,527	48,231	—	—	87,758
General and administrative expenses	(6,280)	(2,883)	(2,221)	(2,126)	(2,909)	(16,419)	(13,922)	—	(22,052)	(52,393)
Selling expenses	(1,587)	(7,485)	(777)	(1,353)	(1,045)	(12,247)	(18,922)	—	—	(31,169)
Other operating income, net	4,776	(942)	(108)	806	377	4,909	(10,467)	18,839	(210)	13,071
Share of loss of joint ventures	—	—	(294)	—	—	(294)	—	—	—	(294)
Profit/(loss) from operations before financing and taxation	19,054	11,792	113	(16,782)	1,299	15,476	4,920	18,839	(22,262)	16,973
Depreciation and amortization	2,066	1,452	403	570	353	4,844	25,512	—	—	30,356
Initial recognition and changes in fair value of biological assets (unrealized)	4,433	6,759	32	(12,662)	127	(1,311)	57,335	—	—	56,024
Initial recognition and changes in fair value of agricultural produce (unrealized)	1,485	—	—	(3,043)	—	(1,558)	1,375	—	—	(183)
Initial recognition and changes in fair value of biological assets and agricultural produce (realized)	645	5,411	3,342	(502)	4,577	13,473	2,354	—	—	15,827
Gain from changes in net realizable value of agricultural produce after harvest (unrealized)	134	—	—	(7)	—	127	—	—	—	127
Gain from changes in net realizable value of agricultural produce after harvest (realized)	11,228	191	—	1,241	—	12,660	—	—	—	12,660
Property, plant and equipment, net	248,594	31,282	10,652	2,680	767	293,975	388,903	—	—	682,878
Investment property	—	—	—	—	21,246	21,246	—	—	—	21,246
Goodwill	6,110	—	—	1,067	237	7,414	12,539	—	—	19,953
Biological assets	27,467	11,524	4,313	21,634	815	65,753	164,701	—	—	230,454
Investment in joint ventures	—	—	6,506	—	—	6,506	—	—	—	6,506
Inventories	23,832	9,460	1,086	1,992	716	37,086	20,816	—	—	57,902
Total segment assets	306,003	52,266	22,557	27,373	23,781	431,980	586,959	—	—	1,018,939
Borrowings	63,893	39,850	9,963	3,493	—	117,199	189,582	—	—	306,781
Total segment liabilities	63,893	39,850	9,963	3,493	—	117,199	189,582	—	—	306,781

Segment Analysis for the Year Ended December 31, 2008

	Farming						Sugar, Ethanol and Energy	Land Trans-formation	Corporate	Total
	Crops	Rice	Dairy	Coffee	Cattle	Farming Subtotal				
Sales of manufactured products and services rendered	3,134	53,280	2,171	8,544	164	67,293	49,880	—	—	117,173
Cost of manufactured products sold and services rendered	(2,807)	(39,862)	(1,849)	(6,978)	—	(51,496)	(54,087)	—	—	(105,583)
Gross profit/(loss) from manufacturing activities	327	13,418	322	1,566	164	15,797	(4,207)	—	—	11,590
Sales of agricultural produce and biological assets	92,853	3,645	12,650	7,404	9,193	125,745	1,291	—	—	127,036
Cost of agricultural produce sold and direct agricultural selling expenses	(92,853)	(3,645)	(12,650)	(7,404)	(9,193)	(125,745)	(1,291)	—	—	(127,036)
Initial recognition and changes in fair value of biological assets and agricultural produce	28,005	7,854	2,633	4,485	3,788	46,765	14,235	—	—	61,000
Gain from changes in net realizable value of agricultural produce after harvest	2,211	—	—	(950)	—	1,261	—	—	—	1,261
Gross profit from agricultural activities	30,216	7,854	2,633	3,535	3,788	48,026	14,235	—	—	62,261
Margin on manufacturing and agricultural activities before operating expenses	30,543	21,272	2,955	5,101	3,952	63,823	10,028	—	—	73,851
General and administrative expenses	(3,885)	(398)	(1,835)	(3,308)	(2,206)	(11,632)	(12,646)	—	(21,355)	(45,633)
Selling expenses	(3,959)	(7,647)	(967)	(902)	(473)	(13,948)	(10,548)	—	—	(24,496)
Other operating income, net	4,824	29	18	(27)	16	4,860	211	13,974	(1,722)	17,323
Excess of fair value of net assets acquired over cost	—	—	—	—	—	—	—	1,227	—	1,227
Share of loss of joint ventures	—	—	(838)	—	—	(838)	—	—	—	(838)
Profit/(loss) from operations before financing and taxation	27,523	13,256	(667)	864	1,289	42,265	(12,955)	15,201	(23,077)	21,434
Depreciation and amortization	6,517	710	348	798	517	8,890	19,424	—	—	28,314
Initial recognition and changes in fair value of biological assets (unrealized)	332	—	1,840	3,355	2,567	8,094	13,448	—	—	21,542
Initial recognition and changes in fair value of agricultural produce (unrealized)	3,551	—	—	931	—	4,482	298	—	—	4,780
Initial recognition and changes in fair value of biological assets and agricultural produce (realized)	24,122	7,854	793	199	1,221	34,189	489	—	—	34,678
Gain from changes in net realizable value of agricultural produce after harvest (unrealized)	—	—	—	(99)	—	(99)	—	—	—	(99)
Gain from changes in net realizable value of agricultural produce after harvest (realized)	2,211	—	—	(851)	—	1,360	—	—	—	1,360
Property, plant and equipment, net	232,465	50,804	12,069	12,523	33,041	340,902	230,517	—	—	571,419
Spin-off assets	—	—	—	—	—	—	—	45,311	—	45,311
Goodwill	3,610	—	—	794	383	4,787	11,834	—	—	16,621
Biological assets	21,059	6,908	4,732	25,453	19,629	77,781	48,167	—	—	125,948
Investment in joint ventures	—	—	7,508	—	—	7,508	—	—	—	7,508
Inventories	21,201	9,212	—	5,326	878	36,617	24,604	—	—	61,221
Total segment assets	278,335	66,924	24,309	44,096	53,931	467,595	315,122	45,311	—	828,028
Borrowings	45,322	36,258	9,065	—	—	90,645	137,668	—	—	228,313
Total segment liabilities	45,322	36,258	9,065	—	—	90,645	137,668	—	—	228,313

Total segment assets are measured in a manner consistent with that of the consolidated financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset. The Group's investment in the joint venture Grupo La Lácteo is allocated to the 'Dairy' segment. Therefore, the Group's share of profit or loss after income taxes and its carrying amount are reported in this segment.

Total reportable segments' assets are reconciled to total assets as per the statement of financial position as follows:

	2010	2009	2008
Total reportable assets as per Segment Information	1,050,101	1,018,939	828,028
Intangible assets (excluding goodwill)	2,159	1,906	1,487
Deferred income tax assets	67,463	45,113	18,713
Trade and other receivables	149,957	128,277	84,540
Other assets	26	34	87
Derivative financial instruments	876	99	2,019
Cash and cash equivalents	70,269	74,806	93,360
Total assets as per the Statement of Financial Position	1,340,851	1,269,174	1,028,234

Total segment liabilities are measured in a manner consistent with that of the consolidated financial statements. These liabilities are allocated based on the operations of the segment.

Total reportable segments' liabilities are reconciled to total liabilities as per the statement of financial position as follows:

	2010	2009	2008
Total reportable liabilities as per Segment Information	389,472	306,781	228,313
Trade and other payables	81,021	68,920	52,760
Deferred income tax liabilities	111,495	107,045	94,627
Payroll and social liabilities	16,656	11,185	6,859
Provisions for other liabilities	9,207	4,978	1,601
Current income tax liabilities	978	222	1,487
Derivative financial instruments	8,920	12,887	4,159
Total liabilities as per the Statement of Financial Position	617,749	512,018	389,806

The Group's non-current assets and net revenue and fair value gains and losses are shown by geographic region. These are the regions in which the Group is active: Argentina, Brazil and Uruguay. Non-current assets are allocated to the regions according to the location of the assets in question. Non-current assets encompass intangible assets; property, plant and equipment; investments accounted for using the equity method as well as other non-current assets. Net revenue and fair value gains and losses are allocated according to the location of the respective operations.

As of and for the year ended December 31, 2010:

	Argentina	Brazil	Uruguay	Total
Property, plant and equipment	246,602	495,075	10,315	751,992
Investment property	21,417	—	—	21,417
Intangible assets	1,115	1,044	—	2,159
Goodwill	12,272	14,222	—	26,494
Investment in joint ventures	6,271	—	—	6,271
Non-current portion of biological assets	7,169	97,047	—	104,216
Initial recognition and changes in fair value of biological assets and agricultural produce	54,226	(86,557)	1,803	(30,528)
Gain from changes in net realizable value of agricultural produce after harvest	8,157	(123)	(35)	7,999
Sales of manufactured products sold and services rendered	62,455	232,074	—	294,529
Sales of agricultural produce and biological assets	109,387	17,158	5,193	131,738

Operating Segments Defined on the Basis of Business Activities, Segment Information Provided in Separate Asset, Liability, Revenue and Expense Disclosures

7.26

Sasol Limited (Jun 2010)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

A. Accounting Policies and Financial Reporting Terms (in part)

Sasol Limited is the holding company of the Sasol group (the group) and is domiciled in the Republic of South Africa. The following principal accounting policies were applied by the group for the financial year ended 30 June 2010. Except as otherwise disclosed, these policies are consistent in all material respects with those applied in previous years.

Financial Reporting Terms

These definitions of financial reporting terms are provided to ensure clarity of meaning as certain terms may not always have the same meaning or interpretation in all countries.

Group Structures (in part)

Business unit: An operation engaged in providing similar goods or services that are different to those provided by other operations.

The primary business units are:

South African Energy Cluster

- Sasol Mining
- Sasol Gas
- Sasol Synfuels
- Sasol Oil
- Other

International Energy Cluster

- Sasol Synfuels International
- Sasol Petroleum International

Chemical Cluster

- Sasol Polymers
- Sasol Solvents
- Sasol Olefins & Surfactants
- Other chemical businesses including:
  — Sasol Wax
  — Sasol Nitro
  — Merisol
  — Sasol Infrachem

Classified as "Other Businesses" in the Segment Report

- Sasol Technology
- Sasol Financing
- Corporate head office functions
- Alternative energy businesses

In the notes to the financial statements, where items classified as "other businesses" are material, the amounts attributable to these businesses have been specified.

Operation: A component of the group:

- that represents a separate major line of business or geographical area of operation; and
- is distinguished separately for financial and operating purposes.

32. Segment Information

Reporting Segments

The group has nine main reportable segments that comprise the structure used by the Group Executive Committee (GEC) to make key operating decisions and assess performance. The group's reportable segments are operating segments that are differentiated by the activities that each undertakes and the products they manufacture and market (referred to as business segments). Each business utilises different technology, manufacturing and marketing strategies.

The group evaluates the performance of its reportable segments based on operating profit. The group accounts for intersegment sales and transfers as if the sales and transfers were entered into under the same terms and conditions as would have been entered into in a market related transaction.

The financial information of the group's reportable segments is reported to the GEC for purposes of making decisions about allocating resources to the segment and assessing its performance.

The group has formed significant joint ventures to promote Sasol technology and products internationally. The group is promoting and marketing its gas-to-liquids (GTL) technology for converting remote or flared natural gas into new-generation, low-emission GTL diesel, GTL naphtha and other products. It is envisaged that Sasol Synfuels International (SSI) through the recent development of the GTL plants in Qatar and Nigeria will contribute to the growing of a global GTL business in the future.

Whilst Sasol Petroleum International (SPI), like SSI, does not meet the quantitative criteria for disclosure as a separate segment, it is expected to become a significant contributor to the group's performance in future years as the upstream supplier of resources for the group's GTL and CTL activities.

Consequently, the GEC has chosen to include SSI and SPI as reportable operating segments even though SSI and SPI do not meet any of the quantitative thresholds as the GEC believes that such information would be useful to the users of the financial statements.

South African Energy Cluster

Sasol Mining

Sasol Mining's activities include the mining and supply of coal to other segments including Sasol Synfuels, other entities and to third parties.

Sasol Mining sells coal under both long-term and short-term contracts at a price determinable from the agreements. Turnover is recognised upon delivery of the coal to the customer, which, in accordance with the related contract terms is the point at which the title and risks and rewards of ownership pass to the customer, prices are fixed or determinable and collectability is reasonably assured.

The date of delivery related to Sasol Mining is determined in accordance with the contractual agreements entered into with customers which are briefly summarised as follows:

Delivery Terms	Title and Risks and Rewards of Ownership Pass to the Customer
Free on Board (FOB)	When the coal is loaded onto the vessel at Richards Bay Coal Terminal—customer is responsible for shipping and handling costs.
Free on Barge (Amsterdam)	When the coal is loaded from Overslag Bedrijf Amsterdam stockpile onto the customer vessel—seller is responsible for shipping and handling costs, these are however recovered from the customer.
Cost Insurance Freight (CIF) and Cost Freight Railage (CFR)	When the coal is loaded into the vessel—seller is responsible for shipping and handling costs which are included in the selling price.

The related costs of sales are recognised in the same period as the supply of the coal and include any shipping and handling costs incurred. All inter-segment sales are conducted at market related prices.

Sasol Gas

Sasol Gas' activities include the marketing of clean-burning pipeline gas sourced from Sasol Synfuels and natural gas from the Mozambican gas fields.

Sasol Gas sells gas under long-term contracts at a price determinable from the supply agreements. Turnover is recognised at the intake flange of the customer where it is metered, which is the point at which the title and risks and rewards of ownership passes to the customer, and where prices are determinable and collectability is reasonably assured. Gas analysis and tests of the specifications and content are performed prior to delivery.

Transportation and handling costs are included in turnover when billed to customers in conjunction with the sale of a product. The related costs of sales are recognised in the same period as the turnover.

Sasol Synfuels

Sasol Synfuels' activities include the production, using natural gas, from Sasol Gas, and synthesis gas derived from coal, supplied by Sasol Mining, using in-house technology to convert this into a wide range of liquid fuels intermediates and petrochemicals. Sasol Synfuels also provides chemical feedstock to, amongst others Sasol Polymers and Sasol Solvents.

Sasol Synfuels sells synthetic fuels, chemical feedstock and industrial pipeline gas under contracts at prices determinable from the agreements. Turnover is recognised for the liquid fuel intermediates and petrochemicals when the title and risks and rewards of ownership pass to the customer, which is when the product has passed over the appropriate weigh bridge or flow meter, prices are fixed or determinable and collectability is reasonably assured.

Sasol Oil

Sasol Oil is responsible for the group's crude oil refining activities and for blending and marketing of all liquid fuels and lubricants.

Sasol Oil sells liquid fuel products under both short-term and long-term agreements for both retail sales and commercial sales including sales to other oil companies. The prices are regulated and fixed by South African law for retail sales, and the prices are fixed and determinable according to the specific contract with periodic price adjustments for commercial sales and sales to other oil companies. Laboratory tests of the fuel specifications and content are performed prior to delivery. Turnover is recognised under the following arrangements:

- Commercial sales transactions and sales to other oil companies: when product is delivered to the customer site, which is the point where the risks and rewards of ownership and title of the product transfer to the customer, and collectability is reasonably assured.
- Dealer-owned supply agreements and franchise agreements: upon delivery of the product to the customer, which is the point where the risks and rewards of ownership of the product transfer to the customer. Title under these contracts is retained to enable recovery of the goods in the event of customer default on payment. The title to the goods does not enable the group to dispose of the product or rescind the transaction, and cannot prevent the customer from selling the product.

Turnover for the supply of fuel is based on measurement through a flow-meter into customers' tanks. Shipping and handling costs are included in turnover when billed to customers in conjunction with the sale of a product. The related costs of sales are recognised in the same period as the turnover.

Other

This segment currently includes costs related to the pre-feasibility study for the expansion of our synthetic fuels capacity in South Africa known as Project Mafutha.

International Energy Cluster

Sasol Synfuels International (SSI)

SSI is responsible for developing, implementing and managing international business ventures based on Sasol's Fischer-Tropsch synthesis technology. SSI is also involved in the development of GTL fuels and production of other chemical products from GTL derived feedstock.

SSI is currently involved in the establishment of two GTL production facilities in Qatar and Nigeria and is conducting feasibility studies for both GTL and coal-to-liquids (CTL) facilities at various other locations around the world, including China, Uzbekistan and India.

Turnover is derived from the sale of goods produced by the operating facilities and is recognised when, in accordance with the related contract terms, the title and risks and rewards of ownership pass to the customer, prices are fixed or determinable and collectability is reasonably assured. Shipping and handling costs are included in turnover when billed to customers in conjunction with the sale of the products. Turnover is also derived from the rendering of engineering services to external partners in joint ventures upon the proof of completion of the service.

Sasol Petroleum International (SPI)

SPI develops and manages upstream interests in oil and gas exploration and production in Mozambique, South Africa, Gabon, Papua New Guinea, Australia and Nigeria. It produces gas from Mozambique's Temane and Pande fields and oil in Gabon through its share in the offshore Etame and Ebouri fields.

SPI sells natural gas under long-term contracts to Sasol Gas and oil to customers under long-term contracts at a price determinable from the agreements. Turnover is recognised at the intake flange of the customer where it is metered, which is the point at which the title and risks and rewards of ownership passes to the customer, and where prices are determinable and collectability is reasonably assured.

Chemical Cluster

Sasol Polymers

Sasol Polymers focuses on the production of monomers, polypropylene, polyethylene, vinyls and other chemical products through its respective businesses.

Sasol Solvents

Sasol Solvents primarily manufactures and markets globally a range of oxygenated solvents, co-monomers and chemical intermediates to various industries.

Sasol Olefins & Surfactants

Sasol Olefins & Surfactants manufactures and markets globally a diverse range of surfactants, surfactant intermediates, alcohols, monomers and inorganic speciality chemicals.

Other Chemical Businesses

Other chemical businesses include Sasol Wax (production and marketing of wax and wax related products), Sasol Nitro (production and marketing of ammonia and ammonia derivative products), Merisol (manufacturing and marketing of phenolics and cresylics) and Sasol Infrachem (manufacturing of synthesis gas).

The businesses in the chemical cluster sell much of their products under contracts at prices determinable from such agreements. Turnover is recognised upon delivery to the customer which in accordance with the related contract terms, is the point at which the title and risks and rewards of ownership transfer to the customer, prices are determinable and collectability is reasonably assured. Turnover on consignment sales is recognised on consumption by the customer, when title and the risks and rewards of ownership pass to the customer, prices are determinable and collectability is reasonably assured. Product quality is safeguarded through quality assurance programmes.

The date of delivery related to the above Chemical cluster is determined in accordance with the contractual agreements entered into with customers which are briefly summarised as follows:

Delivery Terms	Title and Risks and Rewards of Ownership Pass to the Customer
Ex-tank sales	When products are loaded into the customer's vehicle or unloaded from the seller's storage tanks.
Ex works (EXW)	When products are loaded into the customer's vehicle or unloaded at the seller's premises.
Carriage Paid To (CPT)	On delivery of products to a specified location (main carriage is paid for by the seller).
Free on Board (FOB)	When products are loaded into the transport vehicle—customer is responsible for shipping and handling costs.
Cost Insurance Freight (CIF) and Cost Freight Railage (CFR)	When products are loaded into the transport vehicle—seller is responsible for shipping and handling costs which are included in the selling price.
Proof of Delivery (POD)	When products are delivered to and signed for by the customer.
Consignment Sales	As and when products are consumed by the customer.

Other Businesses

Other businesses include the group's treasury, research and development activities and central administration activities as well as alternative energy activities.

B. Business Segment Information

	Property, Plant and Equipment, Assets Under Construction and Other Intangible Assets			Other Non-Current Assets(*)			Current Assets(*)			Total Consolidated Assets(*)			Non-Current Liabilities(*)			Current Liabilities(*)			Total Consolidated Liabilities(*)		
	2010 Rm	2009 Rm	2008 Rm	2010 Rm	2009 Rm	2008 Rm	2010 Rm	2009 Rm	2008 Rm	2010 Rm	2009 Rm	2008 Rm	2010 Rm	2009 Rm	2008 Rm	2010 Rm	2009 Rm	2008 Rm	2010 Rm	2009 Rm	2008 Rm
South African energy cluster	43,351	36,629	30,299	686	580	610	14,569	12,569	17,895	58,606	49,778	48,804	9,857	8,233	7,007	8,014	7,520	8,135	17,871	15,753	15,142
Mining	6,024	4,930	4,112	457	417	386	1,037	600	776	7,518	5,947	5,274	1,060	844	746	890	792	788	1,950	1,636	1,534
Gas	4,857	5,934	5,421	2	3	16	525	446	533	5,384	6,383	5,970	2,199	2,194	2,285	410	373	404	2,609	2,567	2,689
Synfuels	27,002	20,659	16,486	125	66	111	2,239	2,483	1,675	29,366	23,208	18,272	3,935	2,837	1,874	1,996	1,372	1,472	5,931	4,209	3,346
Oil	5,393	5,031	4,280	102	94	97	10,766	9,031	14,906	16,261	14,156	19,283	2,663	2,358	2,102	4,718	4,983	5,471	7,381	7,341	7,573
Other	75	75	—	—	—	—	2	9	5	77	84	5	—	—	—	—	—	—	—	—	—
International energy cluster	10,672	10,000	8,806	2,728	1,510	5	2,261	2,569	6,331	15,661	14,079	15,142	1,173	1,292	3,768	2,090	3,141	1,812	3,263	4,433	5,580
Synfuels International	5,485	5,091	4,928	2,728	1,510	5	1,778	2,066	5,959	9,991	8,667	10,892	393	366	2,813	1,788	2,645	1,482	2,181	3,011	4,295
Petroleum International	5,187	4,909	3,878	—	—	—	483	503	372	5,670	5,412	4,250	780	926	955	302	496	330	1,082	1,422	1,285
Chemical cluster	38,200	36,810	38,201	3,440	3,543	3,565	23,334	20,059	27,935	64,974	60,412	69,701	6,800	6,790	7,567	8,832	8,274	11,735	15,632	15,064	19,302
Polymers	17,413	18,113	19,239	1,600	1,632	1,641	5,836	4,729	4,496	24,849	24,474	25,376	2,343	2,378	2,914	2,112	2,062	2,349	4,455	4,440	5,263
Solvents	9,355	9,294	9,457	338	404	454	5,347	4,223	5,458	15,040	13,921	15,369	851	651	646	1,169	1,148	1,706	2,020	1,799	2,352
Olefins & Surfactants	5,260	5,321	5,914	869	846	746	7,772	7,038	12,111	13,901	13,205	18,771	1,869	1,948	2,361	3,500	2,891	5,049	5,369	4,839	7,410
Other	6,172	4,082	3,591	633	661	724	4,379	4,069	5,870	11,184	8,812	10,185	1,737	1,813	1,646	2,051	2,173	2,631	3,788	3,986	4,277
Other businesses	2,511	2,495	1,624	74	103	726	13,203	17,787	2,662	15,788	20,385	5,012	8,137	7,923	6,822	3,383	6,605	4,303	11,520	14,528	11,125
Total	94,734	85,934	78,930	6,928	5,736	4,906	53,367	52,984	54,823	155,029	144,654	138,659	25,967	24,238	25,164	22,319	25,540	25,985	48,286	49,778	51,149

(*) Excludes tax and deferred tax.

	External Turnover			Intersegment Turnover			Total Turnover			Translation (Losses)/Gains			Effect of Remeasurement Items (Before Tax) (Refer Note 42)			Operating Profit/(Losses)			Contribution to Attributable Earnings		
	2010 Rm	2009 Rm	2008 Rm	2010 Rm	2009 Rm	2008 Rm	2010 Rm	2009 Rm	2008 Rm	2010 Rm	2009 Rm	2008 Rm	2010 Rm	2009 Rm	2008 Rm	2010 Rm	2009 Rm	2008 Rm	2010 Rm	2009 Rm	2008 Rm
South African energy cluster	53,493	58,167	58,515	42,045	45,191	46,275	95,538	103,358	104,790	(202)	(48)	96	69	141	(116)	17,808	28,684	28,048	11,493	19,628	18,251
Mining	1,696	2,885	2,470	6,167	5,412	5,009	7,863	8,297	7,479	(2)	7	(7)	1	3	(7)	815	1,593	1,393	567	1,163	1,053
Gas	2,986	2,829	2,563	2,385	2,837	2,134	5,371	5,666	4,697	(16)	(31)	(6)	—	4	(104)	2,479	2,424	1,785	1,402	1,344	904
Synfuels	879	1,367	982	33,014	36,334	38,634	33,893	37,701	39,616	(136)	(152)	(5)	58	137	(25)	13,175	25,188	19,416	8,907	17,643	13,582
Oil	47,932	51,086	52,500	479	608	498	48,411	51,694	52,998	(48)	130	114	10	(3)	20	1,364	(351)	5,507	642	(353)	2,765
Other	—	—	—	—	—	—	—	—	—	—	(2)	—	—	—	—	(25)	(170)	(53)	(25)	(169)	(53)
International energy cluster	3,198	4,183	3,016	769	983	748	3,967	5,166	3,764	28	194	(2)	112	795	(369)	468	880	383	451	(153)	318
Synfuels International	2,282	3,027	1,788	—	—	5	2,282	3,027	1,793	33	(13)	(16)	4	777	(396)	131	(235)	(621)	504	(505)	(189)
Petroleum International	916	1,156	1,228	769	983	743	1,685	2,139	1,971	(5)	207	14	108	18	27	337	1,115	1,004	(53)	352	507
Chemical cluster	65,386	75,315	68,187	6,191	6,598	5,509	71,577	81,913	73,696	(672)	190	153	(251)	510	(294)	5,496	(2,244)	6,605	4,476	(2,773)	5,627
Polymers	14,236	15,326	11,162	85	199	142	14,321	15,525	11,304	(553)	44	296	14	(1)	12	958	946	1,511	844	1,016	1,485
Solvents	14,425	16,317	15,585	1,340	1,798	1,597	15,765	18,115	17,182	(132)	1	404	58	158	(104)	1,154	495	2,382	889	191	2,015
Olefins & Surfactants	24,774	28,867	28,125	509	667	655	25,283	29,534	28,780	37	84	32	(344)	106	27	2,492	(160)	1,512	2,248	(143)	1,279
Other	11,951	14,805	13,315	4,257	3,934	3,115	16,208	18,739	16,430	(24)	61	(579)	21	247	(229)	892	(3,525)	1,200	495	(3,837)	848
Other businesses	179	171	225	5,241	5,038	4,048	5,420	5,209	4,273	(161)	(502)	53	24	23	81	165	(2 654)	(1,220)	(479)	(3,054)	(1,779)
Total	122,256	137,836	129,943	54,246	57,810	56,580	176,502	195,646	186,523	(1,007)	(166)	300	(46)	1,469	(698)	23,937	24,666	33,816	15,941	13,648	22,417

	Cash Flow Information									Capital Commitments								
	Cash Flow From Operations (Refer Note 50)			Depreciation and Amortisation			Additions to Non-Current Assets			Property, Plant and Equipment			Other Intangible Assets			Number of Employees		
	2010 Rm	2009 Rm	2008 Rm	2010 Rm	2009 Rm	2008 Rm	2010 Rm	2009 Rm	2008 Rm	2010 Rm	2009 Rm	2008 Rm	2010 Rm	2009 Rm	2008 Rm	2010 Number	2009 Number	2008 Number
South African energy cluster	22,166	32,784	30,513	(3,015)	(2,289)	(2,146)	10,850	8,758	4,531	29,630	18,402	13,575	17	46	12	15,106	14,622	14,525
Mining	1,727	2,437	2,077	(649)	(619)	(650)	1,699	1,427	997	7,507	4,107	781	—	16	9	7,364	7,139	7,329
Gas	2,793	2,778	2,192	(322)	(310)	(289)	363	834	466	567	724	1,110	15	26	—	270	263	218
Synfuels	15,754	27,346	20,185	(1,445)	(816)	(720)	7,843	5,144	2,305	19,438	11,732	10,656	2	4	1	5,347	5,078	4,791
Oil	1,917	393	6,112	(599)	(544)	(487)	945	1,278	762	2,118	1,839	1,028	—	—	2	2,125	2,142	2,187
Other	(25)	(170)	(53)	—	—	—	—	75	1	—	—	—	—	—	—	—	—	—
International energy cluster	515	2,453	2,401	(699)	(706)	(537)	1,504	2,432	2,637	2,931	3,105	7,198	15	7	9	744	659	730
Synfuels International	(349)	1,113	1,157	(316)	(386)	(286)	721	657	1,508	695	798	3,448	2	2	1	449	395	458
Petroleum International	864	1,340	1,244	(383)	(320)	(251)	783	1,775	1,129	2,236	2,307	3,750	13	5	8	295	264	272
Chemical cluster	7,937	2,545	9,303	(2,648)	(2,993)	(2,365)	3,349	3,397	3,168	12,872	3,099	3,398	175	24	33	11,936	12,539	12,842
Polymers	2,056	2,211	2,479	(1,016)	(1,205)	(783)	335	668	1,001	1,914	504	559	—	12	19	2,191	2,221	2,178
Solvents	1,894	1,348	2,979	(553)	(546)	(477)	840	666	939	474	706	1,021	72	9	10	1,676	1,762	1,839
Olefins & Surfactants	2,746	1,020	2,204	(720)	(854)	(775)	730	862	555	886	604	912	79	3	3	2,824	2,936	3,143
Other	1,241	(2,034)	1,641	(359)	(388)	(330)	1,444	1,201	673	9,598	1,285	906	24	—	1	5,245	5,620	5,682
Other businesses	144	(588)	341	(350)	(257)	(164)	405	1,085	519	791	519	782	66	107	41	5,553	5,724	5,831
Total	30,762	37,194	42,558	(6,712)	(6,245)	(5,212)	16,108	15,672	10,855	46,224	25,125	24,953	273	184	95	33,339	33,544	33,928

Geographic Segment Information

	Total Turnover			External Turnover			Operating Profit/(Loss)			Total Consolidated Assets(*)			Additions to Non-Current Assets (by Location of Assets)			Capital Commitments of Non-Current Assets		
	2010 Rm	2009 Rm	2008 Rm	2010 Rm	2009 Rm	2008 Rm	2010 Rm	2009 Rm	2008 Rm	2010 Rm	2009 Rm	2008 Rm	2010 Rm	2009 Rm	2008 Rm	2010 Rm	2009 Rm	2008 Rm
South Africa	115,425	125,417	122,533	62,014	68,561	67,632	18,143	25,727	26,877	101,953	93,739	79,511	13,702	11,674	6,914	42,392	21,495	16,850
Rest of Africa	5,653	7,144	7,842	5,613	7,121	7,098	407	(288)	1,044	9,823	8,423	10,067	750	1,790	2,060	2,071	2,144	6,380
Mozambique	271	282	898	233	259	154	186	92	462	5,766	5,300	4,611	620	1,334	909	1,754	1,856	3,439
Nigeria	429	556	456	427	556	456	2	(717)	(298)	3,029	1,947	4,350	4	—	1,012	147	153	2,674
Rest of Africa	4,953	6,306	6,488	4,953	6,306	6,488	219	337	880	1,028	1,176	1,106	126	456	139	170	135	267
Europe	27,620	31,901	29,882	26,978	31,230	29,204	3,553	(3,050)	3,263	17,462	17,801	22,115	935	1,158	988	985	974	1,340
Germany	7,649	8,824	8,904	7,022	8,183	8,262	773	(3,504)	114	7,744	7,969	9,917	776	795	469	538	785	940
Italy	2,724	3,567	3,738	2,719	3,563	3,734	283	(155)	115	2,997	2,282	4,105	122	239	145	115	71	232
Rest of Europe	17,247	19,510	17,240	17,237	19,484	17,208	2,497	609	3,034	6,721	7,550	8,093	37	124	374	332	118	168
North America	13,093	14,727	14,148	13,047	14,692	14,094	1,060	329	991	6,843	6,615	8,177	323	439	89	592	301	302
United States of America	11,692	13,549	12,926	11,650	13,514	12,872	880	258	905	6,498	6,459	8,006	323	439	89	592	301	302
Rest of North America	1,401	1,178	1,222	1,397	1,178	1,222	180	71	86	345	156	171	—	—	—	—	—	—
South America	1,443	2,211	2,592	1,445	2,211	2,592	113	668	849	302	192	453	—	—	—	—	—	—
Southeast Asia and Australasia	3,066	3,532	2,628	3,022	3,414	2,548	218	186	581	2,246	1,924	2,241	75	22	7	170	190	—
Middle East and India	5,450	5,838	2,740	5,451	5,818	2,733	537	1,409	(7)	14,642	14,363	14,059	321	566	729	283	199	164
Iran	795	1,934	301	796	1,934	298	252	1,080	(45)	7,521	7,541	8,346	70	263	457	42	104	96
Qatar	13	27	154	13	26	151	(684)	(223)	(298)	5,239	5,544	5,044	248	301	268	241	95	68
Rest of Middle East and India	4,642	3,877	2,285	4,642	3,858	2,284	969	552	336	1,882	1,278	669	3	2	4	—	—	—
Far East	4,752	4,876	4,158	4,686	4,789	4,042	(94)	(315)	218	1,758	1,597	2,036	2	23	68	4	6	12
	176,502	195,646	186,523	122,256	137,836	129,943	23,937	24,666	33,816	155,029	144,654	138,659	16,108	15,672	10,855	46,497	25,309	25,048

(*) Excludes tax and deferred tax.

C. Other Explanatory Notes to the Financial Statements (in part)

3. Property, Plant and Equipment (in part)

	2010 Rm	2009 Rm	2008 Rm
Business Segmentation			
South African energy cluster	28,605	27,314	25,752
Mining	4,744	4,672	3,962
Gas	3,718	5,049	5,097
Synfuels	15,644	13,361	12,853
Oil	4,424	4,157	3,840
Other SA Energy	75	75	—
International energy cluster	7,541	7,909	5,928
Synfuels International	4,584	4,698	4,240
Petroleum International	2,957	3,211	1,688
Chemical cluster	34,414	33,625	33,660
Polymers	16,775	17,465	16,506
Solvents	8,608	8,467	8,922
Olefins & Surfactants	4,582	4,632	5,358
Other	4,449	3,061	2,874
Other businesses	1,963	1,522	933
Total operations	72,523	70,370	66,273

Capital Commitments (in part)

Capital commitments, excluding capitalised interest, include all projects for which specific board approval has been obtained up to the reporting date. Projects still under investigation for which specific board approvals have not yet been obtained are excluded from the following:

	2010 Rm	2009 Rm	2008 Rm
Business Segmentation			
South African energy cluster	29,630	18,402	13,575
Mining	7,507	4,107	781
Gas	567	724	1,110
Synfuels	19,438	11,732	10,656
Oil	2,118	1,839	1,028
International energy cluster	2,931	3,105	7,198
Synfuels International	695	798	3,448
Petroleum International	2,236	2,307	3,750
Chemical cluster	12,872	3,099	3,398
Polymers	1,914	504	559
Solvents	474	706	1,021
Olefins & Surfactants	886	604	912
Other	9,598	1,285	906
Other businesses	791	519	782
Total operations	46,224	25,125	24,953

4. Assets Under Construction

	Note	2010 Rm	2009 Rm	2008 Rm
Business Segmentation				
South African energy cluster		14,599	9,152	4,350
Mining		1,274	254	147
Gas		1,108	862	308
Synfuels		11,303	7,224	3,550
Oil		914	812	345
International energy cluster		3,118	2,078	2,845
Synfuels International		899	382	664
Petroleum International		2,219	1,696	2,181
Chemical cluster		3,077	2,464	3,836
Polymers		452	444	2,675
Solvents		562	607	291
Olefins & Surfactants		425	501	287
Other		1,638	912	583
Other businesses		224	802	662
		21,018	14,496	11,693

5. Goodwill (in part)

	Note	2010 Rm	2009 Rm	2008 Rm
Business Segmentation				
Olefins & Surfactants		203	222	250
Solvents		184	220	249
Wax		171	183	195
Nitro		95	95	95
Oil		85	85	85
Total operations		738	805	874

For the purposes of impairment testing, goodwill is allocated to the smallest cash generating unit. Impairment testing in respect of goodwill is performed at each reporting date by comparing the recoverable amount based on the value-in-use of the cash generating unit to the carrying amount as described in note 42.

6. Other Intangible Assets (in part)

	2010 Rm	2009 Rm	2008 Rm
Business Segmentation of Emission Rights			
Olefins & Surfactants	165	136	212
Solvents	42	41	69
Wax	8	9	14
Financing	30	31	—
Merisol	3	3	3
	248	220	298

10. Long-Term Receivables and Prepaid Expenses (in part)

	Note	2010 Rm	2009 Rm	2008 Rm
Geographic Segmentation				
South Africa		44	23	90
Rest of Africa		9	3	3
Europe		324	362	409
North America		19	39	79
Southeast Asia and Australasia		—	—	1
Middle East and India		919	1,406	918
Far East		2	2	1
		1,317	1,835	1,499

13. Inventories (in part)

	2010 Rm	2009 Rm	2008 Rm
Business Segmentation			
South African energy cluster	6,622	5,548	7,433
Mining	847	508	539
Gas	40	104	93
Synfuels	1,874	1,997	1,303
Oil	3,861	2,939	5,498
International energy cluster	995	866	694
Synfuels International	973	847	666
Petroleum International	22	19	28
Chemical cluster	8,837	8,155	11,942
Polymers	1,498	1,510	1,394
Solvents	2,108	1,628	1,711
Olefins & Surfactants	3,129	2,936	5,824
Other	2,102	2,081	3,013
Other businesses	18	20	19
Total operations	16,472	14,589	20,088

The impact of lower crude oil prices as well as prices of other energy and chemical products has had a direct impact on the carrying value of inventory, affecting mainly the Sasol Oil business unit and the chemical businesses. These decreases resulted in a net realisable value write-down of R172 million in 2010 (2009—R965 million; 2008—R105 million).

The reversal of the net realisable value write-down of R54 million in 2010 arises due to the increase in catalyst prices, which affect mainly the catalyst business.

No inventories are encumbered.

14. Trade Receivables (in part)

Impairment of Trade Receivables

Trade receivables that are not past the due date are not considered to be impaired, except in situations where they are part of individually impaired trade receivables. The individually impaired trade receivables mainly relate to certain customers who are trading in difficult economic circumstances.

Credit risk exposure in respect of trade receivables is analysed as follows

	2010 Rm	2009 Rm	2008 Rm
Business Segmentation			
South African energy cluster	7,038	6,062	8,688
Mining	47	18	192
Gas	379	268	316
Synfuels	176	152	273
Oil	6,434	5,615	7,902
Other	2	9	5
International energy cluster	533	651	1,188
Synfuels International	335	519	992
Petroleum International	198	132	196
Chemical cluster	10,997	8,435	12,948
Polymers	2,543	1,973	2,254
Solvents	2,704	1,925	3,094
Olefins & Surfactants	4,016	2,962	5,371
Other	1,734	1,575	2,229
Other businesses	56	28	14
Total operations	18,624	15,176	22,838

Geographic Segmentation of Trade Receivables

	2010 Rm	2009 Rm	2008 Rm
South Africa	9,443	8,028	11,221
Rest of Africa	281	343	507
Europe	4,455	3,780	6,709
North America	1,695	1,019	1,653
South America	296	187	446
South-East Asia and Australasia	526	495	745
Middle East and India	1,202	678	569
Far East	726	646	988
	18,624	15,176	22,838

15. Other Receivables and Prepaid Expenses (in part)

Geographic Segmentation of Other Receivables and Prepaid Expenses

	2010 Rm	2009 Rm	2008 Rm
South Africa	489	436	963
Rest of Africa	36	52	102
Europe	379	419	679
North America	179	346	131
South-East Asia and Australasia	11	17	1
Middle East and India	304	566	506
Far East	19	28	25
	1,417	1,864	2,407

18. Long-Term Debt (in part)

	2010 Rm	2009 Rm	2008 Rm
Related Party Long-Term Debt Included in Long-Term Debt			
Third parties	1,566	1,159	134
Joint ventures	78	33	803
	1,644	1,192	937
Business Segmentation			
South African energy cluster	4,835	4,492	4,422
Mining	99	—	—
Gas	2,245	2,271	2,410
Synfuels	2	—	—
Oil	2,489	2,221	2,012
International energy cluster	660	814	3,426
Synfuels International	3	3	2,454
Petroleum International	657	811	972
Chemical cluster	2,692	2,486	3,044
Polymers	2,353	2,341	2,861
Solvents	192	—	1
Olefins & Surfactants	117	120	140
Other	30	25	42
Other businesses(*)	7,010	10,095	5,911
Total operations	15,197	17,887	16,803

(*) Other businesses include Sasol Financing which conducts the group's treasury activities.

20. Long-Term Provisions (in part)

	2010 Rm	2009 Rm	2008 Rm
Business Segmentation			
South African energy cluster	4,524	3,299	2,235
Mining	669	567	491
Gas	141	112	77
Synfuels	3,503	2,441	1,515
Oil	211	179	152
International energy cluster	619	591	652
Synfuels International	377	352	535
Petroleum International	242	239	117
Chemical cluster	1,727	1,661	1,518
Polymers	63	50	87
Solvents	144	130	73
Olefins & Surfactants	714	666	794
Other	806	815	564
Other businesses	143	178	86
Total operations	7,013	5,729	4,491

22. Long-Term Deferred Income (in part)

Amounts received in respect of capital investment, to be recognised in income over the useful lives of the underlying assets, as well as emission rights received to be recognised in the income statement as the emissions are generated.

Business Segmentation

	2010 Rm	2009 Rm	2008 Rm
South African energy cluster	42	44	31
Gas	22	25	27
Oil	20	19	4
Chemical cluster	231	253	345
Polymers	168	172	204
Solvents	—	—	34
Olefins & Surfactants	63	81	107
Total operations	273	297	376

24. Short-Term Debt (in part)

	2010 Rm	2009 Rm	2008 Rm
Business Segmentation			
Synfuels International	14	—	—
Polymers	300	291	590
Olefins & Surfactants	31	87	17
Financing	—	—	1,645
Other chemical businesses	111	112	123
	456	490	2,375

26. Short-Term Provisions (in part)

	Note	2010 Rm	2009 Rm	2008 Rm
Employee provisions		160	173	130
Insurance related provisions		128	238	119
Restructuring provisions		111	78	13
Provision in respect of EGTL		1,274	1,280	—
Other provisions		368	586	454
		2,041	2,355	716
Short-term portion of				
Long-term provisions	20	574	1,177	1,123
Post-retirement benefit obligations	21	32	60	112
		2,647	3,592	1,951

	2010 Rm	2009 Rm	2008 Rm
Business Segmentation			
South African energy cluster	224	161	134
Mining	62	46	47
Gas	1	1	4
Synfuels	141	79	31
Oil	20	35	52
International energy cluster	1,387	2,118	441
Synfuels International	1,326	2,085	419
Petroleum International	61	33	22
Chemical cluster	682	1,004	1,194
Polymers	65	70	62
Solvents	141	144	139
Olefins & Surfactants	275	504	733
Other	201	286	260
Other businesses	354	309	182
Total operations	2,647	3,592	1,951

29. Trade Payables and Accrued Expenses (in part)

	2010 Rm	2009 Rm	2008 Rm
Business Segmentation			
South African energy cluster	6,124	5,931	6,737
Mining	592	746	603
Gas	128	104	133
Synfuels	1,426	969	1,113
Oil	3,978	4,112	4,888
International energy cluster	443	803	819
Synfuels International	383	526	698
Petroleum International	60	277	121
Chemical cluster	5,488	4,858	7,246
Polymers	902	1,131	895
Solvents	864	851	1,023
Olefins & Surfactants	2,475	1,711	3,434
Other	1,247	1,165	1,894
Other businesses	1,280	1,329	781
Total operations	13,335	12,921	15,583

30. Other Payables (in part)

	Note	2010 Rm	2009 Rm	2008 Rm
Employee related payables		2,950	2,426	2,590
Insurance related payables		196	198	380
Fuel related payables(*)		169	192	—
Other payables		734	486	486
	1.1	4,049	3,302	3,456

(*) Relates to the overrecovery by Sasol Oil on regulated fuel prices, which will be settled by future changes in the regulated fuel price.

	2010 Rm	2009 Rm	2008 Rm
Business Segmentation			
South African energy cluster	1,161	717	622
Mining	229	—	126
Gas	41	39	25
Synfuels	428	324	327
Oil	463	354	144
International energy cluster	113	79	70
Synfuels International	65	34	38
Petroleum International	48	45	32
Chemical cluster	1,479	1,293	1,419
Polymers	465	251	375
Solvents	127	124	167
Olefins & Surfactants	423	336	534
Other	464	582	343
Other businesses	1,296	1,213	1,345
Total operations	4,049	3,302	3,456

31. Turnover (in part)

	2010 Rm	2009 Rm	2008 Rm
Business Segmentation			
South African energy cluster	53,493	58,167	58,515
Mining	1,696	2,885	2,470
Gas	2,986	2,829	2,563
Synfuels	879	1,367	982
Oil	47,932	51,086	52,500
International energy cluster	3,198	4,183	3,016
Synfuels International	2,282	3,027	1,788
Petroleum International	916	1,156	1,228
Chemical cluster	65,386	75,315	68,187
Polymers	14,236	15,326	11,162
Solvents	14,425	16,317	15,585
Olefins & Surfactants	24,774	28,867	28,125
Other	11,951	14,805	13,315
Other businesses	179	171	225
Total operations	122,256	137,836	129,943

32. Cost of Sales and Services Rendered

	2010 Rm	2009 Rm	2008 Rm
Cost of sales of products	78,886	87,995	74,160
Cost of services rendered	297	513	474
	79,183	88,508	74,634
Business Segmentation			
South African energy cluster	39,187	37,727	33,689
Mining	5,833	5,438	4,551
Gas	784	734	796
Synfuels	9,734	6,006	9,515
Oil	22,836	25,549	18,827
International energy cluster	1,371	1,638	1,080
Synfuels International	609	957	608
Petroleum International	762	681	472
Chemical cluster	36,819	47,998	39,072
Polymers	4,346	4,951	2,185
Solvents	4,538	6,651	5,488
Olefins & Surfactants	18,920	24,922	22,625
Other	9,015	11,474	8,774
Other businesses	1,806	1,145	793
Total operations	79,183	88,508	74,634

39. Share of Profit of Associates (Net of Tax) (in part)

	2010 Rm	2009 Rm	2008 Rm
Business Segmentation			
Synfuels	4	3	3
Polymers	220	273	251
Olefins & Surfactants	(1)	(9)	(1)
Other	(6)	3	1
Total operations	217	270	254

41. Taxation (in part)

	2010 Rm	2009 Rm	2008 Rm
Business Segmentation			
South African energy cluster	5,296	8,395	8,329
Mining	229	416	332
Gas	722	677	547
Synfuels	4,042	7,389	5,905
Oil	303	(87)	1,545
International energy cluster	(36)	824	225
Synfuels International	(345)	192	(191)
Petroleum International	309	632	416
Chemical cluster	968	433	1,385
Polymers	153	(75)	422
Solvents	291	331	474
Olefins & Surfactants	192	(37)	195
Other	332	214	294
Other businesses	757	828	190
Total operations	6,985	10,480	10,129

42. Remeasurement Items Affecting Operating Profit

	Note	2010 Rm	2009 Rm	2008 Rm
Impairment of	—	(110)	(458)	(821)
property, plant and equipment	3	(47)	(294)	(447)
assets under construction	4	(61)	(19)	(371)
other intangible assets	6	(1)	(137)	(3)
investments in securities	7	(1)	(8)	—
Reversal of impairment of	—	365	—	381
property, plant and equipment	3	348	—	381
assets under construction	—	2	—	—
other intangible assets	—	15	—	—
Profit/(loss) on disposal of	—	5	(761)	440
property, plant and equipment	—	4	11	79
other intangible assets	—	(1)	(2)	12
investment in associate	56	7	—	—
investments in businesses	56	(5)	(770)	349
Loss on repurchase of participation rights in GTL project	—	—	—	(34)
Scrapping of property, plant and equipment	—	(124)	(133)	(96)
Scrapping of assets under construction	—	(32)	(101)	(11)
Write off of unsuccessful exploration wells	—	(58)	(16)	—
Realisation of foreign currency translation reserve	34	—	—	(557)
	—	46	(1,469)	(698)
Tax effect thereon	—	19	(35)	229
Non-controlling interests effect thereon	—	—	—	(4)
	—	65	(1,504)	(473)
Business Segmentation				
South African energy cluster	—	(69)	(141)	(116)
Mining	—	(1)	(3)	(7)
Gas	—	—	(4)	(104)
Synfuels	—	(58	(137)	(25)
Oil	—	(10)	3	20
International energy cluster	—	(112)	(794)	(369)
Synfuels International	—	(4)	(777)	(396)
Petroleum International	—	(108)	(17)	27
Chemical cluster	—	251	(510)	(294)
Polymers	—	(14)	1	12
Solvents	—	(58)	(158)	(104)
Olefins & Surfactants	—	344	(106)	27
Other	—	(21)	(247)	(229)
Other businesses	—	(24)	(24)	81
Total operations	—	46	(1,469)	(698)

Management determines the expected performance of the assets based on past performance and its expectations of market development. The weighted average growth rates used are consistent with the increase in the geographic segment long-term Producer Price Index. Estimations are based on a number of key assumptions such as volume, price, product mix which will create a basis for future growth and gross margin. These assumptions are set in relation to historic figures and external reports on market growth. If necessary, these cash flows are then adjusted to take into account any changes in assumptions or operating conditions that have been identified subsequent to the preparation of the budgets.

47. Foreign Currency Translation Reserve (in part)

	2010 Rm	2009 Rm	2008 Rm
Business Segmentation			
South African energy cluster	(3)	(4)	(4)
International energy cluster	(1,050)	(932)	(337)
Synfuels International	(1,070)	(959)	(399)
Petroleum International	20	27	62
Chemical cluster	1,118	1,192	2,007
Polymers	105	36	398
Solvents	554	830	956
Olefins & Surfactants	(189)	189	689
Wax	986	1,012	1,354
Other	(338)	(875)	(1,390)
Other businesses	72	683	1,340
Financing	38	640	1,282
Other	34	43	58
	137	939	3,006

50. Cash Flow From Operations (in part)

	Note	2010 Rm	2009 Rm	2008 Rm
Business Segmentation				
South African energy cluster		22,166	32,784	30,513
Mining		1,727	2,437	2,077
Gas		2,793	2,778	2,192
Synfuels		15,754	27,346	20,185
Oil		1,917	393	6,112
Other		(25)	(170)	(53)
International energy cluster		515	2,453	2,401
Synfuels International		(349)	1,113	1,157
Petroleum International		864	1,340	1,244
Chemical cluster		7,937	2,545	9,303
Polymers		2,056	2,211	2,479
Solvents		1,894	1,348	2,979
Olefins & Surfactants		2,746	1,020	2,204
Other		1,241	(2,034)	1,641
Other businesses		144	(588)	341
Total operations		30,762	37,194	42,558

58. Commitments Under Leases (in part)

	2010 Rm	2009 Rm	2008 Rm
Total minimum future lease payments	7,159	7,227	7,516

These leasing arrangements do not impose any significant restrictions on the group or its subsidiaries.

	2010 Rm	2009 Rm	2008 Rm
Business Segmentation—Minimum Future Operating Lease Payments			
South African energy cluster	4,908	4,945	4,909
Mining	1	—	1
Gas	1,412	1,495	1,388
Synfuels	3,188	3,145	3,352
Oil	307	305	168
International energy cluster	720	651	779
Synfuels International	431	372	456
Petroleum International	289	279	323
Chemical cluster	1,227	1,296	1,422
Polymers	198	202	125
Solvents	316	285	387
Olefins & Surfactants	404	459	591
Other	309	350	319
Other businesses	304	335	406
	7,159	7,227	7,516

Operating Segments Defined on the Basis of Geographic Areas, Revised Based on Change in Organizational Structure

7.27

Vodafone Group plc (Mar 2010)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

3. Segment Analysis

The Group has a single group of related services and products being the supply of communications services and products. Segment information is provided on the basis of geographic areas, being the basis on which the Group manages its worldwide interests. Revenue is attributed to a country or region based on the location of the Group company reporting the revenue. Inter-segment sales are charged at arm's length prices.

During the year ended 31 March 2011 the Group changed its organisation structure to enable continued improvement in the delivery of the Group's strategic goals. The Europe region now consists of all existing controlled businesses in Europe plus the Group's interests in Czech Republic, Hungary, Romania and Turkey. The Africa, Middle East and Asia Pacific region includes the Group's interests in Egypt, India, Ghana, Kenya, Qatar and Vodacom as well as Australia, New Zealand and Fiji. Non-Controlled Interests and Common Functions includes Verizon Wireless, SFR and Polkomtel

as well as central Group functions. The tables below present segment information on the revised basis, with prior years amended to conform to the current year presentation.

	Segment Revenue £m	Intra-Region Revenue £m	Regional Revenue £m	Inter-Region Revenue £m	Group Revenue £m	Adjusted EBITDA[1] £m
31 March 2011						
Germany	7,900	(51)	7,849	(2)	7,847	2,952
Italy	5,722	(31)	5,691	(3)	5,688	2,643
Spain	5,133	(62)	5,071	(2)	5,069	1,562
UK	5,271	(50)	5,221	(7)	5,214	1,233
Other Europe	8,253	(70)	8,183	(3)	8,180	2,433
Europe	32,279	(264)	32,015	(17)	31,998	10,823
India	3,855	(1)	3,854	(11)	3,843	985
Vodacom	5,479	—	5,479	(8)	5,471	1,844
Other Africa, Middle East and Asia Pacific	3,971	—	3,971	(27)	3,944	1,170
Africa, Middle East and Asia Pacific	13,305	(1)	13,304	(46)	13,258	3,999
Non-Controlled Interests and Common Functions	659	—	659	(31)	628	(152)
Group	46,243	(265)	45,978	(94)	45,884	14,670
Verizon Wireless	18,711[2]					7,313
31 March 2010						
Germany	8,008	(41)	7,967	(8)	7,959	3,122
Italy	6,027	(40)	5,987	(2)	5,985	2,843
Spain	5,713	(81)	5,632	(2)	5,630	1,956
UK	5,025	(47)	4,978	(10)	4,968	1,141
Other Europe	8,357	(88)	8,269	(5)	8,264	2,582
Europe	33,130	(297)	32,833	(27)	32,806	11,644
India	3,114	(1)	3,113	(20)	3,093	807
Vodacom	4,450	—	4,450	(7)	4,443	1,528
Other Africa, Middle East and Asia Pacific	3,526	—	3,526	(30)	3,496	977
Africa, Middle East and Asia Pacific	11,090	(1)	11,089	(57)	11,032	3,312
Non-Controlled Interests and Common Functions	667	—	667	(33)	634	(221)
Group	44,887	(298)	44,589	(117)	44,472	14,735
Verizon Wireless	17,222[2]					6,689
31 March 2009						
Germany	7,847	(59)	7,788	(9)	7,779	3,225
Italy	5,547	(39)	5,508	(3)	5,505	2,565
Spain	5,812	(95)	5,717	(2)	5,715	2,034
UK	5,392	(48)	5,344	(8)	5,336	1,368
Other Europe	8,514	(102)	8,412	(3)	8,409	2,920
Europe	33,112	(343)	32,769	(25)	32,744	12,112
India	2,689	(2)	2,687	(18)	2,669	717
Vodacom	1,778	—	1,778	—	1,778	606
Other Africa, Middle East and Asia Pacific	3,258	—	3,258	(32)	3,226	1,072
Africa, Middle East and Asia Pacific	7,725	(2)	7,723	(50)	7,673	2,395
Non-Controlled Interests and Common Functions	614	—	614	(14)	600	(17)
Group	41,451	(345)	41,106	(89)	41,017	14,490
Verizon Wireless	14,085[2]					5,543

Notes:

[1] The Group's measure of segment profit, adjusted EBITDA, excludes the Group's share of results in associates. The Group's share of results in associates, by segment, for the year ended 31 March 2011 is Other Europe £nil (2010: £nil; 2009 £(3) million), Vodacom £nil (2010: £(2) million; 2009: £(1) million), Other Africa, Middle East and Asia Pacific £51 million (2010: £56 million; 2009: £31 million) and Non-Controlled Interests and Common Functions £5,008 million (2010: £4,688 million; 2009: £4,064 million).

[2] Values shown for Verizon Wireless, which is an associate, are not included in the calculation of Group revenue or adjusted EBITDA.

A reconciliation of adjusted EBITDA to operating profit is shown below. For a reconciliation of operating profit to profit before taxation, see the consolidated income statement on page 80.

	2011 £m	2010 £m	2009 £m
Adjusted EBITDA	14,670	14,735	14,490
Depreciation, amortisation and loss on disposal of fixed assets	(7,967)	(8,011)	(6,824)
Share of results in associates	5,059	4,742	4,091
Impairment losses	(6,150)	(2,100)	(5,900)
Other income and expense	(16)	114	—
Operating profit	5,596	9,480	5,857

	Non-Current Assets(1) £m	Capital Expenditure(2) £m	Other Expenditure on Intangible Assets £m	Depreciation and Amortisation £m	Impairment (Reversal)/ Loss £m
31 March 2011					
Germany	20,764	824	1,214	1,361	—
Italy	16,645	590	12	732	1,050
Spain	9,596	517	—	641	2,950
UK	6,665	516	—	874	—
Other Europe	11,438	1,230	59	1,406	2,150
Europe	65,108	3,677	1,285	5,014	6,150
India	9,882	870	1,851	973	—
Vodacom	7,382	572	19	1,013	—
Other Africa, Middle East and Asia Pacific	4,797	754	2	793	—
Africa, Middle East and Asia Pacific	22,061	2,196	1,872	2,779	—
Non-Controlled Interests and Common Functions	1,570	346	9	83	—
Group	88,739	6,219	3,166	7,876	6,150
31 March 2010					
Germany	20,211	766	18	1,422	—
Italy	17,941	610	60	732	—
Spain	12,746	543	—	638	—
UK	6,977	494	—	963	—
Other Europe	13,883	1,282	228	1,467	(200)
Europe	71,758	3,695	306	5,222	(200)
India	8,665	853	—	848	2,300
Vodacom	7,783	520	—	1,005	—
Other Africa, Middle East and Asia Pacific	5,062	694	—	683	—
Africa, Middle East and Asia Pacific	21,510	2,067	—	2,536	2,300
Non-Controlled Interests and Common Functions	1,632	430	19	152	—
Group	94,900	6,192	325	7,910	2,100
31 March 2009					
Germany		750	16	1,378	—
Italy		521	—	735	—
Spain		632	—	606	3,400
UK		446	—	1,010	—
Other Europe		1,013	21	1,441	2,250
Europe		3,362	37	5,170	5,650
India		1,351	—	746	—
Vodacom		237	—	231	—
Other Africa, Middle East and Asia Pacific		581	1,101	527	250
Africa, Middle East and Asia Pacific		2,169	1,101	1,504	250
Non-Controlled Interests and Common Functions		378	—	140	—
Group		5,909	1,138	6,814	5,900

Notes:
(1) Comprises goodwill, other intangible assets and property, plant and equipment.
(2) Includes additions to property, plant and equipment and computer software, reported within intangible assets.

Initial Application of IFRSs and IFRS 8, Reconciliation of Segment Information Presented Under Argentine GAAP and IFRSs

7.28

Nortel Inversora S.A. (Dec 2010)

Author's Note

Nortel Inversora S.A. implemented IFRSs effective December 31, 2010, with a date of transition of January 1, 2009. The excerpt that follows reflects the initial application of IFRS 8.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1—Description of Business and Basis of Preparation of the Consolidated Financial Statements (in part)

b) Segment Reporting

An operating segment is defined as a component of an entity on which financial information is held separately and which is evaluated regularly by the CODM.

Operating segments are reported in a manner consistent with the internal reporting provided to the CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segments, assesses the performance of the operating segments at the net income (loss) level and under the accounting principles effective at each time for reporting to the national Regulatory Bodies. Therefore, the financial information provided to the CODM during 2010 and 2009 was based on Argentine GAAP rather than IFRS. Reconciliations between segment information amounts presented under Argentine GAAP and IFRS as of December 31, 2010 and 2009 and for the years then ended are included in Note 28.

The accounting policies applied for segment information are the same for all operating segments. Additional information regarding segment information under IFRS is included in Note 30.

Note 3—Significant Accounting Policies (in part)

e) Revenues

Revenues are recognized to the extent that it is considered probable that economic benefits will flow to the Company and their amount can be measured reliably. Final outcome may differ from those estimates.

Revenues are stated net of discounts and returns.

The Company discloses its revenues into two groups: services and equipment. Service revenues are the main source of income for the Company and are disclosed by nature: Voice services and Data transmission and Internet services. This classification of revenues is given by different commercial offers and products, type of contracts and kind of customers. Equipment sales represent a way to increase service revenues; therefore, from time to time, the Management of Personal and Núcleo decide to sell mobile handsets at prices lower than their respective costs in order to acquire new contracts with a minimum non-cancelable period of permanence.

Other income mainly includes penalties collected from suppliers and gains (losses) on the sale of PP&E, which are realized in the ordinary course of business but are not the main business objective.

The Company's principal sources of revenues by reportable segments are:

Fixed Telecommunication Services and Products

Domestic services revenues consist of monthly basic fees, measured service, long-distance calls and monthly fees for additional services, including call forwarding, call waiting, three-way calling, itemized billing and voicemail.

Revenues are recognized when services are rendered. Unbilled revenues from the billing cycle dating to the end of each month are calculated based on traffic and are accrued at the end of the month.

Basic fees are generally billed monthly in advance and are recognized when services are provided. Billed basic fees for which the related service has not yet been provided are deducted from corresponding accounts receivable. Revenues derived from other telecommunications services, principally network access, long distance and airtime usage, are recognized on a monthly basis as services are provided.

Traffic revenues from interconnection and roaming are reported gross of the amounts due to other telecommunication operators.

Revenues from the sale of prepaid calling cards are recognized on the basis of the minutes used, at the contract price per minute, or when the card expires, whichever happens first. Remaining unused traffic for unexpired calling cards is shown as "Deferred revenue on prepaid calling cards" under Trade payables line item in the statement of financial position.

Interconnection charges represent amounts received by the Company from other local service providers and long-distance carriers for calls that are originated on their networks and transit and/or terminate on the Company's network. Revenue is recognized as services when they are provided.

Non-refundable up-front connection fees for fixed telephony, data and Internet services that are non-separable from the service are accounted for as a single transaction and deferred (as well as the related costs not in excess of the amount of revenues) over the term of the contract or, in the case of indefinite period contracts, over the average period of the customer relationship (approximately 9 years in the case of fixed telephony).

Rehabilitation fees charged to customers when resuming service after suspension are deferred and recognized ratably over the average life for those customers who are assessed a rehabilitation fee. Associated direct expenses are also deferred over the estimated customer relationship period up to an amount equal to or less than the amount of deferred revenues. Generally, rehabilitation revenues are higher than its associated direct expenses.

Revenues from sales of goods, such as telephone and other equipment, are recognized when the significant risks and rewards of ownership are transferred to the buyer.

Revenues on construction contracts are recognized based on the stage of completion (percentage of completion method). When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract are recognized as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract costs will

exceed total contract revenue, the expected loss is recognized as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable.

Contract revenue recognized as revenue in the years ended December 31, 2010 and 2009 total $14 and $nil, respectively.

International Long-Distance Services

The Company provides international telecommunications services in Argentina including voice and data services and international point-to-point leased circuits.

Revenues from international long-distance service reflect payments under bilateral agreements between the Company and foreign telecommunications carriers, covering inbound international long-distance calls.

Revenues are recognized as services when they are provided.

Data Transmission and Internet Services

Data and Internet revenues mainly consist of fixed monthly fees received from residential and corporate customers for data transmission (including private networks, dedicated lines, broadcasting signal transport and videoconferencing services) and Internet connectivity services (dial-up and broadband). These revenues are recognized as services when they are rendered.

Mobile Telecommunication Services and Products

The Company provides mobile services throughout Argentina via cellular networks. Cellular fees consist of monthly basic fees, airtime usage charges, roaming, charges for TLRD, CPP charges and additional charges for VAS, including call waiting, call forwarding, three-way calling, voicemail, SMS, GPRS, Mobile Internet and for other miscellaneous cellular services. These revenues are recognized as services when they are rendered.

Basic fees are generally billed monthly in advance and are recognized when services are provided. Billed basic fees for which the related service has not yet been provided are deducted from the corresponding accounts receivable.

Revenues from the sale of prepaid calling cards are recognized on the basis of the minutes used, at the contract price per minute, or when the card expires, whichever happens first. Remaining unused traffic for unexpired calling cards is shown as “Deferred revenue on prepaid calling cards” under Trade payables line item in the statement of financial position.

Revenues from sales of goods, such as handsets, sim cards, tablets, smartphones and other equipment are recognized when the significant risks and rewards of ownership are transferred to the buyer.

Personal and Núcleo offer to their subscribers a customer loyalty program. Under such program Personal and Núcleo grant award credits as part of the sales transactions which can be subsequently redeemed for goods or services provided by Personal and Núcleo or third parties. The fair value of the award credits is accounted for as deferred revenue, and recognized as revenue when the award credits are redeemed or expire, whichever occurs first. Those revenues are classified as service or goods revenues depending on the goods or services redeemed by the customers.

Applicable to both fixed telephony and mobile telephony, for offerings including separately identifiable components (as equipment and service), the Company recognizes revenues related to the sale of the equipment when it is delivered to the final customer whereas service revenues are recorded when rendered. The total revenue generated by this type of transactions is allocated to the separately identifiable units of accounting based on their fair values, provided that the total amount of revenue to be recognized does not exceed the contract revenue. IFRS does not prescribe a specific method for such allocation of revenue. However, telecommunications industry practice generally applies the method known as “residual method”. The “residual method” requires identifying all the components that comprise a transaction and allocating its fair value on an individual basis to each of them. Under this method, the fair value of a delivered item (which could not be individually determined) is determined as the difference between the total arrangement consideration and the sum of the fair values of those elements for which fair value can be estimated on a stand-alone basis.

k) Impairment of Intangible Assets and PP&E (in part)

Intangible assets with an indefinite useful life (including intangible assets not ready to use) are not subject to amortization and are tested at least annually for impairment. The only intangible asset with an indefinite useful life held by the Company at December 31, 2010 and 2009 is the PCS license (Argentina), which is entirely allocated to the Personal Mobile Service operating segment. Its recoverable amount is determined based on the value in use, which is estimated using discounted net cash flows projections.

l) Other Liabilities (in part)

- Deferred revenue on sale of capacity

Under certain network capacity purchase agreements, the Company sells excess purchased capacity to other carriers. Revenues are deferred and recognized as services revenues when they are provided. Those revenues are recorded under the item line “Data and Internet” in the Fixed services segment.

Note 21—Revenues (in part)

The Company discloses its service revenues in two groups by nature: Voice and Data and Internet. At December 31, 2010 and 2009, the customers by segment (unaudited) were the following:

	December 31	
	2010	2009
Fixed customer lines	4,019,000	3,967,000
ADSL subscribers	1,380,000	1,214,000
Personal mobile services customers	16,333,000	14,475,000
Núcleo mobile services customers	1,878,000	1,806,000

Note 23—Operating Income

	Years Ended December 31	
	2010	**2009**
Operating Income From Services and Other Income		
Revenues and other income	13,563	11,359
Operating expenses	(8,578)	(7,137)
Operating income before D&A (a)	4,985	4,222
D&A (b)	(1,712)	(1,545)
Operating income from services	3,273	2,677
Operating Loss From Equipment Sales		
Revenues	1,096	845
Cost of equipment and handsets	(1,207)	(906)
Operating loss before D&A from equipment sales (c)	(111)	(61)
Total operating income	3,162	2,616
Consolidated Operating Income		
Operating income before D&A (a) + (c)	4,874	4,161
D&A (b)	(1,712)	(1,545)
Total operating income	3,162	2,616

The breakdown of operating income by segment is as follows:

Year Ended December 31, 2010	**Fixed Services**	**Mobile Services**	**Total Consolidated**
Services and Other Revenues			
Third party revenues	4,610	8,953	13,563
Intersegment revenues	739	61	800
Third party operating expenses	(3,609)	(4,969)	(8,578)
Intersegment operating expenses	(61)	(739)	(800)
Operating income before D&A from services (1)	1,679	3,306	4,985
Equipment and Handsets Sales			
Third party revenues	70	1,026	1,096
Third party operating expenses	(55)	(1,152)	(1,207)
Operating income (loss) from equipment and handsets sales (2)	15	(126)	(111)
Total operating income before D&A (3) = (1) + (2)	1,694	3,180	4,874
D&A (4)	(776)	(936)	(1,712)
Operating income (5) = (3) – (4)	918	2,244	3,162
Net effect of the intersegment eliminations (6)	(678)	678	—
Net segment contribution to the Operating income before D&A (7) = (3) + (6)	1,016	3,858	4,874
Net segment contribution to the Operating income (8) = (5) + (6)	240	2,922	3,162

Year Ended December 31, 2009	**Fixed Services**	**Mobile Services**	**Total Consolidated**
Services and Other Revenues			
Third party revenues	4,143	7,216	11,359
Intersegment revenues	687	44	731
Third party operating expenses	(3,064)	(4,073)	(7,137)
Intersegment operating expenses	(44)	(687)	(731)
Operating income before D&A from services (1)	1,722	2,500	4,222
Equipment and Handsets Sales			
Third party revenues	43	802	845
Third party operating expenses	(46)	(860)	(906)
Operating loss from equipment and handsets sales (2)	(3)	(58)	(61)
Total operating income before D&A (3) = (1) + (2)	1,719	2,442	4,161
D&A (4)	(721)	(824)	(1,545)
Operating income (5) = (3)–(4)	998	1,618	2,616
Net effect of the intersegment eliminations (6)	(643)	643	—
Net segment contribution to the Operating income before D&A (7) = (3) + (6)	1,076	3,085	4,161
Net segment contribution to the Operating income (8) = (5) + (6)	355	2,261	2,616

Note 28—Segment Information

The Company conducts its business through six legal entities each one has been identified as an operating segment. As explained in Note 1.b) the financial information provided to the CODM during 2010 and 2009 was based on Argentine GAAP. Consequently, the following segment information was prepared under Argentine GAAP and reconciled to IFRS in a consolidated basis in accordance with the provisions of IFRS 8. It is noted that the Management's policy is to monitor the economic-financial performance of its operations using GAAP measures in accordance with its statutory books. At the date of issuance of these consolidated financial statements, the Company has adapted its systems and accounting procedures in order to provide segment information under IFRS. Additional information on segment information under full IFRS is given in Note 30.

Under Argentine GAAP the Company has combined the operating segments into two reportable segments (Fixed and Mobile services) based on the nature of products provided by the entities as follows:

Reportable Segment	Legal Entity
Fixed telecommunication services	Telecom Argentina Telecom USA Micro Sistemas
Mobile telecommunication services	Personal Springville Núcleo

However, in assessing the aggregation criteria under IFRS for combined operating segments in the "mobile services" reportable segment, the Company determined that Núcleo (the subsidiary which provides mobile services in Paraguay) would not be aggregated together with Personal since it operates in a different regulatory and economic framework. As a result, under IFRS three reportable segments would be determined: "Fixed services," "Personal Mobile Services" and "Núcleo Mobile Services."

Segment financial information specially prepared for these consolidated financial statements under IFRS was as follows:

For the Year Ended December 31, 2010

- Income statement information

	Fixed Services[a]	Personal Mobile Services	Núcleo Mobile Services	Subtotal Mobile Services	Total Under Argentine GAAP	IFRS Adjustments (Note 4.c)	IFRS Reclassi-fications	Total Amounts Under IFRS
Services	4,584	8,483	530	9,013	13,597	(66)	—	13,531
Equipment sales	56	1,018	8	1,026	1,082	14	—	1,096
Other income	—	—	—	—	—	—	32	32
Total revenues	4,640	9,501	538	10,039	14,679	(52)	32	14,659
Employee benefit expenses and severance payments	(1,412)	(423)	(45)	(468)	(1,880)	6	(101)	(1,975)
Interconnection costs and other telecommunication charges	(418)	(887)	(85)	(972)	(1,390)	13	—	(1,377)
Fees for services, maintenance, materials and supplies	(712)	(604)	(55)	(659)	(1,371)	34	11	(1,326)
Taxes and fees with the Regulatory Authority	(308)	(934)	(19)	(953)	(1,261)	3	4	(1,254)
Commissions	(120)	(1,112)	(54)	(1,166)	(1,286)	145	—	(1,141)
Cost of equipment and handsets	(45)	(1,463)	(33)	(1,496)	(1,541)	362	(28)	(1,207)
Advertising	(142)	(270)	(39)	(309)	(451)	10	—	(441)
Provisions	—	—	—	—	—	—	(130)	(130)
Bad debt expenses	(24)	(92)	(3)	(95)	(119)	—	—	(119)
Other operating expenses	(380)	(408)	(37)	(445)	(825)	18	(8)	(815)
Operating income before D&A	1,079	3,308	168	3,476	4,555	539	(220)	4,874
Depreciation of PP&E and amortization of intangible assets	(719)	(530)	(105)	(635)	(1,354)	(358)	—	(1,712)
Operating income	360	2,778	63	2,841	3,201	181	(220)	3,162
Financial results, net	74	(117)	9	(108)	(34)	(6)	(97)	(137)
Other expenses, net	(213)	(103)	(1)	(104)	(317)	—	317	—
Net income before income tax and noncontrolling interest	221	2,558	71	2,629	2,850	175	—	3,025
Income tax expense, net	(324)	(675)	(11)	(686)	(1,010)	(66)	—	(1,076)
Noncontrolling interest	—	—	(19)	(19)	(19)	19	—	—
Net (loss) income	(103)	1,883	41	1,924	1,821	128	—	1,949
Net income attributable to owners of the Parent	—	—	—	—	—	—	—	1,935
Net income attributable to noncontrolling interest	—	—	—	—	—	—	—	14
	—	—	—	—	—	—	—	1,949

[a] Includes net revenues of $48, operating income before D&A of $15, operating income of $11 and net income of $11 corresponding to Telecom USA.

- Balance sheet information

	Fixed Services[a]	Personal Mobile Services	Núcleo Mobile Services	Subtotal Mobile Services	Total Under Argentine GAAP	IFRS Adjustments (Note 4.c)	IFRS Reclassi-fications	Total Amounts Under IFRS
PP&E, net	4,411	2,439	629	3,068	7,479	(118)	4	7,365
Intangible assets, net	171	591	7	598	769	464	—	1,233
Capital expenditures	1,048	791	185	976	2,024	534	(24)	2,534
Net financial asset (debt)	874[b]	504	(154)	350	1,224	—	—	1,224

[b] In Net financial asset, includes $2 of Cash and cash equivalents from Springville.

For the Year Ended December 31, 2009

- Income statement information

	Fixed Services[a]	Personal Mobile Services	Núcleo Mobile Services	Subtotal Mobile Services	Total Under Argentine GAAP	IFRS Adjustments (Note 4.c)	IFRS Reclassi-fications	Total Amounts Under IFRS
Services	4,114	6,832	435	7,267	11,381	(56)	—	11,325
Equipment sales	43	796	6	802	845	—	—	845
Other income	—	—	—	—	—	—	34	34
Total revenues	4,157	7,628	441	8,069	12,226	(56)	34	12,204
Employee benefit expenses and severance payments	(1,151)	(314)	(39)	(353)	(1,504)	5	(73)	(1,572)
Interconnection costs and other telecommunication charges	(415)	(873)	(84)	(957)	(1,372)	11	—	(1,361)
Fees for services, maintenance, materials and supplies	(622)	(435)	(40)	(475)	(1,097)	34	(8)	(1,071)
Taxes and fees with the Regulatory Authority	(266)	(716)	(17)	(733)	(999)	2	(14)	(1,011)
Commissions	(105)	(922)	(41)	(963)	(1,068)	126	—	(942)
Cost of equipment and handsets	(46)	(1,082)	(9)	(1,091)	(1,137)	256	(25)	(906)
Advertising	(118)	(216)	(26)	(242)	(360)	3	—	(357)
Provisions	—	—	—	—	—	—	(48)	(48)
Bad debt expenses	(33)	(96)	(2)	(98)	(131)	—	—	(131)
Other operating expenses	(322)	(308)	(28)	(336)	(658)	21	(7)	(644)
Operating income before D&A	1,079	2,666	155	2,821	3,900	402	(141)	4,161
Depreciation of PP&E and amortization of intangible assets	(663)	(381)	(94)	(475)	(1,138)	(407)	—	(1,545)
Operating income	416	2,285	61	2,346	2,762	(5)	(141)	2,616
Other income from investments	—	13	—	13	13	—	—	13
Financial results, net	(172)	(150)	(7)	(157)	(329)	3	(88)	(414)
Other expenses, net	(148)	(79)	(2)	(81)	(229)	—	229	—
Net income before income tax and noncontrolling interest	96	2,069	52	2,121	2,217	(2)	—	2,215
Income tax, net	(271)	(519)	(7)	(526)	(797)	(1)	—	(798)
Noncontrolling interest	—	—	(15)	(15)	(15)	15	—	—
Net (loss) income	(175)	1,550	30	1,580	1,405	12	—	1,417
Net income attributable to owners of the Parent	—	—	—	—	—	—	—	1,405
Net income attributable to noncontrolling interest	—	—	—	—	—	—	—	12
	—	—	—	—	—	—	—	1,417

[a] Includes net revenues of $42, operating income before D&A of $15, operating income of $11 and net income of $10 corresponding to Telecom USA.

- Balance sheet information

	Fixed Services[a]	Personal Mobile Services	Núcleo Mobile Services	Subtotal Mobile Services	Total Under Argentine GAAP	IFRS Adjustments (Note 4.c)	IFRS Reclassi-fications	Total Amounts Under IFRS
PP&E, net	4,176[b]	2,192	471	2,663	6,839	(73)	1	6,767
Intangible assets, net	176	594	3	597	773	299	—	1,072
Capital expenditures	915[b]	790	116	906	1,821	410	(18)	2,213
Net financial asset (debt)	579[b]	4	(114)	(110)	469	—	—	469

(b) In PP&E, net and Capital expenditures, includes $1 from Springville; in Net financial asset, includes $2 of Cash and cash equivalents from Springville.

Note 30—Additional Information Regarding Segment Information

As explained in Notes 1.b) and 28 the financial information provided to the CODM during 2010 and 2009 was based on Argentine GAAP rather than IFRS because Telecom Group's policy is to monitor the economic-financial performance of its operations using GAAP measures in accordance with its statutory books.

As the Company will adopt IFRS for financial reporting matters, Management has adapted its systems and accounting procedures in order to prepare these consolidated financial statements under IFRS. To monitor its operations for the financial year 2011 Management will use both Argentine GAAP and IFRS sets of information. During 2012, as IFRS is mandatory for statutory purposes, the Company will use exclusively IFRS to monitor its operations.

Consequently, the tables below show the information that would be reported if segment information under IFRS had been applied instead of Argentine GAAP during financial years ended December 31, 2010 and 2009:

For the Year Ended December 31, 2010

- Income statement information

	Fixed Services	Mobile Services			Eliminations	Total
		Personal	Núcleo	Subtotal		
Total revenues[1]	5,419	9,571	469	10,040	(800)	14,659
Employee benefit expenses and severance payments	(1,502)	(433)	(40)	(473)	—	(1,975)
Interconnection costs and other telecommunication charges	(456)	(1,428)	(77)	(1,505)	584	(1,377)
Fees for services, maintenance, materials and supplies	(679)	(691)	(52)	(743)	96	(1,326)
Taxes and fees with the Regulatory Authority	(304)	(934)	(16)	(950)	—	(1,254)
Commissions	(100)	(1,051)	(45)	(1,096)	55	(1,141)
Cost of equipment and handsets	(55)	(1,139)	(13)	(1,152)	—	(1,207)
Advertising	(142)	(266)	(33)	(299)	—	(441)
Provisions	(71)	(59)	—	(59)	—	(130)
Bad debt expenses	(24)	(92)	(3)	(95)	—	(119)
Other operating expenses	(392)	(456)	(32)	(488)	65	(815)
Operating income before D&A	1,694	3,022	158	3,180	—	4,874
Depreciation of PP&E	(687)	(529)	(86)	(615)	—	(1,302)
Amortization of SAC and service connection costs	(68)	(311)	(8)	(319)	—	(387)
Amortization of other intangible assets	(21)	(1)	(1)	(2)	—	(23)
Operating income	918	2,181	63	2,244	—	3,162
Financial results, net	3	(129)	(11)	(140)	—	(137)
Net income before income tax expense	921	2,052	52	2,104	—	3,025
Income tax expense, net	(329)	(737)	(10)	(747)	—	(1,076)
Net income	592	1,315	42	1,357	—	1,949
Net income attributable to owners of the Parent	—	—	—	—	—	1,935
Net income attributable to noncontrolling interest	—	—	—	—	—	14
	—	—	—	—	—	1,949

(1)

Service revenues	4,590	8,483	458	8,941	—	13,531
Equipment sales	70	1,018	8	1,026	—	1,096
Other income	20	12	—	12	—	32
Subtotal third party revenues	4,680	9,513	466	9,979	—	14,659
Intersegment revenues	739	58	3	61	(800)	—
Total revenues	5,419	9,571	469	10,040	(800)	14,659

- Balance sheet information

	Fixed Services	Mobile Services			Eliminations	Total
		Personal	Núcleo	Subtotal		
PP&E, net	4,366	2,440	559	2,999	—	7,365
Intangible assets, net	296	921	16	937	—	1,233
Capital expenditures	1,087	1,266	181	1,447	—	2,534
Net financial asset (debt)	874	504	(154)	350	—	1,224

- Geographic information

	Total Revenues		Total Non-Current Assets
	Breakdown by Location of Operations	Breakdown by Location of the Group's Customers	Breakdown by Location of Operations
Argentina	14,145	13,878	8,108
Abroad	514	781	591
Total	14,659	14,659	8,699

IFRS ATT 7.28

SECTION 8: FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES*

IFRS 7, *FINANCIAL INSTRUMENTS: DISCLOSURES*

IAS 32, *FINANCIAL INSTRUMENTS: PRESENTATION*

IAS 39, *FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT*

IFRSs Overview and Comparison to U.S. GAAP

Author's Note

Accounting for financial instruments is a major convergence project of the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB), although the boards are not issuing joint exposure drafts and are proceeding with their respective projects on different schedules. The objective of this project is to improve the usefulness for users of financial statements by simplifying the classification and measurement requirements for financial instruments.

The following discussion provides a brief overview of the state of this project as of 1 July 2011. Readers can find more information about decisions to date and the expected publication of due process documents for the IASB under the "Standards Development" section of its website at www.ifrs.org. The latest information about International Financial Reporting Standard (IFRS) 9, *Financial Instruments (replacement of IAS 39)*, can be found under the "Work Plan for IFRSs" section of the IASB's website at www.ifrs.org. Information about FASB's projects can be found under the "Projects" section of FASB's website at www.fasb.org.

IASB Project

For the IASB, accomplishing the project's objective involves replacing International Accounting Standard (IAS) 39, *Financial Instruments: Recognition and Measurement*, which is to take place in the following three phases:

1. Classification and measurement
   In November 2009, the IASB issued International Financial Reporting Standard (IFRS) 9, *Financial Instruments*, which only addressed classification and measurement of financial assets. As the IASB completes phase 1 and the other phases of the project, it plans to delete sections of IAS 39 and replace them with new sections in IFRS 9.
   In brief, IFRS 9 originally addressed only the classification and measurement of financial assets. IFRS 9 requires an entity to classify all financial assets on the basis of the entity's business model for managing financial assets and the contractual cash flow characteristics of the particular financial asset under consideration. The standard reduces the number of classifications for financial assets and requires an entity to measure a financial asset initially at fair value, including, in the case of a financial asset not at fair value through profit or loss (FVTPL), particular transaction costs. Subsequently, an entity should measure the financial asset at either cost or fair value.
   In October 2010, the IASB added requirements for financial liabilities to IFRS 9. Although the IASB carried forward most requirements for financial liabilities from IAS 39 unchanged, the IASB made some changes to the fair value option for financial liabilities to address the issue of an entity's own credit risk.
   As of July 2011, IFRS 9 was effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The survey companies selected for this edition have annual periods ending on or before the effective date of IFRS 9. However, a few survey companies have early adopted IFRS 9. Excerpts from some of these companies' financial statements are provided under "Initial Adoption" in this section.
2. Amortized cost and impairment of assets
   In November 2009, the IASB published an exposure draft, *Financial Instruments: Amortised Cost and Impairment*, with a comment deadline of 30 June 2010. This document used an expected cash flow approach. In January 2001, the IASB issued a supplementary document, *Financial Instruments: Impairment*, with a comment deadline of 1 April 2011. This supplement is a joint document published by the IASB and FASB. The scope of the document is open portfolios of financial assets measured at amortized cost, excluding short-term trade receivables. At the June 2011 joint meeting, the IASB and FASB discussed a "three-bucket" expected loss approach for the impairment of financial assets. The IASB expects to re-expose or review a revised draft standard in late 2011 or early 2012.
3. Hedge accounting
   The IASB issued an exposure draft, *Hedge Accounting*, in December 2010, with a comment deadline of 9 March 2011. As of October 2011, the IASB

* Unless otherwise indicated, references to International Accounting Standards Board (IASB) standards and interpretations throughout this 2011 edition of *IFRS Accounting Trends & Techniques* refer to the version of those standards and interpretations included in *IFRS 2011* bound volume, the official printed consolidated text of IASB standards and interpretations, including revisions, amendments, and supporting documents, issued as of 1 January 2011.

continued to deliberate the issues in this document with expectations of issuing a review draft on general hedge accounting in the fourth quarter of 2011 with a target date for issuing an IFRS in the first half of 2012. With respect to macro hedge accounting, the IASB expects to issue an exposure draft in the fourth quarter of 2011.

4. Effective date of IFRS 9
   In August 2011, the IASB issued an exposure draft that proposed postponing the effective date of IFRS 9 to 1 January 2015.

FASB Project

In May 2010, FASB issued an exposure draft proposing a new comprehensive Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*. This exposure draft addressed the issues in all phases of the IASB project: classification and measurement of financial assets and financial liabilities, impairment methodology, and hedge accounting. The comment period ended September 30, 2010. In this document, FASB proposed to apply a fair value measurement model for many financial assets and financial liabilities. This model differed from the mixed measurement model in IFRS 9.

Some of FASB's decisions during its redeliberations regarding classification and measurement are as follows:

- An entity would classify and subsequently measure financial instruments based on both the characteristics of the financial instrument and the entity's business strategy for the instrument.
- If certain criteria are met, the entity would classify a financial asset as fair value through net income (FVNI), fair value through other comprehensive income (FV-OCI), or amortized cost.
- Similarly, if certain criteria are met, an entity would classify financial liabilities as either FVNI or amortized cost.
- Initial measurement at either fair value or transaction price depends upon the financial instrument's classification and subsequent measurement. An entity initially measures at fair value those financial instruments that are classified as FVNI. Otherwise, the entity uses the transaction price for the initial measurement.
- An entity classifies and measures derivatives at FVNI, except those designated as the hedging instrument in a cash flow hedge or a hedge of a net investment in a foreign operation.
- FASB *Accounting Standards Codification* (ASC) 815-15 retains the requirement to bifurcate hybrid financial assets and hybrid financial liabilities. An entity is required to account separately for embedded derivative features of such instruments.
- An entity would measure equity instruments at FVNI. However, nonpublic entities would have a practicability exception for nonmarketable equity securities. The nonpublic entity would measure these securities at cost, less any impairment, plus upward adjustments in fair value, when information about a change in price is observable.

In August 2010, FASB held an education meeting to discuss the comments received on its exposure draft, but has not started to redeliberate hedge accounting issues.

Other Changes to IFRSs

The IASB also has a separate project on derecognition of financial instruments that addresses both the existing derecognition criteria in IAS 39 and the related disclosures in IFRS 7, *Financial Instruments: Disclosures*. In May 2010, the IASB and FASB agreed to focus on increasing the transparency and comparability of their standards by improving and converging U.S. generally accepted accounting principles (GAAP) and IFRSs' disclosure requirements for financial assets transferred to another entity. The boards plan to conduct additional research and analysis, including a post-implementation review of FASB's recently amended requirements. Following these activities, which are expected to conclude by 2012, the boards will assess whether to proceed with any further improvement and convergence efforts on this issue.

Because of this change in convergence strategy, the IASB decided to finalize changes to IFRS 7 disclosure requirements, with a view to converging with FASB ASC requirements for transfers of financial assets. In October 2010, the IASB issued amendments to IFRS 7. The amendments are effective for annual periods beginning on or after 1 July 2011, with earlier application permitted.

On 13 May 2011, the IASB issued IFRS 13, *Fair Value Measurement*. IFRS 13 defines *fair value*, sets out in a single IFRS the framework for measuring fair value, and requires disclosures about fair value measurements. It does not determine when an entity is required to measure an asset or a liability at fair value. Because IFRS 13 applies when other IFRSs require or permit fair value measurements, it will apply to fair value measurement under IAS 39 and IFRS 9. The new requirements are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. No survey company could have applied IFRS 13 in its 2010 financial statements.

8.01 IFRSs define a *financial instrument* as a contract that gives rise to a financial asset of one entity and a financial liability of another. IFRSs establish the accounting and disclosure requirements and application guidance for both the financial asset and financial liability created by such contracts in the following three standards:

- IAS 32, *Financial Instruments: Presentation*, establishes the principles for distinguishing a liability from an equity instrument and for presenting financial assets and liabilities net on the balance (offsetting).
- IAS 39 establishes the principles for recognizing and measuring financial assets and financial liabilities as well as for some contracts to buy or sell nonfinancial items. IAS 39 also establishes the principles under which an entity would have an effective hedging relationship and be able to apply hedge accounting.
- IFRS 7 establishes the disclosures that an entity should provide about the significance of financial instruments to their balance sheet and statement of comprehensive

income and the risks from these instruments to which it is exposed.

8.02 In addition, the IASB has issued several interpretations that are applicable to the financial instruments covered by the previous standards, including the following:

- International Financial Reporting Interpretations Committees (IFRIC) Interpretation 2, *Members' Shares in Co-operative Entities and Similar Instruments*
- IFRIC 9, *Reassessment of Embedded Derivatives*
- IFRIC 10, *Interim Financial Reporting and Impairment*
- IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*

Author's Note

IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments,* issued November 2009, also amends IAS 39. IFRIC 19 requires an entity to consider equity instruments issued to extinguish a financial liability to be consideration paid and to measure these instruments initially at their fair value, unless fair value cannot be measured reliably. In the latter case, the entity should measure the fair value of the equity instruments to reflect the fair value of the financial liability extinguished, including any demand features. If the entity does not extinguish the financial liability in its entirety, it should first assess whether some of the consideration paid relates to a modification of terms of the remaining liability. If so, the consideration paid is allocated between the amount of the liability extinguished and the amount remaining. The entity should recognize in profit or loss the difference between the carrying amount of the financial liability extinguished and the amount of consideration paid to extinguish the liability. The interpretation also addresses the circumstances when modification of terms is so substantial that the entity should extinguish the original liability and recognize a new liability. IFRIC 19 is effective for annual periods beginning on or after 1 July 2010, with early adoption permitted.

IFRIC 19 was subsequently amended by IFRS 9 to replace references to relevant paragraphs in IAS 39 with those in IFRS 9. The effective date of this amendment is 1 January 2013, or upon application of IFRS 9.

Author's Note

The commentary that follows in this section collectively refers to the aforementioned standards and interpretations as *IFRSs for financial instruments*. Recognition and measurement of financial instruments is extremely complex. Therefore, commentary under this heading primarily focuses on the disclosures that entities provide in their financial statements and provides only a brief description of the issues that an entity must address when accounting for these items. Although differences between IFRSs and FASB ASC exist at a high level, many additional transaction-specific differences also exist. See the author's note at the beginning of this section for information about the IASB and FASB convergence project on accounting for financial instruments.

8.03 IAS 32 applies to all financial instruments, except the following:

- Interests in subsidiaries, associates, or joint ventures accounted for in accordance with IAS 27, *Consolidated and Separate Financial Statements*; IAS 28, *Investments in Associates*; and IAS 31, *Interests in Joint Ventures*, respectively, unless the entity is permitted to account for these investments in accordance with IAS 39.
- Rights and obligations under employee benefit plans, accounted for in accordance with IAS 19, *Employee Benefits*.
- Insurance contracts within the scope of IFRS 4, *Insurance Contracts* (except when IAS 32 specifically provides otherwise).
- Financial instruments, contracts, and obligations accounted for in accordance with IFRS 2, *Share-based Payments* (except certain requirements of IAS 32 may continue to apply).

However, IAS 32 does apply to certain contracts to buy or sell a nonfinancial item when the entity can settle the contract net in cash or another financial instrument or by exchanging financial instruments, as if the contracts themselves were financial instruments.

8.04 IFRSs for financial instruments contain definitions that are critical for determining the application of the requirements of IFRSs for financial instruments to a particular instrument, transaction, or circumstance. These definitions are dispersed among the different standards and interpretations previously noted. IAS 32 defines the following terms: *financial instrument, financial asset, financial liability, equity instrument, fair value*, and *puttable instrument*. IAS 39 defines the following terms: *financial instrument, financial asset, financial liability, equity instrument, fair value, and puttable instrument*. IAS 39 defines the following terms: *amortized cost for a financial asset or financial liability; effective interest method; derecognition; derivative; financial guarantee contract; regular way purchase or sale; transaction costs; and, in the context of hedge accounting, firm commitment, forecast transaction, hedged item, and hedging effectiveness*.

Recognition and Measurement

IFRSs

8.05 IAS 39 establishes the recognition and measurement requirements for financial instruments. In addition to the scope exclusions in IAS 32, IAS 39 includes the following additional scope exclusions:

- Rights and obligations accounted for in accordance with IAS 17, *Leases*, except for certain lease receivables, finance lease payables, and embedded derivatives,
- Forward contracts to buy or sell an acquiree that will result in a business combination,
- Certain loan commitments, and
- Reimbursement rights for previously recognized provisions.

However, the scope of IAS 39 includes other loan commitments: those designated at FVTPL, those that can be settled net in cash and by delivery or exchange of financial instruments (settled net), and commitments to provide a loan at a below-market rate. Entities should apply IAS 39 to contracts to buy or sell a nonfinancial item that can be settled net,

except when the entity enters into and continues to hold such contracts for receipt or delivery as part of its normal expected sale, purchase, or usage requirements.

8.06 In addition to the defined terms previously mentioned, IAS 39 also defines the following six categories that entities should use to classify financial instruments:

- Financial asset or financial liability at FVTPL, such as the following:
  - —Held for trading
  - —Designated on initial recognition (designated at FVTPL)
- Held to maturity (HTM)
- Loans and receivables
- Available for sale financial assets (AFS)

An entity should classify its financial instruments in one of these four categories to determine the appropriate recognition, initial and subsequent measurements on the balance sheet, and derecognition, as well as the nature of the effects on the statement of comprehensive income.

Author's Note

IFRS 9 reduces the required classifications of financial assets to: amortized cost or fair value. An entity should classify a financial asset in one of these two categories based on its business model for managing financial assets and the contractual cash flow characteristics of the specific asset in question.

8.07 IAS 39 requires recognition of a financial asset or financial liability in the balance sheet only when the entity becomes a party to the instrument's contractual provisions. However, IAS 39 includes more extensive guidance on derecognition. Entities should evaluate whether to derecognize a financial asset by first determining whether they should apply the derecognition criteria to the financial asset, to part of the financial asset, to a group of financial assets, or to part of a group based on criteria in IAS 39. After making this assessment, the entity should derecognize a financial asset when, and only when, (*a*) the contractual rights to the asset's cash flows expire or (*b*) the entity transfers the financial asset and the transfer meets the criteria in IAS 39. IAS 39 requires the entity to conduct an evaluation of the extent to which the entity retains the risks and rewards of ownership of the financial asset as part of this assessment.

8.08 When a transfer of a financial asset qualifies for derecognition and the entity retains servicing rights for a fee, the entity should recognize either a servicing asset (when the entity expects the fee to adequately compensate it for its services) or a servicing liability (when the entity does not expect the fee to adequately compensate it for its services).

8.09 When an entity derecognizes a financial asset, it should recognize a gain or loss equal to the difference between the asset's carrying amount and the sum of consideration received and the cumulative gain or loss, if any, previously recognized in comprehensive income. When the derecognized financial asset is a component of a larger financial asset, the entity should allocate the larger asset's carrying value between the derecognized component and the carrying value of the retained asset.

8.10 Not all transfers of financial assets will qualify for derecognition. When an entity retains substantially all of the risks and rewards of ownership or, by the extent of its continuing involvement, is exposed to changes in the value of the transferred asset, it should not derecognize the asset. In the former case, the entity should continue to recognize the entire asset and also recognize a liability for the consideration received. In the latter case, the entity should recognize an asset to the extent of its continuing involvement and an associated liability. IAS 39 provides guidance for measuring the carrying amount of this retained asset and the liability. IAS 39 also provides guidance on accounting for any noncash collateral provided to the transferee.

Author's Note

The criteria for determining whether a transfer of a financial asset qualifies for derecognition is complex and too lengthy to cover comprehensively in this commentary.

8.11 Entities have an option under IAS 39 to recognize regular way purchases of financial assets or derecognize sales using either trade date or settlement date accounting, consistently applied.

8.12 An entity should derecognize all or part of a financial liability when the entity has discharged or cancelled its obligation under the contract or when the obligation expires. The entity should consider an exchange of financial instruments as an extinguishment of the original and should consider recognition of a new liability only if the terms of the instruments are substantially different. Similarly, when the terms of the original obligation are substantially modified, the entity should account for the modification as an extinguishment of the existing liability and recognition of a new liability. The entity should recognize a gain or loss in profit or loss for the difference between the carrying value of the existing liability and the sum of the carrying value of the new liability and any consideration or noncash assets paid or transferred.

8.13 IAS 39 requires entities to recognize a financial asset or financial liability initially at the sum of its fair value and transaction costs, except when the instrument is classified as FVTPL. When instruments are held at FVTPL, an entity should recognize any transaction costs directly attributable to acquisition or issue of the instrument in profit or loss when incurred.

8.14 Subsequent measurement depends on the classification of the financial instrument on initial recognition. After initial recognition, unless designated as a hedged item, an entity should measure its financial assets, including derivatives, at fair value, excluding transaction costs, with the following exceptions:

- Loans, receivables, and HTM investments at amortized cost using the effective interest method.
- Other financial instruments at cost, including the following:
  - —Investments in equity instruments without a quoted market price in an active market and whose fair value cannot be measured reliably.
  - —Derivatives linked to and with required settlement by such unquoted instruments.

8.15 Similarly, unless designated as a hedged item, entities should subsequently measure financial liabilities, including derivatives, at amortized cost using the effective interest method, with the following exceptions:

- Derivatives linked to, and with required settlement by, delivery of an unquoted equity instrument whose fair value cannot be reliably measured should be measured at cost
- Financial liabilities at FVTPL should be measured at fair value
- Financial guarantee contracts and commitments to provide a loan at below fair market value should be measured at the higher of the following:
  - —Amount determined in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*
  - —Amount initially recognized, less any cumulative amortization recognized in accordance with IAS 18, *Revenue*

8.16 IAS 39 contains substantive application guidance on recognition and measurement including fair value measurement. Appendix A, "Application Guidance," is considered an integral part of the standard and is mandatory. In contrast, the implementation guidance that accompanies the standard is not considered part of the standard and is not mandatory.

8.17 Entities may need to reclassify a financial asset or financial liability because the entity's intention with respect to the instrument may change or its fair value can no longer be measured reliably. IAS 39 prohibits entities from reclassifying financial assets or financial liabilities in the following circumstances:

- Out of the FVTPL category
  - —Derivatives when held or issued
  - —Instruments designated at FVTPL at initial recognition, generally
- Into the FVTPL category
  - —Any financial instruments after initial recognition

However, in certain circumstances, IAS 39 permits an entity to reclassify non-derivative financial assets (other than those designated at FVTPL at initial recognition) out of the FVTPL category. The standard also permits an entity to transfer a financial asset from the available-for-sale category to the loans and receivables category when the following two criteria are met: (*a*) the financial asset would have met the definition of loans and receivables if the entity had not classified it as AFS and (*b*) the entity has the intention and ability to hold that financial asset for the foreseeable future. However, in rare circumstances when specific conditions are met, entities may reclassify a financial asset no longer held for trading (selling or repurchasing in the near term) out of the FVTPL category.

8.18 When an entity no longer has the intent or ability to hold an investment to maturity, it should reclassify an HTM investment as AFS and remeasure the investment at fair value. The entity should recognize the difference between the carrying amount and fair value in other comprehensive income until the entity derecognizes the asset. However, when an entity reclassifies more than an insignificant amount of HTM investments, it should reclassify all of its remaining HTM investments and not classify any new investments as HTM until two years have elapsed.

8.19 Entities should recognize gains or losses from changes in fair value on instruments that are not part of a hedging relationship depending on their classification. Entities should recognize such gains or losses in profit or loss when the instrument is classified as FVTPL, and in other comprehensive income when the instrument is classified as AFS. For instruments held at amortized cost, an entity should recognize a gain or loss in profit or loss when the financial asset or financial liability is derecognized or impaired, and also through the amortization process, unless the instrument is part of a hedging relationship.

Author's Note

See section 3, "Statement of Comprehensive Income and Related Disclosures," for excerpts illustrating items recognized in profit or loss and recognized in other comprehensive income.

8.20 At the end of each reporting period, an entity should review its financial assets or groups of such assets and determine whether objective evidence of impairment exists. When such evidence exists for financial assets held at amortized cost, the entity should measure the amount of the loss as the difference between the carrying value of the asset and the present value of future cash flows discounted at the original effective interest rate. The entity should recognize this loss in profit or loss. The entity may reduce the carrying amount of the asset directly or use a valuation allowance. Entities should recognize a reversal of this impairment loss if they can attribute the decrease in the loss to an event that occurred after the original loss was recognized. Entities should not increase the carrying amount of the asset above the amount that would have resulted if the impairment had not been recognized. When the entity determines that an AFS financial asset is impaired, it should reclassify the cumulative loss previously recognized in equity to profit or loss as a reclassification adjustment. An entity should not reverse an impairment loss recognized on equity instruments classified as AFS. However, the entity should reverse an impairment loss on an AFS debt instrument subject to the same constraints as a reversal on an instrument held at amortized cost.

8.21 In accordance with IAS 32, entities should recognize in profit or loss interest and dividend income and interest expense on financial instruments within the scope of IFRSs for financial instruments.

Author's Note

See section 3 for excerpts illustrating items recognized in profit or loss and other comprehensive income.

8.22 IAS 39 provides special accounting treatment for hedged items and hedging instruments in a designated hedging relationship. Hedge accounting permits the offsetting of gains or losses from changes in fair value of the hedged item and hedging instrument. Certain conditions and constraints exist for an instrument to qualify as either a hedging instrument or hedged item and for designation of the hedging relationship. The hedging relationship should also meet an effectiveness test in order for the entity to apply hedge accounting. IAS 39 recognizes two types of hedging relationships: fair value hedge and cash flow hedge. When the hedged item is a forecast transaction, only a cash flow hedge can be designated. An entity that hedges its net investment in a foreign operation should account for the hedging relationship similar to a cash flow hedge.

U.S. GAAP

8.23 Unlike IFRSs, in which requirements for most financial instruments are contained in three standards, guidance in FASB ASC covering recognition, measurement, presentation, and disclosure requirements is widely dispersed. Although the primary topic is FASB ASC 825, *Financial Instruments,* FASB ASC has specific guidance for various types of receivables, investments in debt and equity instruments, payables, debt, financial instruments held under the fair value option, and derivatives and hedging within other topics (for example FASB ASC 310, *Receivables*, or FASB ASC 320, *Investments—Debt and Equity Securities*). In addition, FASB ASC includes many transaction-specific, circumstance-specific requirements and a significant amount of industry specific guidance. For example, with respect to transfers of assets, FASB ASC 860-20 provides guidance on accounting for transfers of financial assets, including accounting for transfers of receivables in securitization transactions, transfers of receivables with recourse, and factoring arrangements.

8.24 Definitions in the FASB ASC glossary also differ from those in IFRSs in subtle ways that may cause differences in classification and accounting treatments. For example, the FASB ASC glossary defines a *derivative instrument* as a financial instrument or other contract with all of the following characteristics:

- The instrument has an underlying, and a notional amount or payment provision, or both. (As defined in the FASB ASC glossary, an *underlying* is a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, or other variable (including the occurrence or nonoccurrence of a specified event such as a scheduled payment under a contract). An underlying may be a price or rate of an asset or liability but is not the asset or liability itself. An underlying is a variable that, along with either a notional amount or a payment provision, determines the settlement of a derivative instrument.)
- The instrument requires no initial net investment or one smaller than required on other contracts expected to have a similar response to market factors.
- The entity can settle the instrument net in one of following three specific ways:
  - —Terms implicitly or explicitly require or permit net settlement.
  - —Entity can readily settle by a means outside the contract.
  - —Delivery of the asset puts the recipient in a position not substantially different from net settlement.

Derivative instruments also include embedded derivatives that have been separated from a host contract in accordance with FASB ASC 815-15-25-1.

8.25 The characteristics of a derivative under IFRSs compare and contrast with characteristics previously mentioned in the following ways:

- The instrument's value changes in response to changes in a variable (underlying). However, IFRSs do not require a notional amount or payment provision.
- The instrument requires no initial net investment or one smaller than required on other contracts expected to have a similar response to market factors and is the same as U.S. GAAP.
- The instrument is settled at a future date. IFRSs have no requirement for net settlement in any form.

8.26 Like IFRSs, derivatives, securities classified as trading or AFS, and instruments that the entity has elected to measure at FVTPL are measured initially at fair value. Unlike IFRSs, investments in equity method investees may be measured at fair value using the fair value option in FASB ASC 825-10-15-1. Other financial instruments are measured initially at cost. Key differences between IFRSs and FASB ASC guidance also exist for subsequent measurement.

8.27 In addition to the dispersion of guidance on financial instruments throughout FASB ASC, differences in scope between items meeting the definition of a financial instrument under IFRSs and FASB ASC make comparisons between the two sets of standards difficult. For example, unless the receivables have been securitized, the FASB ASC glossary does not consider the following to meet the definition of a debt security (financial instrument):

- Trade accounts receivable from credit sales by industrial or commercial entities, and
- Loans receivable from consumer, commercial, and real estate lending activities of financial institutions.

Presentation

Author's Note

On 28 January 2011, the IASB published for public comment an exposure draft, *Offsetting Financial Assets and Financial Liabilities*, and FASB published for public comment a proposed Accounting Standards Update, *Balance Sheet Offsetting*. The comment period ended on 28 April 2011, with a target for release of a final standard in the third quarter of 2011. According to the joint exposure drafts, the differences in the existing offsetting requirements in IFRSs and U.S. GAAP account for the single largest quantitative difference in the amounts presented in statements of financial position. Therefore, the IASB and FASB seek to align the respective guidance in IFRSs and FASB ASC on the criteria that would determine when offsetting in the balance sheet is appropriate.

IFRSs

8.28 IAS 32 requires an entity, on initial recognition, to classify a financial instrument or its components as a financial asset, a financial liability, or an equity instrument in accordance with the substance of the contractual arrangement and the definitions applicable to those respective items. When distinguishing between a financial liability and an equity instrument, entities should only classify the item as equity when the following two conditions are met:

- The entity has no contractual obligation to deliver cash or to exchange financial assets or liabilities under potentially unfavorable conditions.
- If the entity may settle the instrument with its own shares, the instrument is either a nonderivative with no contractual obligation to deliver a variable number of shares or a derivative that will be settled by a fixed number of shares.

If the instrument does not meet these conditions, the entity should classify the instrument as a financial liability.

8.29 A *puttable instrument* is a financial instrument that either gives the holder the right to return (put back) the instrument to the issuer for cash or another financial asset or is automatically put back to the issuer on the occurrence of an uncertain future event or the death or retirement of the instrument holder. This is an exception to the definition of a *financial liability*. Entities should classify this instrument as equity when it has certain features established in IAS 32, including the following:

- In the event of liquidation, the holder is entitled to a pro rata share of the entity's net assets.
- The instrument is subordinate to all other financial instruments (that is, it has, and conversion is unnecessary for it to have, no priority over other claims).

8.30 Entities should reclassify an instrument as equity or financial liability as of the date that the necessary conditions for these classifications are met or are no longer met, respectively. IAS 32 also provides guidance on liability or equity classification when contingent settlement provisions and settlement options exist. Certain instruments, known as *compound financial instruments*, contain both a liability and an equity component. Based on the measurement criteria identified in IAS 32, entities should classify each component separately as financial assets, financial liabilities, or equity and account for each component accordingly.

8.31 Entities should account for treasury shares as a reduction of equity. Entities should not recognize gains or losses on treasury share transactions in profit or loss. IAS 1, *Presentation of Financial Statements*, requires entities to disclose treasury shares separately either on the face of the balance sheet or in the notes.

8.32 Entities should offset a financial asset and financial liability only when they have a legally enforceable right to offset and intend to settle net or simultaneously. When a transferred financial asset does not qualify for derecognition under IAS 39, an entity should not offset the transferred asset against any related liabilities. IAS 32 provides examples of situations, including synthetic instruments, that would generally not qualify for a net presentation on the balance sheet.

U.S. GAAP

8.33 Like IFRSs, FASB ASC 480, *Distinguishing Liabilities from Equity,* contains guidance, which all entities should apply, for determining when an entity should classify a financial instrument with characteristics of both liabilities and equity as a financial liability or an equity instrument. However, certain instruments are outside the scope of FASB ASC 480 (for example, registration prepayment arrangements or non-derivative embedded features). In these circumstances, an entity should also consider the requirements of FASB ASC 405, *Liabilities*, or FASB ASC 825, to determine proper classification. In contrast to IFRSs, FASB ASC includes more guidance for instruments with specific features. Only by analyzing the respective guidance in both forms of GAAP and the particular features of the instrument under consideration, can an entity know whether the classification and, hence, recognition and measurement would be the same under IFRSs and FASB ASC.

8.34 Like IFRSs, FASB ASC 505-30 notes that treasury shares are classified as a reduction of equity and an entity should not recognize in income any gains and losses on resale of such shares. However, FASB ASC 505-30-25-2 further explains that the laws of some states govern the circumstances under which an entity may acquire its own stock, and these laws may prescribe an accounting treatment. When these laws conflict with the requirements of certain paragraphs in FASB ASC 505-30-25 and 505-30-30, the entity should comply with the state law.

8.35 FASB ASC 210-20-45-1 includes conditions similar to those in IFRSs that permit entities to offset assets and liabilities (right of setoff). A right of setoff exists at the balance sheet date when all of the following conditions are met:

- Respective counterparties each owe the other determinable amounts.
- Reporting entity has a right to offset the amount owed with the amount owed by the other party.
- Reporting party intends to offset (settle net).
- Right of setoff is enforceable by law.

Disclosure

IFRSs

8.36 IFRS 7 applies to all financial instruments not excluded from the scope of IAS 32, except instruments required to be classified as equity instruments in accordance with paragraphs 16(A)–16(D) of IAS 32. The standard also applies to share-based payment contracts that are within the scope of IAS 39, rather than IFRS 2.

8.37 IFRS 7 requires certain disclosures by class of financial instrument. A class of instrument is different from the IAS 39 categories previously discussed (for example, HTM or FVTPL). A *class of instrument* is a grouping of instruments that is appropriate to the information disclosed (for example, corporate bonds). Instruments in the same class may be included in different categories depending on the entity's intentions. For example, an entity may designate a particular bond at FVTPL and classify all other bond investments as AFS while considering all bonds to be a class of financial assets. IFRS 7 requires entities to provide sufficient detail so users can reconcile the information in the note disclosures to the amounts on the balance sheet.

8.38 Entities should separately disclose the amounts of financial assets and the amounts of financial liabilities in each IAS 39 category. When financial assets or financial liabilities are designated at FVTPL, entities should disclose additional information. When a loan or receivable or financial liability is classified at FVTPL, an entity should disclose information about various risks, including changes in fair value due to changes in credit risk, changes in market conditions that give rise to market risk (such as, changes in interest rates), and the methods used to determine these effects.

8.39 Entities should also disclose additional information about any reclassifications during the period, including the amounts reclassified, carrying amounts and fair values, and amounts that would have been recognized in profit or loss if they had not reclassified the instrument.

8.40 When an entity has transferred financial assets that did not qualify for derecognition, it should disclose the nature of these assets, the nature of the risks and rewards to which it remains exposed, the carrying amount of the recognized assets, and the amount of the original assets when the

remaining balance sheet measurement relates only to its continuing involvement.

8.41 With respect to the balance sheet, entities should also disclose information about collateral, allowances for credit losses, defaults, and breaches.

8.42 With respect to the statement of comprehensive income, entities should separately disclose net gains or losses recognized for each IAS 39 category of financial assets and liabilities, total interest income, total interest expense on instruments not held at FVTPL, fee income and expense separately for instruments not held at FVTPL, trust and fiduciary activities, interest income on impaired financial assets, and the amount of any impairment losses for each class of financial asset.

8.43 Entities should disclose their accounting policies in accordance with IAS 1, including the measurement bases applied.

8.44 With respect to hedge accounting, entities should disclose descriptions of the hedge and the hedging instruments used with fair values and the nature of the risks hedged, separately, for fair value hedges, cash flow hedges, and hedges of net investments. IAS 39 requires additional disclosures for each type of hedge. In addition, for each class of financial asset and financial liability, an entity should disclose the fair value of the class in such a way that it can be compared with the carrying amounts of these classes.

8.45 An entity should disclose the fair value of each class of financial asset and liability and the methods, valuation techniques (if any), and the assumptions used in determining fair value, except when the financial instrument:

- has a carrying amount that approximates fair value,
- is held at cost under IAS 39 because its fair value cannot be measured reliably, or
- contains a discretionary feature and the fair value of that feature cannot be measured reliably.

In providing these disclosures, the entity should also classify fair value measurements using the following fair value hierarchy:

- *Level 1*: Fair values obtained from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*: Fair values obtained using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- *Level 3*: Fair values are obtained using inputs for the asset or liability that are not based on observable market data.

For fair value measurements disclosed in the balance sheet, the entity should disclose the relevant level in this hierarchy, disclose and explain any significant transfers between levels 1 and 2, and reconcile the beginning and ending balances in the balance sheet account for level 3 measurements. For level 3 measurements, the entity should disclose the sensitivity of the measurement to changes in inputs and how this change was calculated.

8.46 Entities should also disclose both qualitative and quantitative information about the nature and extent of their risk exposure arising from financial instruments. These risks include, but IAS 39 does not limit these risks to, credit risk, liquidity risk, and market risk. Entities should provide both qualitative and quantitative disclosures about these risks. *Qualitative disclosures* include the entity's objective, policies, and processes used to manage that particular risk and any changes from the prior period. Entities should base *quantitative disclosures* on the information provided internally to management (for example, the board of directors). Entities should disclose when the required information is not provided because the effect is not material and should discuss concentrations of risk not apparent from the other disclosures provided. IAS 39 also requires sensitivity analysis for market risks.

8.47 Entities should also disclose any additional information required by IAS 1.

U.S. GAAP

8.48 FASB ASC 825-10-50-14 does not require entities to disclose fair value information for trade receivables and payables when their carrying amounts approximate fair value.

8.49 FASB ASC 825-10-50 requires all entities to disclose the following general information about financial instruments:

- Fair value
- Concentrations of credit risk
- Market risk

In addition, FASB ASC 825-10-50 requires additional disclosures about fair values, regardless of whether the entity recognized the instruments in the statement of financial position, except for the following exceptions noted in FASB ASC 825-10-50-8:

- Employer and plan obligations for post-retirement benefits
- Substantively extinguished debt
- Insurance contracts and other financial guarantee and investment contracts
- Lease contracts
- Warranty obligations
- Unconditional purchase obligations
- Equity method investments, noncontrolling interests and equity investments in consolidated subsidiaries
- Equity instruments issued by the entity and classified as stockholders' equity

All of these instruments are excluded from the scope of the required fair value disclosures for financial instruments within FASB ASC.

8.50 Similar to IFRSs, FASB ASC 825-10-50-10 states that entities should disclose, either on the face of the relevant financial statement or in the notes, the following information about fair values of financial instruments for which it is practicable to estimate that value:

- Methods and significant assumptions used to estimate fair value
- Description of changes in these methods or assumptions, if any, during the period

When information is presented in the notes FASB ASC 825-10-50-11 requires entities to include both the carrying amounts and fair values, clearly indicate whether these amounts represent assets or liabilities, and explain how the carrying amounts relate to the amounts reported in the balance sheet. Unlike IFRSs, if information is dispersed in several notes, FASB ASC 825-10-50-12 requires an entity to provide a summary table with the fair values and related

carrying amounts with cross references to the related notes where users can find the additional information.

8.51 In disclosing the fair value of a financial instrument, under FASB ASC 825-10-50-15, an entity should not net that fair value with the fair value of other financial instruments, even if those financial instruments are of the same class or otherwise considered to be related, except to the extent that the offsetting of carrying amounts in the statement of financial position is permitted under the general principle for offsetting (as previously described in paragraph 8.35) or under the exceptions for master netting arrangements in FASB ASC 815-10-45-5 and for amounts related to certain repurchase and reverse repurchase agreements in paragraphs 11–17 of FASB ASC 210-20-45. This contrasts with IFRSs in which a master netting arrangement is not an exception to the general prohibition against offsetting and the assets and liabilities within the agreement should meet the necessary terms and conditions to be shown net.

8.52 When it is not practicable for an entity to estimate the fair value, FASB ASC 825-10-50-16 requires an entity to explain why it is not practicable and to disclose information pertinent to estimating the fair value of the financial instrument or class (such as the carrying amount, effective interest rate, and maturity). When it is practicable to estimate fair value for only a subset of a class of financial instruments, FASB ASC 825-10-50-19 requires the entity to estimate and disclose fair value for that subset.

8.53 Like IFRSs, FASB ASC 825-10-50 requires an entity to disclose information about risk exposures, specifically credit risk, and to provide certain quantitative and qualitative information. FASB ASC 825-10-50-23 encourages, but does not require, an entity to disclose quantitative information about the market risk of financial instruments. Like IFRSs, FASB ASC 815 requires disclosures about the use of derivatives and hedging activities, with specific disclosure for each type of hedge. These disclosures are supplemented for Securities and Exchange Commission (SEC) registrants by those required by Item 305 of SEC Regulation S-K. However, unlike IFRSs, Item 305 only requires SEC registrants to provide these disclosures outside the financial statements (for example, in the management discussion and analysis).

TABLE 8-1: TYPE OF FINANCIAL INSTRUMENTS

Categories of Financial Instruments	2010	2009
Cash	170	160
Loans and receivables	170	160
Available-for-sale financial assets	114	111
Held-to-maturity financial assets (measured at amortized cost)	36	29
Financial assets measured at fair value through profit or loss		
Derivatives	105	101
Non-derivatives (including those classified as held-for-trading)	71	70
Derivatives designated as hedges	90	82
Trade payables	158	147
Financial liabilities measured at amortized cost	159	150
Financial liabilities measured at fair value through profit or loss		
Derivatives	35	114
Non-derivatives (including those classified as held-for-trading)	117	37
Derivatives designated as hedges	90	94

Presentation and Disclosure Excerpts

Early Adoption of IFRS 9—First-time Adoption of IFRS

8.54

Nortel Inversora S.A. (Dec 2010)

Author's Note

Nortel Inversora S.A. implemented IFRSs effective December 31, 2010, with a date of transition of January 1, 2009. The excerpt that follows reflects the initial application IFRSs and early adoption of IFRS 9.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (in part)

(In millions of Argentine pesos)

	Note	As of December 31		As of January 1
		2010	2009	2009(*)
Assets				
Current assets				
Cash and cash equivalents	5	1,385	1,273	902
Investments	5	2	16	223
Trade receivables, net	6	1,463	1,163	1,009
Other receivables, net	7	322	241	209
Inventories, net	8	452	250	252
Total current assets		3,624	2,943	2,595
Non-current assets				
Other receivables, net	7	100	76	88
Investments	5	1	1	7
Property, plant and equipment, net	9	7,365	6,767	6,119
Intangible assets, net	10	1,233	1,072	1,080
Total non-current assets		8,699	7,916	7,294
Total assets		12,323	10,859	9,889
Liabilities				
Current liabilities				
Trade payables	11	2,908	2,212	1,769
Financial debt	12	42	763	1,355
Salaries and social security payables	13	390	300	237
Income tax payables	14	491	431	290
Other taxes payables	15	531	338	336
Other liabilities	16	84	84	73
Provisions	17	64	73	36
Total current liabilities		4,510	4,201	4,096
Non-current liabilities				
Trade payables	11	—	24	27
Financial debt	12	121	58	688
Salaries and social security payables	13	110	82	83
Deferred income tax liabilities	14	247	243	266
Income tax payables	14	14	13	—
Other liabilities	16	274	267	231
Provisions	17	536	374	319
Total non-current liabilities		1,302	1,061	1,614
Total liabilities		5,812	5,262	5,710

(*) Opening IFRS statement of financial position, included as required by IFRS 1 (Note 1.c).

CONSOLIDATED INCOME STATEMENTS (in part)

(In millions of Argentine pesos)

	For the Years Ended December 31		
	Note	2010	2009
Operating income	23	3,162	2,616
Other income from investments	27.d	—	13
Finance income	24	192	256
Finance expenses	24	(329)	(670)
Net income before income tax expense		3,025	2,215

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (in part)

(In millions of Argentine pesos)

	For the Years Ended December 31	
	2010	**2009**
Net income for the year	1,949	1,417
Other components of the Statements of Comprehensive Income		
Currency translation adjustments (non-taxable)[i]	18	28
Cash flow hedges	—	(13)
Income tax effect on cash flow hedges	—	5
Other components of the comprehensive income, net of tax	18	20
Total comprehensive income for the year	1,967	1,437

The movements of the components of the Statements of Comprehensive Income for the years ended December 31, 2010 and 2009 and the corresponding tax effect are the following:

	Cash Flow Hedges			Currency
	Gross Amount	**Income Tax**	**Total**	**Translation Adjustment**
At January 1, 2009	13	(5)	8	—
Increase	—	—	—	41
Reclassification to income statement	(13)	5	(8)	(13)
At December 31, 2009	—	—	—	28
Increase	—	—	—	18
At December 31, 2010	—	—	—	46

CONSOLIDATED STATEMENTS OF CASH FLOWS (in part)

(In millions of Argentine pesos)

	For the Years Ended December 31		
	Note	**2010**	**2009**
Cash Flows From Financing Activities			
Financial debt proceeds	5.b	175	342
Payment of financial debt	5.b	(878)	(1,837)
Payment of interest	5.b	(76)	(167)
Cash dividends paid	5.b	(1,053)	(13)
Payment of capital reimbursement of Núcleo to the noncontrolling interest	27.d	—	(6)
Total cash flows used in financing activities		(1,832)	(1,681)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 3—Significant Accounting Policies (in part)

f) Financial Instruments

f.1) Financial Assets

Upon acquisition, in accordance with IFRS 9, financial assets are subsequently measured at either *amortized cost*, or *fair value*, on the basis of both:

(a) the entity's business model for managing the financial assets; and

(b) the contractual cash flow characteristics of the financial asset.

A financial asset shall be measured at *amortized cost* if both of the following conditions are met:

(a) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Additionally, for assets that met the abovementioned conditions, IFRS provides for an option to designate, at inception,

those assets as measured at *fair value* if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

A financial asset that is not measured at *amortized cost* according to the paragraphs above is measured at *fair value*.

Financial assets include:

Cash and Cash Equivalents

Cash equivalents are short-term and highly liquid investments that are readily convertible to known amounts of cash, subject to an insignificant risk of changes in value and their original maturity or the remaining maturity at the date of purchase does not exceed 3 months.

Cash and cash equivalents are recorded, according to their nature, at fair value or amortized cost.

Trade and Other Receivables

Trade and other receivables classified as either current or non-current assets are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less allowances for doubtful accounts.

Investments

Time deposits are valued at their amortized cost.

The Company has investments in certain government bonds. The Company has valued these securities at amortized cost as Management has the intent and ability to hold those securities to maturity.

Investments in mutual funds are carried at fair value. Unrealized gains and losses are included in financial income/expenses in the consolidated statements of income.

The 2003 Telecommunications Fund is recorded at fair value.

Impairment of Financial Assets

At every annual or interim closing date, assessments are made as to whether there is any objective evidence that a financial asset or a group of financial assets may be impaired. If any such evidence exists, an impairment loss is recognized in the consolidated income statement for financial assets measured at cost or amortized cost.

Certain circumstances of impairment of financial assets that the Group assesses to determine whether there is objective evidence of an impairment loss could include: delay in the payments received from customers; customers that enter bankruptcy; the disappearance of an active market for that financial asset because of financial difficulties; observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets, significant financial difficulty of the obligor, between others.

f.2) Financial Liabilities

Financial liabilities comprise trade payables (excluding Deferred revenue on prepaid calling cards—see e) Revenues, above -), financial debt (excluding Derivatives), salaries and social security payables (see m) below), income tax payables, other taxes payables and certain other liabilities.

Financial liabilities other than derivatives are initially recognized at fair value and subsequently measured at amortized cost. Amortized cost represents the initial amount net of principal repayments made, adjusted by the amortization of any differences between the initial amount and the maturity amount using the effective interest method.

Financial liabilities hedged by derivative instruments designed to manage exposure to changes in fair value of the liabilities (fair value hedge derivatives) are measured at fair value in accordance with the hedge accounting principles of IAS 39. Gains and losses arising from re-measurement at fair value, to the extent of the hedged component, are recognized in the consolidated income statement and are offset by the effective portion of the gain or loss arising from re-measurement at fair value of the hedging instrument.

f.3) Derivatives

Derivatives are used by the Company to manage its exposure to exchange rate and sometimes interest rate risks and to diversify the parameters of debt so that costs and volatility can be reduced to pre-established operational limits.

All derivative financial instruments are measured at fair value in accordance with IFRS 9, when they do not qualify for hedge accounting or in accordance with IAS 39 when they meet the conditions for hedge accounting.

In accordance with IAS 39, derivative financial instruments qualify for hedge accounting only when:

(a) at the inception of the hedge, the hedging relationship is formally designated and documented;
(b) the hedge is expected to be highly effective;
(c) its effectiveness can be reliably measured;
(d) the hedge is highly effective throughout the financial reporting periods for which it is designated.

When a derivative financial instrument is designated as a cash flow hedge (the hedge of the exposure to variability in cash flows of an asset or liability or a highly probable forecasted transaction) the effective portion of any gain or loss on the derivative financial instrument is recognized directly in OCI. The cumulative gain or loss is removed from OCI and recognized in the consolidated income statement at the same time as the hedged transaction affects the consolidated income statement. The gain or loss associated with the ineffective portion of a hedge is recognized in the consolidated income statement immediately. If the hedged transaction is no longer probable, the cumulative gains or losses included in OCI are immediately recognized in the consolidated income statement.

If hedge accounting is not appropriate, gains or losses arising from the fair value measurement of derivative financial instruments are directly recognized in the consolidated income statement.

During 2009 and 2010, the Telecom Group entered into several foreign currency forward agreements (US$ and Euro) for the coverage of Notes and trade payables, which were valued according to the criteria described above. As of December 31, 2010, Telecom Group has no derivative instruments.

g) Finance Income and Expenses

Finance income and expenses are recognized on an accrual basis and include:

- interest accrued on the related financial assets and liabilities using the effective interest rate method;

- changes in fair value of derivatives and other financial instruments measured at fair value through profit or loss;
- gains and losses on foreign exchange and financial instruments (including derivatives);
- other financial results (repurchase of financial debt, etc.).

Note 5—Cash and Cash Equivalents and Investments. Additional Information on the Consolidated Statements of Cash Flows (in part)

a) Cash and Cash Equivalents and Investments (in part)

Cash and cash equivalents consist of the following:

	As of December 31		As of January 1
Cash and Cash Equivalents	**2010**	**2009**	**2009**
Cash	8	12	9
Banks	111	50	27
Time deposits	1,266	1,075	718
Mutual funds	—	120	144
Mutual funds—Related parties (Note 27.c)	—	16	4
Total cash and cash equivalents	1,385	1,273	902

Investments consist of the following:

	As of December 31		As of January 1
Current Investments	**2010**	**2009**	**2009**
Government bonds	2	—	223
Time deposits—Related parties (Note 27.c)	—	16	—
Total other investments	2	16	223

	As of December 31		As of January 1
Non-Current Investments	**2010**	**2009**	**2009**
2003 Telecommunications Fund	1	1	1
Time deposits—Related parties (Note 27.c)	—	—	6
Total other investments	1	1	7

b) Additional Information on the Consolidated Statements of Cash Flows

The consolidated statements of cash flows have been prepared using the indirect method.

For purposes of the statements of cash flows, cash and cash equivalents comprise cash, bank current accounts and short-term highly liquid investments (with an original maturity of three months or less) and bank overdrafts (in the consolidated statements of financial position, bank overdrafts are included in current financial debt).

	As of December 31		As of January 1
	2010	**2009**	**2009**
Cash and cash equivalents	1,385	1,273	902
Bank overdrafts	(9)	—	—
Total cash and cash equivalents at year-end	1,376	1,273	902

- *Changes in assets/liabilities components:*

	Years Ended December 31	
	2010	**2009**
Net (increase) decrease in assets		
Investments not considered as cash or cash equivalents	1	(33)
Trade receivables, net	(476)	(314)
Other receivables, net	(116)	(39)
Inventories, net	(236)	(37)
	(827)	(423)
Net (decrease) increase in liabilities		
Trade payables	540	242
Salaries and social security payables	91	55
Other taxes payables	193	(17)
Other liabilities	9	23
Provisions	(36)	(16)
	797	287

Income tax paid consists of the following:

	Years Ended December 31	
	2010	**2009**
Income tax affidavit	(451)	(321)
Payments in advance	(494)	(231)
Other payments	(62)	(78)
Total payments of income tax	(1,007)	(630)

- *Main non-cash operating transactions:*

	Years Ended December 31	
	2010	**2009**
Payment of SAC offset with trade receivables	57	33
Government bonds received from trade receivables	2	—
Credit on minimum presumed income tax offset with income taxes	—	7
Legal fee from Tax Regularization Regime (Note 3.l)	—	14

- *Financing activities components:*

The following table presents the financing activities components of the consolidated statements of cash flows:

	Years Ended December 31	
	2010	**2009**
Bank overdrafts—Núcleo and Personal	42	218
Debt proceeds—Núcleo	133	124
Total financial debt proceeds	175	342
Payment of Notes—Personal and Telecom Argentina	(683)	(1,409)
Purchase of Notes—Personal and Telecom Argentina	(35)	(108)
Payment of bank overdrafts—Núcleo and Personal	(42)	(218)
Payment of bank loans—Núcleo	(118)	(102)
Total payment of financial debt	(878)	(1,837)
Payment of interest on Notes—Personal and Telecom Argentina	(63)	(149)
Payment of interest on bank loans—Núcleo	(13)	(12)
Payment of interest on bank overdrafts—Personal	—	(6)
Total payment of interest	(76)	(167)

The Annual General Ordinary and Extraordinary Shareholders' Meeting held on April 28, 2010 approved a cash dividend distribution in the amount of $1,053 payable in two installments: the first was paid on May 5, 2010, amounting to $689 (equivalent to $0.70 per share) and the second was paid on December 20, 2010, for the balance of $364 (equivalent to $0.37 per share).

Otherwise, Núcleo paid cash dividends in the amount of $13 to its noncontrolling shareholders during the year ended December 31, 2009.

Note 6—Trade Receivables, Net

Trade receivables, net consist of the following:

	As of December 31		As of January 1
	2010	**2009**	**2009**
Current trade receivables, net			
Fixed services	643	621	538
Fixed services—Related parties (Note 27.c)	10	5	—
Personal mobile services	932	657	582
Personal mobile services—Related parties (Note 27.c)	3	5	5
Núcleo mobile services	26	19	20
Subtotal	1,614	1,307	1,145
Allowance for doubtful accounts	(151)	(144)	(136)
Total trade receivables, net	1,463	1,163	1,009

Movements in the allowance for current doubtful accounts are as follows:

	Years Ended December 31	
	2010	**2009**
Current allowance for doubtful accounts		
At January 1,	(144)	(136)
Additions—Bad debt expenses	(119)	(131)
Uses	113	123
Currency translation adjustments	(1)	—
At December 31,	(151)	(144)

Note 7—Other Receivables, Net

Other receivables, net consist of the following:

	As of December 31		As of January 1
	2010	**2009**	**2009**
Current other receivables, net			
Prepaid expenses	114	80	65
SU credits (Note 2.d)	112	66	36
Tax credits	52	60	48
Restricted funds	15	10	9
Credit on SC Resolution No. 41/07 and IDC (Note 2.g and h)	—	4	11
Derivatives	—	1	22
Other	42	36	41
Subtotal	335	257	232
Allowance for regulatory matters (Note 2.g and h)	—	(4)	(11)
Allowance for doubtful accounts	(13)	(12)	(12)
	322	241	209
Non-current other receivables, net			
Credit on SC Resolution No. 41/07 and IDC (Note 2.g and h)	90	87	93
Deferred tax assets of Núcleo	—	1	—
Restricted funds	31	24	15
Tax credits	17	21	17
Prepaid expenses	55	20	22
Credit on minimum presumed income tax	6	7	20
Other	8	12	13
Subtotal	207	172	180
Allowance for regulatory matters (Note 2.G and h)	(90)	(75)	(75)
Allowance for doubtful accounts	(17)	(21)	(17)
	100	76	88
Total other receivables, net	422	317	297

Movements in the allowances are as follows:

	Years Ended December 31	
	2010	2009
Current allowance for regulatory proceedings		
At January 1,	(4)	(11)
Uses	—	13
Reclassifications[(*)]	4	(6)
At December 31,	—	(4)
Non-current allowance for regulatory proceedings		
At January 1,	(75)	(75)
Additions[(**)]	(13)	(6)
Reclassifications	(2)	6
At December 31,	(90)	(75)

[(*)] In 2010, includes reclassifications of $2 from Provisions.
[(**)] Included in Provisions in the consolidated income statements.

	Years Ended December 31	
	2010	2009
Current allowance for doubtful accounts		
At January 1,	(12)	(12)
Additions[(***)]	(1)	—
At December 31,	(13)	(12)
Non-current allowance for doubtful accounts		
At January 1,	(21)	(17)
Additions[(***)]	—	(4)
Reversals[(***)]	4	—
At December 31,	(17)	(21)

[(***)] Included in Taxes and fees with the Regulatory Authority in the consolidated income statements.

Note 11—Trade Payables

Trade payables consist of the following:

	As of December 31		As of January 1
	2010	2009	2009
Current trade payables			
PP&E suppliers	1,261	1,053	773
Other assets and services suppliers	846	690	607
Inventory suppliers	450	246	157
Deferred revenue on prepaid calling cards	172	135	134
Related parties (Note 27.c)	110	32	62
Agent commissions	58	45	21
SU reimbursement (Note 2.d)	11	11	15
	2,908	2,212	1,769
Non-current trade payables			
Related parties (Note 27.c)	—	24	27
Total trade payables	2,908	2,236	1,796

Note 12—Financial Debt

Financial debt consists of the following:

	As of December 31		As of January 1
	2010	2009	2009
Current financial debt			
Notes	—	686	1,255
Issue discount and underwriting fees	—	(1)	—
Bank loans	31	72	89
Bank overdrafts	9	—	—
Accrued interest	2	3	11
Derivatives	—	3	—
	42	763	1,355
Non-current financial debt			
Notes	—	—	690
Issue discount and underwriting fees	—	—	(2)
Bank loans	121	58	—
	121	58	688
Total financial debt	163	821	2,043

The following table segregates the Telecom Group's financial debt by company as of December 31, 2010 and 2009 and January 1, 2009:

	Núcleo	Consolidated As of December 31, 2010	Personal(**)	Núcleo	Consolidated As of December 31, 2009	Telecom(*)	Personal	Núcleo	Consolidated As of January 1, 2009
Principal	161	161	685	130	815	1,255	688	89	2,032
Accrued interest	2	2	1	2	3	8	1	2	11
Subtotal	163	163	686	132	818	1,263	689	91	2,043
Derivatives	—	—	3	—	3	—	—	—	—
Total financial debt	163	163	689	132	821	1,263	689	91	2,043
Short-term financial debt	42	42	689	74	763	1,263	1	91	1,355
Long-term financial debt	121	121	—	58	58	—	688	—	688

(*) Telecom's financial debt was fully cancelled on October 15, 2009.
(**) Personal's financial debt was fully cancelled on December 22, 2010.

Financial Debt of the Subsidiaries

(a) Personal

Notes

On December 22, 2010, Personal fully cancelled its Notes issued under the Global Program for the Issuance of Notes for a maximum outstanding amount of U$S 500 million or its equivalent in other currencies for a term of five years.

At the same date, Personal fully repaid all the derivative instruments that had been held in relation to the above mentioned Notes.

The Shareholders' Ordinary and Extraordinary Meeting of Personal held on December 2, 2010, approved the creation of a Global Program for the Issuance of Notes for a maximum outstanding amount of U$S 500 million or its equivalent in other currencies for a term of five years. At the date of issuance of these financial statements, Personal is preparing the documentation required by the CNV to approve this program.

(b) Núcleo

1. Bank Loans

The following table shows the outstanding loans with local banks in Paraguay and their main terms as of December 31, 2010:

Principal Nominal Value (In Million of Guaraníes)	Amortization Term	Book Value (In Millions of $) Current	Non-Current	Total
37,500	5 years	1	31	32
39,500	4 years	2	33	35
50,000	4 years	2	41	43
15,680	2 years	14	—	14
32,650	2 years	12	16	28
175,330		31	121	152

The weighted average annual rate of these loans is 9.2% in Guaraníes and the weighted average amortization term of these loans is approximately 4 years.

The terms and conditions of Núcleo's loans provide for certain events of default which are considered standard for these kinds of operations.

2. Bank Overdrafts

At December 31, 2010, Núcleo has bank overdrafts amounting to $9 (equivalent to Guaraníes 9,933 million). The average annual rate of these loans is 5.5% in Guaraníes.

Note 20—Financial Instruments

Categories of Financial Assets and Financial Liabilities

The following tables set out, for financial assets and liabilities as of December 31, 2010 and 2009 and as of January 1, 2009, in accordance with the categories established by IFRS 9, the supplementary disclosures on financial instruments required by IFRS 7 and the schedules of gains and losses.

		Fair Value		
As of December 31, 2010	**Amortized Cost**	**Accounted Through Profit or Loss**	**Accounted Through Other Comprehensive Income**	**Total**
Assets				
Cash and cash equivalents	1,266	119	—	1,385
Investments	2	1	—	3
Trade receivables, net	1,463	—	—	1,463
Other receivables, net[(1)]	207	—	—	207
Total	2,938	120	—	3,058
Liabilities				
Trade payables	2,736	—	—	2,736
Financial debt	163	—	—	163
Salaries and social security payables	500	—	—	500
Income tax payables	505	—	—	505
Other taxes Payables	531	—	—	531
Other liabilities[(1)]	51	—	—	51
Total	4,486	—	—	4,486

As of December 31, 2009	Amortized Cost	Fair Value: Accounted Through Profit or Loss	Fair Value: Accounted Through Other Comprehensive Income	Total
Assets				
Cash and cash equivalents	1,075	198	—	1,273
Investments	16	1	—	17
Trade receivables, net	1,163	—	—	1,163
Other receivables, net[1]	169	—	1	170
Total	2,423	199	1	2,623
Liabilities				
Trade payables	2,098	3	—	2,101
Financial debt	818	—	3	821
Salaries and social security payables	382	—	—	382
Income tax payables	444	—	—	444
Other taxes Payables	338	—	—	338
Other liabilities[1]	53	—	—	53
Total	4,133	3	3	4,139

As of January 1, 2009	Amortized Cost	Fair Value: Accounted Through Profit or Loss	Fair Value: Accounted Through Other Comprehensive Income	Total
Assets				
Cash and cash equivalents	718	184	—	902
Investments	229	1	—	230
Trade receivables, net	1,009	—	—	1,009
Other receivables, net[1]	146	9	13	168
Total	2,102	194	13	2,309
Liabilities				
Trade payables	1,662	—	—	1,662
Financial debt	2,043	—	—	2,043
Salaries and social security payables	320	—	—	320
Income tax payables	290	—	—	290
Other taxes Payables	336	—	—	336
Other liabilities[1]	43	—	—	43
Total	4,694	—	—	4,694

[1] Only includes financial assets and liabilities according to the scope of IFRS 7.

Gains and Losses by Category—Year 2010

	Net Gain/(Loss)	Of Which Interest
Financial assets at amortized cost	183	159
Financial liabilities at amortized cost	(181)	(121)
Financial assets at fair value through profit or loss	9	—
Financial liabilities at fair value through other comprehensive income (loss)	(63)	—
Financial liabilities at fair value through profit or loss	(5)	—
Total	(57)	38

Gains and Losses by Category—Year 2009

	Net Gain/(Loss)[2]	Of Which Interest
Financial assets at amortized cost	220	122
Financial liabilities at amortized cost	(455)	(151)
Financial assets at fair value through profit or loss	15	—
Financial liabilities at fair value through profit or loss	(110)	—
Financial liabilities at fair value through other comprehensive income (loss)	(6)	—
Total	(336)	(29)

[2] Includes the effect in OCI.

Fair Value Hierarchy and Other Disclosures

IFRS 7 establishes a hierarchy of fair value, based on the information used to measure the financial assets and liabilities and also establishes different valuation techniques. According to IFRS 7, valuation techniques used to measure fair value shall maximize the use of observable inputs.

The measurement at fair value of the financial instruments of the Group is classified according to the three levels set out in IFRS 7. The fair value hierarchy introduces three levels of input:

- Level 1: Fair value determined by quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Fair value determined based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).
- Level 3: Fair value determined by unobservable inputs where the reporting entity is required to develop its own assumptions.

Financial assets and liabilities recognized at fair value as of December 31, 2010 and 2009 and as of January 1, 2009, their inputs, valuation techniques and the level of hierarchy are listed below:

Cash and banks: its valuation is classified as Level 1 since it is based on market prices.

Mutual Funds: These funds are included in cash and cash equivalents. As of December 31, 2010 the Company had no mutual funds. The amount as of December 31, 2009 and as of January 1, 2009 is $ 136 and $148, respectively. The fair value is based on information obtained from active markets and corresponds to quoted market prices as of year-end; therefore its valuation is classified as Level 1.

Other receivables—Derivative financial instruments (Forward contracts to purchase US dollars at fixed exchange rates): As of December 31, 2010 the Group had no derivative financial instruments outstanding.

As of December 31, 2009 these derivative financial instruments were included in current Other receivables, net and in current financial debt by $1 and $3, respectively. Their fair value arose from quoted market prices provided by major financial institutions; therefore their valuation is classified as Level 2.

As of January 1, 2009 derivative financial instruments included in current Other receivables, net amounted to $22. Their fair value was determined by information obtained in the "Open Electronic Market" (the MAE), the most representative market for this type of instruments in Argentina. As the MAE determines the values based on actual transactions and calculations regarding the volatility of the currency, the derivative financial instruments' valuation was classified as Level 2.

During 2010 and 2009 there were no significant transfers between Level 1 and Level 2 of the fair value hierarchy.

According to IFRS 7, it is also required to disclose fair value information about financial instruments whether or not recognized at fair value in the balance sheet, for which it is practicable to estimate fair value. The financial instruments which are discussed in this section include, among others, cash and cash equivalents, accounts receivable, accounts payable and other instruments.

Derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in an immediate sale of the instrument. Also, because of differences in methodologies and assumptions used to estimate fair value, the Company's fair values should not be compared to those of other companies.

The methods and assumptions used to estimate the fair values of each class of financial instrument falling under the scope of IFRS 7 as of December 31, 2010 and 2009 and as of January 1, 2009 are as follows:

Time Deposits (Included in Cash and Cash Equivalents and Investments)

The Company considers all short-term and highly liquid investments that are readily convertible to known amounts of cash, subject to an insignificant risk of changes in value and their original maturity or the remaining maturity at the date of purchase does not exceed 3 months, to be cash and cash equivalents. The carrying amount reported in the statement of financial position approximates fair value.

Investments

Carrying amounts approximate its fair value.

Trade Receivables, Net

Carrying amounts are considered to approximate fair value due to the short term nature of these accounts receivables. All amounts that are assumed to be uncollectible within a reasonable period are written off and/or reserved.

Trade Payables

The carrying amount of accounts payable reported in the statement of financial position approximates its fair value due to the short term nature of these accounts payable.

Telecom Argentina Notes

Telecom Argentina Notes were measured at amortized cost according to IFRS 9 as of January 1, 2009. The fair value of these notes, which are included in current and non-current

financial debt, was $ 1,009 at that date and the carrying amount was $1,263. The fair value of these notes was based on the purchase price of notes bought by the Company in the last quarter of 2008 or, if the purchase price was not available, on the average quoted market prices provided by financial agencies. These notes were cancelled during 2009.

Other Financial Debt (Except for NDF)

As of December 31, 2010, the fair value of the Company's financial debt approximates its fair value and it was $163. As of December 31, 2009, the fair value of the Company's financial debt (excluding NDF) was $853 and the related carrying amount was $818. As of January 1, 2009, the fair value of the Company's financial debt (excluding Telecom Argentina Notes) was $693 and the related carrying amount was $780. The fair value of the Company's debt as of December 31, 2009 and as of January 1, 2009 is based on the purchase price of notes bought by the Company or, if purchase price is not available, on the average quoted market prices.

Salaries and Social Security Payables

The carrying amount of Salaries and social security payables reported in the statement of financial position approximates its fair value.

Income Tax and Other Taxes Payables

The carrying amount of Income tax payables and Other taxes payables reported in the statement of financial position approximates its fair value due to their short-term nature.

Other Receivables, Net and Other Liabilities (Except for NDF)

The carrying amount of other receivables, net and other liabilities reported in the statement of financial position approximates its fair value due to their short-term nature.

Hedge Accounting

For transactions designated and qualifying for hedge accounting, Telecom documents at inception the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

As part of its hedging policy, the Telecom Group has entered into the following derivatives:

1) Non-Deliverable Forward ("NDF") Contracts to Purchase Foreign Currency and Other Derivatives

Between October 2008 and January 2009, the Company entered into several contracts to purchase a total amount of US$ 108.5 million and Yen 5,120 million, to hedge its exposure to foreign currency fluctuations with respect to its Notes. Additionally, in January 2009, the Company entered into a derivative contract (an Euro "Zero Cost Collar") as supplementary of those contracts, to hedge its exposure to foreign currency fluctuations with respect to the Euro-denominated Notes. These contracts have expired in April 2009 and were regarded as ineffective.

The Company also entered into several NDF contracts amounting to US$344 million in order to hedge its exposure to US dollar fluctuations with respect to its Notes, which were settled during fiscal year 2009 jointly with Telecom's Notes. The Company designated these NDF contracts as ineffective cash flow hedges. For the year ended December 31, 2009, the changes in the fair value of these hedges were recognized in the income statement within Finance expenses, under the item line "Loss on derivatives" in an amount of $81.

2) NDF Contracts to Purchase Foreign Currency for Notes and Accounts Payable

a) For Notes

During the last quarter of 2008, Telecom Argentina entered into several contracts to purchase a total amount of US$ 108.5 million for a fixed forward average price of Argentine peso 3.49 per US dollar maturing in April 2009 in order to hedge its exposure to foreign currency fluctuations with respect to its Notes denominated in foreign currency. During January 2009, the Company entered into new supplementary derivative contracts.

Considering that the Company primarily generates cash flows in Argentine pesos and the terms of the NDF did not perfectly match the terms of the foreign currency-denominated obligations, these hedges were regarded as ineffective.

During 2009 Personal entered into several contracts to purchase foreign currency which main characteristics as of December 31, 2009, were the following:

	Currency	Amount (In Millions)	Average Exchange Rate	Date	Expiring Date	Book Value at December 31, 2009 Assets (Liabilities)
Personal	US$	25.2	4.384 $/US$	August/December 2009	June 2010—December 2010	(3)
	US$	90.0	4.344 $/US$	December 2009	December 2010	1
		115.2				(*) (2)

(*) Includes $1 in Other current receivables and $(3) in Current debt (which corresponds to related parties).

When entering into these NDF contracts, the management objective was to reduce its exposure to foreign currency fluctuations and denominate its Notes in Argentine peso. Consequently, as the main terms of the NDF were substantially similar to the terms of the foreign currency-denominated obligations, these hedges were regarded as effective.

For the year ended December 31, 2009, the changes in the fair value of these hedges were recognized in OCI and subsequently were reclassified to the income statement within Finance expenses, under the item line "Loss on derivatives" in an amount of $2.

During January 2010, and continuing with its Notes' hedging policy, Personal entered into several NDF contracts amounting to US$72 million in order to hedge its exposure to US dollar fluctuations with respect to its Notes, maturing in December 2010. Personal designated these NDF contracts as effective cash flow hedges.

b) For Accounts Payable

In June 2008, Personal entered into several NDF contracts to purchase a total amount of US$ 39.7 million between September 2008 and December 2009 for fixed forward prices of Argentine peso 3.0785 through 3.4450 per US dollar in order to hedge its exposure to US dollar fluctuations related to a software license service contract to be quarterly cancelled in US dollars. Some of these contracts matured during the same year (US$ 7.1 million in September 2008 and US$ 7.1 million in December 2008) and the outstanding contracts amounted to US$ 25.4 million as of January 1, 2009.

In July 2008, Telecom also entered into several NDF contracts to purchase a total amount of US$ 4.7 million between January 2009 and September 2009 for fixed forward prices of Argentine peso 3.11 through 3.30 per US dollar in order to hedge its exposure to US dollar fluctuations related to a software and hardware service contract to be monthly cancelled in US dollars.

The critical terms of NDF contracts and service contracts (amounts and maturities) were the same, allowing a perfect cash flows matching between both contracts.

Considering Management's objective and strategy to reduce its exposure to US dollar fluctuations and denominate its obligations in Argentine peso, the currency in which the Company mainly generates its cash flows, the Company designated these NDF contracts as effective cash flow hedges of the software license service contract (an unrecognized firm commitment). Changes in the fair value of cash flow hedges were recognized in other comprehensive income, and were subsequently reclassified into earnings when the hedged item affected earnings.

During fiscal year 2009, Personal also entered into several NDF contracts amounting to US$23.5 million, maturing between September 2009 and August 2010, in order to hedge its exposure to US dollar fluctuations related to accounts payable.

However, as the terms of the NDF did not perfectly match the terms of the foreign currency-denominated obligations, these hedges were regarded as ineffective. Therefore, the changes in the fair value of these NDF until the cancellation date and the subsequent changes were recognized as a gain (loss) within "Finance income" or "Finance expenses", as the case may be. As of December 31, 2009, US$8.5 million were outstanding, maturing July and August 2010.

For the year ended December 31, 2009, the changes in the fair value of these hedges were recognized as a loss in the income statement within "Finance expenses", under the item line "Loss on derivatives" in an amount of $6 with counterpart in "Trade payables".

During January 2010, Personal entered into several NDF contracts amounting to US$30.2 million (maturing January through December 2010), in order to hedge its exposure to US dollar fluctuations related to accounts payable. The Company designated these NDF contracts as effective cash flow hedges.

As of December 31, 2010, the Company had no derivative instruments.

Note 24—Finance Income and Expenses

	Years Ended December 31	
	2010	**2009**
Interest on cash equivalents	99	69
Interest on investments	1	2
Interest on receivables	58	49
Gains on Mutual Funds	7	10
Foreign currency exchange gains	26	103
Gain on discounting of other liabilities	—	21
Other	1	2
Total finance income	192	256
Interest on financial debt	(76)	(145)
Interest on taxes and accounts payable	(11)	(19)
Interest on provisions	(70)	(80)
Interest on termination benefits	(27)	(8)
Loss on discounting of other liabilities	(7)	—
Foreign currency exchange losses	(64)	(310)
Loss on derivatives	(68)	(103)
Loss on purchase of Notes	(2)	(2)
Other	(4)	(3)
Total finance expenses	(329)	(670)
Total finance expenses, net	(137)	(414)

The classification of finance income and expenses as generated by assets and by liabilities is as follows:

	Years Ended December 31	
	2010	**2009**
Interest income	158	120
Gains on Mutual Funds	7	10
Foreign currency exchange differences	26	103
Other	1	2
Financial results generated by assets	192	235
Interest expense	(191)	(231)
Foreign currency exchange differences	(64)	(310)
Loss on derivatives	(68)	(103)
Other	(6)	(5)
Financial results generated by liabilities	(329)	(649)
Total financial results, net	(137)	(414)

Author's Note

The following excerpts were prepared in accordance with IAS 32, IAS 39, and IFRS 7. IFRS 7 requires extensive disclosures about risk exposures, including market, currency, interest rate, liquidity, and credit risks. Each excerpt below includes only the parts of these disclosures that are relevant to the financial asset or liability illustrated.

Financial Assets—Accounts Receivable and Accounts Receivable From Related Parties

8.55

Vina Concha y Toro S.A. (Dec 2010)

Author's Note

Vina Concha y Toro S.A. implemented IFRSs effective December 31, 2010, with a date of transition of January 1, 2009. The excerpt that follows reflects the initial application of IFRSs. The company has not yet adopted IFRS 9.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (in part)

Assets	Note N°	As of December 31, 2010 Th$	As of December 31, 2009 Th$	As of January 1, 2009 Th$
Current assets				
Cash and cash equivalent	(7)	16,757,549	6,997,300	3,949,865
Other current financial assets	(8)	10,721,894	10,903,083	5,126,520
Trade and other accounts receivable, current	(9)	108,358,712	102,981,228	110,532,628
Accounts receivable from related parties, current	(10)	609,117	220,820	240,155
Non-Current Assets				
Other non-current financial assets	(8)	5,765,933	3,943,612	—
Current liabilities				
Other current financial liabilities	(18)	30,732,214	36,891,049	75,069,473
Trade accounts payable and other current accounts payable	(20)	56,675,343	63,816,895	62,897,932
Current accounts payable to related companies	(10)	2,876,996	2,479,224	3,620,684
Non-current liabilities				
Other non-current financial liabilities	(18)	49,959,254	62,772,393	69,746,210
Other non-current accounts payable	(20)	2,137,049	2,211,541	2,393,975
Non-current accounts payable to related companies	(10)	1,452,471	1,664,255	1,947,240

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 2. Bases of Preparation and Presentation Used for These Financial Statements (in part)

2.1. Basis of Preparation

2.1.7. Significant Accounting Policies (in part)

The main critical policies are as follows:

- Bad debt estimate.
- Financial Instruments.

2.6. Financial Instruments (in part)

2.14.3. Financial Assets Impairment

In the case of trading receivable assets, the Company has defined a policy to record provisions due to impairment based on the aging.

For its account receivable, the Company has defined age stratification parameters as well as the percentages to be applied in the impairment evaluation for these items.

In accordance with the information presented and evaluating if there is any indication of value impairment of some assets related to the wine's flow generating unit; we may conclude that there is no evidence of indication that support any impairment in the value of these assets.

The evaluation of possible impairment losses on Property, Plants and equipment, Intangibles and Investments (in part)

In the case of financial assets with a trading origin, the Company has defined a policy for the recording of impairment accruals in function of the irrecoverable status for the overdue balance, which is determined through an analysis on the age, historic collection and the collection status of accounts receivable.

Note 6. Financial Risk Management

6.2. Credit Risk (in part)

The Credit Risk relates to the uncertainty with respect to the compliance of obligations from the Company's counterparty, for particular contract, agreement or financial instrument, when this compliance generates a loss in the market value of any financial asset.

6.2.1. Accounts Receivable

The Company exports to more than 135 foreign countries through dealers with whom it maintains distribution contracts for its different companies and brands. In addition, the Company has formed distributing subsidiaries of its products in

England, Sweden, Norway, Finland, Argentina, Brazil and Singapore.

All export sales is performed in terms with direct credit, except for some punctual cases that operate with export letter of credit.

In the domestic market the sale is diversified in more than 15,000 customers and after an internal evaluation, they are granted with a limited credit line.

The main credit risk corresponds to the lack of payment of a particular customer, although in some cases there are risks associated to exchange or legal restrictions in the countries where they are located and they are temporarily restrained to comply with their payment obligations.

The Company's policy is to protect all their customers with credit insurance. This is performed to both, domestic market customers and export customers either as nominated or non-nominated. In the cases in which the insurance company rejects to insure a particular customer, alternative mechanisms are considered in order to document the debt as the case of post-dated checks in the domestic market, export letter of credits, etc.

The impairment provision of accounts receivable is performed at each financial year-end after a case-by case analysis for customers with an indication of doubtful collection. This accrual is recorded in the statement of income.

a) Sales to third-parties from Chile:

In the case of accounts receivable from the domestic market, 84% of customers has a credit insurance which covers 90% of the claim. As of December 31, 2010 the main five customers concentrate 42.13% of accounts receivable for this market, consequently, 95.3% of this receivable is covered by the insurance credit. 67.4% of accounts receivable are concentrated in customers that maintain accounts receivable in amounts higher than M$100, while 23.6% correspond to customers with a receivable lower than M$10.

For exports performed from Chile to third-parties, 86.8% has an insurance credit which covers 90% of the claim. As of December 31, 2010 the twenty main customers concentrate 67.9% of accounts receivable for this market, consequently, 87.39% of this receivable is covered by an insurance credit. The remaining 32.1% is comprised by almost 199 customers.

b) Sales to third-parties from abroad:

Bodegas y Viñedos Trivento S.A. maintains credit insurances for 88.8% of its domestic accounts receivable, and 85.76% of its export accounts receivable. In both cases, the insurance covers 90% of the claim. 69.52% of its export accounts receivable are concentrated in the main 20 customers, from these, 96% of the debt is insured, while the 20 main customers of the domestic market, represents 69.77% of total accounts receivable, from these 96.0% is insured.

The subsidiary Concha y Toro UK maintains 90.24% of its accounts receivable portfolio hedged by a credit insurance, which covers 90% of the value. 77.54% of accounts receivable is concentrated in its 20 main customers, from these 93.39% of the debt is insured, while the remaining 22.46% of accounts receivable is distributed in more than 250 customers.

VCT Brazil concentrates 62.84% of its accounts receivable in its 20 main customers, distributing the remaining 37.16% in more than 450 customers. 51.01% of its accounts receivable are subject to a credit insurance, which covers 90% of the value.

The subsidiaries of Sweden, Norway and Finland, concentrates more than 90% of their accounts receivable in sales performed to state-owned monopolies that do not have credit insurance due to its low credit risk.

Note 9. Trade Receivables and Other Accounts Receivable, Net

Description of Classes of Trade Receivables and Other Accounts Receivable, Net	12-31-2010 Th$	12-31-2009 Th$	01-01-2009 Th$
Trade receivables and othe accounts receivable, net current	108,358,712	102,981,228	110,532,628
Trade receivable, net, current	98,473,707	98,544,589	106,275,990
Other accounts receivable, net, current	9,885,005	4,436,639	4,256,638

Balances included within this item, in general, do not accrue interest.

There are no restrictions to the provisions for this type of accounts receivable of significant amount.

It is important to note that the Company has dealers to sell its products through the export markets. The largest dealer of products in the United States is Productos Banfi Corporation ("Banfi"), whom represented 11.7% and 12.7% of the Company's income with respect to total exports as of December 2010 and 2009, respectively. With respect to the Company's total income, Banfi represented 8.7% and 10.0% as of December 2010 and 2009, respectively.

Sales to the Company's biggest five dealers, including Banfi, represented 28.5% and 28.8% of total export income as of December 2010 and 2009, respectively. It is expected that these five continue to represent a significant portion of the Company's income with respect to total exports in the future.

The Company has signed agreements with the majority of its dealers. Generally, these agreements are entered for a two-year period, which are renewable in an automatic manner. The Company's strategy to increase its sales in the most significant export markets depends significantly on the Company's dealer's behavior.

Debtor's impairment analysis is detailed as follows:

Overdue Trade Receivables With No Impairment	12-31-2010 Th$	12-31-2009 Th$	01-01-2009 Th$
1 to 90 days	4,545,554	5,371,608	8,072,025
91 to 180 days	738,729	733,463	289,015
181 to 360 days	318,402	106,717	1,869,189
361 and more	190,697	444,392	175,033
Total	5,793,382	6,656,180	10,405,262

The bad debt provision is performed at each year-end after a case-by-case analysis for customers with irrecoverable indication.

Financial Assets	Th$
Beginning balance as of January 1, 2009	920,310
Increase for the period	93,868
Bad debt accrual as of December 31, 2009	1,014,178
Decrease for the period	(195,516)
Bad debt accrual as of December 31, 2010	818,662

Note 10. Transactions with Related Parties (in part)

10.1. Information to be Disclosed on Related Parties

At year-end, balances pending are not guaranteed and are to be settled in cash. There are no guarantees granted or received due to accounts receivable or payable to related parties. As of December 31, 2010, the Group has not recorded any impairment of accounts receivable related to amounts owed by related parties. This evaluation is performed on an annual basis through an analysis of the related party's financial position in the market in which the related party operates.

10.5. Accounts Receivable from Related Entities, Current

Related Party Id No.	Related Party Name	Nature of Relationship	Type of Currency	12-31-2010 Th$	12-31-2009 Th$	01-01-2009 Th$
76.021.221-0	Agrícola Gabriela Ltda.	By Director	Chilean pesos	—	44,483	—
96.512.200-1	Viñedos Emiliana S.A.	By Director	Chilean pesos	109,427	—	—
96.824.300-4	Viña Almaviva S.A.	Associate	Chilean pesos	58,967	108,921	238,788
90.950.000-1	Industria Corchera S.A.	Associate	Chilean pesos	353,633	—	—
99.562.040-5	Los Boldos de Tapihue S.A.	By Director	Chilean pesos	—	10,170	—
96.512.190-0	Fruticola Viconto S.A.	By Director	Chilean pesos	1,000	1,901	—
77.486.130-0	Soc. Ag. El Marco Dos Ltda.	By Director	Chilean pesos	—	13,163	—
76.088.641-6	Agricolas Las Pircas Ltda	By Director	Chilean pesos	4,991	—	—
78.335.990-1	Comercial Greenvic S.A.	By Director	Chilean pesos	80,699	42,182	—
77.486.290-0	Soc. Ag. Orrego Dos Ltda.	By Director	Chilean pesos	402	—	1,367
Total to date				609,117	220,820	240,155

10.8. Detail of Transactions With Related Parties, by Entity

Related Party ID No.	Related Party Name	Nature of Relationship	Nature of Transaction	12-31-2010 Th$	12-31-2009 Th$
96.512.190-0	Fruticola Viconto S.A.	By Director	Sale of services and other	9,723	9,564
			Purchase of Property, plant and equipment	—	15,620
			Purchase of services and other	—	10,741
96.512.200-1	Viñedos Emiliana S.A.	By Director	Sale of raw material and products	260,651	152,880
			Sale of services and other	667,264	799,537
			Purchase of raw material and products	507,513	479,352
			Purchase of services and other	295,289	248,269
90.950.000-1	Industria Corchera S.A.	Associate	Purchase of raw material	6,853,216	6,877,970
96.824.300-4	Viña Almaviva S.A.	Coligated	Sale of raw material and products	118,541	77,958
			Sale of services and other	6,389	4,475
			Purchase of raw material and products	577,618	409,896
			Purchase of services and other	4,987	6,521
76.021.221-0	Agricola Gabriela Ltda.	By Director	Purchase of raw material	482,576	446,704
90.310.000-1	Gasco GLP S.A.	By Director	Purchase sale of service and other	913,096	497,528
90.042.000-1	CGE Distribución S.A.	By Director	Purchase of services and other	1,943,641	2,188,777
85.201.700-7	Agrícola Alto Quitralmán Ltda.	By Director	Sale of raw material and products	1,835	—
			Purchase of raw material and products	254,130	10,136
95.097.000-6	Forestal Quivolgo S.A.	By Director	Purchase of raw material and products	1,792	646
78.335.990-1	Comercial Greenvic S.A.	By Director	Sale of raw material and products	164,589	213,238
			Purchase of raw material and products	29,273	41,423
			Purchase of services and other	22,884	37,500

The amounts indicated as transactions in the above chart, correspond to trade operations with related companies, which are performed under market conditions with respect to price involved and payment terms.

There are no bad debt estimates which reduce balances receivables or guarantees related to this estimates.

Note 17. Financial Instruments (in part)

17.1. Category of Financial Instruments by Nature (in part)

a) Fair values, based on categories of financial instruments, compared against the current and non-current book value included in the consolidated statements of financial position as of December 31, 2010

			At Amortized Cost Th$		At Fair Value Th$
Classification	Group	Type	Book Value	Fair Value	Book Value
Financial assets	Cash and cash equivalent	Balances in banks	6,242,999	6,242,999	—
		Short-term deposits	10,514,550	10,514,550	—
	Trade receivables and other accounts receivable	Trade receivables, gross	108,358,712	108,358,712	—
	Accounts receivable from related companies	Currents	255,484	255,484	—
		Non-currents	—	—	—

Note 27. Effect of Variations in Exchange Rates of Foreign Currency (in part)

Assets and Liabilities in Foreign Currency (in part)

	12/31/2010		12/31/2009		01/01/2009	
Current Assets	**Up to 90 Days Th$**	**From 91 Days to 1 Year Th$**	**Up to 90 Days Th$**	**From 91 Days to 1 Year Th$**	**Up to 90 Days Th$**	**From 91 Days to 1 Year Th$**
Trade receivables and other accounts receivables	108,358,712	—	99,524,546	3,456,682	110,532,628	—
CLP	20,151,585	—	23,333,232	307,892	18,413,222	—
USD	33,011,452	—	27,280,265	2,867,926	40,778,544	—
CAD	2,933,259	—	2,423,301	203,943	2,936,380	—
EUR	7,858,958	—	7,574,903	73,923	16,376,514	—
UF	79,676	—	192,493	2,998	131,603	—
GBP	23,191,515	—	23,620,329	—	28,530,391	—
SEK	4,549,891	—	4,386,547	—	—	—
NOK	1,111,120	—	1,110,054	—	—	—
ARS	6,159,719	—	5,828,741	—	2,835,841	—
BRL	9,311,537	—	3,774,681	—	530,133	—
Account receivable from related entities, current	609,117	—	220,820	—	240,155	—
CLP	609,117	—	220,820	—	240,155	—

Note 34. Contingencies, Restrictions and Lawsuits (in part)

6) On the occasion of the earthquake which hit a significant portion of the Chilean territory on February 21, 2010, from the total of 11 Company's warehouses, those located in Peumo, Pencahue, and Lontué, where affected and experienced losses of wine and production capacity. The Company quantified the loss of wine in bulk and finished products in 22.8 millions of liters.

The Company maintains Insurance Policies of all Risk against earthquakes and its effects for all assets affected, including damages due to disruption.

The recoverable limit for both physical goods and disruption damage reached a total of UF 20,417,917. These insurances contemplate a 2% deductible amount for physical goods on the insured amount by location, with a maximum of UF 10,000 and of 10 days for disruption damage.

As of December 31, 2010, Viña Concha y Toro and subsidiaries have recorded in its financial statements an amount of Th$20,631,288 which correspond to sinister inventories, sinister Property, plant and equipment pursuant to its book value and expenses incurred up to that date, corresponding to cleaning activities, wreckage removal, goods repairing, mitigation expenses of losses due to disruption. Al these amounts are duly covered by the insurances indicated in prior paragraphs and are presented within the item Trade receivables and Other accounts receivable, net.

Concept	12-31-2010 Th$
Sinister inventory	15,277,743
Sinister Property, plant and equipment	763,629
Expenses incurred	4,589,916
Total	20,631,288

As of December 31, 2010, Viña Concha y Toro and subsidiaries did not record the related deductible as well as the amounts expected to receive with respect to a higher value on the book value of inventories of finished products and wine in bulk which are insured at its sale price. No incomes have been recorded due to disruption damages.

Company's management estimates that the values receivable, provide a proper coverage on the amounts corresponding to deductibles.

As of December 2010, the Company received Th$ 21,294,138 as an indemnity advance with respect to damages caused by the earthquake.

Financial Assets—Held to Maturity

8.56

Eni S.p.A. (Dec 2010)

CONSOLIDATED BALANCE SHEET (in part)

(Euro million)

		Dec. 31, 2009		Dec. 31, 2010	
	Note	Total Amount	Of Which With Related Parties	Total Amount	Of Which With Related Parties
Assets					
Current assets					
Cash and cash equivalents	(7)	1,608		1,549	
Other financial assets held for trading or available for sale	(8)	348		382	
Trade and other receivables	(9)	20,348	1,355	23,636	1,356
Other current assets	(13)	1,307	9	1,350	9
		31,129		34,911	
Non-current assets					
Equity-accounted investments	(17)	5,828		5,668	
Other investments	(17)	416		422	
Other financial assets	(18)	1,148	438	1,523	668

CONSOLIDATED PROFIT AND LOSS ACCOUNT (in part)

(Euro million except as otherwise stated)

		2008		2009		2010	
	Note	Total Amount	Of Which With Related Parties	Total Amount	Of Which With Related Parties	Total Amount	Of Which With Related Parties
Finance income (expense)	(37)						
Finance income		7,985	42	5,950	27	6,117	41
Finance expense		(8,198)	(17)	(6,497)	(4)	(6,713)	
Derivative financial instruments		(427)		(4)		(131)	
		(640)		(551)		(727)	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

3. Summary of Significant Accounting Policies (in part)

Current Assets

Available-for-sale financial assets include financial assets other than derivative financial instruments, loans and receivables, held for trading financial assets and held-to-maturity financial assets.

Non-Current Assets (in part)

Financial Fixed Assets (in part)

Receivables and Financial Assets to be Held to Maturity

Receivables and financial assets to be held to maturity are stated at cost represented by the fair value of the initial exchanged amount adjusted to take into account direct external costs related to the transaction (e.g. fees of agents or consultants, etc.). The initial carrying value is then adjusted to take into account capital repayments, devaluations and amortization of the difference between the reimbursement value and the initial carrying value. Amortization is carried out on the basis of the effective interest rate of return represented by the rate that equalizes, at the moment of the initial revaluation, the current value of expected cash flows to the initial carrying value (so-called "amortized cost method"). Receivables for finance leases are recognized at an amount equal to the present value of the lease payments and the purchase option price or any residual value; the amount is discounted at the interest rate implicit in the lease.

Any impairment is recognized by comparing the carrying value with the present value of the expected cash flows discounted at the effective interest rate as defined at initial recognition, or at the moment of its updating to reflect re-pricings contractually established.

Receivables and financial assets to be held to maturity are recognized net of the allowance for impairment losses; when the impairment loss is definite the allowance for impairment losses is reversed for excess charges. Changes to the carrying amount of receivables or financial assets in accordance

with the amortized cost method are recognized as “Financial income (expense)".

18. Other Financial Assets

Other financing receivables were as follows:

(Euro Million)	Dec. 31, 2009	Dec. 31, 2010
Receivables for financing operating activities	1,112	1,488
Securities held for operating purposes	36	35
	1,148	1,523

Receivables for financing operating activities are presented net of the allowance for impairment losses of euro 32 million (euro 29 million at December 31, 2009).

Operating financing receivables of euro 1,488 million (euro 1,112 million at December 31, 2009) primarily pertained to loans made by the Exploration & Production segment (euro 716 million), Gas & Power segment (euro 559 million) and Refining & Marketing segment (euro 96 million) to certain equity-accounted or cost-accounted entities which executed capital projects on behalf of Eni’s Group companies. Financing receivables due from unconsolidated subsidiaries, joint ventures and associates amounted to euro 656 million. Receivables for financial leasing amounted to euro 78 million (euro 97 million at December 31, 2009) and pertained to the disposal of the Belgian gas network by Finpipe GIE. The following table shows principal receivable by maturity date, which was obtained by summing future lease payment receivables discounted at the effective interest rate, interests and the nominal value of future lease receivables:

	Maturity Range		
(Euro Million)	Within 12 Months	Between One and Five Years	Total
Principal receivable	19	78	97
Interests	6	10	16
Undiscounted value of future lease payments	25	88	113

Receivables with a maturity date within one year is shown in current assets in the item trade receivables for operating purposes—current portion of long-term receivables in the Note 9—Trade and other receivables.

Receivables for financing operating activities in currencies other than euro amounted to euro 1,128 million (euro 716 million at December 31, 2009).

Receivables for financing operating activities due beyond five years amounted to euro 823 million (euro 460 million at December 31, 2009).

Securities of euro 35 million (euro 36 million at December 31, 2009), designated as held-to-maturity investments, are listed securities, issued by the Italian Government (euro 20 million) and by foreign governments (euro 15 million).

Securities with a maturity beyond five years amounted to euro 21 million.

Fair value of receivables for financing operating activities amounted to euro 1,534 million. Securities did not differ significantly from their carrying amount. The fair value of financing receivables has been determined based on the present value of expected future cash flows discounted at rates ranging from 0.8% to 4.1% (1.0% and 4.5% at December 31, 2009). The fair value of securities was derived from quoted market prices.

Receivables with related parties are described in Note 42—Transactions with related parties.

Financial Assets and Financial Liabilities—Held for Trading, Designated at FVTPL, Available for Sale, Reclassified to Loans and Receivables, Reclassified to Available for Sale

8.57

HSBC Holdings plc (Dec 2010)

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2010 (in part)

	Notes	2010 US$m	2009 US$m
Assets			
Cash and balances at central banks		57,383	60,655
Items in the course of collection from other banks		6,072	6,395
Hong Kong Government certificates of indebtedness		19,057	17,463
Trading assets	15	385,052	421,381
Financial assets designated at fair value	19	37,011	37,181
Derivatives	20	260,757	250,886
Loans and advances to banks		208,271	179,781
Loans and advances to customers		958,366	896,231
Financial investments	21	400,755	369,158
Liabilities and Equity			
Liabilities			
Hong Kong currency notes in circulation		19,057	17,463
Deposits by banks		110,584	124,872
Customer accounts		1,227,725	1,159,034
Items in the course of transmission to other banks		6,663	5,734
Trading liabilities	28	300,703	268,130
Financial liabilities designated at fair value	29	88,133	80,092
Derivatives	20	258,665	247,646
Debt securities in issue	30	145,401	146,896

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010 (in part)

	Notes	2010 US$m	2009 US$m	2008 US$m
Interest income		58,345	62,096	91,301
Interest expense		(18,904)	(21,366)	(48,738)
Net interest income		39,441	40,730	42,563
Trading income excluding net interest income		4,680	6,236	847
Net interest income on trading activities		2,530	3,627	5,713
Net trading income		7,210	9,863	6,560
Changes in fair value of long-term debt issued and related derivatives		(258)	(6,247)	6,679
Net income/(expense) from other financial instruments designated at fair value		1,478	2,716	(2,827)
Net income/(expense) from financial instruments designated at fair value	3	1,220	(3,531)	3,852
Gains less losses from financial investments		968	520	197
Dividend income		112	126	272
Net operating income before loan impairment charges and other credit risk provisions		68,247	66,181	81,682
Loan impairment charges and other credit risk provisions	6	(14,039)	(26,488)	(24,937)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010 (in part)

	2010 US$m	2009 US$m	2008 US$m
Profit for the year	14,191	6,694	6,498
Other comprehensive income/(expense)			
Available-for-sale investments	5,835	10,817	(21,904)
—Fair value gains/(losses)	6,368	9,821	(23,722)
—Fair value gains transferred to income statement on disposal	(1,174)	(648)	(1,316)
—Amounts transferred to the income statement in respect of impairment losses	1,118	2,391	1,779
—Income taxes	(477)	(747)	1,355

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010 (in part)

	Notes	2010 US$m	2009 US$m	2008 US$m
Cash Flows from Financing Activities				
Issue of ordinary share capital		180	18,398	467
—Rights issue		—	18,326	—
—Other		180	72	467
Issue of other equity instruments		3,718	—	2,133
Net sales/(purchases) of own shares for market-making and investment purposes		163	(176)	(194)
Purchases of own shares to meet share awards and share option awards		11	(51)	(808)
On exercise of share options		2	12	27
Subordinated loan capital issued		4,481	2,959	7,094
Subordinated loan capital repaid		(2,475)	(4,637)	(350)
Net cash outflow from change in stake in subsidiaries		(229)	—	—
Dividends paid to shareholders of the parent company		(3,441)	(4,264)	(7,211)
Dividends paid to non-controlling interests		(595)	(702)	(714)
Dividends paid to holders of other equity instruments		(413)	(269)	(92)
Net cash generated from financing activities		1,402	11,270	352

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Summary of Significant Accounting Policies (in part)

(a) Interest Income and Expense

Interest income and expense for all financial instruments except for those classified as held for trading or designated at fair value (other than debt securities issued by HSBC and derivatives managed in conjunction with such debt securities issued) are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method. The effective interest method is a way of calculating the amortised cost of a financial asset or a financial liability (or groups of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, HSBC estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses. The calculation includes all amounts paid or received by HSBC that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(b) Non-Interest Income (in part)

Net trading income comprises all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading, together with the related interest income, expense and dividends.

Net income from financial instruments designated at fair value includes all gains and losses from changes in the fair value of financial assets and financial liabilities designated at fair value through profit or loss. Interest income and expense and dividend income arising on these financial instruments are also included, except for interest arising from debt securities issued, and derivatives managed in conjunction with those debt securities, which is recognised in 'Interest expense' (Note 2a).

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for listed

equity securities, and usually the date when shareholders have approved the dividend for unlisted equity securities.

(d) Valuation of Financial Instruments

All financial instruments are recognised initially at fair value. In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (that is, the fair value of the consideration given or received). In certain circumstances, however, the fair value will be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets, such as interest rate yield curves, option volatilities and currency rates. When such evidence exists, HSBC recognises a trading gain or loss on inception of the financial instrument, being the difference between the transaction price and the fair value. When unobservable market data have a significant impact on the valuation of financial instruments, the entire initial difference in fair value indicated by the valuation model from the transaction price is not recognised immediately in the income statement but is recognised over the life of the transaction on an appropriate basis, or when the inputs become observable, or the transaction matures or is closed out, or when HSBC enters into an offsetting transaction.

Subsequent to initial recognition, the fair values of financial instruments measured at fair value are measured in accordance with HSBC's valuation methodologies, which are described in Note 16.

(e) Reclassification of Financial Assets

Non-derivative financial assets (other than those designated at fair value through profit or loss upon initial recognition) may be reclassified out of the fair value through profit or loss category in the following circumstances:

- financial assets that would have met the definition of loans and receivables at initial recognition (if the financial asset had not been required to be classified as held for trading) may be reclassified out of the fair value through profit or loss category if there is the intention and ability to hold the financial asset for the foreseeable future or until maturity; and
- financial assets (except financial assets that would have met the definition of loans and receivables at initial recognition) may be reclassified out of the fair value through profit or loss category and into another category in rare circumstances.

When a financial asset is reclassified as described in the above circumstances, the financial asset is reclassified at its fair value on the date of reclassification. Any gain or loss already recognised in the income statement is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

(f) Loans and Advances to Banks and Customers

Loans and advances to banks and customers include loans and advances originated by HSBC which are not classified either as held for trading or designated at fair value. Loans and advances are recognised when cash is advanced to a borrower. They are derecognised when either the borrower repays its obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Where exposures are hedged by derivatives designated and qualifying as fair value hedges, the carrying value of the loans and advances so hedged includes a fair value adjustment for the hedged risk only.

HSBC may commit to underwrite loans on fixed contractual terms for specified periods of time, where the drawdown of the loan is contingent upon certain future events outside the control of HSBC. Where the loan arising from the lending commitment is expected to be held for trading, the commitment to lend is recorded as a derivative and measured at fair value through profit or loss. On drawdown, the loan is classified as held for trading and measured at fair value through profit or loss. Where it is not HSBC's intention to trade but hold the loan, a provision on the loan commitment is only recorded where it is probable that HSBC will incur a loss. This may occur, for example, where a loss of principal is probable or the interest rate charged on the loan is lower than the cost of funding. On inception of the loan, the loan to be held is recorded at its fair value and subsequently measured at amortised cost using the effective interest method. For certain transactions, such as leveraged finance and syndicated lending activities, the cash advanced is not necessarily the best evidence of the fair value of the loan. For these loans, where the initial fair value is lower than the cash amount advanced (for example, due to the rate of interest charged on the loan being below the market rate of interest), the write-down is charged to the income statement. The write-down will be recovered over the life of the loan, through the recognition of interest income using the effective interest method, unless the loan becomes impaired. The write-down is recorded as a reduction to other operating income.

Financial assets which have been reclassified into the loans and receivables category are initially recorded at the fair value at the date of reclassification and are subsequently measured at amortised cost, using the effective interest rate determined at the date of reclassification.

(g) Impairment of Loans and Advances

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment allowances are calculated on individual loans and on groups of loans assessed collectively. Impairment losses are recorded as charges to the income statement. The carrying amount of impaired loans on the balance sheet is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognised.

Individually Assessed Loans and Advances

For all loans that are considered individually significant, HSBC assesses on a case-by-case basis at each balance sheet date whether there is any objective evidence that a loan is impaired. The criteria used by HSBC to determine that there is such objective evidence include:

- known cash flow difficulties experienced by the borrower;
- past due contractual payments of either principal or interest;
- breach of loan covenants or conditions;

- the probability that the borrower will enter bankruptcy or other financial realisation; and
- a significant downgrading in credit rating by an external credit rating agency.

For those loans where objective evidence of impairment exists, impairment losses are determined considering the following factors:

- HSBC's aggregate exposure to the customer;
- the viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;
- the amount and timing of expected receipts and recoveries;
- the likely dividend available on liquidation or bankruptcy;
- the extent of other creditors' commitments ranking ahead of, or *pari passu* with, HSBC and the likelihood of other creditors continuing to support the company;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- the realisable value of security (or other credit mitigants) and likelihood of successful repossession;
- the likely deduction of any costs involved in recovery of amounts outstanding;
- the ability of the borrower to obtain, and make payments in, the currency of the loan if not denominated in local currency; and
- when available, the secondary market price of the debt.

Impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate and comparing the resultant present value with the loan's current carrying amount. The impairment allowances on individually significant accounts are reviewed at least quarterly and more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

Collectively Assessed Loans and Advances

Impairment is assessed on a collective basis in two circumstances:

- to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment; and
- for homogeneous groups of loans that are not considered individually significant.

Incurred But Not Yet Identified Impairment

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that HSBC has incurred as a result of events occurring before the balance sheet date, which HSBC is not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans within the group, those loans are removed from the group and assessed on an individual basis for impairment.

The collective impairment allowance is determined after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics (for example, by industry sector, loan grade or product);
- the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against the individual loan; and
- management's experienced judgement as to whether current economic and credit conditions are such that the actual level of inherent losses at the balance sheet date is likely to be greater or less than that suggested by historical experience.

The period between a loss occurring and its identification is estimated by local management for each identified portfolio.

Homogeneous Groups of Loans and Advances

Statistical methods are used to determine impairment losses on a collective basis for homogeneous groups of loans that are not considered individually significant, because individual loan assessment is impracticable. Losses in these groups of loans are recorded on an individual basis when individual loans are written off, at which point they are removed from the group. Two alternative methods are used to calculate allowances on a collective basis:

When appropriate empirical information is available, HSBC utilises roll rate methodology. This methodology employs statistical analyses of historical data and experience of delinquency and default to estimate the amount of loans that will eventually be written off as a result of the events occurring before the balance sheet date which HSBC is not able to identify on an individual loan basis, and that can be reliably estimated. Under this methodology, loans are grouped into ranges according to the number of days past due and statistical analysis is used to estimate the likelihood that loans in each range will progress through the various stages of delinquency, and ultimately prove irrecoverable. Current economic conditions are also evaluated when calculating the appropriate level of allowance required to cover inherent loss. The estimated loss is the difference between the present value of expected future cash flows, discounted at the original effective interest rate of the portfolio, and the carrying amount of the portfolio. In certain highly developed markets, sophisticated models also take into account behavioural and account management trends as revealed in, for example, bankruptcy and rescheduling statistics.

- When the portfolio size is small or when information is insufficient or not reliable enough to adopt a roll rate methodology, HSBC adopts a basic formulaic approach based on historical loss rate experience.

In normal circumstances, historical experience provides the most objective and relevant information from which to assess inherent loss within each portfolio, though sometimes it provides less relevant information about the inherent loss in a given portfolio at the balance sheet date, for example, when there have been changes in economic, regulatory or behavioural conditions which result in the most recent trends in portfolio risk factors being not fully reflected in the statistical models. In these circumstances, the risk factors are taken into account by adjusting the impairment allowances derived solely from historical loss experience.

These additional portfolio risk factors may include recent loan portfolio growth and product mix, unemployment rates,

bankruptcy trends, geographic concentrations, loan product features (such as the ability of borrowers to repay adjustable-rate loans where reset interest rates give rise to increases in interest charges), economic conditions such as national and local trends in housing markets and interest rates, portfolio seasoning, account management policies and practices, current levels of write-offs, changes in laws and regulations and other items which can affect customer payment patterns on outstanding loans, such as natural disasters. These risk factors, where relevant, are taken into account when calculating the appropriate level of impairment allowances by adjusting the impairment allowances derived solely from historical loss experience.

Roll rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure they remain appropriate.

Write-Off of Loans and Advances

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write off may be earlier.

Reversals of Impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognised in the income statement.

Reclassified Loans and Advances

Where financial assets have been reclassified out of the fair value through profit or loss category to the loans and receivables category, the effective interest rate determined at the date of reclassification is used to calculate any impairment losses.

Following reclassification, where there is a subsequent increase in the estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the effective interest rate from the date of change in the estimate rather than as an adjustment to the carrying amount of the asset at the date of change in the estimate.

Assets Acquired in Exchange for Loans

Non-financial assets acquired in exchange for loans as part of an orderly realisation are recorded as assets held for sale and reported in 'Other assets' if the carrying amounts of the assets are recovered principally through sale, the assets are available for sale in their present condition and their sale is highly probable. The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan (net of impairment allowance) at the date of exchange. No depreciation is charged in respect of assets held for sale. Any subsequent write-down of the acquired asset to fair value less costs to sell is recognised in the income statement, in 'Other operating income'. Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative write-down, is also recognised in 'Other operating income', together with any realised gains or losses on disposal.

Renegotiated Loans

Loans subject to collective impairment assessment whose terms have been renegotiated are no longer considered past due, but are treated as up to date loans for measurement purposes once the minimum number of payments required under the new arrangements have been received. These renegotiated loans are segregated from other parts of the loan portfolio for the purposes of collective impairment assessment, to reflect their risk profile. Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired or should be considered past due. The carrying amount of loans that have been classified as renegotiated retain this classification until maturity or derecognition. Interest is recorded on renegotiated loans taking into account the new contractual terms following renegotiation.

(h) Trading Assets and Trading Liabilities

Treasury bills, debt securities, equity securities, loans, deposits, debt securities in issue, and short positions in securities are classified as held for trading if they have been acquired or incurred principally for the purpose of selling or repurchasing in the near term, or they form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. These financial assets or financial liabilities are recognised on trade date, when HSBC enters into contractual arrangements with counterparties to purchase or sell the financial instruments, and are normally derecognised when either sold (assets) or extinguished (liabilities). Measurement is initially at fair value, with transaction costs taken to the income statement. Subsequently, the fair values are remeasured, and gains and losses from changes therein are recognised in the income statement in 'Net trading income'.

(i) Financial Instruments Designated at Fair Value

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below, and are so designated by management. HSBC may designate financial instruments at fair value when the designation:

- eliminates or significantly reduces measurement or recognition inconsistencies that would otherwise arise from measuring financial assets or financial liabilities, or recognising gains and losses on them, on different bases. Under this criterion, the main classes of financial instruments designated by HSBC are:
  - —Long-term debt issues. The interest payable on certain fixed rate long-term debt securities issued has been matched with the interest on 'receive fixed/pay variable' interest rate swaps as part of a documented interest rate risk management strategy. An accounting mismatch would arise if the debt securities issued were accounted for at amortised cost, because the related derivatives are measured at fair value with changes in the fair value recognised in the income statement. By designating the long-term debt at fair

value, the movement in the fair value of the long-term debt will also be recognised in the income statement.

— Financial assets and financial liabilities under investment contracts. Liabilities to customers under linked contracts are determined based on the fair value of the assets held in the linked funds, with changes recognised in the income statement. If no designation was made for the assets relating to the customer liabilities they would be classified as available for sale and the changes in fair value would be recorded in other comprehensive income. These financial instruments are managed on a fair value basis and management information is also prepared on this basis. Designation at fair value of the financial assets and liabilities under investment contracts allows the changes in fair values to be recorded in the income statement and presented in the same line.

- applies to groups of financial assets, financial liabilities or combinations thereof that are managed, and their performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy, and where information about the groups of financial instruments is reported to management on that basis. Under this criterion, certain financial assets held to meet liabilities under insurance contracts are the main class of financial instrument so designated. HSBC has documented risk management and investment strategies designed to manage such assets at fair value, taking into consideration the relationship of assets to liabilities in a way that mitigates market risks. Reports are provided to management on the fair value of the assets. Fair value measurement is also consistent with the regulatory reporting requirements under the appropriate regulations for these insurance operations.
- relates to financial instruments containing one or more embedded derivatives that significantly modify the cash flows resulting from those financial instruments, including certain debt issues and debt securities held.

The fair value designation, once made, is irrevocable. Designated financial assets and financial liabilities are recognised when HSBC enters into the contractual provisions of the arrangements with counterparties, which is generally on trade date, and are normally derecognised when either sold (assets) or extinguished (liabilities). Measurement is initially at fair value, with transaction costs taken to the income statement. Subsequently, the fair values are remeasured, and gains and losses from changes therein are recognised in the income statement in 'Net income from financial instruments designated at fair value'.

(j) Financial Investments

Treasury bills, debt securities and equity securities intended to be held on a continuing basis, other than those designated at fair value, are classified as available for sale or held to maturity. Financial investments are recognised on trade date when HSBC enters into contractual arrangements with counterparties to purchase securities, and are normally derecognised when either the securities are sold or the borrowers repay their obligations.

(i) Available-for-sale financial assets are initially measured at fair value plus direct and incremental transaction costs. They are subsequently remeasured at fair value, and changes therein are recognised in other comprehensive income in 'Available-for-sale investments – fair value gains/(losses)' until the financial assets are either sold or become impaired. When available-for-sale financial assets are sold, cumulative gains or losses previously recognised in other comprehensive income are recognised in the income statement as 'Gains less losses from financial investments'.

Interest income is recognised on available-for-sale debt securities using the effective interest rate, calculated over the asset's expected life. Premiums and/or discounts arising on the purchase of dated investment securities are included in the calculation of their effective interest rates. Dividends are recognised in the income statement when the right to receive payment has been established.

At each balance sheet date an assessment is made of whether there is any objective evidence of impairment in the value of a financial asset. Impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

If the available-for-sale financial asset is impaired, the difference between the financial asset's acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

Impairment losses for available-for-sale debt securities are recognised within 'Loan impairment charges and other credit risk provisions' in the income statement and impairment losses for available-for-sale equity securities are recognised within 'Gains less losses from financial investments' in the income statement. The impairment methodologies for available-for-sale financial assets are set out in more detail below.

- Available-for-sale debt securities. When assessing available-for-sale debt securities for objective evidence of impairment at the reporting date, HSBC considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. These events may include a significant financial difficulty of the issuer, a breach of contract such as a default, bankruptcy or other financial reorganisation, or the disappearance of an active market for the debt security because of financial difficulties relating to the issuer.

  These types of specific event and other factors such as information about the issuers' liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment of a debt security.

  In addition, when assessing available-for-sale asset-backed securities ('ABS's) for objective evidence of impairment, HSBC considers the performance of underlying collateral and the extent and depth of market price declines. Changes in credit ratings are considered but a downgrade of a security's credit rating is not, of itself, evidence of impairment. The primary indicators of potential impairment are considered to be adverse fair value movements and the disappearance of an active market for a security. ABS impairment methodologies

are described in more detail in 'Securitisation exposures and other structured products' on page 128.

- Available-for-sale equity securities. Objective evidence of impairment for available-for sale equity securities may include specific information about the issuer as detailed above, but may also include information about significant changes in technology, markets, economics or the law that provides evidence that the cost of the equity securities may not be recovered.

  A significant or prolonged decline in the fair value of the asset below its cost is also objective evidence of impairment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition.

  Once an impairment loss has been recognised on an available-for-sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the nature of the available-for-sale financial asset concerned:

  — for an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in the income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised in other comprehensive income. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement to the extent of the increase in fair value;

  — for an available-for-sale equity security, all subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised in other comprehensive income. Impairment losses recognised on the equity security are not reversed through the income statement. Subsequent decreases in the fair value of the available-for-sale equity security are recognised in the income statement, to the extent that further cumulative impairment losses have been incurred in relation to the acquisition cost of the equity security.

(ii) Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that HSBC positively intends, and is able, to hold to maturity. Held-to-maturity investments are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses.

(k) Sale and Repurchase Agreements (including stock lending and borrowing)

When securities are sold subject to a commitment to repurchase them at a predetermined price ('repos'), they remain on the balance sheet and a liability is recorded in respect of the consideration received. Securities purchased under commitments to sell ('reverse repos') are not recognised on the balance sheet and the consideration paid is recorded in 'Loans and advances to banks' or 'Loans and advances to customers' as appropriate. The difference between the sale and repurchase price is treated as interest and recognised over the life of the agreement.

Securities lending and borrowing transactions are generally secured, with collateral taking the form of securities or cash advanced or received. The transfer of securities to counterparties under these agreements is not normally reflected on the balance sheet. Cash collateral advanced or received is recorded as an asset or a liability respectively.

Securities borrowed are not recognised on the balance sheet. If they are sold on to third parties, an obligation to return the securities is recorded as a trading liability and measured at fair value, and any gains or losses are included in 'Net trading income'.

(m) Derecognition of Financial Assets and Liabilities

Financial assets are derecognised when the contractual right to receive cash flows from the assets has expired; or when HSBC has transferred its contractual right to receive the cash flows of the financial assets, and either:

- substantially all the risks and rewards of ownership have been transferred; or
- HSBC has neither retained nor transferred substantially all the risks and rewards, but has not retained control.

Financial liabilities are derecognised when they are extinguished, that is when the obligation is discharged, cancelled, or expires.

(n) Offsetting Financial Assets and Financial Liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

3. Net Income/(Expense) from Financial Instruments Designated at Fair Value (in part)

Net income/(expense) from financial instruments designated at fair value includes:

- all gains and losses from changes in the fair value of financial assets and liabilities designated at fair value, including liabilities under investment contracts;
- all gains and losses from changes in the fair value of derivatives that are managed in conjunction with financial assets and liabilities designated at fair value; and
- interest income, interest expense and dividend income in respect of:
  — financial assets and liabilities designated at fair value; and
  — derivatives managed in conjunction with the above, except for interest arising from HSBC's issued debt securities and derivatives managed in conjunction with those debt securities, which is recognised in 'Interest expense'.

Net Income/(Expense) from Financial Instruments Designated at Fair Value

	2010 US$m	2009 US$m	2008 US$m
Net income/(expense) arising on:			
—Financial assets held to meet liabilities under insurance and investment contracts	2,349	3,793	(5,064)
—Other financial assets designated at fair value	230	2	1,738
—Derivatives managed in conjunction with other financial assets designated at fair value	(149)	(249)	77
	2,430	3,546	(3,249)
—Liabilities to customers under investment contracts	(946)	(1,329)	1,751
—HSBC's long-term debt issued and related derivatives	(258)	(6,247)	6,679
—Changes in own credit spread on long-term debt	(63)	(6,533)	6,570
—Derivatives managed in conjunction with HSBC's issued debt securities	(275)	(1,726)	4,413
—Other changes in fair value	80	2,012	(4,304)
—Other financial liabilities designated at fair value	(18)	492	(1,368)
—Derivatives managed in conjunction with other financial liabilities designated at fair value	12	7	39
	(1,210)	(7,077)	7,101
	1,220	(3,531)	3,852

14. Analysis of Financial Assets and Liabilities by Measurement Basis

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The summary of significant accounting policies in Note 2 describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of the financial assets and liabilities by category as defined in IAS 39 and by balance sheet heading.

	At 31 December 2010							
	Held for Trading US$m	Designated at Fair Value US$m	Held-to-Maturity Securities US$m	Available-for-Sale Securities US$m	Financial Assets and Liabilities at Amortised Cost US$m	Derivatives Designated as Fair Value Hedging Instruments US$m	Derivatives Designated as Cash Flow Hedging Instruments US$m	Total US$m
Financial Assets								
Cash and balances at central banks	—	—	—	—	57,383	—	—	57,383
Items in the course of collection from other banks	—	—	—	—	6,072	—	—	6,072
Hong Kong Government certificates of indebtedness	—	—	—	—	19,057	—	—	19,057
Trading assets	385,052	—	—	—	—	—	—	385,052
Financial assets designated at fair value	—	37,011	—	—	—	—	—	37,011
Derivatives	256,689	—	—	—	—	596	3,472	260,757
Loans and advances to banks	—	—	—	—	208,271	—	—	208,271
Loans and advances to customers	—	—	—	—	958,366	—	—	958,366
Financial investments	—	—	19,499	381,256	—	—	—	400,755
Other assets	—	—	—	—	20,097	—	—	20,097
Accrued income	—	—	—	—	10,274	—	—	10,274
Total financial assets	641,741	37,011	19,499	381,256	1,279,520	596	3,472	2,363,095
Financial Liabilities								
Hong Kong currency notes in circulation	—	—	—	—	19,057	—	—	19,057
Deposits by banks	—	—	—	—	110,584	—	—	110,584
Customer accounts	—	—	—	—	1,227,725	—	—	1,227,725
Items in the course of transmission to other banks	—	—	—	—	6,663	—	—	6,663
Trading liabilities	300,703	—	—	—	—	—	—	300,703
Financial liabilities designated at fair value	—	88,133	—	—	—	—	—	88,133
Derivatives	254,416	—	—	—	—	2,226	2,023	258,665
Debt securities in issue	—	—	—	—	145,401	—	—	145,401
Other liabilities	—	—	—	—	25,533	—	—	25,533
Accruals	—	—	—	—	12,545	—	—	12,545
Subordinated liabilities	—	—	—	—	33,387	—	—	33,387
Total financial liabilities	555,119	88,133	—	—	1,580,895	2,226	2,023	2,228,396

15. Trading Assets

	2010	2009
Trading assets:		
—Not subject to repledge or resale by counterparties	284,940	320,155
—Which may be repledged or resold by counterparties	100,112	101,226
	385,052	421,381
Treasury and other eligible bills	25,620	22,346
Debt securities	168,268	201,598
Equity securities	41,086	35,311
Trading securities at fair value	234,974	259,255
Loans and advances to banks	70,456	78,126
Loans and advances to customers	79,622	84,000
	385,052	421,381

Trading Securities Valued at Fair Value

	Fair Value[1]	
	2010 US$m	2009 US$m
US Treasury and US Government agencies[2]	20,239	17,620
UK Government	17,036	12,113
Hong Kong Government	11,053	10,649
Other government	92,826	94,264
Asset-backed securities[3]	3,998	5,308
Corporate debt and other securities	48,736	83,990
Equity securities	41,086	35,311
	234,974	259,255

(1) Included within these figures are debt securities issued by banks and other financial institutions of US$37,170m (2009: US$41,466m), of which US$8,330m (2009: US$7,280m) are guaranteed by various governments.

(2) Includes securities that are supported by an explicit guarantee issued by the US Government.

(3) Excludes asset-backed securities included under US Treasury and US Government agencies.

Trading Securities Listed on a Recognised Exchange and Unlisted

	Treasury and other Eligible Bills US$m	Debt Securities US$m	Equity Securities US$m	Total US$m
Fair value at 31 December 2010				
Listed on a recognised exchange[1]	698	113,878	40,098	154,674
Unlisted	24,922	54,390	988	80,300
	25,620	168,268	41,086	234,974
Fair value at 31 December 2009				
Listed on a recognised exchange[1]	3,107	159,030	33,428	195,565
Unlisted	19,239	42,568	1,883	63,690
	22,346	201,598	35,311	259,255

(1) Included within listed investments are US$3,254m (2009: US$3,229m) of investments listed in Hong Kong.

Loans and Advances to Banks Held for Trading

	2010 US$m	2009 US$m
Reverse repos	45,771	50,357
Settlement accounts	5,226	10,128
Stock borrowing	6,346	4,711
Other	13,113	12,930
	70,456	78,126

Loans and Advances to Customers Held for Trading

	2010 US$m	2009 US$m
Reverse repos	46,366	42,172
Settlement accounts	7,516	12,134
Stock borrowing	11,161	18,042
Other	14,579	11,652
	79,622	84,000

16. Fair Values of Financial Instruments Carried at Fair Value

The classification of financial instruments is determined in accordance with the accounting policies set out in Note 2. The use of assumptions and estimation in valuing financial instruments is described on page 34.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The following table sets out the financial instruments carried at fair value.

Financial Instruments Carried at Fair Value and Bases of Valuation

	Quoted Market Price Level 1 US$m	Valuation Techniques Using Observable Inputs Level 2 US$m	Valuation Techniques With Significant Unobservable Inputs Level 3 US$m	Total US$m
31 December 2010				
Assets				
Trading assets	224,613	154,750	5,689	385,052
Financial assets designated at fair value	23,641	12,783	587	37,011
Derivatives	2,078	254,718	3,961	260,757
Financial investments: available for sale	214,276	158,743	8,237	381,256
Liabilities				
Trading liabilities	124,874	164,436	11,393	300,703
Financial liabilities designated at fair value	22,193	65,370	570	88,133
Derivatives	1,808	253,051	3,806	258,665
31 December 2009				
Assets				
Trading assets	272,509	142,452	6,420	421,381
Financial assets designated at fair value	24,184	11,773	1,224	37,181
Derivatives	1,961	244,472	4,453	250,886
Financial investments: available for sale	163,149	178,168	10,214	351,531
Liabilities				
Trading liabilities	119,544	139,812	8,774	268,130
Financial liabilities designated at fair value	27,553	52,032	507	80,092
Derivatives	1,843	240,611	5,192	247,646

The reduction of Level 1 trading assets reflects the deconsolidation of CNAV funds which is discussed further on page 363. The increase in Level 1 available-for-sale instruments reflects increased investment in government and US agency securities. The rise in the size of Level 2 trading assets and liabilities reflects an increase in repo and reverse repo activity.

There were no material transfers between Level 1 and Level 2 in the period.

Control Framework

Fair values are subject to a control framework designed to ensure that they are either determined or validated by a function independent of the risk-taker.

For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised. In inactive markets, direct observation of a traded price may not be possible. In these circumstances, HSBC will source alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable. The factors that are considered in this regard are, *inter alia*:

- the extent to which prices may be expected to represent genuine traded or tradeable prices;
- the degree of similarity between financial instruments;
- the degree of consistency between different sources;
- the process followed by the pricing provider to derive the data;
- the elapsed time between the date to which the market data relates and the balance sheet date; and
- the manner in which the data was sourced.

For fair values determined using a valuation model, the control framework may include, as applicable, independent development or validation of (i) the logic within valuation models; (ii) the inputs to those models; (iii) any adjustments required outside the valuation models; and (iv) where possible, model outputs. Valuation models are subject to a process of due diligence and calibration before becoming operational and are calibrated against external market data on an ongoing basis.

Determination of Fair Value

Fair values are determined according to the following hierarchy:

Level 1—quoted market price: financial instruments with quoted prices for identical instruments in active markets.

Level 2—valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

Level 3—valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

The best evidence of fair value is a quoted price in an actively traded market. The fair values of financial instruments that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities issued. Where a financial instrument has a quoted price in an active market and it is part of a portfolio, the fair value of the portfolio is calculated as the product of the number of units and quoted price and no block discounts are applied. In the event that the market

for a financial instrument is not active, a valuation technique is used.

The judgement as to whether a market is active may include, but is not restricted to, the consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads. The bid/offer spread represents the difference in prices at which a market participant would be willing to buy compared with the price at which they would be willing to sell. In inactive markets, obtaining assurance that the transaction price provides evidence of fair value or determining the adjustments to transaction prices that are necessary to measure the fair value of the instrument requires additional work during the valuation process.

Valuation techniques incorporate assumptions about factors that other market participants would use in their valuations, including interest rate yield curves, exchange rates, volatilities, and prepayment and default rates. During the year, as a result of evolving market practice in the pricing of certain interest rate derivatives, HSBC has, for single currency swaps with collateralised counterparties and in significant major currencies, adopted a discounting curve that reflects the overnight interest rate ('OIS discounting'). Previously, in line with market practice, discount curves did not reflect this overnight interest rate component but were based on a term LIBOR rate. The financial effect of this change was not significant.

The majority of valuation techniques employ only observable market data. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable, and for them, the derivation of fair value is more judgemental. An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, a significant proportion of the instrument's carrying amount and/or inception profit ('day 1 gain or loss') is driven by unobservable inputs. 'Unobservable' in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used).

In certain circumstances, primarily where debt is hedged with interest rate derivatives, HSBC records its own debt in issue at fair value, based on quoted prices in an active market for the specific instrument concerned, if available. When quoted market prices are unavailable, the own debt in issue is valued using valuation techniques, the inputs for which are either based upon quoted prices in an inactive market for the instrument, or are estimated by comparison with quoted prices in an active market for similar instruments. In both cases, the fair value includes the effect of applying the credit spread which is appropriate to HSBC's liabilities. The change in fair value of issued debt securities attributable to the Group's own credit spread is computed as follows: for each security at each reporting date, an externally verifiable price is obtained or a price is derived using credit spreads for similar securities for the same issuer. Then, using discounted cash flow, each security is valued using a LIBOR-based discount curve. The difference in the valuations is attributable to the Group's own credit spread. This methodology is applied consistently across all securities.

Structured notes issued and certain other hybrid instrument liabilities are included within trading liabilities and are measured at fair value. The credit spread applied to these instruments is derived from the spreads at which HSBC issues structured notes. These market spreads are smaller than credit spreads observed for plain vanilla debt or in the credit default swap markets.

Gains and losses arising from changes in the credit spread of liabilities issued by HSBC reverse over the contractual life of the debt, provided that the debt is not repaid at a premium or a discount.

Fair Value Adjustments

Fair value adjustments are adopted when HSBC considers that there are additional factors that would be considered by a market participant that are not incorporated within the valuation model. The magnitude of fair value adjustments depends upon many entity-specific factors, and therefore fair value adjustments may not be comparable across the banking industry.

HSBC classifies fair value adjustments as either 'risk-related' or 'model-related'. The majority of these adjustments relate to Global Banking and Markets.

Movements in the level of fair value adjustments do not necessarily result in the recognition of profits or losses within the income statement. For example, as models are enhanced, fair value adjustments may no longer be required. Similarly, fair value adjustments will decrease when the related positions are unwound, but this may not result in profit or loss.

Global Banking and Markets Fair Value Adjustments

	At 31 December	
	2010 US$m	**2009 US$m**
Type of Adjustment		
Risk-related	2,171	2,955
Bid-offer	620	528
Uncertainty	136	223
Credit risk adjustment	1,355	2,172
Other	60	32
Model-related	389	457
Model limitation	383	391
Other	6	66
Inception profit (Day 1 P&L reserves) (Note 20)	250	260
	2,810	3,672

The most significant fair value adjustment movement related to the release of US$490m of credit risk adjustments held for monoline insurers of which US$336m resulted from commutations. The commutations did not result in a material gain or loss. The remainder of the decrease in the credit risk adjustment derived primarily from commutations or restructures with non-monoline counterparties and internal credit rating upgrades of certain counterparties.

Risk-Related Adjustments

Bid-Offer

IAS 39 requires that portfolios are marked at bid or offer, as appropriate. Valuation models will typically generate mid

market values. The bid-offer adjustment reflects the cost that would be incurred if substantially all residual net portfolio market risks were closed using available hedging instruments or by disposing of or unwinding the actual position.

Uncertainty

Certain model inputs may be less readily determinable from market data, and/or the choice of model itself may be more subjective. In these circumstances, there exists a range of possible values that the financial instrument or market parameter may assume and an adjustment may be necessary to reflect the likelihood that in estimating the fair value of the financial instrument, market participants would adopt rather more conservative values for uncertain parameters and/or model assumptions than those used in the valuation model.

Credit Risk Adjustment

The credit risk adjustment is an adjustment to the valuation of OTC derivative contracts to reflect within fair value the possibility that the counterparty may default and HSBC may not receive the full market value of the transactions.

Model-Related Adjustments

Model Limitation

Models used for portfolio valuation purposes may be based upon a simplifying set of assumptions that do not capture all material market characteristics. Additionally, markets evolve, and models that were adequate in the past may require development to capture all material market characteristics in current market conditions. In these circumstances, model limitation adjustments are adopted. As model development progresses, model limitations are addressed within the valuation models and a model limitation adjustment is no longer needed.

Inception Profit (Day 1 P&L Reserves)

Inception profit adjustments are adopted where the fair value estimated by a valuation model is based on one or more significant unobservable inputs. The accounting for inception profit adjustments is discussed on page 254. An analysis of the movement in the deferred Day 1 P&L reserve is provided on page 324.

Credit Risk Adjustment Methodology

HSBC calculates a separate credit risk adjustment for each HSBC legal entity, and within each entity for each counterparty to which the entity has exposure. The calculation of the monoline credit risk adjustment and sensitivity to different assumptions is described on page 137. Of the total credit risk adjustment at 31 December 2010 of US$1,355m (2009: US$2,172m), US$836m (2009: US$1,163m) relates to the credit risk adjustment taken against non-monoline counterparties. The methodology for calculating the credit risk adjustment for non-monoline counterparties is described below.

HSBC calculates the credit risk adjustment by applying the probability of default of the counterparty to the expected positive exposure to the counterparty, and multiplying the result by the loss expected in the event of default. The calculation is performed over the life of the potential exposure.

The probability of default is based on HSBC's internal credit rating for the counterparty, taking into account how credit ratings may deteriorate over the duration of the exposure through the use of historical rating transition matrices. For most products, to calculate the expected positive exposure to a counterparty, HSBC uses a simulation methodology to incorporate the range of potential exposures across the portfolio of transactions with the counterparty over the life of an instrument. The simulation methodology includes credit mitigants such as counterparty netting agreements and collateral agreements with the counterparty. A standard loss given default assumption of 60% is generally adopted. HSBC does not adjust derivative liabilities for HSBC's own credit risk, such an adjustment is often referred to as a 'debit valuation adjustment'.

For certain types of exotic derivatives where the products are not currently supported by the simulation, or for derivative exposures in smaller trading locations where the simulation tool is not yet available, HSBC adopts alternative methodologies. These may involve mapping to the results for similar products from the simulation tool or where such a mapping approach is not appropriate, a simplified methodology is used, generally following the same principles as the simulation methodology. The calculation is applied at a trade level, with more limited recognition of credit mitigants such as netting or collateral agreements than used in the simulation methodology described previously.

The methodologies do not, in general, account for 'wrong-way risk'. Wrong-way risk arises where the underlying value of the derivative prior to any credit risk adjustment is positively correlated to the probability of default of the counterparty. Where there is significant wrong-way risk, a trade specific approach is applied to reflect the wrong-way risk within the valuation.

HSBC includes all third party counterparties in the credit risk adjustment calculation and does not net credit risk adjustments across HSBC Group entities. During 2010, there were no material changes made by HSBC to the methodologies used to calculate the credit risk adjustment.

Fair Value Valuation Bases

Financial Instruments Measured at Fair Value Using a Valuation Technique with Significant Unobservable Inputs—Level 3

	Assets				Liabilities		
	Available for Sale US$m	Held for Trading US$m	Designated at Fair Value Through Profit or Loss US$m	Derivatives US$m	Held for Trading US$m	Designated at Fair Value Through Profit or Loss US$m	Derivatives US$m
At 31 December 2010							
Private equity including strategic investments	4,057	278	120	—	—	—	—
Asset-backed securities	1,949	566	—	—	—	—	—
Leveraged finance	—	—	—	—	—	—	11
Loans held for securitisation	—	1,043	—	—	—	—	—
Structured notes	—	—	—	—	10,667	—	—
Derivatives with monolines	—	—	—	1,005	—	—	—
Other derivatives	—	—	—	2,956	—	—	3,787
Other portfolios	2,231	3,802	467	—	726	570	8
	8,237	5,689	587	3,961	11,393	570	3,806

Private Equity and Strategic Investments

HSBC's private equity and strategic investments are generally classified as available for sale and are not traded in active markets. In the absence of an active market, an investment's fair value is estimated on the basis of an analysis of the investee's financial position and results, risk profile, prospects and other factors, as well as by reference to market valuations for similar entities quoted in an active market, or the price at which similar companies have changed ownership.

Asset-Backed Securities

Illiquidity and a lack of transparency in the market for ABSs have resulted in less observable data being available. While quoted market prices are generally used to determine the fair value of these securities, valuation models are used to substantiate the reliability of the limited market data available and to identify whether any adjustments to quoted market prices are required. For ABSs including residential MBSs, the valuation uses an industry standard model and the assumptions relating to prepayment speeds, default rates and loss severity based on collateral type, and performance, as appropriate. The valuations output is benchmarked for consistency against observable data for securities of a similar nature.

Loans, Including Leveraged Finance and Loans Held for Securitisation

Loans held at fair value are valued from broker quotes and/or market data consensus providers when available. In the absence of an observable market, the fair value is determined using valuation techniques. These techniques include discounted cash flow models, which incorporate assumptions regarding an appropriate credit spread for the loan, derived from other market instruments issued by the same or comparable entities.

Structured Notes

The fair value of structured notes valued using a valuation technique is derived from the fair value of the underlying debt security, and the fair value of the embedded derivative is determined as described in the paragraph below on derivatives.

Derivatives

OTC (i.e. non-exchange traded) derivatives are valued using valuation models. Valuation models calculate the present value of expected future cash flows, based upon 'no-arbitrage' principles. For many vanilla derivative products, such as interest rate swaps and European options, the modelling approaches used are standard across the industry. For more complex derivative products, there may be some differences in market practice. Inputs to valuation models are determined from observable market data wherever possible, including prices available from exchanges, dealers, brokers or providers of consensus pricing. Certain inputs may not be observable in the market directly, but can be determined from observable prices via model calibration procedures or estimated from historical data or other sources. Examples of inputs that may be unobservable include volatility surfaces, in whole or in part, for less commonly traded option products, and correlations between market factors such as foreign exchange rates, interest rates and equity prices. The valuation of derivatives with monolines is discussed on page 137.

Reconciliation of Fair Value Measurements in Level 3 of the Fair Value Hierarchy

The following table provides a reconciliation of the movement between opening and closing balances of Level 3 financial instruments, measured at fair value using a valuation technique with significant unobservable inputs:

Movement in Level 3 Financial Instruments

	Assets				Liabilities		
	Available for Sale US$m	Held for Trading US$m	Designated at Fair Value Through Profit or Loss US$m	Derivatives US$m	Held for Trading US$m	Designated at Fair Value Through Profit or Loss US$m	Derivatives US$m
2010							
At 1 January	10,214	6,420	1,224	4,453	8,774	507	5,192
Total gains/(losses) recognised in profit or loss	345	158	63	(675)	166	(11)	(240)
Total gains/(losses) recognised in other comprehensive income[1]	618	(101)	(36)	(110)	(157)	74	93
Purchases	3,708	858	81	—	(356)	—	—
New issuances	—	—	—	—	4,025	—	—
Sales	(2,461)	(1,543)	(8)	—	—	—	—
Settlements	(1,032)	1	(22)	64	(948)	—	(820)
Transfers out	(7,065)	(629)	(894)	(669)	(1,750)	—	(1,003)
Transfers in	3,910	525	179	898	1,639	—	584
At 31 December	8,237	5,689	587	3,961	11,393	570	3,806
Total gains/(losses) recognised in profit or loss relating to assets and liabilities held on 31 December:	113	116	17	268	180	(14)	361
—Net interest income	89	—	—	—	—	—	—
—Trading income excluding net interest income	—	98	—	268	198	—	361
—Net interest income on trading activities	—	18	—	—	(18)	—	—
—Net income/(expense) from other financial instruments designated at fair value	—	—	17	—	—	(14)	—
—Dividend income	24	—	—	—	—	—	—

[1] Included in 'Available-for-sale investments: Fair value gains/(losses)' and 'Exchange differences' in the consolidated statement of comprehensive income.

Available-for-sale securities: Greater pricing certainty of valuations in ABS markets (particularly MBS) has resulted in the transfer of assets out of Level 3 during 2010. Transfers into Level 3 were primarily related to strategic investments in Asia.

Trading assets: Greater pricing certainty of valuations in ABS markets (particularly MBS) and certain corporate bonds has resulted in the transfer of assets out of Level 3 during 2010. Transfers into Level 3 were driven by certain other corporate bonds for which pricing certainty decreased. Sales relate to disposals of whole loans, municipal bonds and various ABSs.

Derivative assets: Transfers out of Level 3 were driven by increased observability of longer-dated equity index volatility, particularly in Asian markets. Transfers in relate primarily to quanto structured credit transactions. Commutations of monoline derivatives and the narrowing of credit spreads have led to an overall reduction in the value of Level 3 assets.

Trading liabilities: Transfers out of and in to Level 3 relate primarily to increased/decreased observability of structured notes with embedded equity derivatives. New issuances relate to structured notes particularly those with embedded equity derivatives issued in the US.

Derivative liabilities: The increased observability in certain OTC equity derivative markets primarily in Asia led to transfers out of Level 3. Transfers in were driven by structured credit transactions.

Effect of Changes in Significant Unobservable Assumptions to Reasonably Possible Alternatives

As discussed above, the fair value of financial instruments are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the sensitivity of these fair values to reasonably possible alternative assumptions:

Sensitivity of Fair Values to Reasonably Possible Alternative Assumptions

	Reflected in Profit or Loss		Reflected in Other Comprehensive Income	
	Favourable Changes US$m	Unfavourable Changes US$m	Favourable Changes US$m	Unfavourable Changes US$m
At 31 December 2010				
Derivatives, trading assets and trading liabilities[1]	554	(444)	—	—
Financial assets and liabilities designated at fair value	77	(75)	—	—
Financial investments: available for sale	—	—	763	(744)
	631	(519)	763	(744)

[1] Derivatives, trading assets and trading liabilities are presented as one category to reflect the manner in which these financial instruments are risk-managed.

The decrease in the effect of changes in significant unobservable inputs in relation to derivatives, trading assets and trading liabilities during the year primarily reflected the decreased sensitivity to monoline credit risk adjustment assumptions as exposures have reduced. The decrease in the effect of changes in significant unobservable inputs for available-for-sale assets arose from increased pricing certainty in respect of ABSs.

Sensitivity of Fair Values to Reasonably Possible Alternative Assumptions by Level 3 Instrument Type

	Reflected in Profit or Loss		Reflected in Other Comprehensive Income	
	Favourable Changes US$m	Unfavourable Changes US$m	Favourable Changes US$m	Unfavourable Changes US$m
At 31 December 2010				
Private equity investments	112	(71)	383	(383)
Asset-backed securities	8	(8)	179	(181)
Loans held for securitisation	8	(8)	—	—
Structured notes	18	(16)	—	—
Derivatives with monolines	94	(8)	—	—
Other derivatives	256	(258)	—	—
Other portfolios	135	(150)	201	(180)
	631	(519)	763	(744)

Favourable and unfavourable changes are determined on the basis of changes in the value of the instrument as a result of varying the levels of the unobservable parameters using statistical techniques. When parameters are not amenable to statistical analysis, quantification of uncertainty is judgemental.

When the fair value of a financial instrument is affected by more than one unobservable assumption, the above table reflects the most favourable or most unfavourable change from varying the assumptions individually.

In respect of private equity investments, in many of the methodologies, the principal assumption is the valuation multiple to be applied to the main financial indicators. This may be determined with reference to multiples for comparable listed companies and includes discounts for marketability.

For ABSs, the principal assumptions in the models are based on benchmark information about prepayment speeds, default rates, loss severities and the historical performance of the underlying assets.

For leveraged finance, loans held for securitisation and derivatives with monolines the principal assumption concerns the appropriate value to be attributed to the counterparty credit risk. This requires estimation of exposure at default, probability of default and recovery in the event of default. For loan transactions, assessment of exposure at default is straightforward. For derivative transactions, a future exposure profile is generated on the basis of current market data. Probabilities of default and recovery levels are estimated using available evidence, which may include financial information, historical experience, CDS spreads and consensus recovery levels.

For structured notes and other derivatives, principal assumptions concern the value to be attributed to future volatility of asset values and the future correlation between asset values. These principal assumptions include credit volatilities and correlations used in the valuation of structured credit

derivatives (including leveraged credit derivatives). For such unobservable assumptions, estimates are based on available market data, which may include the use of a proxy method to derive a volatility or a correlation from comparable assets for which market data is more readily available, and/or an examination of historical levels.

17. Fair Values of Financial Instruments Not Carried at Fair Value

The classification of financial instruments is determined in accordance with the accounting policies set out in Note 2.

Fair Values of Financial Instruments Which Are Not Carried at Fair Value on the Balance Sheet

	At 31 December 2010		At 31 December 2009	
	Carrying Amount US$m	Fair Value US$m	Carrying Amount US$m	Fair Value US$m
Assets				
Loans and advances to banks	208,271	208,311	179,781	179,658
Loans and advances to customers	958,366	934,444	896,231	855,780
Financial investments: debt securities	19,386	20,374	17,526	18,097
Financial investments: treasury and other eligible bills	113	113	101	101
Liabilities				
Deposits by banks	110,584	110,563	124,872	124,856
Customer accounts	1,227,725	1,227,428	1,159,034	1,160,036
Debt securities in issue	145,401	145,417	146,896	145,888
Subordinated liabilities	33,387	33,161	30,478	30,307

Fair Values of Financial Instruments Held for Sale Which Are Not Carried at Fair Value on the Balance Sheet

	At 31 December 2010		At 31 December 2009	
	Carrying Amount US$m	Fair Value US$m	Carrying Amount US$m	Fair Value US$m
Assets Classified as Held for Sale				
Loans and advances to banks and customers	116	116	1,356	1,316

The following is a list of financial instruments whose carrying amount is a reasonable approximation of fair value because, for example, they are short-term in nature or reprice to current market rates frequently:

Assets

Cash and balances at central banks
Items in the course of collection from other banks
Hong Kong Government certificates of indebtedness
Endorsements and acceptances
Short-term receivables within 'Other assets'
Accrued income

Liabilities

Hong Kong currency notes in circulation
Items in the course of transmission to other banks
Investment contracts with discretionary participation features within 'Liabilities under insurance contracts'
Endorsements and acceptances
Short-term payables within 'Other liabilities'
Accruals

Analysis of Loans and Advances to Customers by Geographical Segment

	At 31 December 2010		At 31 December 2009	
	Carrying Amount US$m	Fair Value US$m	Carrying Amount US$m	Fair Value US$m
Loans and Advances to Customers				
Europe	435,799	430,333	439,481	431,158
Hong Kong	140,691	140,699	99,381	99,694
Rest of Asia-Pacific	108,731	108,582	80,043	79,972
Middle East	24,626	24,539	22,844	22,538
North America	190,532	172,522	206,853	174,957
Latin America	57,987	57,769	47,629	47,461
	958,366	934,444	896,231	855,780

Valuation

The calculation of fair value incorporates HSBC's estimate of the amount at which financial assets could be exchanged, or financial liabilities settled, between knowledgeable, willing parties in an arm's length transaction. It does not reflect the economic benefits and costs that HSBC expects to flow from the instruments' cash flows over their expected future lives. Other reporting entities may use different valuation methodologies and assumptions in determining fair values for which no observable market prices are available, so comparisons of fair values between entities may not be meaningful and users are advised to exercise caution when using this data.

Loans and Advances to Banks and Customers

The fair value of loans and advances is based on observable market transactions, where available. In the absence of observable market transactions, fair value is estimated using discounted cash flow models.

Performing loans are grouped, as far as possible, into homogeneous pools segregated by maturity and interest rates and the contractual cash flows are generally discounted using HSBC's estimate of the discount rate that a market participant would use in valuing instruments with similar maturity, re-pricing and credit risk characteristics.

The fair value of a loan portfolio reflects both loan impairments at the balance sheet date and estimates of market participants' expectations of credit losses over the life of the loans. For impaired loans, fair value is estimated by discounting the future cash flows over the time period they are expected to be recovered.

Financial Investments

The fair values of listed financial investments are determined using bid market prices. The fair values of unlisted financial investments are determined using valuation techniques that take into consideration the prices and future earnings streams of equivalent quoted securities.

Deposits by Banks and Customer Accounts

For the purpose of estimating fair value, deposits by banks and customer accounts are grouped by remaining contractual maturity. Fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. The fair value of a deposit repayable on demand is assumed to be the amount payable on demand at the balance sheet date.

Debt Securities in Issue and Subordinated Liabilities

Fair values are determined using quoted market prices at the balance sheet date where available, or by reference to quoted market prices for similar instruments.

The fair values in this note are stated at a specific date and may be significantly different from the amounts which will actually be paid on the maturity or settlement dates of the instruments. In many cases, it would not be possible to realise immediately the estimated fair values given the size of the portfolios measured. Accordingly, these fair values do not represent the value of these financial instruments to HSBC as a going concern.

HSBC Holdings

The methods used by HSBC Holdings to determine fair values of financial instruments for the purpose of measurement and disclosure are described above.

The following table provides an analysis of the fair value of financial instruments not carried at fair value on the balance sheet:

Fair Values of HSBC Holdings' Financial Instruments Not Carried at Fair Value on the Balance Sheet

	At 31 December 2010		At 31 December 2009	
	Carrying Amount US$m	Fair Value US$m	Carrying Amount US$m	Fair Value US$m
Assets				
Loans and advances to HSBC undertakings	21,238	21,798	23,212	23,871
Liabilities				
Amounts owed to HSBC undertakings	2,932	2,963	3,711	3,827
Debt securities in issue	2,668	2,960	2,839	3,141
Subordinated liabilities	13,313	14,428	14,406	15,666

18. Reclassification of Financial Assets

During the second half of 2008, HSBC reclassified US$15.3bn and US$2.6bn of financial assets from the held-for-trading category to the loans and receivables and available-for-sale classifications, respectively, as permitted by the relevant amendment to IAS 39 and explained in Note 2(e) on the Financial Statements. No further reclassifications were undertaken by HSBC in 2010 and 2009.

Reclassification of HSBC's Financial Assets

	At 31 December 2010		At 31 December 2009	
	Carrying Amount US$m	Fair Value US$m	Carrying Amount US$m	Fair Value US$m
Reclassification to loans and receivables				
ABSs	5,892	4,977	7,827	6,177
Trading loans—commercial mortgage loans	522	493	553	506
Leveraged finance and syndicated loans	4,533	4,166	5,824	5,434
	10,947	9,636	14,204	12,117
Reclassification to available for sale				
Corporate debt and other securities	91	91	1,408	1,408
	11,038	9,727	15,612	13,525

The following table shows the fair value gains and losses, income and expense recognised in the income statement in respect of reclassified assets and the gains and losses that would have been recognised if no reclassification had taken place.

Effect of Reclassifying and not Reclassifying Financial Assets

	Financial Assets Reclassified to:					
	Loans and Receivables				Available for Sale	
	ABSs US$m	Trading Loans—Commercial Mortgage Loans US$m	Leveraged Finance and Syndicated Loans US$m	Total US$m	Corporate Debt and Other Securities US$m	Total US$m
2010						
Recorded in the income statement[(1)]	235	29	346	610	56	666
Assuming no reclassification[(2)]	908	45	307	1,260	59	1,319
Net effect of reclassification	(673)	(16)	39	(650)	(3)	(653)
Attributable to:						
Europe	(527)	(16)	(23)	(566)	(2)	(568)
North America	(146)	—	49	(97)	(1)	(98)
Middle East	—	—	13	13	—	13
2009						
Recorded in the income statement[(1)]	511	32	434	977	101	1,078
Assuming no reclassification[(2)]	767	15	1,494	2,276	301	2,577
2008						
Net effect of reclassification	(256)	17	(1,060)	(1,299)	(200)	(1,499)
Attributable to:						
Europe	(212)	17	(566)	(761)	(170)	(931)
North America	(44)	—	(543)	(587)	(30)	(617)
Middle East	—	—	49	49	—	49
2008						
Recorded in the income statement[(1)]	303	17	192	512	22	534
Assuming no reclassification[(2)]	(1,549)	(13)	(1,239)	(2,801)	(202)	(3,003)
2008						
Net effect of reclassification	1,852	30	1,431	3,313	224	3,537
Attributable to:						
Europe	1,537	30	803	2,370	193	2,563
North America	315	—	601	916	31	947
Middle East	—	—	27	27	—	27

(1) 'Income and expense' recorded in the income statement represents the accrual of the effective interest rate and, for 2010, includes US$6m in respect of impairment (2009: US$163m; 2008: US$26m). The effect on the income statement for 2008 shows the income and expense post-reclassification. In 2008 pre-reclassification, the assets were held at fair value and a loss of US$1,371m was recorded in the period up to reclassification.

(2) Effect on the income statement during the year had the reclassification not occurred.

19. Financial Assets Designated at Fair Value

	2010 US$m	2009 US$m
Financial assets designated at fair value:		
—Not subject to repledge or resale by counterparties	36,990	37,166
—Which may be repledged or resold by counterparties	21	15
	37,011	37,181
Treasury and other eligible bills	159	223
Debt securities	18,248	20,718
Equity securities	17,418	14,983
Securities designated at fair value	35,825	35,924
Loans and advances to banks	315	354
Loans and advances to customers	871	903
	37,011	37,181

Securities Designated at Fair Value

	Fair Value[1]	
	2010 US$m	2009 US$m
US Treasury and US Government agencies[2]	78	78
UK Government	1,304	4,799
Hong Kong Government	151	177
Other government	4,130	3,491
Asset-backed securities[3]	6,128	6,463
Corporate debt and other securities	6,616	5,933
Equities	17,418	14,983
	35,825	35,924

[1] Included within these figures are debt securities issued by banks and other financial institutions of US$10,185m (2009: US$13,745m), of which US$48m (2009: US$49m) are guaranteed by various governments.
[2] Includes securities that are supported by an explicit guarantee issued by the US Government.
[3] Excludes asset-backed securities included under US Treasury and US Government agencies.

Securities Listed on a Recognised Exchange and Unlisted

	Treasury and Other Eligible Bills US$m	Debt Securities US$m	Equity Securities US$m	Total US$m
Fair value at 31 December 2010				
Listed on a recognised exchange[1]	21	4,168	12,548	16,737
Unlisted	138	14,080	4,870	19,088
	159	18,248	17,418	35,825
Fair value at 31 December 2009				
Listed on a recognised exchange[1]	78	7,168	10,549	17,795
Unlisted	145	13,550	4,434	18,129
	223	20,718	14,983	35,924

[1] Included within listed investments are US$756m of investments listed in Hong Kong (2009: US$506m).

Financial Liabilities—Accounts Payable, Notes Payable, Warranty Liabilities, Non-current Financial Liabilities

8.58

Philippine Long Distance Telephone Company (Dec 2010)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (in part)

December 31, 2010 and 2009
(In million pesos, except par value and number of shares)

	2010	2009
Noncurrent Liabilities		
Interest-bearing financial liabilities—net of current portion (Notes 3, 4, 5, 9, 13, 20, 23, 26 and 28)	75,888	86,079
Current Liabilities		
Accounts payable (Notes 13, 22, 24, 26, 27 and 28)	25,804	19,601
Current portion of interest-bearing financial liabilities (Notes 3, 4, 5, 9, 13, 20, 23, 26 and 28)	13,801	12,714
Dividends payable (Notes 13, 19, 26 and 28)	2,086	1,749

CONSOLIDATED INCOME STATEMENTS (in part)

For the Years Ended December 31, 2010, 2009 and 2008
(In million pesos, except earnings per common share amounts)

	2010	2009	2008
Other Income (Expenses)			
Interest income (Notes 4, 5, 11 and 15)	1,200	1,539	1,668
Financing costs—net (Notes 4, 5, 9, 20 and 28)	(6,698)	(6,556)	(6,104)
	(1,871)	(3,043)	(6,002)

CONSOLIDATED STATEMENTS OF CASH FLOWS (in part)

For the Years Ended December 31, 2010, 2009 and 2008
(In million pesos)

	2010	2009	2008
Cash Flows From Financing Activities			
Payments of notes payable (Note 20)	(2,274)	(270)	(678)
Interest paid—net of capitalized portion (Notes 5, 20 and 28)	(5,580)	(5,239)	(5,167)
Cash dividends paid (Note 19)	(41,080)	(39,286)	(37,124)
Proceeds from notes payable (Note 20)	—	2,000	660

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Summary of Significant Accounting Policies (in part)

Significant Accounting Policies (in part)

Financial Liabilities (in part)

Initial Recognition

Financial liabilities are classified as financial liabilities at fair value through profit or loss, other financial liabilities, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. We determine the classification of our financial liabilities at initial recognition.

Financial liabilities are recognized initially at fair value and in the case of other financial liabilities, inclusive of directly attributable transaction costs.

Our financial liabilities include accounts payable, accrued expenses and other current liabilities, interest-bearing financial liabilities, customers' deposits, derivative financial liabilities, dividends payable, and accrual for long-term capital expenditures included under "Deferred credits and other noncurrent liabilities" account.

Subsequent Measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial Liabilities at Fair Value Through Profit or Loss

Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Financial liabilities are classified as at fair value through profit or loss if they are acquired for the purpose of repurchasing in the near term. Derivative liabilities, including separated embedded derivatives are also classified as at fair value through profit or loss unless they are designated as effective hedging instruments. Financial liabilities at fair value through profit or loss are carried in our consolidated statement of financial position at fair value with gains or losses recognized in our consolidated income statement under "Gains (losses) on derivative financial instruments—net" for derivative instruments and "Other income" for non-derivative financial liabilities.

Financial liabilities may be designated at initial recognition as at fair value through profit or loss if any of the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the company is provided internally on that basis to the entity's key management personnel; or (iii) the financial liabilities contain one or more embedded derivatives that would need to be separately recorded.

Other Financial Liabilities

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the EIR method.

Gains and losses are recognized in our consolidated income statement when the liabilities are derecognized as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included under "Financing costs—net" in our consolidated income statement.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in our consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Fair Value of Financial Instruments

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market prices at the close of business at the end of the reporting period. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

Amortized Cost of Financial Instruments

Amortized cost is computed using the EIR method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of EIR.

"Day 1" Difference

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique which variables include only data from observable market, we recognize the difference between the transaction price and fair value (a "Day 1" difference) in our consolidated income statement unless it qualifies for recognition as some other type of asset or liability. In cases where data used are not observable, the difference between the transaction price and model value is only recognized in our consolidated income statement when the inputs become observable or when the instrument is derecognized. For each transaction, we determine the appropriate method of recognizing the "Day 1" difference amount.

19. Equity (in part)

Dividends Declared for the Year Ended December 31, 2010

				Amount	
	Date				Total (In Million
Class	Approved	Record	Payable	Per Share	Pesos)
10% Cumulative Convertible Preferred Stock					
Series CC	January 26, 2010	February 25, 2010	March 31, 2010	Php1.00	17
Series DD	January 26, 2010	February 11, 2010	February 26, 2010	1.00	3
Series EE	March 26, 2010	April 23, 2010	May 31, 2010	1.00	—
Series A, I, R, W, AA and BB	July 7, 2010	August 5, 2010	August 31, 2010	1.00	128
Series B, F, Q, V and Z	August 3, 2010	September 2, 2010	September 30, 2010	1.00	92
Series E, K, O and U	August 31, 2010	September 30, 2010	October 29, 2010	1.00	44
Series C, D, J, T and X	September 28, 2010	October 28, 2010	November 30, 2010	1.00	57
Series G, N, P and S	November 4, 2010	December 2, 2010	December 29, 2010	1.00	26
Series H, L, M and Y	December 7, 2010	January 4, 2011	January 31, 2011	1.00	42
					409
Cumulative Non-Convertible Redeemable Preferred Stock					
Series IV(*)	January 26, 2010	February 19, 2010	March 15, 2010	Php—	12
	May 13, 2010	May 27, 2010	June 15, 2010	—	13
	August 3, 2010	August 18, 2010	September 15, 2010	—	12
	November 4, 2010	November 19, 2010	December 15, 2010	—	12
					49
Common Stock					
Regular Dividend	March 2, 2010	March 17, 2010	April 20, 2010	Php76.00	14,197
	August 3, 2010	August 19, 2010	September 21, 2010	78.00	14,570
Special Dividend	March 2, 2010	March 17, 2010	April 20, 2010	65.00	12,142
Charged to retained earnings					41,367

(*) Dividends were declared based on total amount paid up.

Dividends Declared After December 31, 2010

Class	Date			Amount	
	Approved	Record	Payable	Per Share	Total (In Million Pesos)
Cumulative Non-convertible Redeemable Preferred Stock					
Series IV(*)	January 25, 2011	February 18, 2011	March 15, 2011	Php—	12
10% Cumulative Convertible Preferred Stock					
Series CC	January 25, 2011	February 24, 2011	March 31, 2011	Php1.00	17
Series DD	January 25, 2011	February 10, 2011	February 28, 2011	1.00	2
Series FF	January 25, 2011	February 10, 2011	February 28, 2011	1.00	—
Series GG	January 25, 2011	February 24, 2011	March 31, 2011	1.00	—
Series EE	March 29, 2011	April 28, 2011	May 31, 2011	1.00	—
Series HH	March 29, 2011	April 28, 2011	May 31, 2011	1.00	—
					19
Common Stock					
Regular Dividend	March 1, 2011	March 16, 2011	April 19, 2011	Php78.00	14,567
Special Dividend	March 1, 2011	March 16, 2011	April 19, 2011	66.00	12,326
					26,893
					26,924

(*) Dividends were declared based on total amount paid up.

20. Interest-Bearing Financial Liabilities (in part)

As at December 31, 2010 and 2009, this account consists of the following:

(In Million Pesos)	2010	2009
Long-Term Portion of Interest-Bearing Financial Liabilities:		
Long-term debt (Notes 4, 5, 9, 23, 26 and 28)	75,879	86,066
Obligations under finance lease (Notes 3, 4, 5, 23, 26 and 28)	9	13
	75,888	86,079
Current Portion of Interest-Bearing Financial Liabilities:		
Long-term debt maturing within one year (Notes 4, 5, 9, 23, 26 and 28)	13,767	10,384
Obligations under finance lease maturing within one year (Notes 3, 4, 5, 23, 26 and 28)	34	51
Notes payable (Notes 4, 5, 23, 26 and 28)	—	2,279
	13,801	12,714

Unamortized debt discount, representing debt issuance costs and any difference between the fair value of consideration given or received at initial recognition, included in the financial liabilities as at December 31, 2010 and 2009 are as follows:

(In Million Pesos)	2010	2009
Long-term debt (Note 28)	2,944	3,858
Obligation under finance lease	1	3
Unamortized debt discount at end of year	2,945	3,861

The following table describes all changes to unamortized debt discount as at December 31, 2010 and 2009.

(In Million Pesos)	2010	2009
Unamortized debt discount at beginning of year	3,861	4,577
Additions during the year	114	182
Revaluations during the year	(16)	22
Accretion during the year included as part of "Financing costs—net—Accretion on financial liabilities—net" (Note 5)	(1,014)	(920)
Unamortized debt discount at end of year	2,945	3,861

Long-Term Debt

As at December 31, 2010 and 2009, long-term debt consists of:

Description	Interest Rates	2010		2009	
		(In Millions)			
U.S. Dollar Debts:					
Export Credit Agencies-Supported Loans:					
Finnvera, Plc, or Finnvera	2.99% and US$ LIBOR + 0.05% to 1.35% in 2010 and US$ LIBOR + 0.05% to 1.35% in 2009	US$82	Php 3,590	US$58	Php 2,681
Exportkreditnamnden, or EKN	3.79% in 2010 and 2009	14	613	18	860
Kreditanstalt für Wiederaufbau, or KfW	US$LIBOR + 0.65% to 2.50% in 2010 and 5.65% and US$ LIBOR + 0.65% to 2.50% in 2009	—	—	31	1,454
		96	4,203	107	4,995
Fixed Rate Notes	8.35% to 11.375% in 2010 and 2009	375	16,450	385	17,876
Term Loans:					
Debt Exchange Facility	2.25% in 2010 and 2009	223	9,791	209	9,725
GSM Network Expansion Facilities	4.515% to 4.70% and US$ LIBOR + 0.42% to 1.85% in 2010 and 4.49% to 4.70% and US$ LIBOR + 0.42% to 1.85% in 2009	97	4,230	157	7,274
Others	2.79% + swap rate and US$ LIBOR + 0.42% to 0.50% in 2010 and 6%; 2.79% + swap rate and US$ LIBOR + 0.42% to 0.50% in 2009	85	3,740	118	5,484
		US$876	Php 38,414	US$976	Php 45,354

Description	Interest Rates	2010	2009
		(In Millions)	
Philippine Peso Debts:			
Corporate Notes	5.625% to 9.1038% and PDST-F + 1.25% in 2010 and 2009	Php 29,677	Php 24,863
Term Loans:			
Unsecured Term Loans	6.125% to 8.7792% and PDST-F + 0.30% to 1.50% in 2010 and 6.125% to 8.7792% and PDST-F + 0.75% to 1.50% in 2009	21,439	26,088
Secured Term Loans	PDST-F + 1.375% and AUB's prime rate in 2010 and PDST-F + 5.70% + Bank's cost of funds; PDST-F + 1.375% and AUB's prime rate in 2009	116	145
		51,232	51,096
Total long-term debt		89,646	96,450
Less portion maturing within one year (Note 28)		13,767	10,384
Noncurrent portion of long-term (Note 28)		Php 75,879	Php 86,066

Note: Amounts presented are net of unamortized debt discount and debt issuance costs.

The scheduled maturities of our consolidated outstanding long-term debt at nominal values as at December 31, 2010 are as follows:

	U.S. Dollar Debt		Php Debt	Total
Year	In U.S. Dollar	In Php	In Php	In Php
	(In Millions)			
2011	104	4,535	9,400	13,935
2012	234	10,273	9,127	19,400
2013	60	2,606	8,528	11,134
2014	305	13,375	6,125	19,500
2015 and onwards	239	10,482	18,139	28,621
	942	41,271	51,319	92,590

U.S. Dollar Debts:

Export Credit Agencies-Supported Loans

In order to acquire imported components for our network infrastructure in connection with our expansion and service improvement programs, we obtained loans extended and/or guaranteed by various export credit agencies.

Finnvera, Plc, or Finnvera

On February 11, 2005, Smart signed a refinancing facility with Finnish Export Credit, Plc, as Lender, and ING Bank N.V., as Arranger and Facility Agent under an export credit agency-backed facility in connection with Smart's GSM expansion program. This facility was covered by a guarantee from Finnvera, the Finnish Export Credit Agency, for 100% of the political and commercial risk for the refinancing facility of GSM Phases 5A and 5B. The principal benefit of refinancing the Phase 5 loan was the savings from a lower interest margin on the refinancing facility. The facility was payable in equal semi-annual payments over five years starting September 1, 2005. The outstanding balance amounted to US$9.98 million, or Php464 million, net of unamortized discount, as at December 31, 2009 was paid in full on March 1, 2010.

On May 14, 2009, Smart signed a US$50 million five-year term facility to finance the Phase 10 (Extension) GSM equipment and services contract with Finnish Export Credit, Plc guaranteed by Finnvera and awarded to Calyon as the Arranger. The facility was drawn on July 15, 2009. The loan is payable over five years in ten equal semi-annual payments. The amounts of US$39 million, or Php1,703 million, and US$48 million, or Php2,240 million, both net of unamortized debt discount, remained outstanding as at December 31, 2010 and 2009, respectively.

On October 9, 2009, Smart signed a US$50 million five-year term loan facility to finance GSM equipment and services contracts with Finnish Export Credit, Plc guaranteed by Finnvera, the Finnish Export Credit Agency, for 100% political and commercial risk cover. The facility was awarded to Citicorp as the Arranger. The loan is payable over five years in ten equal semi-annual payments. As at December 31, 2009, no amount had been drawn under the facility. The amount of US$43 million, or Php1,887 million, net of unamortized debt discount, which was drawn on April 7, 2010, remained outstanding as at December 31, 2010.

Exportkreditnamnden, or EKN

On November 25, 2008, Smart signed a US$22 million five-year term loan facility to finance the supply, installation, commissioning and testing of Wireless-Code Division Multiple Access, or W-CDMA/High Speed Packet Access project with Nordea Bank AB as Original Lender, Arranger and Facility Agent and subsequently assigned its rights and obligations to the Swedish Export Credit Corporation (AB Svensk Exportkredit) supported by EKN on December 10, 2008. The amounts of US$8 million, US$13 million and US$1 million were drawn on December 15, 2008, August 5, 2009 and September 1, 2009, respectively. This facility is payable semi-annually in ten equal installments commencing six months from December 10, 2008. The outstanding balance under the facility amounted to US$14 million, or Php613 million, and US$18 million, or Php860 million, both net of unamortized debt discount, as at December 31, 2010 and 2009, respectively.

Kreditanstalt für Wiederaufbau, or KfW

On January 25, 2002, PLDT signed two loan agreements with KfW, which provided PLDT with a US$149 million facility to refinance in part the repayment installments under its existing loans from KfW due from January 2002 to December 2004. The facility is composed of a nine-year loan, inclusive of a three-year disbursement period and a two-year grace period during which no principal is payable. It partly enjoys the guarantee of HERMES, the export credit agency of the Federal Republic of Germany. On various dates from 2002 to 2004, we had drawn a total of US$140 million under this facility. PLDT waived further disbursements under this refinancing facility effective September 1, 2004 and the undrawn portion of US$9 million was cancelled.

The outstanding balance under the facility amounted to US$31 million, or Php1,454 million, as at December 31, 2009. Final repayment was made on October 15, 2010 and there are no outstanding amounts remaining under the facility as at December 31, 2010.

Fixed Rate Notes

PLDT has the following non-amortizing fixed rate notes outstanding as at December 31, 2010 and 2009:

Principal Amount	Interest Rate	Maturity Date	2010		2009	
			(In Millions)			
US$234,259,000	8.350%	March 6, 2017	US$231	Php 10,149	US$242	Php 11,256
US$145,789,000	11.375%	May 15, 2012	144	6,301	143	6,620
			US$375	Php 16,450	US$385	Php 17,876

Term Loans

US$283 Million Term Loan Facility, or Debt Exchange Facility

On July 2, 2004, Smart acquired from PCEV's creditors approximately US$289 million, or 69.4%, the aggregate of PCEV's outstanding restructured debt at that time, in exchange for Smart debt and a cash payment by Smart. In particular, Smart paid an amount in cash of US$1.5 million, or Php84 million and issued new debt of US$283.2 million, or Php15,854 million, at fair value of Php8,390 million, net of unamortized debt discount amounting to Php7,464 million.

The outstanding balance of the Facility amounted to US$223 million, or Php9,791 million, and US$209 million, or Php9,725 million, both net of unamortized debt discount, as at December 31, 2010 and 2009, respectively. The Facility will be payable in full on June 30, 2014.

GSM Network Expansion Facilities

On August 8, 2005, Smart signed a US$30 million commercial facility with Nordic Investment Bank to partly finance the related Phase 8 GSM equipment and services contracts. The facility is a five-year term loan payable semi-annually in ten equal installments with final repayment on July 11, 2011. The facility was drawn on July 11, 2006 for the full amount of US$30 million. The amounts of US$6 million, or Php263 million, and US$12 million, or Php556 million, both net of unamortized debt discount, remained outstanding as at December 31, 2010 and 2009, respectively.

On August 10, 2005, Smart signed a loan facility for its GSM Phase 8 financing in the amount of US$70 million. The facility was awarded to the Bank of Tokyo Mitsubishi Ltd., Mizuho Corporate Bank Ltd., Standard Chartered Bank and Sumitomo Mitsui Banking Corporation as the Lead Arrangers, with Finnish Export Credit, Plc as the Lender. Smart opted to utilize only a total of US$67 million of which US$10 million and US$57 million were drawn on February 15, 2006 and March 13, 2006, respectively. The undrawn balance of US$3 million was cancelled. The facility is a five-year term loan payable in ten equal semi-annual installments. The amount of US$15 million, or Php678 million, net of unamortized discount, remained outstanding as at December 31, 2009. The facility was paid in full on September 1, 2010.

On July 31, 2006, Smart signed a U.S. Dollar term loan facility for US$44.2 million to partly finance the related Phase 9 GSM equipment and services contracts. The Lender is Finnish Export Credit, Plc with ABN AMRO Bank N.V., Standard Chartered Bank, Sumitomo Mitsui Banking Corporation and Mizuho Corporate Bank Ltd. as the Lead Arrangers. The facility is a five-year term loan payable in ten equal semi-annual installments with final repayment on July 15, 2011. The facility was drawn on November 10, 2006 for the full amount of US$44.2 million. The amounts of US$9 million, or Php387 million, and US$18 million, or Php819 million, both net of unamortized debt discount, remained outstanding as at December 31, 2010 and 2009, respectively.

On October 16, 2006, Smart signed a U.S. Dollar term loan facility with Metropolitan Bank and Trust Company to finance the related Phase 9 GSM facility for an amount of US$50 million. The facility is a five-year loan payable in 18 equal quarterly installments commencing on the third quarter from initial drawdown date with final repayment on October 10, 2012. The facility was drawn on October 10, 2007 for the full amount of US$50 million. The amounts of US$22 million, or Php973 million, and US$33 million, or Php1,547 million, both net of unamortized debt discount, remained outstanding as at December 31, 2010 and 2009, respectively.

On October 10, 2007, Smart signed a US$50 million five-year term loan facility to finance the related Phase 10 GSM equipment and service contracts. The facility was awarded to Norddeutsche Landesbank Girozentrale Singapore Branch as the Original Lender with Standard Chartered Bank (Hong Kong) Ltd. as the Facility Agent. The full amount of the facility was drawn on March 10, 2008. The loan is payable over five years in ten equal semi-annual payments with final repayment on March 11, 2013. The amounts of US$25 million, or Php1,091 million, and US$35 million, or Php1,616 million, both net of unamortized debt discount, remained outstanding as at December 31, 2010 and 2009, respectively.

On November 27, 2008, Smart signed a US$50 million five-year term loan facility to finance the Phase 10 GSM equipment and service contracts with Finnish Export Credit, Plc. The facility was awarded to ABN AMRO Bank N.V., Australia and New Zealand Banking Group Limited, Standard Chartered Bank, Mizuho Corporate Bank Ltd. as the Lead Arrangers. The loan is payable over five years in ten equal semi-annual installments with final repayment on January 23, 2014. The facility was drawn on January 23, 2009 and May 5, 2009 in the amounts of US$5 million and US$45 million, respectively. The amounts of US$35 million, or Php1,516 million, and US$44 million, or Php2,058 million, both net of unamortized debt discount, remained outstanding as at December 31, 2010 and 2009, respectively.

Other Term Loans

On January 15, 2008, PLDT signed a US$100 million term loan facility agreement with Norddeutsche Landesbank Girozentrale Singapore Branch to be used for the capital expenditure requirements of PLDT. Two separate drawings of US$50 million each was drawn from the facility on March 27, 2008 and April 10, 2008 and is payable over five years in ten equal semi-annual installments with final repayment on March 27, 2013. The amounts of US$50 million, or Php2,191 million, and US$70 million, or Php3,250 million, remained outstanding as at December 31, 2010 and 2009, respectively.

On July 15, 2008, PLDT signed a loan agreement amounting to US$50 million with the Bank of the Philippine Islands to refinance its loan obligations which were utilized for service improvements and expansion programs. The initial drawdown under this loan was made on July 21, 2008 in the amount of US$15 million and the balance of US$35 million was drawn on September 30, 2008. This loan is payable in 17 equal quarterly installments commencing on the fourth quarter from initial drawdown date with final repayment on July 22, 2013. The amounts of US$32 million, or Php1,417 million, and US$44 million, or Php2,048 million, remained outstanding as at December 31, 2010 and 2009, respectively.

On September 24, 2008, BOW signed an Islamic finance facility agreement granted by the Bank of London and the Middle East for a total of US$19 million, which will mature on various dates from June 30, 2013 to September 30, 2014. The amounts of US$3 million, or Php132 million, and US$4 million, or Php186 million, remained outstanding as at December 31, 2010 and 2009, respectively.

Philippine Peso Debts:

Corporate Notes

Php5,000 Million Fixed Rate Corporate Notes

On February 15, 2007, Smart issued Php5,000 million fixed rate corporate notes, comprised of Series A five-year notes amounting to Php3,800 million and Series B ten-year notes amounting to Php1,200 million. Proceeds from the issuance of these notes have been used primarily for Smart's capital expenditures for network improvement and expansion. The amounts of Php4,962 million and Php4,968 million, both net of unamortized debt discount, remained outstanding as at December 31, 2010 and 2009, respectively.

Php5,000 Million Fixed Rate Corporate Notes

On December 12, 2008, Smart issued a five-year term unsecured fixed rate corporate notes amounting to Php5,000 million. The facility has annual amortizations equivalent to 1% of the principal amount with the balance of 96% payable on December 13, 2013. Funds raised from the issuance of these notes were used primarily to finance Smart's capital expenditures for network upgrade and expansion. The amounts of Php4,867 million and Php4,907 million, both net of unamortized debt discount, remained outstanding as at December 31, 2010 and 2009, respectively.

Php5,000 Million Fixed Rate Corporate Notes

On February 20, 2009, PLDT issued Php5,000 million fixed rate corporate notes under a Notes Facility Agreement dated February 18, 2009, comprised of Series A five-year notes amounting to Php2,390 million, Series B seven-year notes amounting to Php100 million, and Series C ten-year notes amounting to Php2,510 million. Proceeds from the facility were used to finance capital expenditures of PLDT. The aggregate amounts of Php4,976 million and Php5,000 million remained outstanding as at December 31, 2010 and 2009, respectively.

Php3,000 Million Corporate Notes

On June 29, 2009, Smart signed a Notes Facility Agreement with BDO Private Bank, Inc. amounting to Php3,000 million to finance capital expenditures. The facility is comprised of Php1,000 million Series A1 note payable in full in 1.5 years and Php1,000 million each for Series B1 and B2 notes payable in full in two years. The aggregate amount of Php2,000 million of Series A1 and B1 notes were drawn on July 8, 2009 while the amount of Php1,000 million of Series B2 notes was drawn on September 1, 2009. The aggregate amounts of Php2,997 million and Php2,988 million, both net of unamortized debt discount, remained outstanding as at December 31, 2010 and 2009, respectively. The Series A1 amounting to Php1,000 million was repaid on January 10, 2011.

Php7,000 Million Fixed Rate Corporate Notes

On December 10, 2009, PLDT issued Php7,000 million fixed rate corporate notes under a Notes Facility Agreement dated December 8, 2009, comprised of Series A 5.25-year notes amounting to Php5,050 million, Series B seven-year notes amounting to Php850 million, and Series C ten-year notes amounting to Php1,100 million. Proceeds from the facility were used to finance capital expenditures and/or to refinance its loan obligations which were also used to finance capital expenditures for network expansion and improvement. The aggregate amounts of Php6,891 million and Php7,000 million remained outstanding as at December 31, 2010 and 2009, respectively.

Php2,500 Million Fixed Rate Corporate Notes

On July 13, 2010, PLDT issued Php2,500 million five-year fixed rate corporate notes under a Notes Facility Agreement dated July 12, 2010. The notes are non-amortizing and will mature on July 13, 2015. Proceeds from the facility were used to finance capital expenditures and/or to refinance PLDT's loan obligations. The amount of Php2,500 million remained outstanding as at December 31, 2010.

Php2,500 Million Fixed Rate Corporate Notes

On July 13, 2010, Smart issued Php2,500 million five-year fixed rate corporate notes under a Notes Facility Agreement dated July 12, 2010. The notes are non-amortizing and will mature on July 13, 2015. Proceeds from the facility were used primarily to finance Smart's capital expenditures for network improvement and expansion. The amount of Php2,484 million, net of unamortized debt discount, remained outstanding as at December 31, 2010.

Php2,000 Million Fixed Rate Corporate Notes

On March 9, 2011, Smart signed a Notes Facility Agreement with BDO Private Bank, Inc. amounting to Php2,000 million to finance capital expenditures. Tranche A amounting to Php1,000 million was issued on March 16, 2011 and Tranche B amounting to Php1,000 million to be issued in multiple drawdowns of Php250 million each, all of which are payable in full in five years from their respective issue dates. As at March 29, 2011, Php1,500 million has been drawn from this facility.

Php5,000 Million Fixed Rate Corporate Notes

On March 24, 2011, PLDT issued Php5,000 million fixed rate corporate notes under a Notes Facility Agreement dated March 22, 2011, comprised of Series A 5-year notes amounting to Php3,435 million, Series B 7-year notes amounting to Php700 million and Series C ten-year rate notes amounting to Php865 million. Proceeds from the facilities will be used to finance capital expenditures and refinance existing debt obligations which were also used to finance service improvements and expansion programs.

Term Loans

Unsecured Term Loans

Php2,500 Million Term Loan Facility

On August 14, 2006, Smart signed a Philippine Peso term loan facility with Metropolitan Bank and Trust Company amounting to Php2,500 million to finance the related Phase 9 GSM facility. The facility is payable over five years in 18 equal quarterly installments commencing on the third quarter from initial drawdown date with final repayment on December 9, 2011. The facility was drawn on December 11, 2006. The amounts of Php555 million and Php1,109 million, both

net of unamortized debt discount, remained outstanding as at December 31, 2010 and 2009, respectively.

Php400 Million and Php20 Million Refinancing Loans

On May 22, 2007, PLDT signed loan agreements with The Philippine American Life and General Insurance Company for Php400 million and The Philam Bond Fund, Inc. for Php20 million to refinance their respective participations in the ten-year note under the Php1,270 million Fixed Rate Corporate Notes which were repaid on June 12, 2007. Both refinancing loans will mature on June 12, 2014. The amounts of Php400 million and Php20 million remained outstanding as at December 31, 2009 were both prepaid in full on December 13, 2010.

Php2,500 Million Term Loan Facility

On October 21, 2008, Smart signed a Philippine Peso term loan facility with Metropolitan Bank and Trust Company to finance capital expenditures for an amount of Php2,500 million, which was drawn in full on November 13, 2008. The facility is payable over five years in 16 equal consecutive quarterly installments commencing on the fifth quarter from the date of the first drawdown with final repayment on November 13, 2013. The amounts of Php1,870 million and Php2,492 million, both net of unamortized debt discount, remained outstanding as at December 31, 2010 and 2009, respectively.

Php2,400 Million Term Loan Facility

On November 21, 2008, PLDT signed a loan agreement with Land Bank of the Philippines amounting to Php2,400 million to finance capital expenditures and/or to refinance its loan obligations which were utilized for service improvements and expansion programs. The initial drawdown under this loan was made on December 12, 2008 in the amount of Php500 million and the balance of Php1,900 million was subsequently drawn on May 20, 2009 and July 31, 2009 in two equal Php500 million tranches and on September 15, 2009 in the amount of Php900 million. The loan is payable over five years in ten equal semi-annual installments with final repayment on December 12, 2013. The amounts of Php1,533 million and Php2,044 million remained outstanding as at December 31, 2010 and 2009, respectively.

Php3,000 Million Term Loan Facility

On November 26, 2008, PLDT signed a loan agreement with Union Bank of the Philippines amounting to Php3,000 million to finance capital expenditures and/or to refinance its loan obligations which were utilized for service improvements and expansion programs. The initial drawdown under this loan was made on December 22, 2008 in the amount of Php500 million and the balance of Php2,500 million was subsequently drawn on April 14, 2009. The loan is payable over five years in nine equal semi-annual installments commencing on the second semester from initial drawdown date with final repayment on December 23, 2013. The amounts of Php2,000 million and Php2,667 million remained outstanding as at December 31, 2010 and 2009, respectively.

Php2,000 Million Term Loan Facility

On November 28, 2008, PLDT signed a loan agreement with Philippine National Bank amounting to Php2,000 million to be used for its capital expenditure requirements in connection with PLDT's service improvement and expansion programs. The initial drawdown under this loan was made on December 19, 2008 in the amount of Php500 million and the balance of Php1,500 million was subsequently drawn on January 30, 2009, February 27, 2009 and March 13, 2009 in three equal Php500 million tranches. The loan is payable over five years in 17 equal quarterly installments commencing on the fourth quarter from initial drawdown date with final repayment on December 19, 2013. The amounts of Php1,412 million and Php1,882 million remained outstanding as at December 31, 2010 and 2009, respectively.

Php1,000 Million Term Loan Facility

On February 20, 2009, Smart signed a Philippine Peso term loan facility with China Trust (Philippines) Commercial Bank Corporation to finance capital expenditures for an amount of Php1,000 million, which was drawn in full on April 27, 2009. The facility is a five-year term loan payable in eight equal semi-annual installments starting on the eighteenth month from initial drawdown date. The amount of Php996 million, net of unamortized debt discount, remained outstanding as at December 31, 2009 was repaid on October 27, 2010.

Php2,500 Million Term Loan Facility

On March 6, 2009, PLDT signed a loan agreement with Banco de Oro Unibank, Inc. amounting to Php2,500 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on April 17, 2014. The amount of Php2,500 million was fully drawn on April 17, 2009 and remained outstanding as at December 31, 2010 and 2009.

Php1,500 Million Term Loan Facility

On May 12, 2009, Smart signed a Philippine Peso term loan facility with Banco de Oro Unibank, Inc. amounting to Php1,500 million to finance capital expenditures which was fully drawn on May 20, 2009. The facility is a three-year loan payable in full upon maturity on May 20, 2012. The amounts of Php1,494 million and Php1,491 million, both net of unamortized debt discount, remained outstanding as at December 31, 2010 and 2009, respectively.

Php1,000 Million Term Loan Facility

On May 14, 2009, Smart signed a Philippine Peso term loan facility with Asia United Bank amounting to Php1,000 million to finance capital expenditures, which was drawn in full on July 3, 2009. The facility is payable over five years in eight equal semi-annual installments commencing on the eighteenth month from initial drawdown date with final repayment on July 3, 2014. The amounts of Php997 million and Php996 million, both net of unamortized debt discount, remained outstanding as at December 31, 2010 and 2009, respectively. The debt was paid in full on January 3, 2011.

Php1,000 Million Term Loan Facility

On May 15, 2009, Smart signed a Philippine Peso term loan facility with Philippine National Bank amounting to Php1,000 million to finance capital expenditures, which was drawn in full on July 2, 2009. The facility is a seven-year loan, payable

in full upon maturity on July 2, 2016. The amounts of Php996 million and Php995 million, both net of unamortized debt discount, remained outstanding as at December 31, 2010 and 2009, respectively. The debt was paid in full on January 3, 2011.

Php2,500 Million Term Loan Facility

On June 8, 2009, PLDT signed a loan agreement with Rizal Commercial Banking Corporation amounting to Php2,500 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The facility is payable over seven years with an annual amortization of 1% on the fifth and sixth year from initial drawdown date and the balance payable upon maturity on September 28, 2016. The amount of Php2,500 million was fully drawn on September 28, 2009 and remained outstanding as at December 31, 2010 and 2009.

Php1,500 Million Term Loan Facility

On June 16, 2009, PLDT signed a loan agreement with Allied Banking Corporation amounting to Php1,500 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The facility is payable over five years in 17 equal quarterly installments commencing on September 15, 2010 with final repayment on September 15, 2014. The amount of Php1,500 million was fully drawn on September 15, 2009. The amounts of Php1,324 million and Php1,500 million remained outstanding as at December 31, 2010 and 2009, respectively.

Php500 Million Term Loan Facility

On June 29, 2009, PLDT signed a loan agreement with Insular Life Assurance Company, Ltd. amounting to Php500 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The loan will mature on July 1, 2016. The amount of Php500 million was fully drawn on July 1, 2009 and remained outstanding as at December 31, 2010 and 2009.

Php1,000 Million Term Loan Facility

On July 16, 2009, Smart signed a Philippine Peso term loan facility with Metropolitan Bank and Trust Company to finance capital expenditures for an amount of Php1,000 million, which was drawn in full on August 3, 2009. The facility is payable over five years in 16 equal consecutive quarterly installments commencing on the fifth quarter from the date of the first drawdown with final repayment on August 1, 2014. The amounts of Php935 million and Php996 million, both net of unamortized debt discount, remained outstanding as at December 31, 2010 and 2009, respectively.

Php2,000 Million Term Loan Facility

On September 18, 2009, PLDT signed a loan agreement with Bank of the Philippine Islands amounting to Php2,000 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The facility is payable over five years in 17 equal quarterly installments with final repayment on October 27, 2014. The initial drawdown under this loan was made on October 26, 2009 in the amount of Php1,000 million and the balance of Php1,000 million was subsequently drawn on December 4, 2009. The amounts of Php1,882 million and Php2,000 million remained outstanding as at December 31, 2010 and 2009, respectively.

Php1,000 Million Term Loan Facility

On November 23, 2009, PLDT signed a loan agreement with Bank of the Philippine Islands amounting to Php1,000 million to finance capital expenditures and/or refinance its obligations which were utilized for service improvements and expansion programs. The facility is payable over five years in 17 equal quarterly installments with final repayment on December 18, 2014. The amount of Php1,000 million was fully drawn on December 18, 2009. The amounts of Php941 million and Php1,000 million remained outstanding as at December 31, 2010 and 2009, respectively.

Php1,500 Million Term Loan Facility

On March 15, 2011, Smart signed a Philippine Peso term loan facility with Metropolitan Bank and Trust Company to finance capital expenditures for an amount of Php1,500 million, which was drawn in full on March 22, 2011. The facility is a five-year loan, payable in full upon maturity on March 22, 2016.

Php2,000 Million Term Loan Facility

On March 24, 2011, Smart signed a Philippine Peso term loan facility with Philippine National Bank to finance capital expenditures for an amount of Php2,000 million, which was drawn in full on March 29, 2011. The facility is a five-year loan, payable in full upon maturity on March 29, 2016.

Secured Term Loans

Php150 Million Term Loan Facility

On June 7, 2007, BayanTrade obtained a medium term loan facility with Bank of the Philippine Islands amounting to Php150 million, which was fully availed of in December 2007. Each interest period will cover a 90-day period commencing on the initial drawdown date and the interest rate will be determined at the first day of each interest period and payable at the end of the interest period. The loan facility was obtained to facilitate the purchase of a subsidiary and to support its working capital requirements. The aggregate loan amount is due as follows: (a) 20% within the third year from first drawdown date; (b) 20% within the fourth year from first drawdown date; and (c) 60% within the fifth year from first drawdown date. BayanTrade is given a right to repay the principal and the interest accruing thereon on each interest payment date or interest rate setting date without any prepayment penalty. BayanTrade and the bank have agreed to the following terms: (a) pledge of BayanTrade's shares of stock of the subsidiary purchased at a collateral loan ratio of 2:1; (b) assignment of receivables at a collateral-to-loan of 2:1; and (c) negative pledge on other present and future assets of BayanTrade. The outstanding principal balance of the loan was Php113 million and Php139 million as at December 31, 2010 and 2009, respectively.

Php8 Million Term Loan Facility

On March 31, 2009, Level Up! secured a three-year loan facility with Asia United Bank amounting to Php8 million maturing on March 30, 2012. Principal is payable in twelve equal successive quarterly installments of Php673 thousand starting June 30, 2009 and every quarter thereafter. This loan has a floating interest rate payable every 30 days starting April 30, 2009. The loan is secured by the equipment where the proceeds of the loan were used. The amounts of Php3 million and Php6 million remained outstanding as at December 31, 2010 and 2009, respectively.

Notes Payable

On April 23, 2009, PLDT signed the notes facility agreement with BDO Private Bank, Inc. amounting to Php2,000 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The facility is comprised of a Php1,000 million Tranche A fixed rate note and a Php1,000 million Tranche B floating rate note, which were fully drawn on April 28, 2009 and were fully paid on April 28, 2010.

SPi had an outstanding balance of short-term notes of US$6 million, or Php279 million, as at December 31, 2009, which matured on various dates from April 26, 2010 to June 4, 2010.

Accounts Payable

As at December 31, 2010 and 2009, this account consists of:

	2010	2009
(In Million Pesos)		
Suppliers and contractors (Notes 26 and 28)	20,957	14,975
Taxes (Notes 27 and 28)	2,114	1,894
Carriers (Notes 26 and 28)	1,866	1,937
Related parties (Notes 24, 26 and 28)	244	233
Others	623	562
	25,804	19,601

28. Financial Assets and Liabilities (in part)

We have various financial assets such as trade and non-trade receivables and cash and short-term deposits, which arise directly from our operations. Our principal financial liabilities, other than derivatives, comprise of bank loans and overdrafts, finance leases, trade and non-trade payables. The main purpose of these financial liabilities is to finance our operations. We also enter into derivative transactions, primarily principal only-currency swap agreements, currency options, interest rate swaps and forward foreign exchange contracts to manage the currency and interest rate risks arising from our operations and sources of financing. Our accounting policies in relation to derivatives are set out in *Note 2—Summary of Significant Accounting Policies*.

The following table sets forth our . . . financial liabilities as at December 31, 2010 and 2009:

(In Million Pesos)	Loans and Receivables	Held-to-Maturity Investments	Fair Value Through Profit or Loss	Available-For-Sale Financial Assets	Liabilities Carried at Amortized Cost	Total Financial Assets and Liabilities	Non-Financial Assets and Liabilities	Total
Liabilities as at December 31, 2010								
Noncurrent:								
Interest-bearing financial liabilities—net of current portion	—	—	—	—	75,888	75,888	—	75,888
Deferred income tax liabilities—net	—	—	—	—	—	—	1,099	1,099
Derivative financial liabilities	—	—	3,604	—	—	3,604	—	3,604
Pension and other employee benefits	—	—	—	—	—	—	1,834	1,834
Customers' deposits	—	—	—	—	2,223	2,223	—	2,223
Deferred credits and other noncurrent liabilities	—	—	—	—	12,041	12,041	1,526	13,567
Current:								
Accounts payable	—	—	—	—	23,673	23,673	2,131	25,804
Accrued expenses and other current liabilities	—	—	—	—	28,822	28,822	7,137	35,959
Provision for assessments	—	—	—	—	—	—	1,555	1,555
Current portion of interest-bearing financial liabilities	—	—	—	—	13,801	13,801	—	13,801
Dividends payable	—	—	—	—	2,086	2,086	—	2,086
Income tax payable	—	—	—	—	—	—	3,010	3,010
Total liabilities	—	—	3,604	—	158,534	162,138	18,292	180,430
Net assets (liabilities)	54,258	484	(2,904)	147	(158,534)	(106,549)	203,934	97,385

The following table sets forth the consolidated carrying values and estimated fair values of our financial . . . liabilities recognized as at December 31, 2010 and 2009:

	Carrying Value		Fair Value	
(In Million Pesos)	2010	2009	2010	2009
Noncurrent Financial Liabilities				
Interest-bearing financial liabilities:				
Long-term debt—net of current portion	75,879	86,066	82,244	88,383
Obligations under finance lease	9	13	8	12
Derivative financial liabilities:				
Long-term currency swap	3,604	2,751	3,604	2,751
Customers' deposits	2,223	2,166	1,701	1,375
Deferred credits and other noncurrent liabilities	12,041	13,159	11,457	11,629
Total noncurrent financial liabilities	93,756	104,155	99,014	104,150
Current Financial Liabilities				
Accounts payable:				
Suppliers and contractors	20,957	14,975	20,957	14,975
Carriers	1,866	1,937	1,866	1,937
Related parties	244	233	244	233
Others	606	553	606	553
Accrued expenses and other current liabilities:				
Utilities and related expenses	19,739	17,388	19,739	17,388
Employee benefits	3,852	8,071	3,852	8,071
Interests and other related costs	1,028	1,167	1,028	1,167
Liability arising from purchase of investment	—	65	—	65
Others	4,203	2,061	4,203	2,061
Interest-bearing financial liabilities:				
Current portion of long-term debt	13,767	10,384	13,767	10,384
Obligations under finance lease	34	51	34	51
Notes payable	—	2,279	—	2,279
Dividends payable	2,086	1,749	2,086	1,749
Total current financial liabilities	68,382	60,913	68,382	60,913
Total Financial Liabilities	162,138	165,068	167,396	165,063

Financial Risk Management Objectives and Policies (in part)

Foreign Currency Exchange Risk

The revaluation of our foreign currency-denominated financial assets and liabilities as a result of the appreciation or depreciation of the Philippine peso is recognized as foreign exchange gains or losses as at the end of the reporting period. The extent of foreign exchange gains or losses is largely dependent on the amount of foreign currency debt. While a certain percentage of our revenues are either linked to or denominated in U.S. dollars, most of our indebtedness and related interest expense, a substantial portion of our capital expenditures and a portion of our operating expenses are denominated in foreign currencies, mostly in U.S. dollars. As such, a strengthening or weakening of the Philippine peso against the U.S. dollar will decrease or increase in Philippine peso terms both the principal amount of our foreign currency-denominated debts and the related interest expense, our foreign currency-denominated capital expenditures and operating expenses as well as our U.S. dollar-linked and U.S. dollar-denominated revenues. In addition, many of our financial ratios and other financial tests are affected by the movements in the Philippine peso to U.S. dollar exchange rate.

To manage our foreign exchange risks and to stabilize our cash flows in order to improve investment and cash flow planning, we enter into forward foreign exchange contracts, currency swap contracts, currency option contracts and other hedging products aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on our operating results and cash flows. We use forward foreign exchange purchase contracts, currency swap contracts and foreign currency option contracts to manage the foreign currency risks associated with our foreign currency-denominated loans. We also enter into forward foreign exchange sale contracts to manage foreign currency risks associated with our U.S. dollar-linked and U.S. dollar-denominated revenues. In order to manage the hedge costs of these contracts, we utilize structures that include credit-linkage with PLDT as the reference entity, a combination of foreign currency option contracts, and fixed to floating coupon only swap contracts. We accounted for these instruments as either cash flow hedges, wherein changes in the fair value are recognized as cumulative translation adjustments in other comprehensive income until the hedged transaction affects our consolidated income statement or when the hedging instrument expires, or transactions not designated as hedges, wherein changes in the fair value are recognized directly as income or expense for the year.

The following table shows our consolidated foreign currency-denominated monetary financial assets and liabilities and their Philippine peso equivalents as at December 31, 2010 and 2009:

	2010		2009	
	U.S. Dollar	Php[1]	U.S. Dollar	Php[2]
(In Millions)				
Noncurrent Financial Liabilities				
Interest-bearing financial liabilities—net of current portion	782	34,244	837	38,871
Derivative financial liabilities	82	3,604	59	2,751
Total noncurrent financial liabilities	864	37,848	896	41,622
Current Financial Liabilities				
Accounts payable	169	7,415	155	7,180
Accrued expenses and other current liabilities	143	6,267	95	4,409
Current portion of interest-bearing financial liabilities	103	4,537	155	7,220
Total current financial liabilities	415	18,219	405	18,809
Total Financial Liabilities	1,279	56,067	1,301	60,431

(1) The exchange rate used to translate the U.S. dollar amounts into Philippine peso was Php43.81 to US$1.00, the peso-dollar exchange rate as quoted through the Philippine Dealing System as at December 31, 2010.

(2) The exchange rate used to translate the U.S. dollar amounts into Philippine peso was Php46.43 to US$1.00, the peso-dollar exchange rate as quoted through the Philippine Dealing System as at December 31, 2009.

As at March 29, 2011, the peso-dollar exchange rate was Php43.53 to US$1.00. Using this exchange rate, our consolidated net foreign currency-denominated financial liabilities would have decreased in peso terms by Php253 million as at December 31, 2010.

Approximately 43% and 46% of our total consolidated debts (net of consolidated debt discount) were denominated in U.S. dollars as at December 31, 2010 and 2009, respectively. Consolidated foreign currency-denominated debt decreased to Php38,414 million as at December 31, 2010 from Php45,633 million as at December 31, 2009. See *Note 20—Interest-bearing Financial Liabilities*. The aggregate notional amount of PLDT's outstanding long-term principal only currency swap contracts were US$262 million and US$391 million as at December 31, 2010 and 2009, respectively. Consequently, the unhedged portion of our consolidated debt amounts was approximately 30% (or 23%, net of our consolidated U.S. dollar cash balances) and 28% (or 19%, net of our consolidated U.S. dollar cash balances) as at December 31, 2010 and 2009, respectively.

Approximately 26% of our consolidated service revenues were denominated in U.S. dollars and/or were linked to U.S. dollars for the year ended December 31, 2010 as compared with approximately 28% for each of the years ended December 31, 2009 and 2008. In this respect, the appreciation of the weighted average exchange rate of the Philippine peso against the U.S. dollar decreased our revenues, and consequently, our cash flow from operations in Philippine peso terms.

The Philippine peso had appreciated by 5.64% against the U.S. dollar to Php43.81 to US$1.00 as at December 31, 2010 from Php46.43 to US$1.00 as at December 31, 2009. As at December 31, 2009, the Philippine peso had appreciated by 2.56% against the U.S. dollar to Php46.43 to US$1.00 from Php47.65 to US$1.00 as at December 31, 2008. As a result of our consolidated foreign exchange movements as well as the amount of our consolidated outstanding net foreign currency financial assets and liabilities, we recognized net consolidated foreign exchange gains of Php1,807 million and Php909 million in 2010 and 2009, respectively, and net consolidated foreign exchange losses of Php6,170 million in 2008. See *Note 4—Operating Segment Information*.

Capital Management Risk

We aim to achieve an optimal capital structure in pursuit of our business objectives which include maintaining healthy capital ratios and strong credit ratings, and maximizing shareholder value.

In recent years, our cash flow from operations has allowed us to substantially reduce debts and, in 2005, resume payment of dividends on common shares. Since 2005, our strong cash flow has enabled us to make investments in new areas and pay higher dividends.

Our approach to capital management focuses on balancing the allocation of cash and the incurrence of debt as we seek new investment opportunities for new businesses and growth areas. Our current dividend policy is to pay out 70% of our core income per common share. Further, in the event no investment opportunities arise, we may consider the option of returning additional cash to our shareholders in the form of special dividends or share buybacks. Philippine corporate regulations prescribe, however, that we can only pay out dividends or make capital distribution up to the amount of our unrestricted retained earnings.

As part of our goal to maximize returns to our shareholders, we obtained in 2008 an approval from the Board of Directors to conduct a share buyback program for up to five million PLDT common shares. We had acquired a total of approximately 2.72 million shares of PLDT's common stock at a weighted average price of Php2,388 per share for a total consideration of Php6,505 million as at December 31, 2010. We had acquired at total of approximately 2.68 million shares of PLDT's common stock at a weighted average price of Php2,387 per share for a total consideration of Php6,405 million as at December 31, 2009. See *Note 8—Earnings Per Common Share* and *Note 19—Equity*.

Some of our debt instruments contain covenants that impose maximum leverage ratios. In addition, our credit ratings

from the international credit ratings agencies are based on our ability to remain within certain leverage ratios.

We monitor capital using several financial leverage measurements calculated in conformity with PFRS, such as net consolidated debt to equity ratio. Net consolidated debt is derived by deducting cash and cash equivalents and short-term investments from total debt (long-term debt and notes payable). Our objective is to maintain our net consolidated debt to equity ratio below 100%.

The table below provides information regarding our consolidated debt to equity ratio as at December 31, 2010 and 2009:

(In Million Pesos)	2010	2009
Long-term debt, including current portion (Note 20)	89,646	96,450
Notes payable (Note 20)	—	2,279
Total consolidated debt	89,646	98,729
Cash and cash equivalents (Note 15)	(36,678)	(38,319)
Short-term investments	(669)	(3,824)
Net consolidated debt	52,299	56,586
Equity attributable to equity holders of PLDT	97,069	98,575
Net consolidated debt to equity ratio	54%	57%

Preference Shares—Redeemable Classified as Liabilities

8.59

Vodafone Group plc (Mar 2010)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (in part)

At 31 March

	Note	2011 £m	2010 £m
Non-Current Liabilities			
Long-term borrowings	22	28,375	28,632
Taxation liabilities		350	—
Deferred tax liabilities	6	6,486	7,377
Post employment benefits	23	87	237
Provisions	24	482	497
Trade and other payables	25	804	816
		36,584	37,559
Current Liabilities			
Short-term borrowings	22	9,906	11,163
Taxation liabilities		1,912	2,874
Provisions	24	559	497
Trade and other payables	25	14,698	14,082
		27,075	28,616

CONSOLIDATED INCOME STATEMENT (in part)

For the years ended 31 March

	Note	2011 £m	2010 £m	2009 £m
Operating profit	4	5,596	9,480	5,857
Non-operating income and expense	15	3,022	(10)	(44)
Investment income	5	1,309	716	795
Financing costs	5	(429)	(1,512)	(2,419)
Profit before taxation		9,498	8,674	4,189

CONSOLIDATED STATEMENT OF CASH FLOWS (in part)

For the years ended 31 March

	Note	2011 £m	2010 £m	2009 £m
Cash Flows From Financing Activities				
Issue of ordinary share capital and reissue of treasury shares		107	70	22
Net movement in short-term borrowings		(573)	227	(25)
Proceeds from issue of long-term borrowings		4,861	4,217	6,181
Repayment of borrowings		(4,064)	(5,184)	(2,729)
Purchase of treasury shares		(2,087)	—	(963)
B share capital redemption		—	—	(15)
Equity dividends paid		(4,468)	(4,139)	(4,013)
Dividends paid to non-controlling shareholders in subsidiaries		(320)	(56)	(162)
Contributions from non-controlling shareholders in subsidiaries		—	613	—
Other transactions with non-controlling shareholders in subsidiaries		(137)	—	618
Interest paid		(1,578)	(1,601)	(1,470)
Net cash flow from financing activities		(8,259)	(5,853)	(2,556)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

5. Investment Income and Financing Costs (in part)

	2011 £m	2010 £m	2009 £m
Financing Costs:			
Items in hedge relationships:			
Other loans	746	888	782
Interest rate swaps	(338)	(464)	(180)
Dividends on redeemable preference shares	58	56	53
Fair value hedging instrument	(47)	228	(1,458)
Fair value of hedged item	40	(183)	1,475
Cash flow hedges transferred from equity	17	82	—
Other financial liabilities held at amortised cost:			
Bank loans and overdrafts[4]	629	591	452
Other loans[5]	121	185	440
Potential interest on settlement of tax issues[6]	(826)	(178)	(81)
Equity put rights and similar arrangements[3]	19	94	627
Finance leases	9	7	1
Fair value through the income statement (held for trading):			
Derivatives—forward starting swaps and futures	1	206	308
	429	1,512	2,419
Net (investment income)/financing costs	(880)	796	1,624

22. Borrowings

Carrying Value and Fair Value Information

	2011			2010		
	Short-Term Borrowings £m	Long-Term Borrowings £m	Total £m	Short-Term Borrowings £m	Long-Term Borrowings £m	Total £m
Financial liabilities measured at amortised cost:						
Bank loans	2,070	5,872	7,942	3,460	4,183	7,643
Bank overdrafts	47	—	47	60	—	60
Redeemable preference shares	—	1,169	1,169	—	1,242	1,242
Commercial paper	1,660	—	1,660	2,563	—	2,563
Bonds	2,470	16,046	18,516	1,174	12,675	13,849
Other liabilities[1][2]	3,659	1,023	4,682	3,906	385	4,291
Bonds in fair value hedge relationships	—	4,265	4,265	—	10,147	10,147
	9,906	28,375	38,281	11,163	28,632	39,795

Notes:

[1] At 31 March 2011 amount includes £531 million (2010: £604 million) in relation to collateral support agreements.

[2] Amounts at 31 March 2011 include £3,190 million (2010: £3,405 million) in relation to the options disclosed in note 12.

Banks loans include a ZAR 3.5 billion loan borrowed by Vodafone Holdings SA Pty Limited ('VHSA'), which directly and indirectly owns the Group's interest in Vodacom Group Limited. VHSA has pledged its 100% equity shareholding in Vodafone Investments SA ('VISA'), which holds a direct 20.1% equity shareholding in Vodacom Group Limited, as security for its loan obligations. The terms and conditions of the pledge mean that should VHSA not meet all of its loan payment and performance obligations, the lenders may sell the equity shareholding in its subsidiary VISA at market value to recover their losses, with any remaining sales proceeds being returned to VHSA. Vodafone International Holdings B.V. has also guaranteed this loan with recourse only to the VHSA shares it has pledged. The terms and conditions of the security arrangement mean the lenders may be able to sell these respective shares in preference to the VISA shares held by VHSA. An arrangement has been put in place where the Vodacom Group Limited shares held by VHSA and VISA are held in an escrow account to ensure the shares cannot be sold to satisfy the pledge made by the Company. The maximum collateral provided is ZAR 3.5 billion, being the carrying value of the bank loan at 31 March 2011 (2010: ZAR 4.85 billion). Bank loans also include INR 262 billion of loans held by Vodafone Essar Limited ('VEL') and its subsidiaries (the 'VEL Group'). The VEL Group has a number of security arrangements supporting certain licences secured under the terms of tri-party agreements between the relevant borrower, the department of telecommunications, Government of India and the agent representing the secured lenders and certain share pledges of the shares under VEL. The terms and conditions of the security arrangements mean that should members of the VEL Group not meet all of their loan payment and performance obligations, the lenders may sell the pledged shares and enforce rights over the certain licences under the terms of the tri-party agreements to recover their losses, with any remaining sales proceeds being returned to the VEL Group. Each of the eight legal entities within the VEL Group provide cross guarantees to the lenders in respect to debt contracted by the other seven.

The fair value and carrying value of the Group's short-term borrowings is as follows:

	Sterling Equivalent Nominal Value		Fair Value		Carrying Value	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
Financial liabilities measured at amortised cost	7,316	9,910	7,425	10,006	7,436	9,989
Bonds:	2,444	1,113	2,463	1,124	2,470	1,174
5.875% euro 1.25 billion bond due June 2010	—	1,113	—	1,124	—	1,174
US dollar floating rate note due June 2011	171	—	171	—	171	—
5.5% US dollar 750 million bond due June 2011	467	—	471	—	478	—
1% US dollar 100 million bond due August 2011	45	—	45	—	45	—
Euro floating rate note due January 2012	1,144	—	1,146	—	1,148	—
US dollar floating rate note due February 2012	306	—	306	—	306	—
5.35% US dollar 500 million bond due February 2012	311	—	324	—	322	—
Short-term borrowings	9,760	11,023	9,888	11,130	9,906	11,163

The fair value and carrying value of the Group's long-term borrowings is as follows:

	Sterling Equivalent Nominal Value		Fair Value		Carrying Value	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
Financial liabilities measured at amortised cost:						
Bank loans	5,728	4,149	5,872	4,183	5,873	4,183
Redeemable preference shares	1,027	1,174	1,054	1,098	1,169	1,242
Other liabilities	1,022	385	1,023	385	1,022	385
Bonds:	14,581	11,455	15,578	11,961	16,046	12,675
US dollar floating rate note due June 2011	—	230	—	230	—	230
5.5% US dollar 750 million bond due June 2011	—	494	—	518	—	524
Euro floating rate note due January 2012	—	1,158	—	1,157	—	1,161
US dollar floating rate note due February 2012	—	329	—	329	—	329
5.35% US dollar 500 million bond due February 2012	—	329	—	351	—	352
3.625% euro 1,250 million bond due November 2012	1,104	1,113	1,125	1,157	1,132	1,149
6.75% Australian dollar 265 million bond due January 2013	171	160	173	161	176	167
Czech krona floating rate note due June 2013	19	19	19	19	19	19
Euro floating rate note due September 2013	751	757	752	756	752	758
5.0% US dollar 1,000 million bond due December 2013	623	658	676	704	667	718
6.875% euro 1,000 million bond due December 2013	883	891	970	1,024	922	936
Euro floating rate note due June 2014	1,104	1,113	1,099	1,099	1,105	1,114
4.15% US dollar 1,250 million bond due June 2014	778	823	826	856	802	852
4.625% sterling 350 million bond due September 2014	350	—	367	—	382	—
4.625% sterling 525 million bond due September 2014	525	—	551	—	544	—
5.125% euro 500 million bond due April 2015	442	445	475	496	470	475
5.0% US dollar 750 million bond due September 2015	467	—	506	—	512	—
3.375% US dollar 500 million bond due November 2015	311	329	317	327	312	330
6.25% euro 1,250 million bond due January 2016	1,104	—	1,230	—	1,139	—
2.875% US dollar 600 million bond due March 2016	374	—	371	—	371	—
5.75% US dollar 750 million bond due March 2016	467	—	523	—	532	—
4.75% euro 500 million bond due June 2016	442	—	463	—	487	—
5.625% US dollar 1,300 million bond due February 2017	809	—	897	—	920	—
5.375% sterling 600 million bond due December 2017	600	—	638	—	629	—
5% euro 750 million bond due June 2018	663	668	697	721	689	694
8.125% sterling 450 million bond due November 2018	450	—	550	—	488	—
4.375% US dollar 500 million bond due March 2021	311	—	307	—	309	—
7.875% US dollar 750 million bond due February 2030	467	494	591	589	759	814
6.25% US dollar 495 million bond due November 2032	308	326	332	328	425	453
6.15% US dollar 1,700 million bond due February 2037	1,058	1,119	1,123	1,139	1,503	1,600
Bonds in fair value hedge relationships:	3,962	9,395	4,199	10,085	4,265	10,147
4.625% sterling 350 million bond due September 2014	—	350	—	367	—	388
4.625% sterling 525 million bond due September 2014	—	525	—	550	—	532
2.15% Japanese yen 3,000 million bond due April 2015	23	21	24	22	23	22
5.375% US dollar 900 million bond due January 2015	560	592	616	636	621	650
5.0% US dollar 750 million bond due September 2015	—	494	—	529	—	543
6.25% euro 1,250 million bond due January 2016	—	1,113	—	1,278	—	1,168
5.75% US dollar 750 million bond due March 2016	—	494	—	536	—	556
4.75% euro 500 million bond due June 2016	—	445	—	477	—	503
5.625% US dollar 1,300 million bond due February 2017	—	856	—	919	—	960
5.375% sterling 600 million bond due December 2017	—	600	—	634	—	628
4.625% US dollar 500 million bond due July 2018	311	329	327	328	338	349
8.125% sterling 450 million bond due November 2018	—	450	—	553	—	487
5.45% US dollar 1,250 million bond due June 2019	778	823	850	857	823	849
4.65% euro 1,250 million bond due January 2022	1,104	1,113	1,115	1,129	1,114	1,145
5.375% euro 500 million bond due June 2022	442	445	470	481	505	525
5.625% sterling 250 million bond due December 2025	250	250	258	254	284	285
6.6324% euro 50 million bond due December 2028	44	45	68	64	57	54
5.9% sterling 450 million bond due November 2032	450	450	471	471	500	503
Long-term borrowings	26,320	26,558	27,726	27,712	28,375	28,632

During the year ended 31 March 2011 fair value hedge relationships relating to bonds with nominal value US$2,800 million (£1,743 million), €1,750 million (£1,546 million) and £1,925 million were de-designated.

Fair values are calculated using quoted market prices or discounted cash flows with a discount rate based upon forward interest rates available to the Group at the reporting date.

Maturity of Borrowings

The maturity profile of the anticipated future cash flows including interest in relation to the Group's non-derivative financial liabilities on an undiscounted basis, which, therefore, differs from both the carrying value and fair value, is as follows:

	Bank Loans £m	Redeemable Preference Shares £m	Commercial Paper £m	Bonds £m	Other Liabilities £m	Loans in Fair Value Hedge Relationships £m	Total £m
Within one year	1,881	52	1,670	3,292	3,766	203	10,864
In one to two years	528	52	—	2,009	191	203	2,983
In two to three years	2,510	52	—	2,919	60	203	5,744
In three to four years	321	52	—	3,251	60	763	4,447
In four to five years	885	52	—	3,613	901	195	5,646
In more than five years	1,825	1,240	—	7,725	—	4,752	15,542
	7,950	1,500	1,670	22,809	4,978	6,319	45,226
Effect of discount/financing rates	(8)	(331)	(10)	(4,293)	(249)	(2,054)	(6,945)
31 March 2011	7,942	1,169	1,660	18,516	4,729	4,265	38,281
Within one year	3,406	93	2,572	1,634	3,983	510	12,198
In one to two years	858	56	—	3,008	145	510	4,577
In two to three years	847	56	—	1,712	156	510	3,281
In three to four years	1,852	56	—	2,671	—	510	5,089
In four to five years	138	56	—	2,152	31	1,977	4,354
In more than five years	598	1,370	—	6,009	68	9,983	18,028
	7,699	1,687	2,572	17,186	4,383	14,000	47,527
Effect of discount/financing rates	(56)	(445)	(9)	(3,337)	(32)	(3,853)	(7,732)
31 March 2010	7,643	1,242	2,563	13,849	4,351	10,147	39,795

The maturity profile of the Group's financial derivatives (which include interest rate and foreign exchange swaps), using undiscounted cash flows, is as follows:

	2011		2010	
	Payable £m	Receivable £m	Payable £m	Receivable £m
Within one year	14,840	15,051	13,067	13,154
In one to two years	631	829	929	938
In two to three years	724	882	1,083	974
In three to four years	667	770	1,040	932
In four to five years	619	690	868	816
In more than five years	3,715	4,592	7,607	5,912
	21,196	22,814	24,594	22,726

The currency split of the Group's foreign exchange derivatives, all of which mature in less than one year, is as follows:

	2011		2010	
	Payable £m	Receivable £m	Payable £m	Receivable £m
Sterling	—	10,198	—	8,257
Euro	11,422	2,832	8,650	3,177
US dollar	13	387	1,545	55
Japanese yen	2,164	23	548	21
Other	727	832	1,485	755
	14,326	14,272	12,228	12,265

Payables and receivables are stated separately in the table above as settlement is on a gross basis. The £54 million net payable (2010: £37 million net receivable) in relation to foreign exchange financial instruments in the table above is split £153 million (2010: £95 million) within trade and other payables and £99 million (2010: £132 million) within trade and other receivables.

The present value of minimum lease payments under finance lease arrangements under which the Group has leased certain of its equipment is analysed as follows:

	2011 £m	2010 £m
Within one year	14	21
In two to five years	45	47
In more than five years	6	7

Interest Rate and Currency of Borrowings

Currency	Total Borrowings £m	Floating Rate Borrowings £m	Fixed Rate Borrowings[1] £m	Other Borrowings[2] £m
Sterling	2,831	906	1,925	—
Euro	12,361	4,198	8,163	—
US dollar	16,030	9,488	3,352	3,190
Japanese yen	807	807	—	—
Other	6,252	2,920	3,332	—
31 March 2011	38,281	18,319	16,772	3,190
Sterling	3,022	3,022	—	—
Euro	14,244	9,429	4,815	—
US dollar	15,195	7,329	4,461	3,405
Japanese yen	2,605	2,605	—	—
Other	4,729	4,105	624	—
31 March 2010	39,795	26,490	9,900	3,405

Notes:

(1) The weighted average interest rate for the Group's sterling denominated fixed rate borrowings is 5.7% (2010: n/a). The weighted average time for which these rates are fixed is 5.4 years (2010: n/a). The weighted average interest rate for the Group's euro denominated fixed rate borrowings is 4.3% (2010: 5.3%). The weighted average time for which the rates are fixed is 3.8 years (2010: 3.4 years). The weighted average interest rate for the Group's US dollar denominated fixed rate borrowings is 5.4% (2010: 5.5%). The weighted average time for which the rates are fixed is 9.7 years (2010: 12.3 years). The weighted average interest rate for the Group's other currency fixed rate borrowings is 9.2% (2010: 10.1%). The weighted average time for which the rates are fixed is 2.0 years (2010: 1.5 years).

(2) Other borrowings of £3,190 million (2010: £3,405 million) are the liabilities arising under options over direct and indirect interests in Vodafone Essar.

The figures shown in the tables above take into account interest rate swaps used to manage the interest rate profile of financial liabilities. Interest on floating rate borrowings is generally based on national LIBOR equivalents or government bond rates in the relevant currencies.

At 31 March 2011 the Group had entered into foreign exchange contracts to decrease its sterling, US dollar and other currency borrowings above by £10,198 million and amounts equal to £374 million and £105 million respectively, and to increase its euro and Japanese yen currency borrowings above by amounts equal to £8,590 million and £2,141 million respectively.

At 31 March 2010 the Group had entered into foreign exchange contracts to decrease its sterling currency borrowings above by £8,257 million and to increase its euro, US dollar, Japanese yen and other currency borrowings above by amounts equal to £5,473 million, £1,490 million, £527 million and £730 million respectively.

Further protection from euro and US dollar interest rate movements is provided by interest rate swaps. At 31 March 2011 the Group had euro denominated interest rate swaps covering the period March 2011 to September 2015 for an amount equal to £883 million and US dollar denominated interest swaps covering the period March 2011 to September 2015 for an amount equal to £641 million. The average effective rate which has been fixed is 1.23% for euro denominated interest rate swaps and 1.73% in relation to US dollar denominated interest rate swaps.

The Group has entered into euro and US dollar denominated interest rate futures. The euro denominated interest rate futures cover the periods September 2011 to December 2011, December 2011 to March 2012, March 2012 to June 2012 and June 2012 to September 2012 for amounts equal to £2,083 million, £833 million, £7,185 million and £6,811 million respectively. Additional cover is provided for the period March 2013 to March 2014 and March 2015 to March 2016 for

average amounts for each period equal to £2,006 million and £2,331 million respectively. The US dollar denominated interest rate futures cover the periods June 2011 to September 2011, June 2013 to September 2013 and September 2013 to December 2013 for amounts equal to £3,601 million, £1,923 million and £833 million respectively. The average effective rate which has been fixed is 2.87% for euro denominated interest rate futures and 1.33% for US dollar denominated interest rate futures.

The Group has entered into interest rate futures to alter the level of protection against interest rate movements during some futures periods. During the period June 2016 to December 2016 euro denominated interest rate swaps will reduce the level of fixed rate debt in the Group by an amount equal to £833 million. US dollar denominated futures will reduce the level of fixed rate debt during the period March 2016 to March 2019 for an amount equal to £321 million. US dollar denominated interest rate futures will reduce the level of fixed rate debt during the periods September 2012 to December 2012 and December 2013 to March 2014 for amounts equal to £4,487 million and £1,282 million respectively.

At 31 March 2010 the Group had entered into euro and US dollar denominated interest rate futures. The euro denominated interest rate futures cover the period June 2010 to September 2010, September 2010 to December 2010 and December 2010 to March 2011 for amounts equal to £7,888 million, £8,461 million and £4,067 million respectively. The average effective rate which has been fixed is 1.27%. The US dollar denominated interest rate futures cover the period June 2010 to September 2010, September 2010 to December 2010 and December 2010 to March 2011 for amounts equal to £3,197 million, £2,582 million, and £1,119 million respectively. The average effective rate which has been fixed is 0.86%.

Borrowing Facilities

At 31 March 2011 the Group's most significant committed borrowing facilities comprised two bank facilities which remained undrawn throughout the period of €4,150 million (£3,666 million) and US$4,170 million (£2,596 million) both expiring between four and five years (2010: two bank facilities of US$4,115 million (£2,709 million) and US$5,025 million (£3,308 million)), a US$650 million (£405 million) bank facility which expires in more than five years (2010: US$650 million (£428 million)), a ¥259 billion (2010: ¥259 billion (£1,821 million)) term credit facility expired during the period, two loan facilities of €400 million (£353 million) and €350 million (£309 million) both expiring between two and five years (2010: two loan facilities of €400 million (£356 million) and €350 million (£312 million) and a loan facility of €410 million (£362 million) which expires in more than five years (2010: €410 million (£365 million)). The €400 million and €350 million loan facilities were fully drawn on 14 February 2007 and 12 August 2008 respectively and the €410 million facility was drawn on 30 July 2010.

Under the terms and conditions of the €4,150 million and US$4,170 million bank facilities, lenders have the right, but not the obligation, to cancel their commitment 30 days from the date of notification of a change of control of the Company and have outstanding advances repaid on the last day of the current interest period.

The facility agreements provide for certain structural changes that do not affect the obligations of the Company to be specifically excluded from the definition of a change of control. This is in addition to the rights of lenders to cancel their commitment if the Company has committed an event of default.

The terms and conditions of the €400 million loan facility are similar to those of the US dollar bank facilities, with the addition that, should the Group's Turkish operating company spend less than the equivalent of US$800 million on capital expenditure, the Group will be required to repay the drawn amount of the facility that exceeds 50% of the capital expenditure.

The terms and conditions of the €350 million loan facility are similar to those of the US dollar bank facilities, with the addition that, should the Group's Italian operating company spend less than the equivalent of €1,500 million on capital expenditure, the Group will be required to repay the drawn amount of the facility that exceeds 18% of the capital expenditure.

The terms and conditions of the €410 million loan facility are similar to those of the US dollar bank facilities, with the addition that, should the Group's German fixed line operation, spend less than the equivalent of €824 million on capital expenditure, the Group will be required to repay the drawn amount of the facility that exceeds 50% of the capital expenditure.

In addition to the above, certain of the Group's subsidiaries had committed facilities at 31 March 2011 of £7,152 million (2010: £5,759 million) in aggregate, of which £667 million (2010: £1,647 million) was undrawn. Of the total committed facilities £2,137 million (2010: £1,139 million) expires in less than one year, £3,719 million (2010: £2,880 million) expires between two and five years, and £1,296 million (2010: £1,740 million) expires in more than five years.

Redeemable Preference Shares

Redeemable preference shares comprise class D and E preferred shares issued by Vodafone Americas, Inc. An annual dividend of US$51.43 per class D and E preferred share is payable quarterly in arrears. The dividend for the year amounted to £58 million (2010: £56 million). The aggregate redemption value of the class D and E preferred shares is US$1.65 billion. The holders of the preferred shares are entitled to vote on the election of directors and upon each other matter coming before any meeting of the shareholders on which the holders of ordinary shares are entitled to vote. Holders are entitled to vote on the basis of twelve votes for each share of class D or E preferred stock held. The maturity date of the 825,000 class D preferred shares is 6 April 2020. The 825,000 class E preferred shares have a maturity date of 1 April 2020. The class D and E preferred shares have a redemption price of US$1,000 per share plus all accrued and unpaid dividends.

Compound Financial Instruments—Perpetual Bonds Redeemable for Shares

8.60

France Telecom (Dec 2010)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(In Millions of Euros)	Note	At December 31, 2010	At December 31, 2009[1]	At December 31, 2008[1]
Non-current trade payables	21	466	411	428
Non-current financial liabilities at amortized cost, excluding trade payables	21	31,617	30,502	31,326
Non-current financial liabilities at fair value through profit or loss	21	2,175	614	495
Non-current hedging derivatives liabilities	22	250	693	650
Non-current employee benefits	23	1,826	1,223	652
Non-current provisions	24	1,009	1,009	1,261
Other non-current liabilities	25	528	565	703
Deferred tax liabilities	10	1,265	1,043	1,256
Total non-current liabilities		39,136	36,060	36,771
Current trade payables	21	8,274	7,531	9,279
Current financial liabilities at amortized cost, excluding trade payables	21	4,525	6,230	8,152
Current financial liabilities at fair value through profit or loss	21	366	73	913
Current hedging derivatives liabilities	22	18	1	2
Current employee benefits	23	1,816	1,687	1,692
Current provisions	24	1,546	1,217	1,427
Other current liabilities	25	2,105	2,629	1,894
Current tax payables	10	2,353	282	258
Deferred income	25	2,588	2,443	2,721
Total current liabilities		23,591	22,093	26,338

CONSOLIDATED INCOME STATEMENT (in part)

Amounts in Millions of Euros (Except for per Share Data)	Note	2010	2009[1]	2008[1]
Cost of gross financial debt	9	(2,117)	(2,232)	(3,018)
Income and expense on net debt assets	9	120	129	263
Foreign exchange gains (losses)	9	56	(42)	(51)
Other financial Income and expense	9	(59)	(61)	(78)
Finance costs, net		(2,000)	(2,206)	(2,884)

CONSOLIDATED STATEMENT OF CASH FLOWS (in part)

(Amounts in Millions of Euros)	Note	At December 31, 2010	At December 31, 2009	At December 31, 2008
Financing Activities				
Issuances				
Bonds	21	3,948	4,638	4,047
Other long-term debt	21	405	421	1,311
Redemptions and repayments				
Bonds	21	(6,413)	(4,963)	(6,328)
Other long-term debt	21	(575)	(2,248)	(708)
Equity portion of hybrid debt	20–21	—	(97)	(64)
Other changes				
Increase (decrease) in bank overdrafts and short-term borrowings	21	238	(1,253)	966
Decrease (increase) deposits and other debt-linked financial assets (including cash collateral)	21	778	(590)	672
Exchange rate effect of derivatives, net		(149)	(360)	(377)
Purchase of treasury shares	20	11	(8)	(33)
Changes in ownership interests with no gain/loss of control				
O/w Orange Botswana		(38)	—	—
O/w FT España		—	(1,387)	(169)
O/w TP S.A.		—	—	(200)
O/w Mobistar		—	—	(175)
O/w others		(8)	1	(25)
Capital increase (decrease)—owners of the parent company	20	1	2	11
Capital increase (decrease)—non-controlling interests	20	3	2	(100)
Dividends paid to non-controlling interests	20	(612)	(571)	(585)
Dividends paid to owners of the parent company	20–29	(3,706)	(3,141)	(4,949)
Net cash used in financing activities		(6,117)	(9,554)	(6,706)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 2. Accounting Policies

2.17. Financials Assets and Liabilities (in part)

Financial assets and liabilities are recognized initially at fair value. They are subsequently measured either at fair value or amortized cost using the effective interest method, in accordance with the IAS 39 category they belong to.

The effective interest rate is the rate that discounts estimated future cash payments through the expected contractual term, or the most probable expected term of the financial instrument, to the net carrying amount of the financial liability. This calculation includes all fees and points paid or received between parties to the contract.

Recognition and Measurement of Financial Assets (in part)

Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit or loss are:

- assets held for trading that the Group acquired principally for the purpose of selling them in the near term;
- assets that form a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking;
- derivative assets not qualifying for hedge accounting;
- assets voluntarily classified at inception in this category because:
  - — this classification allows to eliminate or to significantly reduce a measurement or recognition inconsistency regarding recognition of assets or liabilities linked together, that would otherwise be assessed differently (for instance, a financial asset measured at fair value, linked to a financial liability measured at amortized cost),
  - — a group of financial assets, financial liabilities or both is managed and its performance is valued on a fair value basis, in accordance with a documented risk management or investment strategy, and information about this group of financial instruments is provided internally on that basis to the Group's key management personnel,
  - — the Group decides not to separate from the host contract a separable embedded derivative. It should then assess the entire hybrid instrument at its fair value.

The Group can designate at fair value at inception cash and cash equivalents with high liquidity and low volatility investments such as negotiable debt securities, deposits and mutual funds (OPCVM).

The Group classifies as cash equivalents in the statement of financial position and in the statement of cash flows the investments which meet the conditions required by IAS 7 (assets easily convertible into a determined cash amount and subject to a remote risk of change in value) and which have a maturity shorter than three months from the date of acquisition.

Recognition and Measurement of Financial Liabilities (in part)

Compound Instruments

Certain financial instruments comprise both a liability component and an equity component. For the Group, they comprise perpetual bonds redeemable for shares (TDIRA) and bonds convertible into or exchangeable for new or existing shares (OCEANE).

On initial recognition, the fair value of the liability component is the present value of the contractually determined stream of future cash flows discounted at the rate of interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option.

The equity component is assigned to the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component.

The equity component determined at initial recognition is not subsequently remeasured.

Financial Liabilities at Fair Value Through Profit or Loss

The abovementioned comments relating to financial assets at fair value through profit or loss are applicable to the financial liabilities of identical nature.

Note 21. Financial Liabilities and Net Financial Debt (in part)

21.2. Net Financial Debt

Net financial debt as defined and used by France Telecom corresponds to (a) financial liabilities excluding operating payables (translated at the year-end closing rate), less (b): (i) all derivative instruments carried in assets, (ii) cash collateral paid on derivative instruments, (iii) some deposits related to financing, (iv) cash, cash equivalents and financial assets at fair value, and, since 2010 (v) the loan granted by the Group to the joint venture Everything Everywhere.

Derivatives qualifying as cash flow hedge and net investment hedge are set up to hedge items that are not included in net financial debt (future cash flows, net investment in foreign currencies). However, as the market value of these derivatives is included in the calculation of net financial debt, the "effective portion of cash flow hedges" and the "unrealized gain or loss on net investment hedges" (c) are added to net financial debt to offset this temporary difference.

Items in the Statement of Financial Position Included in the Calculation of Net Financial Debt

	December 31, 2010		December 31, 2009		December 31, 2008	
(In Millions of Euros)	Statement of Financial Position	O/w Included in Calculation of Net Financial Debt	Statement of Financial Position	O/w Included in Calculation of Net Financial Debt	Statement of Financial Position	O/w Included in Calculation of Net Financial Debt
Non-current financial liabilities at amortized cost, excluding trade payables	31,617	31,397	30,502	30,322	31,326	31,192
Non-current financial liabilities at fair value through profit or loss	2,175	2,175	614	614	495	495
Non-current hedging derivatives liabilities	250	250	693	693	650	650
Current financial liabilities at amortized cost, excluding trade payables	4,525	4,525	6,230[1]	6,058	8,152	8,152
Current financial liabilities at fair value through profit or loss	366	366	73	73	913	913
Current hedging derivatives liabilities	18	18	1	1	2	2
Liabilities included in the calculation of net financial debt (a)		38,731		37,761		41,404
Assets available for sale	119	0	220	87	202	90
Non-current loans and receivables	891	367	2,554[2]	767	1,553	250
Non-current financial assets at fair value through profit or loss	96	96	199	199	106	106
Non-current hedging derivatives assets	328	328	180	180	625	625
Current loans and other receivables	775	734	1,093	76	67	2
Current financial assets at fair value through profit or loss, excluding cash equivalents	758	758	91	91	720	720
Current hedging derivatives assets	72	72	18	18	75	75
Cash equivalents	3,201	3,201	2,911	2,911	3,766	3,766
Cash	1,227	1,227	894	894	928	928
Assets included in the calculation of net financial debt (b)		6,783		5,223		6,562
Retained earnings	2,775	(108)	539	(4)	1,247	582
Components of equity included in the calculation of net financial debt (c)		(108)		(4)		582
Net financial debt (a) – (b) + (c)		31,840		32,534		35,424

[1] The 172 million euros liability representing cash generated during the second half of 2009 by assets held for sale and invested at France Telecom S.A. is excluded from the net financial debt.

[2] The 1,407 million euros loan granted to assets held for sale is not included in net financial debt at December 31, 2009. Out of this amount, 625 million pounds sterling were reimbursed on April 1, 2010.

Analysis of Net Financial Debt

(In Millions of Euros)	Note	December 31, 2010	December 31, 2009	December 31, 2008
TDIRA	21.3	1,594	1,631	2,860
Bonds, excluding TDIRA	21.4	29,434	31,094	29,932
Bank loans	21.5	2,249	1,543	3,167
Finance lease liabilities		561	664	1,231
Securitization debt		582	807	1,231
Cash collateral received		236	—	—
Commercial paper		601	300	603
Bank overdrafts		165	96	97
Commitment to purchase Mobinil-ECMS shares	3	1,880	—	—
Other commitments to purchase non-controlling interests		8	23	55
Amena price guarantee	3	—	—	810
Other financial liabilities		525	243	223
Derivatives (liabilities)	22	896	1,360	1,195
Liabilities included in the calculation of net financial debt (a)		38,731	37,761	41,404
Derivatives (assets)	22	598	483	915
Gross financial debt after derivatives		38,133	37,278	40,489
Deposits related to QTE leases and similar items (assets available-for-sale)	15	—	87	90
Cash collateral paid	17	265	758	238
Deposits related to securitization	17	—	73	—
Other deposits related to financing	17	110	11	14
Loan granted to the joint venture Everything Everywhere	17	726	—	—
Other financial assets at fair value, excluding derivatives	18	656	6	611
Cash equivalents	18	3,201	2,911	3,766
Cash	17	1,227	894	928
Assets included in the calculation of net financial debt (b)		6,783	5,223	6,562
Effective portion of cash flow hedges		(1)	23	608
Unrealized gain (loss) on net investment hedges		(107)	(27)	(26)
Components of equity included in the calculation of net financial debt (c)		(108)	(4)	582
Net financial debt (a)-(b) + (c)		31,840	32,534	35,424

Debt maturity schedules are presented in Note 27.3.

21.3. Perpetual Bonds Redeemable for Shares (TDIRA)

On March 3, 2003, under the terms of the MCSA settlement agreement (see Note 31), France Telecom issued perpetual bonds redeemable for shares (TDIRA), with a nominal value of 14,100 euros each, reserved for members of the banking syndicate (the "Bank Tranche") and for MobilCom's suppliers (the "Supplier Tranche"). The TDIRA are listed on Eurolist by Euronext Paris (international section) and were approved by the *Commission des Opérations de Bourse* (French Securities Regulator) on February 24, 2003.

The TDIRA are redeemable to new France Telecom ordinary shares, at any time at the holders' request or, under certain conditions as described in the appropriate information memorandum, at France Telecom's initiative based on a ratio of 503.4654 shares to one TDIRA for the Bank Tranche (i.e. conversion price of 28.006 euros) and 405.7175 shares to one TDIRA for the Supplier Tranche (i.e. conversion price of 34.753 euros), as the initial ratio of 300 shares to one TDIRA has been adjusted several times to protect bondholders' rights, and may be further adjusted under the terms and conditions set out in the information memorandum.

From January 1, 2006 until December 31, 2009, the interest rate on the TDIRA was 5.25%. Since January 1, 2010, the interest rate on the TDIRA has been 3-month Euribor + 2.5%.

If no dividend payment is voted in the Ordinary Shareholders' Meeting or no interim dividend payment is paid by the Board of Directors during the 12 months preceding the coupon payment, France Telecom can delay payment of the coupon. The amount of interest due will itself bear interest at the 12-month Euribor rate until the deferred payments are made. This deferred interest must be paid in full—including the related accrued interest—at the date of payment of the coupon following any decision to pay a dividend or interim dividend and before redemption of the TDIRA.

Taking into account redemptions made since their issue, 129,635 TDIRA remained outstanding at December 31, 2010, including 111,905 for the Bank Tranche and 17,730 for the Supplier Tranche, for a nominal amount of 1,828 million euros.

The TDIRA are classified as hybrid instruments, with the following breakdown at December 31, 2010:

- a liability component of 1,594 million euros recognized at amortized cost;

- an equity component, before deferred taxes, of 439 million euros. This component, calculated at inception, does not vary over the lifetime of the instrument, with the exception of redemptions.

The difference between the total nominal amount of the TDIRA and the sum of the liability and equity components therefore equals the amortized cost adjustment on the liability component recognized since inception.

(In Millions of Euros)	December 31, 2010	December 31, 2009	December 31, 2008
Number	129,635	129,635	230,382
Equity component, before deferred tax	439	439	780
Original liability component (a)	1,389	1,389	2,468
Nominal amount of TDIRA	1,828	1,828	3,248
Amortized cost adjustment, excluding accrued interest (b)	190	146	221
Accrued interest (c)	15	96	171
Total liability in statement of financial position (a) + (b) + (c)	1,594	1,631	2,860
Effective interest rate on the liability component	7.07%	7.77%	7.51%
Paid interest	140	206	220

Note 27. Other Information on Exposure to Market Risks

27.3. Liquidity Risk Management (in part)

The France Telecom Group's policy is that it must be able to meet its upcoming loan repayments from available cash and existing credit lines, without recourse to additional financing, for at least the next 12 months.

Smoothing Debt Maturities

Debt maturities are spread consistently over the next years, as evidenced by the average maturity of net debt excluding TDIRAs, which was 8.5 years at the end of 2010 (7.4 years at the end of 2009 and 7.5 years at the end of 2008).

The following table shows undiscounted future cash flows for each financial liability shown on the statement of financial position. The key assumptions used are:

- amounts in foreign currencies are translated at the year-end closing rate;
- future variable-rate interest is based on the last fixed coupon, except if a better estimate is available;
- as the perpetual bonds redeemable for shares (TDIRA) are undated, redemptions of the nominal amount are not dated. In addition, from January 1, 2010, interest payable on the bonds switched to a variable rate over an undetermined period of time (see Note 21.3). Accordingly, interest from that date other than for the first period is no longer included, as including interest payments for the other periods would not provide relevant information;
- the maturity dates of revolving credit facilities are the contractual maturity dates.

Transfers of Financial Assets—Securitization of Receivables

8.61

Sappi Limited (Sep 2010)

GROUP BALANCE SHEET (in part)

At September 2010

(US$ Million)	Note	2010	2009
Assets			
Current assets		2,531	2,430
Inventories	15	836	792
Trade and other receivables	16	888	858
Financial instruments	29	15	10
Cash and cash equivalents		792	770

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Accounting Policies (in part)

2.2. Summary of Accounting Policies (in part)

2.2.3. Financial Instruments (in part)

(iii) Subsequent Measurement (in part)

- Loans and receivables

Loans and receivables are carried at amortized cost, with interest revenue recognized in profit and loss for the period using the effective interest method.

4.1. Operating Profit

(US$ Million)	2010	2009	2008
Silviculture costs (included within cost of sales)	67	50	50
Leasing charges for premises	14	16	16
Leasing charges for plant and equipment	48	15	32
Remuneration paid other than to employees of the company in respect of:	31	27	33
—technical services	12	11	15
—administration services	19	16	18
Auditors' remuneration:	8	8	10
—audit and related services	7	6	6
—tax planning and tax advice	1	1	1
—acquisition and refinancing related services(*)	—	1	3
Government grants towards environmental expenditure	—	(2)	(1)
Research and development costs	25	31	34
Amortization	3	2	—
Cost on derecognition of loans and receivables(**)	14	16	22
Directors' remuneration			
—executive directors—salaries and benefits	1	2	2
—non-executive directors—fees	1	1	1

(*) These costs have been capitalized.
(**) The cost on derecognition of trade receivables relates to the derecognition of trade receivables related to the securitization programme in South Africa and to the sale of letters of credit in Hong Kong.

16. Trade and Other Receivables

(US$ Million)	2010	2009
Trade accounts receivable, gross	754	682
Allowance for credit losses	(14)	(15)
Trade accounts receivable, net	740	667
Prepayments and other receivables	148	191
	888	858

Management rate the quality of the trade and other receivables, which are neither past due nor impaired, periodically against its internal credit rating parameters. The quality of these trade receivables is such that management believe no impairment provision is necessary, except in situations where they are part of individually impaired trade receivables.

The carrying amount of US$888 million (2009: US$858 million) represents the group's maximum credit risk exposure from trade and other receivables.

Prepayments and other receivables primarily represent prepaid insurance and other sundry receivables.

	2010	2009
Trade receivables (including securitized trade receivables) to turnover (%)	15%	16%

16.1. Reconciliation of the Allowance for Credit Losses

	2010	2009
Balance at beginning of year	15	5
Raised during the year	9	16
Released during the year	(9)	(6)
Foreign exchange currency translation effect	(1)	—
Balance at end of year	14	15

An allowance has been made for estimated irrecoverable amounts from the sale of goods of US$14 million (2009: US$15 million). This allowance has been determined by reference to specific customer delinquencies.

16.2. Analysis of Amounts Past Due

September 2010

The following provides an analysis of the amounts that are past the due contractual maturity dates:

	Not Impaired	Impaired	Total
Less than 7 days overdue	18	—	18
Between 7 and 30 days overdue	18	—	18
Between 30 and 60 days overdue	3	1	4
More than 60 days overdue	15	13	28
	54	14	68

September 2009

The following provides an analysis of the amounts that are past the due contractual maturity dates:

	Not Impaired	Impaired	Total
Less than 7 days overdue	9	—	9
Between 7 and 30 days overdue	29	—	29
Between 30 and 60 days overdue	9	—	9
More than 60 days overdue	19	15	34
	66	15	81

All amounts due which are beyond their contractual repayment terms are reported to regional management on a regular basis. Any provision for impairment is required to be approved in line with the group limits of authority framework.

The group has a provision of US$14 million (2009: US$15 million) against trade receivables that are past due.

The group holds collateral of US$17 million (2009: US$17 million) against these trade receivables that are past due.

The group has granted facilities to customers to buy on credit for the following amounts:

	2010	2009
Less than US$0.5 million	331	332
Less than US$1 million but equal to or greater than US$0.5 million	276	275
Less than US$3 million but equal to or greater than US$1 million	557	495
Less than US$5 million but equal to or greater than US$3 million	225	212
Equal to or greater than US$5 million	965	951
	2,354	2,265

16.3. Fair Value

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

16.4. Trade Receivables Pledged as Security

Trade receivables with a value of US$486 million (2009: US$460 million) have been pledged as collateral for amounts received from the banks in respect of the securitization programme. The value of the associated liabilities at year end amounted to US$447 million (2009: US$400 million). The group is restricted from selling and repledging the trade receivables that have been pledged as collateral for the liability.

16.5. Off Balance Sheet Structures

Letters of Credit Discounting

To improve the group working capital, the group sells certain Letters of Credit to ABN AMRO Hong Kong and DBS Bank (London) at the end of each financial month on a non-recourse basis.

"Scheck-Wechsel"

The Scheck-Wechsel is a financial guarantee supplied by Sappi to the bank of certain customers (trade receivables) who wish to obtain a loan to finance early payment of specified trade receivables (thereby benefiting from an early settlement discount). By signing the Scheck-Wechsel, Sappi provides a financial guarantee to the bank of the customer.

This financial guarantee contract is initially recognized at fair value. At inception, the risk for Sappi having to reimburse the bank is nil because there is no evidence that the customer will not reimburse its loan to the bank. There is also no guarantee fee due by the bank and the Scheck-Wechsel is a short term instrument (maximum 90 days). Therefore the fair value is zero at inception. Subsequently, the financial guarantee contract is measured at the higher of:

(i) the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
(ii) the amount initially recognized less any cumulative amortization.

As no event of default has occurred, no provision has been set up and the fair value at year end remains at zero. However, according to IAS 37, a contingent liability of US$29 million (2009: US$25 million) has been disclosed in this respect.

Trade Receivables Securitization

To improve our cash flows in a cost-effective manner, Sappi Trading, Sappi Fine Paper Europe and Sappi Fine Paper North America sell all eligible trade receivables on a non-recourse basis to special purpose entities (SPEs) that are owned and controlled by third party financial institutions. These SPEs are funded with us but securitize assets on behalf of their sponsors for a diverse range of unrelated parties. We have a servicing agreement with the entities acquiring our receivables, acting as servicers for the collection of cash and administration of the trade receivables sold.

Sappi Southern Africa Securitization Facility

Sappi sells the majority of its ZAR receivables to Rand Merchant Bank Limited, which issues commercial paper to finance the purchase of the receivables. Sappi does not guarantee the recoverability of any amounts, but shares proportionately with Rand Merchant Bank Limited the credit risk of each underlying receivable, after all recoveries, including insurance recoveries, with Sappi bearing 15% of such risk (and Rand Merchant Bank Limited the remainder). Sappi administers the collection of all amounts processed on behalf of the bank that are due from the customer. The purchase price of these receivables is adjusted dependent on the timing of the payment received from the client. The rate of discounting that is charged on the receivables is JIBAR (Johannesburg Inter Bank Agreed Rate) plus a spread. This structure is currently treated as an off balance sheet arrangement.

If this securitization facility were to be terminated, we would discontinue further sales of trade receivables and would not incur any losses in respect of receivables previously sold in excess of the 15% mentioned above. There are a number of events which may trigger termination of the facility, amongst others, an amount of defaults above a specified level; terms and conditions of the agreement not being met; or breaches of various credit insurance ratios. The impact on liquidity varies according to the terms of the agreement; generally however, future trade receivables would be recorded on balance sheet until a replacement agreement was entered into.

The total amount of trade receivables sold at the end of September 2010 amounted to US$215 million (September 2009: US$171 million). Details of the securitization programme at the end of fiscal 2010 and 2009 are disclosed in the tables below:

Bank	Currency	Value	Facility	Discount Charges
2010				
Rand Merchant Bank Limited	ZAR	ZAR 1,510 million	Unlimited(*)	Linked to 3 month JIBAR
2009				
Rand Merchant Bank Limited	ZAR	ZAR 1,268 million	Unlimited(*)	Linked to 3 month JIBAR

(*) The facility in respect of the securitization facility is unlimited, but subject to the sale of qualifying receivables to the bank.

Details of the on balance sheet securitization facilities are described in note 20.

16.6 Analysis of Customers

A significant portion of the group's sales and accounts receivable are from major groups of customers. None of the group's major customers represented more than 10% of our sales during the years ended September 2010 and September 2009. Where appropriate, credit insurance has been taken out over the group's trade receivables.

None of the group's other receivable financial instruments represent a high concentration of credit risk because the group has dealings with a variety of major banks and customers world-wide.

The group has the following amounts due from single customers:

	2010			2009		
	No. of Customers	**US$ Million**	**Percentage**	**No. of Customers**	**US$ Million**	**Percentage**
Greater than US$10 million	7	131	18%	6	82	12%
Between US$5 million and US$10 million	13	81	11%	9	55	8%
Less than US$5 million	2,176	528	71%	2,519	530	80%
	2,196	740	100%	2,534	667	100%

None of the trade receivables, with balances of equal to or greater than US$5 million as at year end have breached their contractual maturity terms. No impairment charges have been recognized in respect of customers who owe the group more than US$5 million.

Refer note 29 for further details on credit risk.

20. Interest-Bearing Borrowings

(US$ Million)	**2010**	**2009**	**2008**
Secured borrowings			
—Mortgage and pledge over trade receivables and certain assets (refer note 24 for details of encumbered assets)	1,605	1,849	468
—Capitalized lease liabilities (refer note 24 for details of encumbered assets)	50	71	29
Total secured borrowings(*)	1,655	1,920	497
Unsecured borrowings(*)	1,353	1,407	2,156
Total borrowings (refer note 29)	3,008	3,327	2,653
Less: Current portion included in current liabilities	691	601	821
	2,317	2,726	1,832

(*) Our September 2009 disclosure has been amended to correctly reflect the split between secured and unsecured interest-bearing borrowings and to reflect the classification set out in the detailed list of borrowings in note 20 to the 2009 group annual financial statements.

	As Previously Reported	**Adjustment**	**Adjusted**
Secured borrowings(**)	1,350	570	1,920
Unsecured borrowings	1,977	(570)	1,407
Total	3,327	—	3,327

(**) Mortgage and pledge over trade receivables and certain assets of US$1,849 million was previously disclosed as US$1,321 million, and capitalized lease liabilities of US$71 million was previously disclosed as US$29 million.

The repayment profile of the interest-bearing borrowings is as follows:

Payable in the Year Ended September:

2010(*)	—	601
2011(*)	691	261
2012	892	890
2013	352	338
2014	842	895
2015 (September 2009: thereafter)	7	342
Thereafter	224	—
	3,008	3,327

(*) Included in the US$691 million reflected as payable in 2010 is US$447 million debt relating to securitization funding (2009: US$400 million included in US$601 million) which has the character of a short-term revolving facility but is expected to run until 31 December 2011 under the existing contractual arrangements, and the intention is to renew this arrangement well ahead of maturity.

Capitalized Lease Liabilities

Finance leases are primarily for plant and equipment. Lease terms generally range from 5 to 10 years with options to make early settlements or renew at varying terms. At the time of entering into capital lease agreements, the commitments are recorded at their present value using applicable interest rates. As of September 2010, the aggregate amounts of minimum lease payments and the related imputed interest under capitalized lease contracts payable in each of the next five financial years and thereafter are as follows:

	2010			2009		
(US$ Million)	**Minimum Lease Payments**	**Interest**	**Present Value of Minimum Lease Payments**	**Minimum Lease Payments**	**Interest**	**Present Value of Minimum Lease Payments**
Payable in the year ended September:						
2010	—	—	—	23	(4)	19
2011	16	(5)	11	17	(3)	14
2012	17	(3)	14	18	(2)	16
2013	15	(2)	13	15	(2)	13
2014	6	(1)	5	6	(1)	5
2015 (September 2009: thereafter)	7	—	7	7	(1)	6
Total future minimum lease payments	61	(11)	50	86	(13)	73

Set out below are details of the more significant non-current interest-bearing borrowings in the group at September 2010.

	Currency	**Interest Rate**	**Principal Amount Outstanding**	**Balance Sheet Value**	**Security/ Cession**	**Expiry**	**Financial Covenants**
Redeemable Bonds							
Public bond	EUR	Fixed	EUR350 million	EUR319 million (2,6)	Property, plant and equipment, intercompany receivables and shares in subsidiaries	August 2014	No financial covenants
Public bond	US$	Fixed(7)	US$300 million (7)	US$274 million (2,6)	Property, plant and equipment, intercompany receivables and shares in subsidiaries	August 2014	No financial covenants
Public bond	US$	Fixed	US$500 million	US$513 million (2,3,6)	Unsecured	June 2012	No financial covenants
Public bond	US$	Fixed	US$221 million	US$222 million (2,3,6)	Unsecured	June 2032	No financial covenants
Public bond	ZAR	Fixed	ZAR1,000 million	ZAR1,000 million	Unsecured	June 2013	No financial covenants
Public bond	ZAR	Fixed	ZAR1,000 million	ZAR1,000 million	Unsecured	October 2011	No financial covenants
Public bond	ZAR	Fixed	ZAR498 million	ZAR498 million (6)	Unsecured	June 2012	No financial covenants
Private placement bond	ZAR	Fixed	ZAR134 million	ZAR134 million	Unsecured	November 2012	No financial covenants
Private placement bond	ZAR	Fixed	ZAR133 million	ZAR133 million	Unsecured	January 2013	No financial covenants
Private placement bond	ZAR	Fixed	ZAR33 million	ZAR33 million	Unsecured	March 2013	No financial covenants
Private placement bond	ZAR	Fixed	ZAR61 million	ZAR61 million (6)	Unsecured	December 2013	No financial covenants

	Currency	Interest Rate	Principal Amount Outstanding	Balance Sheet Value	Security/ Cession	Expiry	Financial Covenants
Secured Loans							
State Street Bank	EUR	Variable	EUR231 million	EUR231 million	Trade receivables	Revolving facility	EBITDA to net interest and net debt to EBITDA[5]
State Street Bank	US$	Variable	US$61 million	US$61 million	Trade receivables	Revolving facility	EBITDA to net interest and net debt to EBITDA[5]
State Street Bank	US$	Variable	US$75 million	US$75 million	Trade receivables	Revolving facility	EBITDA to net interest and net debt to EBITDA[5]
Österreichische Kontrollbank	EUR	Fixed	EUR320 million	EUR310 million[2,6]	Property, plant and equipment, intercompany receivables and shares in subsidiaries	April 2014	EBITDA to net interest and net debt to EBITDA[5]
Österreichische Kontrollbank	EUR	Variable	EUR25 million	EUR25 million[1,2]	Property, plant and equipment, intercompany receivables and shares in subsidiaries	June 2013	EBITDA to net interest and net debt to EBITDA[5]
Capitalized Leases							
Fortum	EUR	Variable	EUR22 million	EUR22 million	Plant and equipment	November 2012	No financial covenants
Rand Merchant Bank	ZAR	Fixed	ZAR148 million	ZAR148 million[1]	Buildings	September 2015	No financial covenants
Unsecured Bank Term Loans							
Österreichische Kontrollbank	EUR	Variable	EUR58 million	EUR58 million[1]	Unsecured	December 2010	No financial covenants
Nedbank	ZAR	Fixed	ZAR350 million	ZAR350 million[1]	Unsecured	January 2011	No financial covenants
Nedbank	ZAR	Fixed	ZAR397 million	ZAR397 million	Unsecured	March 2014	Gearing ratio/interest & dividend cover[4]
Peritum Trading	ZAR	Fixed	ZAR13 million	ZAR13 million[1]	Unsecured	June 2014	No financial covenants
Royal Bank of Scotland	EUR	Fixed	EUR12 million	EUR12 million	Unsecured	December 2010	No financial covenants

	Local Currency Million	US$ Million
The analysis of the currency per debt is:		
US$[8]	1,151	1,151
EURO	979	1,321
ZAR	3,766	536
		3,008

(1) The value outstanding equals the total facility available.

(2) In terms of the agreement, limitations exist on liens, sale and leaseback transactions and mergers and consolidation. Sappi Limited must maintain a majority holding in Sappi Papier Holding GmbH Group.

(3) Sappi Papier Holding GmbH, Sappi Limited or Sappi International SA may at any time redeem the June 2012 and 2032 public bonds (the "Securities") in whole or in part at a redemption price equal to the greater of (i) 100% of the principal amount of the Securities to be redeemed and (ii) a make-whole amount based upon the present values of remaining payments at a rate based upon yields of specified US treasury securities plus 25 basis points, with respect to the 2012 Securities, and 30 basis points, with respect to the 2032 Securities, together with, in each case, accrued interest on the principal amount of the securities to be redeemed to the date of redemption.

(4) The financial covenant relates to the financial position of Sappi Southern Africa (Pty) Ltd., a wholly owned subsidiary of Sappi Limited.

(5) Financial covenants relate to the Sappi Limited Group.

(6) The principal value of the loans/bonds corresponds to the amount of the facility, however, the outstanding amount has been adjusted by the discounts paid upfront and the fair value adjustments relating to hedge accounting.

(7) USD Fixed rates have been swapped into EUR fixed rates. These swaps are subject to hedge accounting in order to reduce as far as possible the foreign exchange exposure.

(8) This amount includes debt of US$300 million that is swapped into Euro.

A detailed reconciliation of total interest-bearing borrowings has been performed in note 29.

Other Restrictions

As is the norm for bank loan debt, a portion of Sappi Limited's financial indebtedness is subject to cross default provisions. Breaches in bank covenants in certain subsidiaries, if not corrected in time, might result in a default in group debt, and in this case, a portion of Sappi Limited consolidated liabilities might eventually become payable on demand.

During fiscal 2010 and 2009 we were in compliance with the financial covenants relating to all loans payable. Regular monitoring of compliance with applicable covenants occurs. If there is a possible breach of a financial covenant in the future, negotiations would commence with the applicable institutions before such breach occurs.

Borrowing Facilities Secured by Trade Receivables

The group undertakes several trade receivable securitization programs due to the cost effectiveness of such structures. These structures, with the exception of the South African scheme, are accounted as on balance sheet, with a corresponding liability (external loan) being recognized and corresponding interest is recognized as finance cost.

The trade receivables are legally transferred, however most of the market risk (foreign exchange risk and interest rate risk) and the credit risk is retained by Sappi. As a consequence, based on the risks and rewards evaluation, these securitized receivables do not qualify for de-recognition under IAS 39.

Further detail of the value of trade receivables pledged as security for these loans is included in note 16.

Sappi Fine Paper North America

Sappi sells the majority of its US$ receivables to Galleon Capital LLC on a non-recourse basis. Credit enhancement includes a 3% deferred purchase price plus a letter of credit in the amount of US$18 million that relates to the uninsured portion of those obligors with concentrations above 3% (Sappi, as servicer of the receivables, is responsible for the collection of all amounts that are due from the customer). The rate of discounting charged on the receivables is LIBOR (London Inter Bank Offered Rate) plus a margin for receivables to customers located in Organization for Economic Co-operation and Development ("OECD") countries.

Sappi Fine Paper Europe and Sappi Trading

Under a combined securitization arrangement for Sappi Fine Paper Europe and Sappi Trading, Sappi sells receivables to Galleon Capital LLC on a non-recourse basis. Credit enhancement is calculated by deducting a deferred purchase price of 14%. Sappi is responsible for the collection of all amounts that are due from the customer. The rate of discounting that is charged on the receivables is LIBOR (London Inter Bank Offered Rate) plus a margin for receivables to customers located in OECD countries plus a further margin for receivables to customers located in non-OECD countries.

Unutilized Facilities

The group monitors its availability of funds on a weekly basis. The group treasury committee determines the amount of unutilized facilities to determine the headroom which it currently operates in. The net cash balances included in current assets and current liabilities are included in the determination of the headroom available.

Unutilized Committed Facilities

(US$ Million)	Currency	Interest Rate	2010	2009
Syndicated loan(*)	EUR	Variable (EURIBOR)	282	307

(*) Syndicated loan with a consortium of banks with JP Morgan Europe Limited as facility agent with a remaining revolving facility available of EUR209 million, which is subject to financial covenants relating to the Sappi Limited Group and is secured by the same assets as the public bonds maturing in 2014.

These committed facilities represent amounts that the group could utilize. The syndicated loan facility matures in May 2012.

We have paid a total commitment fee of US$7 million (2009: US$0.8 million) in respect of the syndicated loan facility.

Unutilized Uncommitted Facilities

(US$ Million)	Currency	Interest Rate	2010	2009
Held by:				
Southern Africa	ZAR	Variable (JIBAR)	417	445
Group Treasury—Europe	EUR	Variable (EURIBOR)	—	54
			417	499
Total unutilized facilities (committed and uncommitted) excluding cash			699	806

Fair Value

The fair value of all interest-bearing borrowings is disclosed in note 29 on financial instruments.

29. Financial Instruments (in part)

The group's financial instruments consist mainly of cash and cash equivalents, accounts receivable, certain investments, accounts payable, borrowings and derivative instruments.

Sensitivity Analysis: Interest Rate Risk—in Case of a Credit Rating Downgrade of SAPPI

The following table shows the sensitivity of securitization debt to changes in the group's own credit rating. The securitization agreement stipulates that if the company were downgraded below our current grading, an additional margin would be agreed between the bank and the company. In this respect we assumed a hypothetical increase of 1.5%.

Please note that the change in value of the securitization debt is included in the sensitivity analysis of floating rate debt in the table below:

Securitization in Europe and Hong Kong	Notional	Impact on Income Statement of a One Notch Downgrade Below BB- Credit Rating
(US$ Million)		
Europe	311	5
Hong Kong	75	1
Sub-total	386	6
Impact calculated on total portfolio amounts to	1.55%	

The pricing of the securitization contracts in Europe and Hong Kong would be impacted as set out in the table above if the company were to be downgraded below the current rating. Based on the existing agreement, the US securitization arrangement would not be impacted by a possible downgrade, as there are sufficient other credit enhancements to mitigate the co-mingling risk.

The table below shows the sensitivity of certain fixed rate debt to changes in the group's own credit rating. The agreements of these specific external loans stipulate that if the company were downgraded below our current grading, an additional margin would be added to the contractual funding rate.

External Loan Agreements Sensitive to the Group's Own Credit Rating

(US$ Million)	Notional	Impact on Income Statement of Downgrade Below BB "Secured" Credit Rating
Commitment fee on unused revolving credit facility	282	1
Interest on utilised bank syndicated loan	432	3
Interest on utilised bank loan	34	—
Sub-total	748	4
Impact calculated on total portfolio amounts to	0.53%	

			Categories According to IAS 39			
Classes of Financial Instruments	**Total Balance**	**Out of Scope IAS 39(*)**	**Held for Trading**	**Other Financial Liabilities**	**Total in Scope**	**Fair Value**
Non-Current Liabilities						
Interest-bearing borrowings	2,317	—	—	2,317	2,317	2,612
Bank loans payable (>1 year)—including syndicated loans		—	—	103	103	107
Bonds		—	—	1,796	1,796	2,052
Financial leasing liabilities		—	—	39	39	34
Secured loans		—	—	379	379	419
Current Liabilities						
Interest-bearing borrowings	691	—	—	691	691	732
Bank loans payable (<1 year)—including syndicated loans		—	—	96	96	96
Current portion of other non-current loans payable		—	—	62	62	62
Financial leasing liabilities		—	—	13	13	13
Secured loans (<1 year)		—	—	148	148	182
Securitization debt		—	—	372	372	379
Overdraft						
Bank overdrafts (<3 months)	5	—	—	5	5	5
Derivative financial instruments	3	—	3	—	3	3
Trade and other payables	1,271	280	—	991	991	991
Accruals		278	—	249	249	249
Accounts payable to associates		—	—	1	1	1
Other accounts payable—current		2	—	741	741	741

(*) This refers to items that are outside the scope of IAS 39.

Derivatives and Hedging

8.62

Siemens Aktiengesellschaft (Sep 2010)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (in part)

As of September 30, 2010 and 2009
(In millions of €)

	Note	9/30/10	9/30/09
Assets			
Current assets			
Cash and cash equivalents		14,108	10,159
Available-for-sale financial assets	11	246	170
Trade and other receivables	12	14,971	14,449
Other current financial assets[(1)]	13	2,610	2,407
Inventories	14	14,950	14,129
Income tax receivables		790	612
Other current assets	15	1,258	1,191
Assets classified as held for disposal	4	715	517
Total current assets		49,648	43,634
Goodwill	16	15,763	15,821
Other intangible assets	17	4,969	5,026
Property, plant and equipment	18	11,748	11,323
Investments accounted for using the equity method	19	4,724	4,679
Other financial assets[(1)]	20	11,296	10,525
Deferred tax assets	10	3,940	3,291
Other assets		739	627
Total assets		102,827	94,926
Liabilities and Equity			
Current liabilities			
Short-term debt and current maturities of long-term debt	23	2,416	698
Trade payables		7,880	7,593
Other current financial liabilities[(1)]	21	1,401	1,600
Current provisions	25	5,138	4,191
Income tax payables		1,816	1,936
Other current liabilities	22	21,794	20,311
Liabilities associated with assets classified as held for disposal	4	146	157
Total current liabilities		40,591	36,486
Long-term debt	23	17,497	18,940
Pension plans and similar commitments	24	8,464	5,938
Deferred tax liabilities	10	577	776
Provisions	25	3,332	2,771
Other financial liabilities[(1)]		990	706
Other liabilities	26	2,280	2,022
Total liabilities		73,731	67,639

[(1)] Due to the retrospective application of an amended accounting pronouncement in fiscal 2010, certain derivatives, not qualifying for hedge accounting, were reclassified from current to non-current (see Note 2 to the Consolidated Financial Statements).

CONSOLIDATED STATEMENTS OF INCOME (in part)

For the fiscal years ended September 30, 2010, 2009 and 2008
(In millions of €, per share amounts in €)

	Note	2010	2009	2008
Interest income	9	2,161	2,136	2,404
Interest expense	9	(1,890)	(2,213)	(2,208)
Other financial income (expense), net	9	(336)	(433)	(74)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (in part)

For the fiscal years ended September 30, 2010, 2009 and 2008
(In millions of €)

	Note	2010	2009	2008
Derivative financial instruments	31, 32	(149)	329	(237)

(1) Amortization, depreciation and impairments, in fiscal 2010, includes €1,145 related to the goodwill impairment at Healthcare's Diagnostics Division. In fiscal 2009, (income) losses from investments include €1,634 related to an impairment of our equity method investment NSN. Impairments, net of reversals of impairments, on non-current available-for-sale investments are reclassified retrospectively to conform to the current year presentation.

(2) Pension related interest income (expense) is reclassified retrospectively to conform to the current year presentation.

(3) Investments include equity instruments either classified as non-current available-for-sale financial assets, accounted for using the equity method or classified as held for disposal. Purchases of investments include certain loans to investments accounted for using the equity method.

(4) Includes effects from the retrospective application of an amended accounting pronouncement in fiscal 2010, which resulted in the reclassification of certain derivatives, not qualifying for hedge accounting, from current to non-current. In addition, the prior-year presentation related to derivatives qualifying for cash flow hedge accounting was reclassified to conform to the current year presentation.

(5) In fiscal 2010, the current portion of long-term provisions and accruals was reclassified. Prior-year amounts were adjusted to conform to the current year presentation.

(6) Following a change in accounting pronouncements with the beginning of fiscal year 2010 additions to assets held for rental in operating leases, in previous years reported under additions to intangible assets and property, plant and equipment, were retrospectively reclassified from net cash provided by (used in) investing activities to net cash provided by (used in) operating activities. For further information, see Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the fiscal years ended September 30, 2010, 2009 and 2008
(In millions of €)

			Total Comprehensive Income								
				Other Components of Equity							
	Common Stock	Additional Paid-In Capital	Retained Earnings	Currency Translation Differences	Available-for-Sale Financial Assets	Derivative Financial Instruments	Total	Treasury Shares at Cost	Total Equity Attributable to Share-holders of Siemens AG	Non-Controlling Interests	Total Equity
Balance at October 1, 2009	2,743	5,946	22,646	(1,294)	76	161	21,589	(3,632)	26,646	641	27,287
Net income	—	—	3,899	—	—	—	3,899	—	3,899	169	4,068
Other comprehensive income, net of tax	—	—	(2,053)[(1)]	1,176	19	(149)	(1,007)	—	(1,007)	43	(964)[(2)]
Dividends	—	—	(1,388)	—	—	—	(1,388)	—	(1,388)	(183)	(1,571)
Issuance of common stock and share-based payment	—	60	(19)	—	—	—	(19)	—	41	—	41
Re-issuance of treasury stock	—	(20)	—	—	—	—	—	259	239	—	239
Other changes in equity	—	—	(87)	3	—	—	(84)	—	(84)	80	(4)
Balance at September 30, 2010	2,743	5,986	22,998	(115)	95	12	22,990	(3,373)	28,346	750	29,096

(1) Retained earnings includes actuarial gains and losses on pension plans and similar commitments of €(2,053), €(1,248) and €(1,716), respectively, in the fiscal years ended September 30, 2010, 2009 and 2008.

(2) In the fiscal year ended September 30, 2010, Other comprehensive income includes non controlling interests of €(1) relating to Actuarial gains and losses on pension plans and similar commitments, €44 relating to Currency translation differences, €—relating to Available-for-sale financial assets and €—relating to Derivative financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Summary of Significant Accounting Policies (in part)

Financial instruments—A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets of the Company mainly include cash and cash equivalents, available-for-sale financial assets, trade receivables, loans receivable, finance lease receivables and derivative financial instruments with a positive fair value. Cash and cash equivalents are not included within the category available-for-sale financial assets as these financial instruments are not subject to fluctuations in value. Siemens does not make use of the category held to maturity. Financial liabilities of the Company mainly comprise notes and bonds, loans from banks, commercial paper, trade payables, finance lease payables and derivative financial instruments with a negative fair value. Siemens does not make use of the option to designate financial assets or financial liabilities at fair value through profit or loss at inception (Fair Value Option). Based on their nature, financial instruments are classified as financial assets and financial liabilities measured at cost or amortized cost and financial assets and financial liabilities measured at fair value and as receivables from finance leases. See Notes 31 and 32 for further information.

Financial instruments are recognized on the Statement of Financial Position when Siemens becomes a party to the contractual obligations of the instrument. Regular way purchases or sales of financial assets, i.e. purchases or sales under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned, are accounted for at the trade date.

Initially, financial instruments are recognized at their fair value. Transaction costs directly attributable to the acquisition or issue of financial instruments are only recognized in determining the carrying amount, if the financial instruments are not measured at fair value through profit or loss. Finance lease receivables are recognized at an amount equal to the net investment in the lease. Subsequently, financial assets and liabilities are measured according to the category—cash and cash equivalents, available-for-sale financial assets, loans and receivables, financial liabilities measured at amortized cost or financial assets and liabilities classified as held for trading—to which they are assigned.

Financial liabilities—Siemens measures financial liabilities, except for derivative financial instruments, at amortized cost using the effective interest method.

Derivative financial instruments—Derivative financial instruments, such as foreign currency exchange contracts and interest rate swap contracts, are measured at fair value. Derivative instruments are classified as held for trading unless they are designated as hedging instruments, for which hedge accounting is applied. Changes in the fair value of derivative financial instruments are recognized periodically either in net income or, in the case of a cash flow hedge, in *Other comprehensive income,* net of applicable deferred income taxes. Certain derivative instruments embedded in host contracts are also accounted for separately as derivatives.

Fair value hedges—The carrying amount of the hedged item is adjusted by the gain or loss attributable to the hedged risk. Where an unrecognized firm commitment is designated as the hedged item, the subsequent cumulative change in its fair value is recognized as a separate financial asset or liability with corresponding gain or loss recognized in net income.

For hedged items carried at amortized cost, the adjustment is amortized such that it is fully amortized by maturity of the hedged item. For hedged firm commitments the initial carrying

amount of the assets or liabilities that result from meeting the firm commitments are adjusted to include the cumulative changes in the fair value that were previously recognized as separate financial assets or liabilities.

Cash flow hedges—The effective portion of changes in the fair value of derivative instruments designated as cash flow hedges are recognized in *Other comprehensive income*, net of applicable deferred income taxes, and any ineffective portion is recognized immediately in net income. Amounts accumulated in equity are reclassified into net income in the same periods in which the hedged item affects net income, see Note 32 for further information.

Prior year information—The presentation of certain prior year information has been reclassified to conform to the current year presentation. Specifically, in May 2008, the IASB issued a standard for improvements to International Financial Reporting Standards. In the Consolidated Statements of Cash Flow, according to an amendment of IAS 7, *Statement of Cash Flows*, cash flows to manufacture or acquire assets held for rental and subsequent sale in the course of the ordinary activities are presented as cash flows from operating activities. Previously, cash outflows in the context of operating leases have been presented as cash flows from investing activities. The amended IAS 7 is effective for annual periods beginning on or after January 1, 2009. Siemens applied the amendment retrospectively in the Statement of Cash Flow in fiscal year 2010. The amended IAS 1, applied retrospectively in fiscal 2010, resulted in the reclassification of certain derivative financial instruments, not qualifying for hedge accounting, from current to non-current. As of September 30, 2008, €227 were reclassified from *Other current financial assets* to *Other financial assets* and €334 from *Other current financial liabilities* to *Other financial liabilities*. As of September 30, 2009, the reclassification from *Other current financial assets and liabilities* to *Other financial assets and liabilities* amounted to €507 and €555, respectively. Beginning in fiscal 2010, the Company presents total interest income and expense separately in the Consolidated Statements of Income in accordance with Part II of the Annual Improvements Project 2008 of the IASB. Additionally, pension-related interest income (expense) as well as impairments, net of reversals of impairments, on investments accounted for using the equity method and non-current available-for-sale investments are reclassified retrospectively in the Consolidated Statements of Cash Flow to conform to the current year presentation.

9. Interest Income, Interest Expense and Other Financial Income (Expense), Net (in part)

	Year Ended September 30		
	2010	2009	2008
Pension related interest income	1,396	1,303	1,510
Interest income, other than pension	765	833	894
Interest income	2,161	2,136	2,404
Pension related interest expense	(1,461)	(1,530)	(1,374)
Interest expense, other than pension	(429)	(683)	(834)
Interest expense	(1,890)	(2,213)	(2,208)
Income (expense) from available-for-sale financial assets, net	44	(12)	89
Miscellaneous financial income (expense), net	(380)	(421)	(163)
Other financial income (expense), net	(336)	(433)	(74)

Miscellaneous financial income (expense), net, in fiscal 2010, 2009 and 2008, comprises gains (losses) of €(313), €(200) and €(81), respectively, as a result of the accretion of provisions and the increase (decrease) in the discount rate, as well as expenses as a result of allowances and write offs of finance receivables, net of reversals of €(63), €(162) and €(55), respectively. It also includes gains and losses related to derivative financial instruments.

13. Other Current Financial Assets

	September 30	
	2010	2009
Derivative financial instruments	949	782
Loans receivable	740	786
Other	921	839
	2,610	2,407

20. Other Financial Assets

	September 30	
	2010	2009
Receivables from finance leases, see Note 12	3,094	3,147
Loans receivable	3,032	2,949
Derivative financial instruments	2,693	2,089
Trade receivables from sale of goods and services	531	453
Available-for-sale financial assets	486	391
Other	1,460	1,496
	11,296	10,525

Available-for-sale financial assets include interests in other companies that are recorded at cost or at fair value if reliably measurable. Regarding *Derivative financial instruments* see Note 31 and Note 32. *Loans receivable* primarily relate to long-term loan transactions of SFS. *Loans receivable* include a shareholder loan to NSN granted in fiscal 2009, see Note 39.

21. Other Current Financial Liabilities

	September 30	
	2010	**2009**
Derivative financial instruments, see Notes 31 and 32	442	454
Accrued interest expense	327	325
Other	632	821
	1,401	1,600

27. Equity (in part)

Other Comprehensive Income

The changes in the other comprehensive income including non-controlling interest holders are as follows:

	Year Ended September 30, 2010			Year Ended September 30, 2009			Year Ended September 30, 2008		
	Pretax	**Tax Effect**	**Net**	**Pretax**	**Tax Effect**	**Net**	**Pretax**	**Tax Effect**	**Net**
Unrealized holding gains (losses) on available-for-sale financial assets	41	(4)	37	46	(8)	38	(135)	10	(125)
Reclassification adjustments for (gains) losses included in net income	(24)	6	(18)	44	(10)	34	1	2	3
Net unrealized gains (losses) on available-for-sale financial assets	17	2	19	90	(18)	72	(134)	12	(122)
Unrealized gains (losses) on derivative financial instruments	(163)	39	(124)	335	(101)	234	(124)	33	(91)
Reclassification adjustments for (gains) losses included in net income	(36)	11	(25)	138	(43)	95	(212)	66	(146)
Net unrealized gains (losses) on derivative financial instruments	(199)	50	(149)	473	(144)	329	(336)	99	(237)
Foreign-currency translation differences	1,220	—	1,220	(506)	—	(506)	(313)	—	(313)
Actuarial gains and losses on pension plans and similar commitments	(2,889)	835	(2,054)	(1,692)	443	(1,249)	(1,721)	2	(1,719)
Other comprehensive income	(1,851)	887	(964)	(1,635)	281	(1,354)	(2,504)	113	(2,391)

31. Additional Disclosures on Financial Instruments

The following table presents the carrying amounts of each category of financial assets and financial liabilities:

	September 30	
	2010	**2009**
Financial assets:		
Loans and receivables	24,749	24,119
Cash and cash equivalents	14,108	10,159
Derivatives designated in a hedge accounting relationship	2,232	1,895
Financial assets held for trading	1,410	976
Available-for-sale financial assets	732	561
	43,231	37,710
Financial liabilities:		
Financial liabilities measured at amortized cost	28,922	28,539
Financial liabilities held for trading	1,098	864
Derivatives designated in a hedge accounting relationship	164	134
	30,184	29,537

The following table presents the fair values and carrying amounts of financial assets and financial liabilities measured at cost or amortized cost:

	September 30, 2010		September 30, 2009	
	Fair Value	Carrying Amount	Fair Value	Carrying Amount
Financial assets measured at cost or amortized cost				
Trade and other receivables[1]	14,111	14,111	13,951	13,951
Receivables from finance leases	4,879	4,879	4,885	4,885
Cash and cash equivalents	14,108	14,108	10,159	10,159
Other non-derivative financial assets	5,759	5,759	5,283	5,283
Available-for-sale financial assets[2]	—	410	—	335
Financial liabilities measured at cost or amortized cost				
Notes and bonds	17,343	17,300	16,373	16,502
Trade payables	7,899	7,899	7,617	7,617
Loans from banks and other financial indebtedness	2,439	2,442	2,941	2,942
Obligations under finance leases	169	171	191	194
Other non-derivative financial liabilities	1,110	1,110	1,284	1,284

(1) This caption consists of (i) €13,186 and €12,711 short-term trade receivables (except for receivables from finance leases) in fiscal 2010 and fiscal 2009, respectively, see Note 12, (ii) €531 and €453 trade receivables from sale of goods and services (non current) in fiscal 2010 and fiscal 2009, respectively, see Note 20 as well as (iii) €394 and €787 receivables included in Other financial assets in fiscal 2010 and fiscal 2009, respectively, see Note 20.

(2) This caption consists of equity instruments classified as available-for-sale, for which a fair value could not be reliably measured and which are recognized at cost.

The fair values of cash and cash equivalents, current receivables, trade payables, other current financial liabilities, commercial paper and borrowings under revolving credit facilities approximate their carrying amount largely due to the short-term maturities of these instruments.

Long-term fixed-rate and variable-rate receivables, including receivables from finance leases, are evaluated by the Company based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer, and the risk characteristics of the financed project. Based on this evaluation, allowances for these receivables are taken into account. As of September 30, 2010 and 2009, the carrying amounts of such receivables, net of allowances, approximate their fair values.

The fair value of quoted notes and bonds is based on price quotations at the period-end date. The fair value of unquoted notes and bonds, loans from banks and other financial indebtedness, obligations under finance leases as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt of similar terms and remaining maturities.

Financial instruments categorized as financial assets and financial liabilities measured at fair value are presented in the following table:

	September 30	
	2010	2009
Financial assets measured at fair value		
Available-for-sale financial assets	322	226
Derivative financial instruments	3,642	2,871
Not designated in a hedge accounting relationship	1,314	820
In connection with fair value hedges	1,936	1,474
Foreign currency exchange derivatives	9	10
Interest rate derivatives	1,927	1,464
In connection with cash flow hedges	296	421
Foreign currency exchange derivatives	295	413
Interest rate derivatives	—	8
Commodity derivatives	1	—
Embedded derivatives	96	156
Financial liabilities measured at fair value		
Derivative financial instruments	1,262	998
Not designated in a hedge accounting relationship	998	731
In connection with fair value hedges	11	4
Foreign currency exchange derivatives	11	4
Interest rate derivatives	—	—
In connection with cash flow hedges	153	130
Foreign currency exchange derivatives	137	130
Interest rate derivatives	16	—
Commodity derivatives	—	—
Embedded derivatives	100	133

Fair values for available-for-sale financial assets are derived from quoted market prices in active markets.

The Company limits default risks in derivative instruments by a careful counterparty selection. Derivative instruments are principally transacted with financial institutions with investment grade credit ratings. The fair valuation of derivative instruments at Siemens incorporates all factors that market participants would consider, including an adequate consideration of the counterparties' credit risks. This assures that the counterparties' credit risks themselves as well as any changes in the counterparties' credit worthiness are included in the fair valuation of the Company's derivative instruments and thus reflected in the Consolidated Financial Statements. The exact calculation of fair values for derivative financial instruments depends on the specific type of instruments:

Derivative interest rate contracts—The fair values of derivative interest rate contracts (e.g. interest rate swap agreements) are estimated by discounting expected future cash flows using current market interest rates and yield curves over the remaining term of the instrument. Interest rate options are valued on the basis of quoted market prices or on estimates based on option pricing models.

Derivative currency contracts—The fair value of forward foreign exchange contracts is based on forward exchange rates. Currency options are valued on the basis of quoted market prices or on estimates based on option pricing models.

Derivative commodity contracts—The fair value of commodity swaps is based on forward commodity prices. Commodity options are valued on the basis of quoted market prices or on estimates based on option pricing models.

Credit default swaps—The fair value of credit default swaps is calculated by comparing discounted expected future cash flows using current bank conditions with discounted expected future cash flows using contracted conditions.

In determining the fair values of the derivative financial instruments, no compensating effects from underlying transactions (e.g. firm commitments and anticipated transactions) are taken into consideration.

The following table allocates financial assets and financial liabilities measured at fair value to the three levels of the fair value hierarchy, as defined in IFRS 7.

	September 30, 2010			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Available-for-sale financial assets	322	—	—	322
Derivative financial instruments	—	3,642	—	3,642
Total	322	3,642	—	3,964
Financial liabilities measured at fair value				
Derivative financial instruments	—	1,262	—	1,262

	September 30, 2009			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Available-for-sale financial assets	226	—	—	226
Derivative financial instruments	—	2,871	—	2,871
Total	226	2,871	—	3,097
Financial liabilities measured at fair value				
Derivative financial instruments	—	998	—	998

The levels of the fair value hierarchy and its application to our financial assets and financial liabilities are described below:

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

Net gains (losses) of financial instruments are as follows:

	Year Ended September 30	
	2010	2009
Cash and cash equivalents	(34)	7
Available-for-sale financial assets	16	(44)
Loans and receivables	(87)	(419)
Financial liabilities measured at amortized cost	(283)	302
Financial assets and financial liabilities held for trading	(665)	34

Net gains (2009: losses) on available-for-sale financial assets include impairment losses, gains or losses on derecognition and the ineffective portion of fair value hedges. For the amount of unrealized gains or losses on available-for-sale financial assets recognized directly in equity during the fiscal year and the amount removed from equity and recognized in net income for the fiscal year see *Other Comprehensive Income* in Note 27.

Net losses on loans and receivables contain changes in valuation allowances, gains or losses on derecognition as well as recoveries of amounts previously written-off.

Net losses (2009: gains) on financial liabilities measured at amortized cost are comprised of gains or losses from derecognition and the ineffective portion of fair value hedges.

Net losses (2009: gains) on financial assets and financial liabilities held for trading consist of changes in the fair value of derivative financial instruments (including interest income and expense), for which hedge accounting is not applied.

The amounts presented include foreign currency gains and losses from the realization and valuation of the financial assets and liabilities mentioned above.

Collateral

Siemens holds securities as collateral on reverse repurchase agreements and is permitted to sell or re-pledge these securities. As of September 30, 2010 and 2009 the fair value of the collateral held amounted to €2,042 and €716, respectively. As of September 30, 2010, the right to sell or re-pledge the collateral has not been exercised. As of September 30, 2010 and 2009, the carrying amount of financial assets Siemens has pledged as collateral amounted to €537 and €482, respectively.

32. Derivative Financial Instruments and Hedging Activities

As part of the Company's risk management program, a variety of derivative financial instruments are used to reduce risks resulting primarily from fluctuations in foreign currency exchange rates, interest rates and commodity prices, as well as to reduce credit risks. For additional information on the Company's risk management strategies, including the use of derivative financial instruments to mitigate or eliminate certain of these risks, see also Note 33.

The fair values of each type of derivative financial instruments are as follows:

	September 30, 2010		September 30, 2009	
	Asset	Liability	Asset	Liability
Foreign currency exchange contracts	858	423	735	462
Interest rate swaps and combined interest/currency swaps	2,317	416	1,764	204
Commodity swaps	78	11	43	23
Embedded derivatives	96	100	156	133
Options	289	308	170	172
Other	4	4	3	4
	3,642	1,262	2,871	998

Foreign Currency Exchange Risk Management

As described in Note 33, the Company employs various derivative financial instruments in order to mitigate or eliminate certain foreign-currency exchange risks.

Derivative Financial Instruments not Designated in a Hedging Relationship

The Company manages its risks associated with fluctuations in foreign-currency-denominated receivables, payables, debt, firm commitments and anticipated transactions primarily through a Company-wide portfolio approach. This approach concentrates the associated Company-wide risks centrally, and various derivative financial instruments, primarily foreign currency exchange contracts and options, are utilized to minimize such risks. Such a strategy does not qualify for hedge accounting treatment under IAS 39, *Financial Instruments: Recognition and Measurement*. Accordingly, all such derivative financial instruments are recorded at fair value on the Consolidated Statements of Financial Position, either as *Other current financial assets/liabilities* or *Other financial assets/liabilities,* and changes in fair values are charged to net income (loss).

The Company also has foreign-currency derivative instruments, which are embedded in certain sale and purchase contracts denominated in a currency other than the functional currency of the significant parties to the contract and other than a currency which is commonly used in the economic environment in which the contract takes place. Gains or losses relating to such embedded foreign-currency derivatives are reported in *Cost of goods sold and services rendered* in the Consolidated Statements of Income.

Hedging Activities

The Company's operating units applied hedge accounting for certain significant anticipated transactions and firm commitments denominated in foreign currencies. Specifically, the Company entered into foreign exchange contracts to reduce the risk of variability of future cash flows resulting from forecasted sales and purchases and firm commitments resulting from its business units entering into long-term contracts

(project business) and standard product business which are denominated primarily in U.S. dollar.

Cash flow hedges—Changes in fair value of forward exchange contracts that were designated as foreign-currency cash flow hedges are recorded as follows: the portion of the fair value changes that is determined to be an effective hedge is recognized in *Other comprehensive income,* whereas the ineffective portion of the fair value changes is recognized in profit or loss. As of September 30, 2010 and 2009, the ineffective portion that was immediately recorded in profit or loss amounted to €(15) and €6, respectively. In fiscal 2010, 2009 and 2008, net gains and losses of €1, €(6), and €5, respectively, were reclassified from *Other comprehensive income* into *Cost of goods sold and services rendered* because the occurrence of the related hedged forecasted transaction was no longer probable. The development of *Other comprehensive income* resulting from changes in fair value of these transactions as well as from amounts that were removed and included in profit or loss is presented in Note 27.

It is expected that €87 of net deferred gains in *Other comprehensive income* will be reclassified into *Cost of goods sold and services rendered* in fiscal 2011, when the hedged forecasted foreign-currency denominated transaction affects profit or loss.

As of September 30, 2010, the maximum length of time over which the Company is hedging its future cash flows associated with foreign-currency forecasted transactions is 195 months.

Fair value hedges—As of September 30, 2010 and 2009, the Company hedged firm commitments using forward exchange contracts that were designated as foreign-currency fair value hedges of future sales related primarily to the Company's project business and, to a lesser extent, purchases. As of September 30, 2010 and 2009, the hedging transactions resulted in the recognition of financial assets of €17 and €13, respectively, and financial liabilities of €14 and €23, respectively, for the hedged firm commitments. Changes in fair value of forward exchange contracts resulted in losses of €15 and gains of €2, respectively. These effects relate to gains from the valuation of firm commitments of €15 and losses of €2, respectively. Changes in fair value of the forward exchange contracts as well as of the firm commitments were recorded in *Cost of goods sold and services rendered*.

Interest Rate Risk Management

Interest rate risk arises from the sensitivity of financial assets and liabilities to changes in market rates of interest. The Company seeks to mitigate this risk by entering into interest rate derivative financial instruments such as interest rate swaps (see also Note 33), options and, to a lesser extent, cross-currency interest rate swaps and interest rate futures, as well as forward rate agreements.

Derivative Financial Instruments not Designated in a Hedging Relationship

Starting with the first quarter of fiscal 2010, the interest rate risk management relating to the Group excluding SFS business has been realigned with the financial market environment. Under this portfolio-based approach, derivative financial instruments are used to manage interest risk actively relative to a benchmark, consisting of medium-term interest rate swaps and forward rates. Compared to the former interest rate overlay management, the benchmark approach may result in longer interest periods of derivatives and higher nominal volumes. The interest rate management relating to the SFS business remains to be managed separately, considering the term structure of SFS' financial assets and liabilities on a portfolio basis. Both approaches do not qualify for hedge accounting treatment under IAS 39. Accordingly, all interest rate derivative instruments used in this relation are recorded at fair value, either as *Other current financial assets/liabilities* or *Other financial assets/liabilities,* and changes in the fair values are charged to *Financial income (expense), net.* Net cash receipts and payments relating to interest rate swaps used in offsetting relationships are also recorded in *Financial income (expense), net*.

Fair Value Hedges of Fixed-Rate Debt Obligations

Under the interest rate swap agreements outstanding during the years ended September 30, 2010 and 2009, the Company agrees to pay a variable rate of interest multiplied by a notional principle amount, and receives in return an amount equal to a specified fixed rate of interest multiplied by the same notional principal amount. These interest rate swap agreements offset an impact of future changes in interest rates on the fair value of the underlying fixed-rate debt obligations. The interest rate swap contracts are reflected at fair value in the Company's Consolidated Statements of Financial Position and the related portion of fixed-rate debt being hedged is reflected at an amount equal to the sum of its carrying amount plus an adjustment representing the change in fair value of the debt obligations attributable to the interest rate risk being hedged. Changes in the fair value of interest rate swap contracts and the offsetting changes in the adjusted carrying amount of the related portion of fixed-rate debt being hedged are recognized as *Financial income (expense), net* in the Consolidated Statements of Income. Adjustments in the carrying amount of the debt obligations resulted in a loss of €498 and a loss of €848, respectively. During the same period, the related swap agreements resulted in a gain of €521 and a gain of €931, respectively. Therefore, the net effect recognized in *Financial income (expense), net,* representing the ineffective portion of the hedging relationship, amounted to €23 and €83 in fiscal 2010 and 2009, respectively. Net cash receipts and payments relating to such interest rate swap agreements are recorded as interest income and expense, respectively.

The Company had interest rate swap contracts to pay variable rates of interest of an average of 0.8 percent, 0.9 percent and 4.5 percent as of September 30, 2010, 2009 and 2008, respectively and received fixed rates of interest (average rate of 5.3 percent, 5.4 percent and 5.6 percent as of September 30, 2010, 2009 and 2008, respectively). The notional amount of indebtedness hedged as of September 30, 2010, 2009 and 2008 was €15,299, €15,565 and €11,766, respectively. This changed 91 percent, 94 percent and 89 percent of the Company's underlying notes and bonds from fixed interest rates into variable interest rates as of September 30, 2010, 2009 and 2008, respectively. The notional amounts of these contracts mature at varying dates based on the maturity of the underlying hedged items. The net fair value of interest rate swap contracts (excluding accrued interest) used to hedge indebtedness as of September 30, 2010, 2009 and 2008 was €1,665, €1,224 and €291, respectively.

Fair Value Hedges of Available-for-Sale Financial Assets

In fiscal 2008, the Company had applied fair value hedge accounting for certain fixed-rate available-for-sale financial assets. However, fair value hedge accounting was terminated at the beginning of fiscal 2008, since the majority of the hedged item was derecognized. There was no such hedging relationship in fiscal 2010 and 2009. To offset the impact of future changes in interest rates on the fair value of the underlying fixed-rate available-for-sale financial assets, interest rate swap agreements had been entered into. As long as hedge accounting was applied, the interest rate swap contracts and the related portion of the available-for-sale financial assets were reflected at fair value in the Company's Consolidated Statements of Financial Position. Changes in the fair value of interest rate swap contracts and the offsetting changes in fair value of the available-for-sale financial assets being hedged attributable to the interest rate risk being hedged were recognized as adjustments to the line item *Financial income (expense), net* in the Consolidated Statements of Income. The net effect recognized in *Financial income (expense), net,* representing the ineffective portion of the hedging relationship, amounted to €— in fiscal 2010.

Cash Flow Hedges of Revolving Term Deposits

In fiscal, 2010 and 2009, the Company applied cash flow hedge accounting for a revolving term deposit. To offset the effect of future changes in interest payments of this revolving term deposit, the Company had entered into an interest rate swap agreement to pay a variable rate of interest and to receive a specified fixed rate of interest. When the swap contract ended in June 2010, cash flow hedge accounting was terminated. As long as hedge accounting was applied, the interest rate swap contract was reflected at fair value and the effective portion of changes in fair value were recorded in *Other comprehensive income*; any ineffective portion of changes in fair value was recognized in profit or loss. In fiscal 2010 and 2009, the cash flow hedges of revolving term deposits did not result in any ineffective portion to be recognized in profit or loss. Net cash receipts and payments relating to such interest rate swap agreements were recorded as interest income and expense, respectively.

Cash Flow Hedges of a Variable-Rate Term Loan

As of September 30, 2010, the Company applied cash flow hedge accounting for 50 percent of a variable-rate U.S. dollar term loan. To benefit from the low interest rates in the U.S., the Company entered into interest rate swap agreements to pay a fixed rate of interest and to receive in return a variable rate of interest. These interest rate swap agreements offset the effect of future changes in interest payments to be made for the underlying variable-rate term loan. The interest rate swap contracts are reflected at fair value and the effective portion of changes in fair value of the interest rate swap contracts that were designated as cash flow hedges are recorded in *Other comprehensive income*; any ineffective portion of changes in fair value is recognized in profit or loss. In fiscal 2010, the cash flow hedges of the variable-rate term loan did not lead to any ineffective portion to be recognized in profit or loss. Net cash receipts and payments relating to such interest rate swap agreements are recorded as interest income and expense, respectively.

Commodity Price Risk Management

As described in Note 33, the Company employs commodity derivatives in order to mitigate or eliminate price risks from the procurement of commodities.

Derivative Financial Instruments not Designated in a Hedging Relationship

The Company partly uses a portfolio approach to manage the Company-wide risks associated with fluctuations in commodity prices from firm commitments and anticipated transactions by entering into commodity swaps and commodity options. As such, a strategy does not qualify for hedge accounting treatment under IAS 39, *Financial Instruments: Recognition and Measurement*, the derivative financial instruments are recorded at fair value on the Consolidated Statements of Financial Position, either as *Other current financial assets/liabilites* or *Other financial assets/liabilities,* and changes in fair values are charged to net income (loss).

Cash Flow Hedging Activities

As of June 2010, the Company's corporate procurement applies cash flow hedge accounting for certain firm commitments to purchase copper. Changes in fair value of the swaps which are used in the hedging relationship are recorded as follows: the portion of the fair value changes that is determined to be an effective hedge is recognized in *Other comprehensive income,* whereas the ineffective portion of the fair value changes is recognized in profit or loss. As of September 30, 2010, there was no ineffective portion that had to be recorded in profit or loss. In fiscal 2010, no gains or losses were reclassified from *Other comprehensive income* into *Cost of goods sold and services rendered* because the occurrence of the related hedged forecasted transaction was no longer probable. The development of *Other comprehensive income* resulting from changes in fair value of these transactions as well as from amounts that were removed and included in profit or loss is presented in Note 27.

It is expected that €1 of net deferred gains in *Other comprehensive income* will be reclassified into *Cost of goods sold and services rendered* in fiscal 2011, when the consumption of the hedged commodity purchases is recognized as *Cost of goods sold and services rendered*. As of September 30, 2010, the maximum length of time over which the Company is hedging its future commodity purchases is 12 months.

33. Financial Risk Management (in part)

Market Risks

Siemens' financial risk management is an integral part of how to plan and execute its business strategies. Siemens' financial risk management policy is set by the Managing Board. Siemens' organizational and accountability structure requires each of the respective managements of Siemens Sectors, Cross-Sector Businesses, Regional Clusters and Corporate Units to implement financial risk management programs that are tailored to their specific industries and responsibilities, while being consistent with the overall policy established by the Managing Board.

Increasing market fluctuations may result in significant cash-flow and profit volatility risk for Siemens. Its worldwide operating business as well as its investment and financing activities are affected by changes in foreign exchange rates,

interest rates, and commodity and equity prices. To optimize the allocation of the financial resources across the Siemens segments and entities, as well as to secure an optimal return for its shareholders, Siemens identifies, analyzes and proactively manages the associated financial market risks. The Company seeks to manage and control these risks primarily through its regular operating and financing activities, and uses derivative instruments when deemed appropriate.

Within the various methodologies to analyze and manage risk, Siemens implemented a system based on parametric variance-covariance Value at Risk (VaR). The VaR methodology provides a quantification of the market risk based on historical volatilities and correlations of the different risk factors under the assumptions of the parametric variance-covariance Value at Risk model. The VaR figures are calculated based on

- historical volatilities and correlations,
- a ten day holding period and
- a 99.5 percent confidence level

for all defined financial risks.

Actual results that are included in the Consolidated Statements of Income may differ substantially from VaR figures due to fundamental conceptual differences. The Consolidated Statements of Income are prepared in accordance with IFRS. The VaR figures result from a pure financial calculation model which calculates a potential financial loss which does not exceed stated VaR within ten days with a probability of 99.5 percent. The concept of VaR is used for internal management of the Treasury activities.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based rise to some limitations including the following. A 10-day holding period assumes that it is possible to dispose of positions within this period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period. A 99.5 percent confident level does not reflect losses that may occur beyond this level. Even within the model used there is a 0.5 percent statistical probability that losses could exceed the calculated VaR. The use of historical data as a basis for estimating the statistic behavior of the relevant markets and finally determining the possible range of the future outcomes out of this statistic behavior may not always cover all possible scenarios, especially those of an exceptional nature.

Any market sensitive instruments, including equity and interest bearing investments, that our Company's pension plans hold are not included in the following quantitative and qualitative disclosure. For additional information see Note 24. SFS holds a minor trading portfolio which is subject to tight limits. As of September 30, 2010, and 2009, respectively, it had a value at risk (VaR) close to zero.

Foreign Currency Exchange Rate Risk

Transaction Risk and Currency Management

Siemens' international operations expose the Company to foreign-currency exchange risks, especially between the U.S. dollar and the euro, in the ordinary course of business. The Company employs various strategies discussed below involving the use of derivative financial instruments to mitigate or eliminate certain of those exposures.

Foreign exchange rate fluctuations may create unwanted and unpredictable earnings and cash flow volatility. Each Siemens unit conducting business with international counterparties that leads to future cash flows denominated in a currency other than its functional currency is exposed to the risk from changes in foreign exchange rates.

Foreign currency exposure is partly balanced by purchasing of goods, commodities and services in the respective currencies as well as production activities and other contributions along the value chain in the local markets.

Operating units are prohibited from borrowing or investing in foreign currencies on a speculative basis. Intercompany financing or investments of operating units are preferably done in their functional currency or on a hedged basis.

Siemens has established a foreign exchange risk management system that has an established track record for years. Each Siemens unit is responsible for recording, assessing, monitoring, reporting and hedging its foreign currency transaction exposure. The binding guideline for Siemens Divisions and entities provides the concept for the identification and determination of the single net foreign currency position and commits the units to hedge it in a narrow band: at least 75 percent but no more than 100 percent of their net foreign currency position. In addition, the guideline provides a framework of the organizational structure necessary for foreign currency exchange management, proposes hedging strategies and defines the hedging instruments available to the entities: forward contracts, currency put and call options and stop-loss orders. Where it is not contrary to country specific regulations, hedging activities of the Siemens units are transacted internally with Corporate Treasury. Hedging transactions with external counterparties in the global financial markets are carried out under these limitations by Corporate Treasury. This includes hedging instruments which qualify for hedge accounting.

Siemens has a Company-wide portfolio approach which generates a benefit from any potential off-set of divergent cash flows in the same currency, as well as optimized transaction costs. For additional information relating to the effect of this Company-wide portfolio approach on the Consolidated Financial Statements, as well as for a discussion of hedging activities employed to mitigate or reduce foreign currency exchange risks, see Note 32.

The VaR for foreign exchange rates is calculated by aggregation of the net foreign exchange rate exposure. The figures disclosed here are based on the net foreign exchange positions after hedging. As of September 30, 2010 the foreign exchange rate risk based on historical volatilities and correlations, a ten day holding period and a confidence level of 99.5 percent resulted in a VaR of €18 compared to a VaR of €12 in the year before. Changes in euro values of future cash flows due to volatile exchange rates might influence the unhedged portion of revenues, but would also affect the unhedged portion of cost of materials. Future changes in the foreign exchange rates can impact sales prices and may lead to margin changes, the extent of which is determined by the matching of foreign currency revenues and expenses.

Siemens defines foreign exchange rate exposure generally as items of the Consolidated Statement of Financial Position in addition to firm commitments which are denominated in foreign currencies, as well as foreign currency denominated cash inflows and cash outflows from anticipated transactions for the following three months. This foreign currency exposure is determined based on the respective functional currencies of the exposed Siemens' entities.

Effects of Currency Translation

Many Siemens subsidiaries are located outside the euro zone. Since the financial reporting currency of Siemens is the euro, the financial statements of these subsidiaries are translated into euro for the preparation of the Consolidated Financial Statements of Siemens. To consider the effects of foreign exchange translation risk in the risk management, the assumption is that investments in foreign-based operations are permanent and that reinvestment is continuous. Effects from currency fluctuations on the translation of net asset amounts into euro are reflected in the Company's consolidated equity position.

Interest Rate Risk

Siemens' interest rate risk exposure is mainly related to debt obligations like bonds, loans, commercial paper programs and interest-bearing deposits and investments. Siemens seeks to manage this risk through the use of derivative instruments which allow it to hedge fair value changes by swapping fixed rates of interest into variable rates of interest. To optimize the Company's position with regard to interest income and interest expenses and to manage the overall financial interest rate risk with respect to valuation risk affecting profit and loss and economic risk of changing interest rates, Corporate Treasury performs a comprehensive corporate interest rate risk management, which manages the interest rate risk relating to the SFS business and to the remaining group separately. For additional information see Note 32.

Where it is not contrary to country-specific regulations, all Siemens segments and entities generally obtain any required financing through Corporate Treasury in the form of loans or intercompany clearing accounts. The same concept is adopted for deposits of cash generated by the units.

Assuming historical volatilities and correlations, a ten day holding period and a confidence level of 99.5 percent the interest rate VaR was €107 as of September 30, 2010, increasing from the comparable value of €33 as of September 30, 2009. This interest rate risk results primarily from euro and U.S. dollar denominated long-term fixed rate debt obligations and interest-bearing investments. The increase of VaR is due primarily to the realignment of the interest rate management starting with the first quarter of fiscal 2010. Compared to the former interest rate overlay management, the benchmark approach resulted in longer interest periods of derivatives and higher nominal volumes. For additional information see Note 32.

Commodity Price Risk

Siemens' production operations expose the Company to various commodity price risks in the ordinary course of business. Especially in the Industry and Energy Sector a continuous supply of copper is necessary for the operating activities. Commodity price risk fluctuations may create unwanted and unpredictable earnings and cash flow volatility. The Company employs various strategies discussed below involving the use of derivative financial instruments to mitigate or eliminate certain of those exposures.

Siemens has established a commodity price risk management system to reduce earnings and cash flow volatility. Each Siemens unit is responsible for recording, assessing, monitoring, reporting and hedging its risks from forecasted and pending commodity purchase transactions (commodity price risk exposure). The binding guideline for Siemens Divisions and entities developed by the Corporate Supply Chain Management department provides the concept for the identification and determination of the commodity price risk exposure and commits the units to hedge it in a narrow band: 75 percent—100 percent of the commodity price risk exposure in the product business for the current and the subsequent quarter and 95 percent—100 percent of the commodity price risk exposure in the project business after receipt of order.

The aggregated commodity price risk exposure is hedged with external counterparties through derivative financial hedging instruments by Corporate Treasury. Financial hedging instruments designated for hedge accounting are directly entered into with external counterparties. Additionally, Siemens has a Company-wide portfolio approach which generates a benefit from optimizing the Company's position of the overall financial commodity price risk. For additional information relating to the effect of this Company-wide portfolio approach on the Consolidated Financial Statements, as well as for a discussion of hedging activities employed to mitigate or reduce commodity price risks, see Note 32.

Using historical volatilities and correlations, a ten day holding period and a confidence level of 99.5 percent, the VaR for commodity derivatives was €47 as of September 30, 2010, decreasing from the comparable value of €68 as of September 30, 2009. However, the economic VaR, which comprises the net position of commodity derivates and the commodity purchase transactions with price risk, was €8 as of September 30, 2010.

Equity Price Risk

Siemens' investment portfolio consists of direct and indirect investments in publicly traded companies held for purposes other than trading. These participations result mainly from strategic partnerships or compensation from M&A-transactions; indirect investments are mainly transacted for financial reasons.

The equity investments are monitored based on their current market value, affected primarily by the fluctuations in the volatile technology-related markets worldwide. The market value of Siemens' portfolio in publicly traded companies as of September 30, 2010 was €138 compared to €141 as of September 30, 2009.

Based on historical volatilities and correlations, a ten day holding period and a confidence level of 99.5 percent, the VaR as of September 30, 2010 of Siemens' equity investments was €13 compared to €21 the year before, meaning that the equity price risk has decreased over the last year.

Liquidity Risk

Liquidity risk results from the Company's potential inability to meet its financial liabilities, e.g. for the settlement of its financial debt or for ongoing cash requirements from operating activities. Beyond effective working capital and cash management, Siemens mitigates liquidity risk by arranged borrowing facilities with highly rated financial institutions, via a medium-term notes program and via an established global commercial paper program. For further information on short- and long-term debt see Note 23.

In addition to the above mentioned sources of liquidity, Siemens constantly monitors funding options available in the capital markets, as well as trends in the availability and costs of such funding, with a view to maintaining financial flexibility and limiting repayment risks.

The following table reflects all contractually fixed pay-offs for settlement, repayments and interest resulting from recognized financial liabilities. It includes expected net cash outflows from derivative financial liabilities which are in place as per September 30, 2010. Such expected net cash outflows are determined based on each particular settlement date of an instrument. The amounts disclosed are undiscounted net cash outflows for the respective upcoming fiscal years, based on the earliest date on which Siemens could be required to pay. Cash outflows for financial liabilities (including interest) without fixed amount or timing are based on the conditions existing at September 30, 2010.

			Year Ended September 30	
	2011	2012	2013 to 2015	2016 and Thereafter
Non-derivative financial liabilities				
Notes and bonds	2,778	3,166	4,588	9,874
Loans from banks	328	46	2,026	13
Other financial indebtedness	27	21	63	38
Obligations under finance leases	57	21	41	73
Trade payables	7,880	12	5	2
Other financial liabilities	499	59	85	9
Derivative financial liabilities	535	296	222	56

The risk implied from the values shown in the table above, reflects the one-sided scenario of cash outflows only. Obligations under finance leases, trade payables and other financial liabilities mainly originate from the financing of assets used in our ongoing operations such as property, plant, equipment and investments in working capital—e.g. inventories and trade receivables. These assets are considered in the Company's overall liquidity risk management. To monitor existing financial assets and liabilities as well as to enable an effective controlling of future risks, Siemens has established a comprehensive risk reporting covering its worldwide business units.

The balanced view of liquidity and financial indebtedness is stated in the calculation of the Net debt. Net debt results from total debt less total liquidity. Total debt comprises *Short-term debt and current maturities of long-term debt* as well as *Long-term debt*, as stated on the Consolidated Statements of Financial Position. Total debt comprises *Notes and bonds*, *Loans from banks*, *Obligations under finance leases* and *Other financial indebtedness* such as commercial paper. Total liquidity refers to the liquid financial assets we had available at the respective period-end dates to fund our business operations and to pay for near-term obligations. Total liquidity comprises *Cash and cash equivalents* as well as current *Available-for-sale financial assets*, as stated on the Consolidated Statements of Financial Position. Management uses the *Net debt* measure for internal corporate finance management, as well as for external communication with investors, analysts and rating agencies.

	September 30	
	2010	2009
Short-term debt and current maturities of long-term debt	2,416	698
Long-term debt	17,497	18,940
Total debt	19,913	19,638
Cash and cash equivalents	14,108	10,159
Available-for-sale financial assets	246	170
Total liquidity	14,354	10,329
Net debt (Total debt less Total liquidity)	5,560	9,309

Siemens' capital resources consist of a variety of short- and long-term financial instruments including, but not limited to, loans from financial institutions, commercial paper, medium-term notes and bonds. In addition, other capital resources consist of liquid resources such as *Cash and cash equivalents*, future cash flows from operating activities and current *Available-for-sale financial assets*.

Siemens' capital requirements include, among others, scheduled debt service, regular capital spending, ongoing cash requirements from operating, Corporate Treasury and SFS financing activities, dividend payments, pension plan funding, portfolio activities and cash outflows in connection with restructuring measures.

IFRS ATT 8.62

SECTION 9: BUSINESS COMBINATIONS*

IFRS 3, *BUSINESS COMBINATIONS*

IFRSs Overview and Comparison to U.S. GAAP

Author's Note

Improvements to IFRSs, issued May 2010, amended International Financial Reporting Standard (IFRS) 3, *Business Combinations*, with respect to the following issues:

- Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS
- Measurement of noncontrolling interests
- Un-replaced and voluntarily replaced share-based payment awards

These amendments are effective for annual reporting periods beginning on or after 1 July 2010, with early application permitted. Given the issue date of these amendments, it is unlikely than any survey company would apply these amendments in its 2010 financial statements. See author's notes in this section for additional information about these clarifications.

9.01 As a result of the second phase of the joint project between the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB), the IASB issued a revised IFRS 3 in January 2008. The first phase of this project resulted in the issuance of the original IFRS 3 in 2004 and reflected the IASB's conclusion that most business combinations should be accounted for using the acquisition method. The second phase had the objective of reaching the same conclusions as FASB with respect to the application of the acquisition method. Although the IASB and FASB reached similar conclusions on most matters, several significant differences between the two standards remain.

9.02 IFRS 3 established two important changes in terminology, including the following:

- Acquisition method replaced purchase method.
- Noncontrolling interest replaced minority interest.

9.03 IFRS 3 establishes principles for recognition and measurement of identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquired entity, as well as any goodwill acquired in the business combination or any gain from a bargain purchase. IFRS 3 also establishes disclosure requirements aimed at enabling users of the financial statements to adequately evaluate the nature and financial effects of the business combination.

9.04 IFRS 3 is effective for business combinations with an acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. Early application is permitted. Application of IFRS 3 before 1 July 2009, requires disclosure of that fact and also requires application of International Accounting Standard (IAS) 27, *Consolidated and Separate Financial Statements*, as amended in 2008, at the same time. (See section 1, "General Topics and Related Disclosures," for more information on IAS 27.) Among other significant provisions, the amendments previously described to IFRS 3 replaced the term *purchase method*, which was previously used to describe the method of accounting for business combinations, with the term *acquisition method*. The IASB concluded that a business combination should be described in terms of an economic event rather than in terms of consolidation accounting.

Recognition and Measurement

IFRSs

9.05 IFRS 3 applies to a transaction or other event that meets the definition of a *business combination*, defined in IFRSs as a transaction or other event in which an acquirer obtains control of one or more businesses. IFRS 3 requires the use of the acquisition method and identification of one of the combining entities as the acquirer. The *acquirer* is the entity that obtains control of the other entities (acquirees). IFRS 3 does not apply to any of the following transactions:

- Formation of a joint venture
- Acquisition of an asset or a group of assets that does not constitute a business
- Combination of entities or businesses under common control, as it is described in paragraphs B1–B4 of appendix B, "Application Guidance," of IFRS 3

9.06 The fundamental difference between the current IFRS 3 and the former IFRS 3 is that the acquiring entity should measure each identifiable asset acquired and liability assumed at their acquisition date fair value rather than at an allocated amount of the cost of the transaction.

9.07 IFRS 3 permits an entity to measure the noncontrolling interest in the acquiree at either fair value or its proportionate share of the acquiree's net identifiable assets. If the noncontrolling interest is measured at fair value, its carrying amount includes its proportionate share of the recognized goodwill.

Author's Note

Improvements to IFRSs, issued in May 2010 and effective for annual reporting periods beginning on or after 1 July 2010, clarifies the measurement of the noncontrolling interest. For each business combination, an acquirer should measure, at the acquisition date, components of any noncontrolling interests in the acquiree that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either

* Unless otherwise indicated, references to International Accounting Standards Board (IASB) standards and interpretations throughout this 2011 edition of *IFRS Accounting Trends & Techniques* refer to the version of those standards and interpretations included in the *IFRS 2011* bound volume, the official printed consolidated text of IASB standards and interpretations, including revisions, amendments, and supporting documents, issued as of 1 January 2011.

a. fair value or
b. the present ownership instruments' proportionate share in the recognized amounts of the acquiree's identifiable net assets.

All other components of noncontrolling interests shall be measured at their acquisition date fair values, unless another measurement basis is required by IFRSs.

9.08 Limited exceptions exist to these general recognition and measurement principles for certain assets and liabilities. These exceptions include the following:

- Classify leases and insurance contracts based on the contracts' terms at their inception rather than their acquisition date, as necessary to apply other IFRSs subsequently.
- Recognize contingent liabilities assumed that constitute a present obligation and can be measured reliably, even if it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.
- Measure other assets and liabilities that fall within the scope of IAS 12, *Income Taxes*; IAS 19, *Employee Benefits*; IFRS 2, *Share-based Payment*; and IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* in accordance with those standards and not at fair value.

Author's Note

Improvements to IFRSs, issued May 2010 and effective for annual reporting periods beginning on or after 1 July 2010, clarifies the measurement of share-based payment transactions. This amendment requires an acquirer to measure at the acquisition date a liability or equity instrument related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment awards transactions with share-based payment awards transactions of the acquirer, in accordance with the method in IFRS 2.

- Measure reacquired rights based on the remaining contractual term of the related contract and indemnification assets on the same basis as the indemnified item, subject to a valuation allowance for uncollectible amounts.

9.09 An entity should recognize the difference between the sum of the fair values of the consideration transferred, the noncontrolling interest, any previously held equity interest in the acquiree, and the net identifiable assets acquired, measured in accordance with this standard, either as goodwill or, in certain circumstances, as a gain on a bargain purchase.

9.10 IFRS 3 eliminated the concept of negative goodwill. Prior to these revisions, an entity initially recognized the identifiable assets acquired and liabilities assumed (net assets acquired) at cost by allocating the consideration paid using relative fair values. When the consideration paid was more than the total fair value of the net assets acquired, the entity recognized the difference as goodwill. When the consideration paid was less than the total fair value, the entity allocated the difference and proportionately reducing carrying values. IFRS 3 now requires an entity to recognize the net assets acquired initially at fair value. Therefore, when the consideration paid is less than the fair value of the net assets, an entity recognizes this difference in profit or loss on the acquisition date and refers to this difference as a *gain on a bargain purchase*.

9.11 Paragraphs B19–B27 in appendix B of IFRS 3 include application guidance on accounting for reverse acquisitions in which the entity that issues securities (the legal acquirer) is identified as the acquiree for accounting purposes. IFRS 3 requires the accounting acquiree to meet the definition of a *business* in order for the business combination to be accounted for as a reverse acquisition. IFRS 3 requires the accounting acquirer to measure the acquisition date fair value of the consideration that it transferred for its interest in the accounting acquiree based on the number of equity interests that the legal subsidiary would have had to issue to give the owners of the legal parent the same percentage equity interest in the combined entity that results from the reverse acquisition. The accounting acquirer uses the fair value of the number of equity interests calculated in this way as the fair value of consideration transferred in exchange for the acquiree.

U.S. GAAP

Author's Note

Although IFRS 3 is the result of a convergence project between IASB and FASB, differences between IFRS 3 and Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 805, *Business Combinations*, remain. The text of IFRS 3 includes a detailed comparison of the differences between the two standards. This section only describes several key recognition and measurement differences.

9.12 Unlike IFRS 3, FASB ASC 805-20-30-1 requires an entity to measure the noncontrolling interest in the acquired entity at the acquisition date fair value on initial recognition. No alternative measurement is permitted.

9.13 Additionally, measurement differences exist between IFRSs and FASB ASC 805-20-30 even when the boards reached the same conclusions because there are differences in the measurement requirements of other standards (for example, deferred tax assets and employee benefit obligations). Disclosure requirements also can differ either because the entities within the scope of IFRS 3 are different from those entities subject to the comparable guidance under FASB ASC 805 or disclosure requirements are different for the various types of entities. For example, unlike FASB ASC 805-10-15-4, IFRS 3 does not provide a scope exception for not-for-profit entities that elect to prepare financial statements in accordance with IFRSs.

9.14 Like IFRS 3, an entity should not adjust assets and liabilities that arose from business combinations whose acquisition dates preceded the application of FASB ASC 805.

9.15 FASB ASC 805-40 provides more guidance than IFRSs on reverse acquisitions. Like IFRSs, FASB ASC 805-40-25-1 requires that the accounting acquiree must meet the definition of a *business*. FASB ASC 805-40-30-2 prescribes the identical measurement of the acquisition date fair value of the consideration transferred, as described in paragraph 9.11.

Presentation

IFRSs

9.16 IFRS 3 does not contain separate presentation requirements for normal business acquisitions beyond those found in IAS 1, *Presentation of Financial Statements*. However, because the consolidated financial statements following a reverse acquisition are issued under the name of the legal parent (accounting acquiree), appendix B of IFRS 3 requires the entity to describe in the notes to the consolidated financial statements a continuation of the financial statements of the legal subsidiary (accounting acquirer), with a retroactive adjustment of the accounting acquirer's legal capital to reflect the legal capital of the accounting acquiree. IFRS 3 also requires the legal parent to present comparative information, which is also retroactively adjusted to reflect the legal capital of the legal parent (accounting acquiree).

U.S. GAAP

9.17 Like IFRSs, FASB ASC 805-10 does not include specific presentation requirements for normal business acquisition. Presentation requirements in FASB ASC 8084-40-45 are identical to those in appendix B of IFRS 3, with respect to reverse acquisitions.

Disclosure

Author's Note

Although an entity should apply IFRS 3 prospectively, some disclosures regarding changes in accounting policies required by IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, are relevant.

IFRSs

9.18 Prior to the 2008 revision, IFRS 3 had the following three disclosure objectives:

- Disclose information that permits evaluation of the nature and financial effect of business combinations that occurred during the reporting period or after the reporting date but before the financial statements were issued.
- Disclose information that permits evaluation of gains, losses, error corrections, and other adjustments related to business combinations that were recognized in the current period.
- Disclose information that permits evaluation of changes in the carrying amount of goodwill during the period.

9.19 The 2008 revisions to IFRS 3 resulted in the latter two objectives being combined into one objective to disclose information that permits evaluation of adjustments related to business combinations recognized during the current reporting period.

9.20 Disclosure requirements that remain unchanged in the 2008 revisions to IFRS 3 include information about the nature of the combination including the following:

- Name and description of the acquiree
- Acquisition date
- Percentage of voting equity interests acquired
- Primary reasons for the business combination and a description of how the acquirer obtained control of the acquiree

9.21 Additional disclosures, including those resulting from the 2008 revisions to IFRS 3, include the following:

- Acquisition date fair value of the total consideration transferred.
- Acquisition date fair value of each major class of consideration (for example, cash, other assets, liabilities assumed, and equity instruments transferred).
- Amounts recognized for each major class of assets acquired and liabilities assumed.
- Information about contingent liabilities recognized and, if not recognized for lack of measurement reliability, the reasons why the contingency could not be measured reliably.
- Goodwill expected to be tax deductible.
- Descriptions for assets and liabilities recognized separately from the business combination.
- Amounts of any gains on bargain purchases, the line item in which gain is reported, and the reasons why combination resulted in a gain.
- Noncontrolling interest, such as the following:
  - —Amounts of noncontrolling interest, if any.
  - —Measurement basis used.
  - —If the measurement basis is fair value, information about valuation models used and key model inputs.
- Information about combinations achieved in stages, including the amount of equity interest held before the acquisition date.
- Additional information also is disclosed for each individually material combination, such as the following:
  - —Information about incomplete accounting.
  - —Changes in rights to contingent consideration.
  - —Reconciliation of the carrying amount of goodwill.
  - —Qualitative description of the factors that make up the goodwill recognized (for example, expected synergies from combined operations and intangible assets that did not qualify for separate recognition).
- Amounts of revenues and profit or loss of the acquiree subsequent to the acquisition date that are included in the acquirer's consolidated statement of comprehensive income, unless disclosure is impracticable. If impracticable, disclose this fact and provide an explanation.
- Information in the aggregate for individually immaterial business combinations that are material in aggregate, such as the following:
  - —Information about incomplete accounting.
  - —Changes in rights to contingent consideration.
  - —Reconciliation of the carrying amount of goodwill.
- Amounts and explanations of gains or losses recognized during the period related to assets assumed and liabilities incurred that are relevant to an understanding of the combined entity's financial performance.
- Amounts of revenue and profit and loss of the combined entity for all business combinations in total for the current reporting period as if the acquisition date was as of the beginning of the reporting period.
- Acquired receivables, including fair values; gross contractual amounts; and estimated uncollectible amounts.
- Contingent consideration arrangements and indemnification assets.

9.22 The revised IFRS 3 retains the disclosure requirements of IFRS 3 as originally issued with modifications to reflect the shift from the original cost-based approach to the acquisition date fair value approach of IFRS 3 revised. New disclosure requirements required by the 2008 revisions were added either in response to requests from commentators during review of the exposure draft or to converge with FASB ASC 805 disclosures.

U.S. GAAP

9.23 Most of the required disclosures are similar to those required by IFRS 3. Both IFRSs and FASB ASC 805-10-50 require supplemental pro forma disclosures for the current period. However, FASB ASC 805-10-50-2 requires these disclosures for public entities only, whereas IFRSs require them for all entities.

Author's Note

"Pending Content" in FASB ASC 805-10-50-2, prospectively applicable when an acquisition date is on or after the beginning of the first annual reporting period on or after December 15, 2010, adds several disclosures about business combinations achieved in stages, including the following:

- Acquisition date fair value of the equity interest in the acquiree held by the acquirer immediately before the acquisition
- Amount of any gain or loss recognized as a result of remeasuring to fair value the equity interest that the acquirer held immediately before the business combination
- Line item in the income statement in which that gain or loss is recognized
- Valuation technique(s) used to measure the acquisition date fair value of the equity interest the acquirer held immediately before the business combination
- Other information helpful to users in assessing the inputs used to develop the fair value measurement of the equity interest in the acquiree held by the acquirer immediately before the business combination.

If an entity presents comparative financial statements, it should provide pro forma disclosures for the comparative prior period for revenue and earnings of the combined entity. IFRS 3 has no such requirement.

9.24 Paragraphs 5–6 of FASB ASC 805-10-50 require an acquirer to disclose information about the financial effects of adjustments recognized in the current period that relate to business combinations completed in the current or prior periods. Unlike IFRSs, these paragraphs do not specifically require the disclosure of gains or losses recognized in the current period that relate to the identifiable assets acquired or liabilities assumed in the business combination. However, these paragraphs, in conjunction of FASB ASC 805-10-25-17, require an entity to disclose changes to prior measurements. Both IFRSs and FASB ASC 805-10-50 include a general requirement for acquirers to disclose information that would be relevant to users' understanding of the business combination.

9.25 FASB ASC 805-20-50 disclosures about contingencies differ from those required by IFRS 3 because the recognition criteria differ.

Presentation and Disclosure Excerpts

Author's Note

IFRS 3 (2008) is effective for annual periods beginning on or after 1 July 2009. Most, but not all, survey companies have fiscal year ends beginning on or after this date. The following excerpts are all in compliance with IFRS 3 (2008).

Acquisition Financed Through Issue of Ordinary Shares and Options Over Ordinary Shares, Gain on Bargain Purchase

9.26

Aquarius Platinum (Jun 2010)

Author's Note

Aquarius Platinum refers to the gain on a bargain purchase as a "discount on acquisition." The gain is included in the Statement of Comprehensive Income in transaction and acquisition costs associated with Ridge Mining.

STATEMENT OF COMPREHENSIVE INCOME (in part)

For the year ended 30 June 2010

	Note	2010 $'000	2009 $'000
Revenue	7	472,220	310,556
Cost of sales	7	(352,029)	(334,327)
Gross profit/(loss)		120,191	(23,771)
Other income	7	1,588	1,815
Administrative costs	7	(13,468)	(9,354)
Fair value movement in derivative liability	24	6,084	3,829
Loss on early redemption of convertible note		(26,919)	—
Impairment reversals/(losses)	7	301	(13,050)
Foreign exchange loss		(4,846)	(20,328)
Transaction and acquisition costs associated with Ridge Mining, net of discount on acquisition		1,248	(565)
Profit/(loss) from operating activities before finance costs		84,179	(61,424)
Finance costs	7	(25,750)	(35,968)
Profit/(loss) before income tax		58,429	(97,392)

STATEMENT OF CHANGES IN EQUITY (in part)

	Issued Capital $'000	Treasury Shares $'000	Share Premium Reserve $'000	Foreign Currency Translation Reserve $'000	Equity Benefits Reserve $'000	Ridge Replacement Options Reserve $'000	Equity Reserve $'000	Convertible Note Equity Component $'000	Retained Earnings $'000	Total $'000
At 1 July 2009	20,751	(2,802)	826,779	(20,782)	466	—	(361,826)	—	145,584	608,170
Profit for the period	—	—	—	—	—	—	—	—	27,773	27,773
Other comprehensive income	—	—	—	3,629	—	—	—	—	—	3,629
Total comprehensive income for the period	—	—	—	3,629	—	—	—	—	27,773	31,402
Transactions with owners in their capacity as owners:										
Shares issued	2,403	—	147,946	—	—	—	—	—	—	150,349
On market purchase of share plan shares	—	(677)	—	—	—	—	—	—	—	(677)
Acquisition of treasury shares	—	(10,785)	—	—	—	—	—	—	—	(10,785)
Replacement options issued to Ridge shareholders	—	—	—	—	—	5,129	—	—	—	5,129
Reclassification of reserve on exercise of Ridge options	—	—	5,037	—	—	(5,037)	—	—	—	—
Convertible note equity component	—	—	—	—	—	—	—	62,700	—	62,700
Dividends paid	—	—	—	—	—	—	—	—	(9,255)	(9,255)
At 30 June 2010	23,154	(14,264)	979,762	(17,153)	466	92	(361,826)	62,700	164,102	837,033

STATEMENT OF CASH FLOWS (in part)

For the year ended 30 June 2010

	Note	2010 $'000	2009 $'000
Cash Flows From Investing Activities			
Payments for property, plant & equipment and mine development costs		(93,186)	(59,342)
Acquisition of Ridge Mining net of cash acquired	17	13,595	—
Redeemable deposit		—	(14,038)
Net cash used in investing activities		(79,591)	(73,380)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (in part)

For the year ended 30 June 2010

5. Significant Accounting Policies (in part)

(g) Business Combinations and Goodwill

Business Combinations

Business combinations are accounted for using the acquisition method. The acquisition method requires that the acquirer recognises, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree, at acquisition date. Acquisition costs directly attributable to the acquisition are expensed in the period. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at fair value at the date of acquisition, irrespective of the extent of any non-controlling interest.

For each business combination, the Group has an option to measure any non-controlling interests in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains

and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing (Note 16).

When the recoverable amount of the cash generating unit (group of cash generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash generating unit (group of cash generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of cash generating unit retained.

Impairment losses recognised on goodwill are not subsequently reversed.

(aa) Intangible Assets

The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets with finite lives are amortised using the straight line method over the useful life of the contract and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method is reviewed at least each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

13. Property, Plant and Equipment

	Land and Buildings $'000	Plant and Equipment $'000	Total $'000
30 June 2010			
Beginning carrying value	8,910	221,147	230,057
Additions	992	18,793	19,785
Additions on acquisition of Ridge Group	885	31,908	32,793
Depreciation	(603)	(12,965)	(13,568)
Foreign exchange variance	139	2,911	3,050
Closing carrying value	10,323	261,794	272,117
At cost	13,648	348,821	362,469
Accumulated depreciation	(3,325)	(87,027)	(90,352)
Closing carrying value	10,323	261,794	272,117
30 June 2009			
Beginning carrying value	10,690	203,624	214,314
Additions	471	37,641	38,112
Depreciation	(605)	(9,519)	(10,124)
Transfers to mining assets	(1,642)	(8,130)	(9,772)
Foreign exchange variance	(4)	(2,469)	(2,473)
Closing carrying value	8,910	221,147	230,057
At cost	11,632	294,784	306,416
Accumulated depreciation	(2,722)	(73,637)	(76,359)
Closing carrying value	8,910	221,147	230,057

Refer to Note 27 for security granted over these assets.

14. Mining Assets

Comprising deferred exploration and evaluation costs, mineral properties acquired and mine development costs as follows:

	2010 $'000	2009 $'000
Exploration and evaluation costs	9,619	1,110
Mineral properties acquired	160,014	153,014
Accumulated amortisation and impairment	(72,025)	(64,169)
	87,989	88,845
Development costs	451,434	276,549
Accumulated amortisation and impairment	(123,160)	(96,130)
	328,274	180,419
	425,882	270,374
Reconciliation of mining assets		
Opening balance	270,374	274,270
Additions/expenditure incurred during the year	68,841	29,276
Additions on acquisition of Ridge Group	111,152	—
Provision for rehabilitation decrement	(3,908)	(2,896)
Impairment of mining assets	—	(10,082)
Amortisation charges	(24,806)	(28,356)
Transfers from property, plant & equipment	—	9,772
Foreign exchange variance	4,229	(1,610)
Cosing balance	425,882	270,374

In accordance with the Group's policy on mining assets, the Directors have reviewed the carrying value of mineral exploration tenements as at 30 June 2010. The value of the mineral exploration tenements is carried forward as an asset provided the rights to tenure of the area of interest is current and either:

- the exploration and evaluation activities are expected to be recouped through successful development and exploitation of the area of interest or, alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not at the reporting date reached a stage, which permits a reasonable assessment of the existence, or otherwise of economically recoverable reserves, and active and significant operations in, or relating to, the area of interest are continuing.

Refer to Note 27 for security granted over these assets.

17. Business Combination

On 6 July 2009, pursuant to a Scheme of Arrangement, Aquarius acquired 100% of the voting shares of Ridge Mining plc (Ridge), a company registered and headquartered in England and publicly listed on the AIM market of the London Stock Exchange.

Ridge is a platinum group metal explorer and developer with two key projects in the eastern limb of South Africa's Bushveld Complex—the 50% owned Blue Ridge Mine which is in production ramp up and shipped its first concentrate in

April 2009, and the 39% owned Sheba's Ridge project which is under feasibility study.

The total cost of the business combination was $112.704 million and comprised the issue of equity instruments—both ordinary shares and options over ordinary shares. Aquarius issued 33,477,945 ordinary shares with a fair value of £1.968 each, based on the quoted price of the shares of Aquarius on 6 July 2009. The ordinary shares have a total fair value of £65.885 million or $107.574 million. Aquarius granted 14,089,324 replacement options over ordinary shares to cover the outstanding Ridge employee share options, shareholder warrants, and options granted to joint venture partners. The replacement options have a total fair value of £3.141 million or $5.129 million, based on a binomial option valuation in accordance with IFRS as at 6 July 2009.

The fair value of the identifiable assets and liabilities of Ridge as of the date of acquisition was:

	Fair Value at Acquisition Date $'000	Carrying Value $'000
Cash and cash equivalents	13,595	13,595
Receivables	13,611	23,731
Inventory	5,285	4,175
Property, plant and equipment	32,793	32,667
Mining assets	111,152	104,104
	176,436	178,272
Trade and other payables	(10,709)	(10,606)
Current tax liabilities	(2,068)	(1,628)
Provisions	(1,300)	(1,300)
Interest bearing loans and borrowings	(36,728)	(36,728)
Deferred tax liabilities	(7,502)	(5,844)
	(58,307)	(56,106)
Fair value of identifiable net assets	118,129	—
Discount arising on acquisition	(5,425)	—
	112,704	—
Cost of the combination:		
Shares issued, at fair value	107,575	—
Replacement options granted, at fair value	5,129	—
Tota cost of the combination	112,704	—
The cash inflow on acquisition is as follows:		
Net cash acquired with the subsidiary	13,595	—
Net consolidated cash inflow	13,595	—

The fair value of receivables acquired included $10.095 million relating to the fair value of joint venture partner receivables which are non-interest bearing and have been discounted from a gross contractual receivable at acquisition date of $21.315 million. The gross contractual amount of cash flows are expected to be received in full.

Direct costs of $4.177 million (2009: $0.565 million) relating to the acquisition have been recognised in the profit and loss for the year ended 30 June 2010.

A discount on acquisition has been recorded as the value of the net assets acquired was greater than the fair value of the consideration given at the date control was obtained.

From the date of acquisition, the Ridge Group has contributed $nil to the revenue of Aquarius as the Blue Ridge Mine is still in the development phase and contributed a loss of $4.596 million (2009: $0.565 million) to the net profit of Aquarius for the year ended 30 June 2010. This is offset by the discount on acquisition recorded of $5.425 million.

25. Provisions—Non-Current (in part)

	2010 $'000	2009 $'000
Provision for mine-site rehabilitation	67,430	62,858
Provision for employee entitlements	148	105
	67,578	62,963
Reconciliation of movement		
Balance at beginning of the year	62,963	58,618
Additional provision for employee entitlements	36	15
Reduction in mine-site closure costs provided	(3,908)	(2,896)
Payments for mine-site closure	(162)	(1,213)
Acquisition of Ridge Mining provisions	1,072	—
Interest adjustment due to accretion in mine-site rehabilitation liability	5,414	6,472
Net exchange differences	2,163	1,967
Balance at end of year	67,578	62,963

The mines for which the provision has been raised are expected to have remaining mine lives in the range of 6 to beyond 30 years.

Provision for Mine-Site Rehabilitation

The provision for rehabilitation represents the cost of restoring site damage following initial disturbance. Increases in the provision are capitalised to deferred mining assets to the extent that the future benefits will arise. Costs incurred that related to an existing condition caused by past operations and do not have a future economic benefit are expensed.

Provision for Employee Entitlements

The provision for employee entitlements represents accrued employee leave entitlements.

28. Provisions—Current

	2010 $'000	2009 $'000
Provision for employee entitlements	804	596
Reconciliation of movement		
Balance at beginning of the year	596	474
(Utilisation)/additional provision	(35)	118
Acquisition of Ridge Mining provisions	228	—
Net exchange differences	15	4
Balance at end of year	804	596

Provision for Employee Entitlements

The provision for employee entitlements represents accrued employee leave entitlements.

29. Issued Capital (in part)

a) Authorised Capital

	2010 $'000	2009 $'000
1,590,000,000 (2009: 1,590,000,000) common shares with a par value of $0.05 each	79,500	79,500
5 (2009: 5) "A" class shares with a par value of $2,400 each	12	12
50,000,000 (2009: 50,000,000) preference shares with a par value of $0.15 each	7,500	7,500
	87,012	87,012

b) Issued Capital

	2010 $'000	2009 $'000
463,070,936 (2009: 415,014,680) common shares of $0.05 each fully paid	23,154	20,751
Movement in issued capital		
At 1 July 2008	262,052,778	13,103
Exercise of share options	97,309	5
Share placement	46,330,000	2,316
Rights issue	41,491,737	2,075
Acquisition of interest in AQPSA	65,042,856	3,252
At 30 June 2009	415,014,680	20,751
At 1 July 2009	415,014,680	20,751
Scheme of arrangement—1 AQP share issued for every Ridge share	33,477,945	1,674
Exercise of share options—AQP	862,683	43
Exercise of share options—Ridge	13,715,628	686
At 30 June 2010	463,070,936	23,154

Terms and Conditions of Issued Capital

Common shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

Preference shares, when issued, have rights and restrictions attaching to them as determined by the Board, in accordance with the Bye-Laws of the Company.

Options

For information regarding the Company's Option Plans, refer Note 36.

31. Reserves (in part)

	2010 $'000	2009 $'000
Share premium reserve (a)	979,762	826,779
Foreign currency translation reserve (b)	(17,153)	(20,782)
Equity benefits reserve (c)	466	466
Ridge replacement options reserve (d)	92	—
Equity reserve (e)	(361,826)	(361,826)
Convertible bond equity component (f)	62,700	—
Available-for-sale investments reserve (g)	—	—
	664,041	444,637
Movement in reserves		
a) Share premium reserve		
Balance at beginning of year	826,779	550,860
Premium on shares issued on exercise of share options—AQP	1,205	133
Premium on shares issued on exercise of share options—Ridge	45,878	—
Acquisition of Ridge Mining plc	105,900	—
Share placement (2009: 46,330,000 shares at £1.80 per share)	—	116,199
Fundraising costs	—	(13,660)
Rights issue (2009: 41,491,737 shares at £1.15 per share)	—	71,403
Acquisition of interest in AQPSA (2009: 65,042,856 shares at $1.57 per share)	—	101,844
Balance at end of year	979,762	826,779

The share premium reserve is used to record the premium arising on the issue of shares calculated as the difference between the issue price and the par value of $0.05 per share.

	2010 $'000	2009 $'000
d) Ridge replacement options reserve		
Balance at beginning of year	—	—
Replacement options issued to Ridge shareholders	5,129	—
Exercise of Ridge replacement options	(5,037)	—
Balance at end of year	92	—

The Ridge replacement options reserve is used to record the fair value of options issued to replace options previously on issue by Ridge Mining.

40. Auditor's Remuneration

	2010 $'000	2009 $'000
Amounts received or due and receivable by Ernst & Young for:		
—An audit or review of the financial report of the company and any other entity in the consolidated group	593	414
—Other services in relation to the company and any other entity in the consolidated group	414	684
	1,007	1,098

Fees paid to auditors for other services predominantly comprised assurance related services provided in relation to the acquisition of Ridge Mining.

Prospective Application of IFRS 3 (2008), Non-Controlling Interest Measured at the Proportionate Share of the Net Identifiable Assets of the Acquiree

9.27

Pearson plc (Dec 2010)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (in part)

Year ended 31 December 2010
All figures in £ millions

	Notes	2010	2009	2008
Profit for the year		1,300	462	323
Net exchange differences on translation of foreign operations		173	(388)	1,125
Currency translation adjustment disposed—subsidiaries		13	—	49
Currency translation adjustment disposed—joint venture		—	—	1
Actuarial gains/(losses) on retirement benefit obligations—Group	25	70	(299)	(71)
Actuarial gains/(losses) on retirement benefit obligations—associate	12	1	(3)	(3)
Net increase in fair values of proportionate holding arising on stepped acquisition		—	18	—
Tax on items recognised in other comprehensive income	7	(41)	91	9
Other comprehensive income/(expense) for the year		216	(581)	1,110

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (in part)

Year ended 31 December 2010
All figures in £ millions

	Equity Attributable to Equity Holders of the Company							
	Share Capital	Share Premium	Treasury Shares	Translation Reserve	Retained Earnings	Total	Non-Controlling Interest	Total Equity
At 1 January 2010	203	2,512	(226)	227	1,629	4,345	291	4,636
Profit for the year	—	—	—	—	1,297	1,297	3	1,300
Other comprehensive income	—	—	—	175	30	205	11	216
Equity-settled transactions	—	—	—	—	50	50	—	50
Tax on equity-settled transactions	—	—	—	—	4	4	—	4
Issue of ordinary shares under share option schemes	—	12	—	—	—	12	—	12
Purchase of treasury shares	—	—	(77)	—	—	(77)	—	(77)
Release/cancellation of treasury shares	—	—	166	—	(166)	—	—	—
Changes in non-controlling shareholding	—	—	—	—	(6)	(6)	(231)	(237)
Dividends	—	—	—	—	(292)	(292)	(7)	(299)
At 31 December 2010	203	2,524	(137)	402	2,546	5,538	67	5,605

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2010
All figures in £ millions

	Notes	2010	2009	2008
Cash Flows From Investing Activities				
Acquisition of subsidiaries, net of cash acquired	29	(535)	(208)	(395)
Acquisition of joint ventures and associates		(22)	(14)	(5)
Purchase of investments		(7)	(10)	(1)
Purchase of property, plant and equipment		(76)	(62)	(75)
Proceeds from the sale of investments		—	—	5
Proceeds from sale of property, plant and equipment	31	—	1	2
Purchase of intangible assets		(56)	(58)	(45)
Disposal of subsidiaries, net of cash disposed	30	984	—	99
Tax paid on disposal of subsidiaries		(250)	—	—
Interest received		10	3	11
Dividends received from joint ventures and associates		23	22	23
Net cash received from/(used in) investing activities		71	(326)	(381)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Accounting Policies (in part)

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

a. Basis of Preparation (in part)

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as adopted by the European Union (EU) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. These consolidated financial statements are also prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB). In respect of the accounting standards applicable to the Group there is no difference between EU-adopted and IASB-adopted IFRS. The Group transitioned from UK GAAP to IFRS on 1 January 2003.

These consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities (including derivative financial instruments) to fair value.

1. Interpretations and amendments to published standards effective in 2010

- IFRS 3 (Revised) 'Business Combinations' and amendments to IAS 27 'Consolidated and Separate Financial Statements', effective for annual reporting periods beginning on or after 1 July 2009. The amendments affect the accounting for business combinations, including the requirement to re-measure the fair value of previously held interests in step acquisitions with any gain or loss arising being recognised in the income statement, the requirement to expense acquisition costs and the requirement to recognise adjustments to contingent consideration in the income statement.

b. Consolidation

1. Business combinations—The acquisition method of accounting is used to account for business combinations of the Group with an acquisition date on or after 1 January 2010. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interest issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred.

Identifiable assets and contingent assets acquired and identifiable liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. For material acquisitions, the fair value of the acquired intangible assets is determined by an external, independent valuer. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. See note 1e(1) for the accounting policy on goodwill. If this is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognised directly in the income statement.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

e. Intangible Assets (in part)

1. Goodwill—For the acquisition of subsidiaries made on or after 1 January 2010 goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. For the acquisition of subsidiaries made from the date of transition to IFRS to 31 December 2009 goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets acquired. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates and joint ventures represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets acquired. Goodwill on acquisitions of associates and joint ventures is included in investments in associates and joint ventures.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. An impairment loss is recognised to the extent that the carrying value of goodwill exceeds the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. These calculations require the use of estimates and significant management judgement. A description of the key assumptions and sensitivities is included in note 11. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

IFRS 3 'Business Combinations' has not been applied retrospectively to business combinations before the date of transition to IFRS. Subject to the transition adjustments to IFRS required by IFRS 1, the accounting for business combinations before the date of transition has been grandfathered.

4. Acquired intangible assets—Acquired intangible assets include customer lists and relationships, trademarks and brands, publishing rights, content and technology. These assets are capitalised on acquisition at cost and included in intangible assets. Intangible assets acquired in material business combinations are capitalised at their fair value as determined by an independent valuer. Intangible assets are amortised over their estimated useful lives of between two and 20 years, using an amortisation method that reflects the pattern of their consumption.

4. Operating Expenses (in part)

During the year the Group obtained the following services from the Group's auditors:

All Figures in £ Millions	2010	2009	2008
Fees payable to the company's auditors for the audit of parent company and consolidated financial statements	4	4	3
The audit of the company's subsidiaries pursuant to legislation	2	2	2
Tax services	2	2	2
Other services	2	1	1
Total	10	9	8

Reconciliation between audit and non-audit service fees is shown below:

All Figures in £ Millions	2010	2009	2008
Group audit fees including fees for attestation under section 404 of the Sarbanes-Oxley Act	6	6	5
Non-audit fees	4	3	3
Total	10	9	8

Fees for attestation under section 404 of the Sarbanes-Oxley Act are allocated between fees payable for the audits of consolidated and subsidiary accounts.

Tax services include services related to tax planning and various other tax advisory matters. Other services is mainly due diligence on acquisitions, notably our Brazilian acquisition, Sistema Educational Brasileiro (SEB), where we assessed that our auditors were best qualified and cost effective in taking on this role.

10. Property, Plant and Equipment (in part)

All Figures in £ Millions	Land and Buildings	Plant and Equipment	Assets in Course of Construction	Total
Cost				
At 1 January 2009	355	839	7	1,201
Exchange differences	(21)	(55)	(1)	(77)
Additions	14	46	7	67
Disposals	(2)	(41)	—	(43)
Acquisition through business combination	1	17	—	18
Reclassifications	1	5	(6)	—
At 31 December 2009	348	811	7	1,166
Exchange differences	8	28	—	36
Additions	21	55	12	88
Disposals	(4)	(58)	—	(62)
Acquisition through business combination	8	25	—	33
Disposal through business disposal	(48)	(201)	—	(249)
Reclassifications	3	5	(8)	—
At 31 December 2010	336	665	11	1,012

All Figures in £ Millions	Land and Buildings	Plant and Equipment	Assets in Course of Construction	Total
Depreciation				
At 1 January 2009	(170)	(608)	—	(778)
Exchange differences	11	42	—	53
Charge for the year	(17)	(68)	—	(85)
Disposals	2	39	—	41
Acquisition through business combination	—	(9)	—	(9)
At 31 December 2009	(174)	(604)	—	(778)
Exchange differences	(4)	(19)	—	(23)
Charge for the year	(16)	(66)	—	(82)
Disposals	3	58	—	61
Acquisition through business combination	(3)	(13)	—	(16)
Disposal through business disposal	28	164	—	192
At 31 December 2010	(166)	(480)	—	(646)
Carrying Amounts				
At 1 January 2009	185	231	7	423
At 31 December 2009	174	207	7	388
At 31 December 2010	170	185	11	366

Depreciation expense of £10m (2009: £12m) has been included in the income statement in cost of goods sold, £7m (2009: £7m) in distribution expenses and £52m (2009: £45m) in administrative and other expenses. In 2010 £13m (2009: £21m) relates to discontinued operations.

The Group leases certain equipment under a number of finance lease agreements. The net carrying amount of leased plant and equipment included within property, plant and equipment was £12m (2009: £15m).

11. Intangible Assets (in part)

All Figures in £ Millions	Goodwill	Software	Acquired Customer Lists and Relationships	Acquired Trademarks and Brands	Acquired Publishing Rights	Other Intangibles Acquired	Total
Cost							
At 1 January 2009	4,570	310	341	128	165	258	5,772
Exchange differences	(420)	(25)	(32)	(9)	(5)	(22)	(513)
Additions—internal development	—	35	—	—	—	—	35
Additions—purchased	—	24	—	—	—	—	24
Disposals	(9)	(5)	—	—	—	—	(14)
Acquisition through business combination	205	—	38	24	55	25	347
At 31 December 2009	4,346	339	347	143	215	261	5,651
Exchange differences	140	9	10	4	9	10	182
Additions—internal development	—	41	—	—	—	—	41
Additions—purchased	—	15	—	—	—	—	15
Disposals	(11)	(18)	—	—	—	—	(29)
Acquisition through business combination	288	9	159	40	6	76	578
Disposal through business disposal	(195)	(43)	(85)	(1)	—	(41)	(365)
At 31 December 2010	4,568	352	431	186	230	306	6,073

All Figures in £ Millions	Goodwill	Software	Acquired Customer Lists and Relationships	Acquired Trademarks and Brands	Acquired Publishing Rights	Other Intangibles Acquired	Total
Amortisation							
At 1 January 2009	—	(203)	(67)	(17)	(69)	(63)	(419)
Exchange differences	—	19	6	1	6	8	40
Charge for the year	—	(44)	(35)	(11)	(22)	(35)	(147)
Disposals	—	4	—	—	—	—	4
At 31 December 2009	—	(224)	(96)	(27)	(85)	(90)	(522)
Exchange differences	—	(5)	(3)	(2)	(2)	(1)	(13)
Charge for the year	—	(51)	(39)	(12)	(24)	(38)	(164)
Disposals	—	16	—	—	—	—	16
Acquisition through business combination	—	(5)	—	—	—	—	(5)
Disposal through business disposal	—	19	35	—	—	28	82
At 31 December 2010	—	(250)	(103)	(41)	(111)	(101)	(606)
Carrying Amounts							
At 1 January 2009	4,570	107	274	111	96	195	5,353
At 31 December 2009	4,346	115	251	116	130	171	5,129
At 31 December 2010	4,568	102	328	145	119	205	5,467

Goodwill

The goodwill carrying value of £4,568m relates to acquisitions completed after 1 January 1998. Prior to 1 January 1998 all goodwill was written off to reserves on the date of acquisition. £3,090m of the carrying value relates to acquisitions completed between 1 January 1998 and 31 December 2002 and £1,478m relates to acquisitions completed after 1 January 2003 (the date of transition to IFRS).

For acquisitions completed between 1 January 1998 and 31 December 2002 no value was ascribed to intangibles other than goodwill and the goodwill on each acquisition was amortised over a period of up to 20 years. On adoption of IFRS on 1 January 2003, the Group chose not to restate the goodwill balance and at that date the balance was frozen (i.e. amortisation ceased). If goodwill had been restated then a significant value would have been ascribed to other intangible assets, which would be subject to amortisation, and the carrying value of goodwill would be significantly lower. For acquisitions completed after 1 January 2003 value has been ascribed to other intangible assets which are amortised.

20. Intangible Assets—Pre-Publication

All Figures in £ Millions	2010	2009
Cost		
At beginning of year	1,727	1,800
Exchange differences	52	(160)
Additions	319	322
Disposals	(248)	(230)
Acquisition through business combination	13	(1)
Transfer to inventories	—	(4)
At end of year	1,863	1,727
Amortisation		
At beginning of year	(1,077)	(1,105)
Exchange differences	(33)	102
Charge for the year	(350)	(307)
Disposals	248	230
Acquisition through business combination	(4)	3
At end of year	(1,216)	(1,077)
Carrying amounts		
At end of year	647	650

Included in the above are pre-publication assets amounting to £399m (2009: £398m) which will be realised in more than one year.

Amortisation is included in the income statement in cost of goods sold.

22. Trade and Other Receivables (in part)

Trade receivables are stated at fair value, net of provisions for bad and doubtful debts and anticipated future sales returns.

The movements on the provision for bad and doubtful debts are as follows:

All Figures in £ Millions	2010	2009
At beginning of year	(76)	(72)
Exchange differences	(2)	5
Income statement movements	(33)	(26)
Utilised	26	20
Acquisition through business combination	(3)	(3)
Disposal through business disposal	5	—
At end of year	(83)	(76)

Concentrations of credit risk with respect to trade receivables are limited due to the Group's large number of customers, who are internationally dispersed.

23. Provisions for Other Liabilities and Charges (in part)

All Figures in £ Millions	Deferred Consideration	Leases	Other	Total
At 1 January 2010	38	9	21	68
Exchange differences	1	1	—	2
Charged to income statement	2	—	5	7
Deferred consideration on acquisition—current year	8	—	—	8
Deferred consideration on acquisition—prior year adjustments	(10)	—	—	(10)
Acquisition through business combination—current year	10	—	—	10
Utilised	(20)	—	(5)	(25)
At 31 December 2010	29	10	21	60

Deferred consideration primarily relates to the acquisition of Fronter in 2009.

29. Business Combinations

On 17 June 2010 the Group acquired 100% of the shares of Melorio plc, a vocational training provider. On 19 August 2010 the Group acquired 100% of the shares of Wall Street Institute Education S.a.r.l (WSI), a group providing spoken English training for adults. On 1 September 2010 the Group acquired 69% of the voting equity of Sistema Educacional Brasileiro's (SEB) school learning systems division. On 7 September 2010 the Group acquired 100% of the shares of America's Choice Inc, a provider of school improvement services.

Provisional values for the assets and liabilities arising from these and other acquisitions completed in the year together with adjustments to prior year acquisitions are as follows:

		2010						2009
All Figures in £ Millions	Notes	Melorio Fair Value	SEB Fair Value	WSI Fair Value	America's Choice Fair Value	Other Fair Value	Total Fair Value	Total Fair Value
Property, plant and equipment	10	4	7	3	—	3	17	9
Intangible assets	11	89	103	32	24	37	285	142
Intangible assets—Pre-publication	20	—	3	—	—	6	9	2
Inventories		—	5	1	1	(5)	2	14
Trade and other receivables		8	13	8	7	5	41	23
Cash and cash equivalents		3	5	2	12	4	26	29
Financial liabilities—Borrowings		(13)	—	—	—	—	(13)	—
Net deferred income tax liabilities	13	(24)	—	(3)	(4)	(6)	(37)	(45)
Retirement benefit obligations		—	—	—	—	(1)	(1)	(1)
Provisions for other liabilities and charges	23	(10)	—	—	—	—	(10)	—
Trade and other liabilities		(9)	(10)	(14)	(5)	1	(37)	(91)
Current income tax liabilities		—	—	(3)	—	—	(3)	(4)
Non-controlling interest		—	(39)	—	—	—	(39)	(16)
Net assets acquired at fair value		48	87	26	35	44	240	62
Goodwill	11	50	141	39	30	28	288	205
Increase in fair values of proportionate holding arising on stepped acquisition		—	—	—	—	—	—	(23)
Total		98	228	65	65	72	528	244
Satisfied by:								
Cash		(98)	(228)	(65)	(65)	(74)	(530)	(201)
Other consideration		—	—	—	—	—	—	(5)
Deferred consideration		—	—	—	—	(8)	(8)	(27)
Net prior year adjustments		—	—	—	—	10	10	(11)
Total consideration		(98)	(228)	(65)	(65)	(72)	(528)	(244)

The goodwill arising on these acquisitions results from substantial cost and revenue synergies and from benefits that cannot be separately recognised, such as the assembled workforce.

The fair value of trade and other receivables is £41m and includes trade receivables with a fair value of £34m. The gross contractual amount for trade receivables due is £37m of which £3m is expected to be uncollectable.

A provisional value of £12m of goodwill arising on 2010 acquisitions is expected to be deductible for tax purposes.

The non-controlling interest in SEB was measured using the non-controlling interest's proportionate share of the acquiree's net assets.

All Figures in £ Millions	2010	2009	2008
Cash Flow on Acquisitions			
Cash—Current year acquisitions	(530)	(201)	(394)
Cash—Acquisitions yet to complete	—	(4)	(12)
Deferred payments for prior year acquisitions and other items	(20)	(32)	(5)
Cash and cash equivalents acquired	26	29	16
Acquisition costs paid	(11)	—	—
Net cash outflow	(535)	(208)	(395)

In 2010, acquisitions contributed £84m to sales and £6m to operating profit before acquisition costs and amortisation of acquired intangibles from the date of acquisition to the balance sheet date. Of these amounts, Melorio contributed £38m of sales and £5m of profit, SEB contributed £11m of sales and a loss of £2m, WSI contributed £13m of sales and £1m of profit and America's Choice contributed £9m of sales and £nil of profit.

If the acquisitions had completed on 1 January 2010, the Group estimates that sales for the period would have been £5,799m and profit before tax would have been £676m.

31. Cash Generated from Operations

All Figures in £ Millions	Notes	2010	2009	2008
Profit		1,300	462	323
Adjustments for:				
Income tax		480	198	209
Depreciation	10	82	85	80
Amortisation of acquired intangible assets	11	113	103	86
Amortisation of other intangible assets	11	51	44	30
Loss on sale of property, plant and equipment		3	2	1
Net finance costs	3, 6	73	95	91
Share of results of joint ventures and associates	12	(41)	(30)	(25)
(Profit)/loss on disposal of discontinued operations	3	(1,037)	—	53
Loss on disposal		10	—	—
Acquisition costs		11	—	—
Net foreign exchange adjustment from transactions		(3)	(14)	105
Share-based payment costs	26	39	37	33
Pre-publication		29	(16)	(58)
Inventories		37	32	(12)
Trade and other receivables		(82)	(14)	(81)
Trade and other liabilities		165	103	82
Retirement benefit obligations		(64)	(72)	(14)
Provisions for other liabilities and charges		3	(3)	(9)
Net cash generated from operations		1,169	1,012	894

Net cash generated from operations is translated at an exchange rate approximating to the rate at the date of cash flow. The difference between this rate and the average rate used to translate profit gives rise to a currency adjustment in the reconciliation between net profit and net cash generated from operations. This adjustment reflects the timing difference between recognition of profit and the related cash receipts or payments.

Operating cash flow, operating free cash flow and total free cash flow are non-GAAP measures and have been disclosed as they are part of Pearson's corporate and operating measures.

35. Events After the Balance Sheet Date (in part)

On 22 November 2010, the Group announced the proposed acquisition of a 75% stake in CTI Education Group, a leading South African education company for £31m. As at the end of December 2010, this acquisition had not been completed but is expected to complete in the first half of 2011.

Prospective Application of IFRS 3 (2008), Revaluation of Previously Held Equity Interest

9.28

France Telecom (Dec 2010)

CONSOLIDATED INCOME STATEMENT (in part)

Amounts in Millions of Euros (Except for per Share Data)	Note	2010	2009[1]	2008[1]
Revenues	4	45,503	44,845	46,712
External purchases	5.1	(19,375)	(18,748)	(19,511)
Other operating Income	5.2	573	568	612
Other operating expense	5.3	(2,532)	(2,211)	(2,045)
Labor expenses	5.4	(9,214)	(9,010)	(8,468)
Gains (losses) on disposal of assets	6	62	(3)	(27)
Restructuring costs and similar items	7	(680)	(213)	(442)
General Court of the European Union ruling of November 30, 2009	31	—	(964)	—
Depreciation and amortization	12–13	(6,461)	(6,234)	(6,704)
Remeasurement resulting from business combinations	3	336	—	—
Impairment of goodwill	8	(509)	(449)	(270)
Impairment of fixed assets	8	(127)	(69)	(9)
Share of profits (losses) of associates	14	(14)	138	(94)
Operating income		7,562	7,650	9,754

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1. Description of Business and Basis of Preparation of the Consolidated Financial Statements (in part)

1.2. Basis of Preparation of the 2010 Consolidated Financial Statements (in part)

For the reported periods, the accounting standards and interpretations endorsed by the European Union are similar to the compulsory standards and interpretations published by the International Accounting Standards Board (IASB) with the exception of the carve-out of the IAS 39 standard and the standards and interpretations currently being endorsed, which has no effect on the Group accounts. Consequently, the Group accounts are prepared in accordance with the IFRS standards and interpretations, as published by the IASB.

The principles applied to prepare financial data relating to the financial year 2010 are based on:

- the changes in the accounting IFRS alternatives elected by the Group with respect to the accounting treatment of:

Standard/Interpretation	Consequences for the Group
IFRS 3 (revised in 2008) Business Combinations and IAS 27 (revised in 2008) Consolidated and Separate Financial Statements	The concept of control is now the key-criterion in accounting for the Group's investments. Changes in a parent's ownership interest in a subsidiary that do not result in a change of control are accounted for as changes in equity, with no effect on the net income and other comprehensive income. Step-acquisitions, as well as changes in ownership interests that result in a change of control, lead to the remeasurement at fair value in operating income of the previously held equity interest. IFRS 3R allows for each takeover with ownership interest below 100% to account for goodwill either on a 100% basis or via the acquired ownership interest percentage (without any subsequent change in the case of additional purchase of non-controlling interests). Acquisition-related costs are now directly recognized in operating income. These revised standards have been applied prospective from January 1, 2010. Their application to the 2010 transactions are disclosed in note 3.

Note 2. Accounting Policies (in part)

2.4 Takeovers (Business Combinations)

For Agreements Closed on or After January 1, 2010

Business combinations are accounted for applying the acquisition method:

- the acquisition cost is measured at the acquisition date at the fair value of the consideration transferred, including all contingent consideration. Subsequent changes in contingent consideration are accounted for either through profit or loss or through other comprehensive income in accordance with the applicable standards;
- goodwill is the difference between the consideration transferred and the fair value of the identifiable assets and liabilities assumed at the acquisition date and is recognized as an asset in the statement of financial position.

For each business combination with ownership interest below 100%, non-controlling interests are measured:

- either at fair value: in this case, goodwill relating to non-controlling interests is recognized; or
- at the non-controlling interest's proportionate share of the acquiree's identifiable net assets: in this case, goodwill is only recognized for the share acquired.

Acquisition-related costs are directly recognized in operating income in the period in which they are incurred.

When a business combination is achieved in stages, the previously held equity interest is remeasured at fair value at the acquisition date through operating income. The attributable other comprehensive income, if any, is fully reclassified in operating income.

For Agreements Closed Between January 1, 2004 and December 31, 2009

For business combinations over this period, the main accounting treatment differences compared with the above described accounting treatment are:

- acquisition-related costs are accounted for as acquisition cost;
- non-controlling interests are measured at the non-controlling interest's proportionate share of the acquiree's identifiable net assets, i.e. with no recognition of goodwill;
- when a business is achieved in stages, the previously held equity interest is remeasured at fair value against equity;
- contingent consideration, if any, is recognized against the acquisition cost at the acquisition date if the adjustment is probable and can be measured reliably. Subsequent changes in contingent consideration are accounted for against goodwill.

2.5. Loss of Control With Residual Equity Interest

For Agreements Closed on or After January 1, 2010

Loss of control while retaining a residual equity interest is analyzed as a swap of assets, i.e. a disposal of a controlling interest in exchange for an acquisition of a non-controlling interest. Hence, the following occurs at the date when control is lost:

- the recognition of a gain or loss on disposal which comprises:
  - — a gain or loss resulting from the ownership interest disposed; and
  - — a gain or loss resulting from the remeasurement at fair value of the ownership interest retained in the entity;
- the reclassification in profit or loss of all related other comprehensive income balances.

For Agreements Closed Before January 1, 2010

Loss of control while retaining a residual equity interest results in:

- recognizing a gain or loss resulting only from the ownership interest actually disposed;
- carrying at historical cost the previously held equity interest.

2.6. Purchases and Disposals of Non-Controlling Interests

For Agreements Closed on or After January 1, 2010

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions, with no effect on profit or loss or on other comprehensive income.

For Agreements Closed Before January 1, 2010

Accounting for the acquisition of non-controlling interests was not addressed by IFRSs until 2009. Therefore, the Group historically applied the French GAAP accounting treatment, which consists of recognizing as goodwill the difference between the acquisition cost of non-controlling interests and the minority interest share in the net equity, with no purchase price allocation.

A gain or loss on disposal relating to the equity interest actually disposed is recognized on transactions which do not result in a loss of control.

IFRSs do not address the accounting treatment for the transfer of consolidated shares within the Group resulting in changes in ownership interest. The Group applies the following accounting policy:

- the transferred shares are carried at historical cost and the gain or loss on the transfer is fully eliminated in the acquirer's accounts;
- the non-controlling interests are adjusted to reflect the change in their share in the equity against Group retained earnings, with no impact on profit and loss and equity.

Commitments to Purchase Non-Controlling Interests (Put Options)

When the Group grants firm or contingent commitments to purchase non-controlling interests, the carrying amount of non-controlling interests within equity is reclassified in financial debt.

In the absence of any guidance provided by IFRSs, where the amount of the commitment exceeds the amount of the non-controlling interests, the difference is recorded as a reduction in shareholders' equity attributable to the owners of the parent.

Financial debt is remeasured at fair value at the end of each reporting period against finance income or expense.

The IFRS Interpretations Committee is expected to propose to the IASB accounting alternatives for the put options granted to non-controlling interests.

Note 3. Main Acquisitions, Disposals and Changes in Scope of Consolidation

Year Ended December 31, 2010 (in part)

Egypt—Agreement With Orascom Telecom on Mobinil

The commitments made under the term of the agreements are described in Note 30.4.

Until July 13, 2010, the Group's investment in Mobinil and ECMS and the related income were accounted for under the equity method, and the commitments arising from the agreements qualified as unrecognized contractual commitments. This accounting treatment is due to the change in method described in Note 1.2 (since January 2010, investments in jointly controlled entities have been accounted for under the equity method).

After the agreements came into effect and after the amendment and restatement of the shareholders' agreement between France Telecom and Orascom Telecom relating to Mobinil, the Group's investment in Mobinil and ECMS was fully consolidated. As a consequence, it has been proceeded to, as of July 13, 2010:

- the expense of acquisition-related costs over the period;
- the recognition in the cost of the Mobinil shares of the 300 million US dollars paid and an additional consideration amounting to 218 million euros relating to the put option granted to Orascom Telecom;
- the recognition of a gain amounting to 336 million euros resulting from the remeasurement of the previously held equity interest in Mobinil based on the ECMS quoted share price at July 13, 2010;
- the recognition of non-controlling interests at fair value based on the ECMS quoted share price at July 13, 2010, in accordance with the option provided by IFRS 3R;
- the reclassification of non-controlling interests from equity to financial debt, in the amount of 1,935 million euros, due to the put option held by Orascom Telecom and the triggering of a public tender offer for the ECMS shares held by minority shareholders that would result under the current Egyptian securities regulatory law.

The financial debt is remeasured at the end of each reporting period against finance income, based on the maturity schedule agreed by France Telecom and Orascom Telecom.

Remeasurement of the Previously Held Equity Interest in Mobinil:

(In Millions of Euros)		July 13, 2010
Fair value of previously held equity interest in Mobinil		843
Transaction costs		(5)
Net fair value of interest in mobinil	a	838
Carrying value of mobinil and ECMS	b	562
Remeasurement	a-b	276
Reclassification adjustment of other comprehensive income in net income for the period	c	(60)
Remeasurement of the previously held equity interest in Mobinil	a-b-c	336

The Group determined the value of the identifiable assets and liabilities of Mobinil and ECMS to perform a preliminary allocation of the purchase price consideration for Mobinil:

(In Millions of Euros)	Carrying Value at July 13, 2010	Allocation of Purchase Price	Fair Value at July 13, 2010
Other intangible assets	627	1,037	1,664
O/w brand		105	105
O/w subscriber base		348	348
O/w licenses	397	584	981
Property, plant and equipment	996		996
Other non-current assets	13		13
Total non-current assets	1,636	1,037	2,673
Total current assets	269	0	269
Non-current financial liabilities at amortized cost excluding trade payables	783		783
Other non-current liabilities	133	207	340
Total non-current liabilities	916	207	1,123
Total current liabilities	625	0	625
Net assets acquired	364	830	1,194
o/w attributable to owners of France Telecom			435
o/w attributable to non-controlling interests			759
Goodwill			1,582
Purchase price consideration			2,776

The brand was measured using the relief from royalty method, based on the present value of royalties that would have been paid to a third party for the use of the brand had Mobinil not owned it. It is amortized over 15 years.

Subscriber bases were measured using the future cash flows generated by existing customers at the closing date. They are amortized over 6 years.

Licenses were measured based on the present value of future cash flows for a new entrant onto a new market (Greenfield method). They are amortized over 12 years.

The fair value of property, plant and equipment was considered as the same as the historical net carrying value after applying an adjustment for the expected useful life of the mobile access network.

The consolidation of Mobinil led to the recognition of 1,582 million euros goodwill, mainly justified by the access to a rapidly growing Egyptian market and Mobinil's leadership position based on number of customers in the Egyptian mobile market.

As from the effective date of the agreements, Mobinil generated revenues of 706 million euros in respect of 2010. Consolidated net income after tax of France Telecom for the year ended December 31, 2010 includes Mobinil's net income for the year amounting to 40 million euros, this net income excluding (471) million euros for goodwill impairment (see Note 8), but including (34) million euros for amortization of identified intangible assets (net of deferred tax reversal).

SECTION 10: REPORTING IN HYPERINFLATIONARY ECONOMIES*

IAS 29, *FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES*

Author's Note

In December 2010, the International Accounting Standards Board (IASB) issued *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters: Amendments to IFRS 1*. These amendments define a currency of a hyperinflationary economy to be subject to severe hyperinflation if it has both of the following characteristics:

(a) no reliable general price index available to all entities with transactions and balances in the currency, and
(b) no exchangeability between the currency and a relatively stable foreign currency.

First-time adopters of IFRS with a functional currency that is subject to severe hyperinflation and that elect to measure assets and liabilities at fair value and use that fair value as deemed cost on the date of transition should disclose the circumstances that supports its functional currency meeting the characteristics of a currency subject to severe hyperinflation.

In addition, with respect to derecognition of financial assets and liabilities, these amendments replaced the fixed date of 1 January 2004 with the entity's date of transition.

These amendments are effective for annual reporting periods beginning on or after 1 July 2011 and permit early application.

IFRSs Overview and Comparison to U.S. GAAP

10.01 A fundamental element of historical cost measurements is the assumption that the money value or purchasing power associated with these measurements in the entity's functional currency is maintained over fairly long periods of time. In contrast, fair value measurements do not require an assumption of long-term stability of the entity's functional currency. As defined in both the Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) glossary and International Financial Reporting Standards (IFRSs), an entity's *functional currency* is the currency of the primary economic environment in which the entity operates.

10.02 International Accounting Standard (IAS) 29, *Financial Reporting in Hyperinflationary Economies*, recognizes that the assumption described in the previous paragraph is violated for measurements denominated in the currency of hyperinflationary environments. In addition, the standard recognizes that in a hyperinflationary economy, reporting the results of an entity's financial position and results of operations without restatement is both meaningless and misleading to the users of financial statements.

10.03 In a hyperinflationary economy, money loses its purchasing power at such a fast rate that comparisons of measurements from different periods, even within the same accounting period, will significantly skew the results. Therefore, when an entity's functional currency is that of a hyperinflationary economy, it is necessary to restate an entity's financial position, results of operations, and other financial statement information to provide users of the financial statements with useful information.

10.04 Because judgment is required in determining whether or not an economy is hyperinflationary, IAS 29 provides the following indicators of the characteristics of such an economy:

- The general population tends to keep its wealth in nonmonetary assets or a stable currency. In addition, available funds in the local currency are immediately invested so as to maintain purchasing power.
- The general population does not refer to prices in the local currency, and prices may actually be quoted in a more stable currency.
- Prices for credit purchase and credit sale transactions take into account estimated changes in purchasing power even when the time between delivery and payment is short.
- Prices, including interest rates, wages, and so on, may be linked to a price index.
- The cumulative inflation rate over a three-year period approaches or exceeds 100 percent.

Recognition and Measurement

IFRSs

10.05 Although there are several potential approaches to address the challenges that entities face in providing useful financial reporting information in hyperinflationary economies, IAS 29 requires the restatement approach. Entities whose functional currency is the local currency of a hyperinflationary economy should restate the local currency measurements at the end of the reporting period by applying a general price index. International Financial Reporting Interpretations Committee (IFRIC) Interpretation 7, *Applying the Restatement Approach under IAS 29* Financial Reporting in Hyperinflationary Economies, clarifies the application of IAS 29 to nonmonetary items measured at historical cost and those carried in the opening statement of financial position at amounts current at dates other than those of acquisition or incurrence. IFRIC 7 also addresses an entity's accounting for opening deferred tax items in its restated financial statements. Application of IAS 29 is mandatory for all entities whose functional currency is hyperinflationary.

---

* Unless otherwise indicated, references to International Accounting Standards Board (IASB) standards and interpretations throughout this 2011 edition of *IFRS Accounting Trends & Techniques* refer to the version of those standards and interpretations included in the *IFRS 2011* bound volume, the official printed consolidated text of IASB standards and interpretations, including revisions, amendments, and supporting documents, issued as of January 1, 2011.

10.06 IAS 21, *The Effects of Changes in Foreign Exchange Rates*, is also relevant for most entities applying IAS 29. Consistent with FASB ASC glossary, IAS 21 defines *functional currency* to be the currency of the primary economic environment in which the entity operates. It also establishes the requirements for translation of foreign operations and foreign subsidiaries for inclusion in consolidated financial statements and for translation of either consolidated or separate financial statements from a functional currency to a different presentation currency. IAS 21 prohibits entities with hyperinflationary functional currencies from using a stable or hard currency as their measurement unit of account.

10.07 An entity undertaking a restatement in accordance with IAS 29 would normally take the following actions:

a. Identify a general price index.
b. Restate nonmonetary assets and liabilities on the statement of financial position.
c. Restate items on the statement of comprehensive income.
d. Calculate any gain or loss on the change in the net monetary position.
e. Restate the statement of cash flows.
f. Restate any comparative financial statements by applying the general price index.
g. Restate comparative information included in note disclosures.

10.08 When an entity's functional currency first becomes hyperinflationary, IFRSs require the application of IAS 29 to the financial statements. IAS 29 is applied retrospectively as if the functional currency has always been hyperinflationary. Therefore, in accordance with IAS 1, *Presentation of Financial Statements*, the entity should present a restated opening balance sheet for the earliest period presented and a restated comparative balance sheet(s), as necessary.

10.09 For consolidation purposes, a reporting entity (parent) restates the financial statements of a foreign subsidiary in accordance with IAS 29 before translation of these statements into the parent's functional currency. The financial statements of a foreign operation also are restated in accordance with IAS 29. A *foreign operation*, as defined in IFRSs, is an entity that is a subsidiary, associate, joint venture, or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than that of the reporting entity. Similarly, a *foreign currency* is a currency other than the functional currency of the entity.

10.10 In accordance with IAS 21, all assets, liabilities, equity items, income, and expenses are translated at the closing rate at the reporting date of the most recent statement of financial position, including comparatives, except when the financial statements are translated into a *stable currency* (the currency of a nonhyperinflationary economy). When the *presentation currency* (the currency in which the financial statements are presented) is a stable currency, the comparative financial statement amounts are those that were presented previously as current year amounts in the relevant prior year financial statements rather than being adjusted for either subsequent changes in the price level or subsequent changes in exchange rates.

U.S. GAAP

10.11 FASB ASC 830, *Foreign Currency Matters*, applies to reporting entities with a reporting currency other than the U.S. dollars in financial statements that are prepared in conformity with U.S. GAAP. However, FASB ASC 830 does not address the scenario under which a reporting entity preparing U.S. GAAP consolidated financial statements would itself have a reporting and functional currency from a highly inflationary economy. FASB ASC 830-10-45-11 only addresses the circumstances in which a reporting entity (parent) translates the financial reporting information of a foreign operation or subsidiary whose functional currency is that of a highly inflationary economy into the presentation currency of the parent in order to prepare consolidated financial statements. Generally, when applying both FASB ASC 830 and IFRSs, an entity would determine the same economies to be highly inflationary or hyperinflationary, even though the criteria for making the determination are more prescriptive under FASB ASC 830-10-45-12.

10.12 Paragraphs 11–14 of FASB ASC 830-10-45 provide guidance to entities with a functional currency in highly inflationary economies. FASB ASC 830-10-45 requires an entity with a functional currency in a highly inflationary economy to remeasure its financial statements as if the functional currency was the reporting currency. When the local currency financial statements of a foreign operation or foreign subsidiary are consolidated in the financial statements of a U.S. GAAP parent, then the local currency financial statements are remeasured as if the functional currency were the parent's reporting currency, in accordance with FASB ASC 830-10-45-11. Such remeasurement is prohibited under IFRSs.

10.13 Unlike IFRSs, when an entity's functional currency becomes hyperinflationary, FASB ASC 830-10-45-10 establishes that restatements are to be made prospectively; therefore, an entity does not restate either its comparative financial statements or other comparative information.

Disclosure

IFRSs

10.14 IAS 29 requires disclosure that the financial statements and prior period comparative information are restated for the changes in the general purchasing power of the functional currency and, as a result, are stated in terms of the measuring unit at the end of the reporting period. IAS 29 also requires an entity to disclose whether the financial statements are based on a historical cost approach or a current cost approach. 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 prior reporting periods also are disclosed.

U.S. GAAP

10.15 FASB ASC 830 does not address the scenario in which the consolidated financial statements would be presented in the currency of a hyperinflationary economy. Therefore, this topic does not require disclosures comparable with those required by IAS 29 are necessary.

10.16 However, foreign entities that prepare U.S. GAAP financial statements in the currency of the country in which the reported operations are conducted and that operate in countries with hyperinflationary economies are included in the scope of FASB ASC 255, *Changing Prices*. Entities are encouraged, but not required, to disclose the following information on the effects of changing prices for each of the five most recent years:

- Net sales and other operating revenues
- Income from continuing operations on a current cost basis
- Purchasing power gain or loss on net monetary items
- Increase or decrease in the current cost or lower recoverable amount of inventory and property, plant, and equipment, net of inflation
- Aggregate foreign currency translation adjustment on a current cost basis, if applicable
- Net assets at year-end on a current cost basis
- Income per common share from continuing operations on a current cost basis
- Cash dividends declared per common share
- Market price per common share at year-end

Presentation and Disclosure Excerpts

Elimination of the Price-Level Adjustment for Subsidiaries on Transition to IFRSs

10.17

Nortel Inversora S.A. (Dec 2010)

Author's Note

Nortel Inversora S.A. implemented IFRSs effective December 31, 2010, with a date of transition of January 1, 2009. The excerpt that follows reflects the initial application of IAS 29.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 4—Transition to IFRS (in part)

These financial statements for the year ended December 31, 2010 are the first annual financial statements that are fully compliant with IFRS as issued by the IASB. The Company has adopted the standards effective as of December 31, 2010. Additionally, the Company early adopted IFRS 9 as issued in October 2010.

The mandatory adoption of IFRS for public companies in Argentina is effective for financial years beginning January 1, 2012, while early adoption is permitted for financial years beginning January 1, 2011. Therefore, the consolidated financial statements as of December 31, 2010 for filing with the CNV were prepared in accordance with Argentine GAAP. Argentine GAAP differs in certain respects from IFRS. Notwithstanding the CNV regulations, financial statements under IFRS for the year 2010 are allowed to be presented as additional information to the consolidated financial statements prepared under Argentine GAAP.

The reconciliations that are presented in this Note reconcile the previously published financial statement information under Argentine GAAP as of and for the year ended December 31, 2009 and as of January 1, 2009 to the corresponding amounts calculated in accordance with IFRS in compliance with IFRS 1.

For the purposes of this quantification, Management of the Company has elected to make use of some of the exemptions provided for in IFRS 1 with the aim to simplify the first-time adoption of IFRS. The Company made use of the exemptions as detailed below:

Optional Exemptions Provided by IFRS 1 Upon First-Time Adoption of IFRS (in part):

- *Cumulative translation differences for foreign operations:* The cumulative translation differences for all foreign operations were deemed to be zero at the date of transition to IFRS. This exemption applies to the financial statements translations of the subsidiaries Núcleo and Telecom USA.

a) Impacts of the Application of IFRS On the Opening Statement of Financial Position at January 1, 2009 and the Consolidated Financial Statements at December 31, 2009

IFRS provides for alternative criteria for measurement after initial recognition of each class of PP&E and Intangible Assets. An entity shall choose either the "cost model" or the "revaluation model." Management of Telecom Group has elected to continue applying the "cost model" for all classes of PP&E and Intangible Assets.

After considering exemptions elected and the "cost model" chosen to measure PP&E and Intangible Assets, the main differences identified between Argentine GAAP and IFRS and their impact on equity at January 1, 2009 and December 31,

2009 and net income for the year ended December 31, 2009 are described below:

	Total Equity at January 1, 2009	Total Equity at December 31, 2009	Net Income for the Year Ended December 31, 2009
Total amounts under Argentine GAAP	2,189	2,953	758
IFRS Adjustments:			
1. Noncontrolling interest	1,900	2,552	651
Subtotal amounts and noncontrolling interest under Argentine GAAP	4,089	5,505	1,409
2. Classification of Class "A" Preferred shares	(1,039)	(1,156)	(117)
3. Revenue recognition			
3.1 Upfront connection fees	(106)	(105)	1
3.2 Revenues from contracts for the construction of networks and other assets	—	—	—
3.3 Customer loyalty programs	(6)	(8)	(2)
3.4 Revenue recognition on contracts with multiple deliverables	—	—	—
4. Intangible Assets			
4.1 Service connection or habilitation costs	121	114	(7)
4.2 Subscriber acquisition costs	188	186	(2)
5. Reversal of the adjustments for the effects of inflation in foreign entities´ financial statements	—	(17)	(11)
6. Borrowing costs that do not qualify for capitalization	(67)	(57)	10
7. Other adjustments			
7.1 Inventories	(8)	1	9
7.2 Fixed assets held for sale	(2)	(2)	—
8. Tax effects on IFRS adjustments	(42)	(43)	(1)
Total amounts under IFRS	3,128	4,418	1,289
Equity attributable to the parent	1,192	1,837	642
Equity attributable to noncontrolling interest	1,936	2,581	647

5. Reversal of the Adjustments for the Effects of Inflation in Foreign Entities' Financial Statements

Under IFRS financial statements of any entity whose functional currency is the currency of a hyperinflationary economy shall be stated in terms of the measuring unit current at the end of the reporting period. Under Argentine GAAP financial statements of Núcleo are prepared in guaraníes—the local and functional currency of Núcleo—restated in terms of the measuring unit current at the end of the reporting period. However, the economic environment where Núcleo performs its activities does not meet the requirements established by IFRS to consider the Paraguayan economy as hyperinflationary. The reconciling item reflects the reversal of the inflation adjustment made under Argentine GAAP, after considering the IFRS 1 exemption for deemed cost for the measurement of fixed assets described above.

The impact of reversing the inflation adjustment recorded under Argentine GAAP is summarized in the table below:

Impact of Reversing the Restatement at the End of the Reporting Period:	Total Equity As of December 31, 2009	Net Income For the Year Ended December 31, 2009	Other Comprehensive Income (Loss) for the Year Ended December 31, 2009
Attributable to the parent	(7)	(4)	(3)
Attributable to noncontrolling interest	(10)	(7)	(3)
Total of the reconciling item	(17)	(11)	(6)

c) Impacts of the Application of IFRS on the Consolidated Income Statement for the Year Ended December 31, 2010

After considering exemptions elected and the "cost model" chosen to measure PP&E and Intangible Assets, the main differences identified between Argentine GAAP and IFRS and

their impact on net income for the year ended December 31, 2010 are described below:

	Net Income for the Year Ended December 31, 2010	Revenues	Operating Expenses	Depreciation	Finance Income (Expense)	Income Tax
Total amounts under Argentine GAAP	1,004	—	—	—	—	—
IFRS Adjustments:						
1. Noncontrolling interest	843	—	—	—	—	—
Subtotal amounts and noncontrolling interest under Argentine GAAP	1,847	—	—	—	—	—
2. Classification of Class "A" Preferred shares	(171)	—	—	—	(171)	—
3. Revenue recognition						
3.1 Upfront connection fees	5	5	—	—	—	—
3.2 Revenues from contracts for the construction of networks and other assets	4	14	(10)	—	—	—
3.3 Customer loyalty programs	4	(1)	5	—	—	—
4. Intangible assets						
4.3 Service connection or habilitation costs	(7)	—	19	(26)	—	—
4.4 Subscriber acquisition costs	173	—	534	(361)	—	—
5. Reversal of the adjustments for the effects of inflation in foreign entities' financial statements	(23)	(70)	50	18	(21)	—
6. Borrowing costs that do not qualify for capitalization	10	—	—	10	—	—
7. Other adjustments						
7.1 Inventories	8	—	(7)	—	15	—
7.2 Fixed assets held for sale	1	—	—	1	—	—
8. Tax effects on IFRS adjustments	(66)	—	—	—	—	(66)
Total amounts under IFRS	1,785	(52)	591	(358)	(177)	(66)
Equity attributable to the parent	895					
Equity attributable to noncontrolling interest	890					

Deconsolidation of Foreign Operations in a Hyperinflationary Economy

10.18

Companhia de Bebidas das Americas—AmBev (Dec 2010)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Corporate Information

Companhia de Bebidas das Américas—AmBev (referred to as "we," the "Company" or "Ambev"), headquartered in São Paulo, Brazil produces and sells beer, draft beer, soft drinks, other non-alcoholic beverages and malt, either directly or by participating in other Brazilian domiciled companies and elsewhere in the Americas.

The Company maintains an agreement with PepsiCo International, Inc. ("PepsiCo") to bottle, sell and distribute Pepsi products in Brazil and in other Latin American countries, including Pepsi Cola, 7Up, Lipton Ice Tea, Gatorade and H2OH!.

The Company maintains a licensing agreement with Anheuser-Busch, Inc., through its subsidiary Labatt Brewing Company Limited ("Labatt Canada") and Cervecería Paraguay ("Cervepar"), to produce, bottle, sell and distribute Budweiser products in Canada and Paraguay. In addition, the Company and certain of its subsidiaries produce and distribute Stella Artois under license to Anheuser-Busch InBev S.A./N.V. ("AB InBev") in Brazil, Argentina, Canada, and other countries and, by means of a license granted to AB InBev, it distributes its Brahma product in certain countries of Europe, Asia and Africa.

The Company's shares are traded on the Brazilian Stock Exchange—BM&FBOVESPA and on the New York Stock Exchange—NYSE, as American Depositary Receipts—ADRs.

Main Corporate Event in 2010:

On October 20, 2010, Ambev and Cerveceria Regional S.A. ("Cerveceria Regional") executed a transaction pursuant to which they combined their businesses in Venezuela, whereupon Cerveceria Regional assumed an 85% interest and Ambev the remaining 15% which may be increased to 20% over the next four years.

The measurement at fair value of the retained interest, as prescribed by Amended IAS 27 *Consolidated and separate financial statements*, led to the recognition of an impairment loss of R$49.6.

The consolidated financial statements were approved by the Board of Directors on February 28, 2011.

3. Summary of Significant Accounting Policies (in part)

(c) Foreign Currency Transactions

Foreign currency transactions are accounted for at exchange rates prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the balance sheet date rate. Gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Non-monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rate prevailing at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Brazilian Reais ("R$") at exchange rates ruling at the dates the fair value was determined. Gains and losses arising from the settlement of transactions in foreign currencies and resulting from the conversion of assets and liabilities denominated in foreign currencies are recognized in income.

The more significant exchange rates that have had an effect on the financial statements are as follows:

			Closing Rate			Average Rate		
Currency	**Name**	**Country**	**2010**	**2009**	**2008**	**2010**	**2009**	**2008**
CAD	Canadian Dollars	Canada	1.6712	1.6581	1.9134	1.7114	1.7554	1.6984
DOP	Dominican Pesos	Dominican Republic	0.0445	0.0485	0.0661	0.0480	0.0558	0.0523
USD	US Dollar	Ecuador, Luxembourg and Argentina and Uruguay Malt operations	1.6662	1.7412	2.3370	1.7679	2.0152	1.7901
GTQ	Quetzal	Guatemala	0.2075	0.2102	0.3006	0.2180	0.2460	0.2403
PEN	Novo Sol	Peru	0.5940	0.6059	0.7438	0.6219	0.6640	0.6118
VEF	Bolívar Forte	Venezuela[1]	0.3884	0.8159	1.0883	0.4121	0.9262	0.8500
ARS	Argentinean Peso	Argentina	0.4191	0.4586	0.6774	0.4481	0.5407	0.5707
BOB	Bolivian Peso	Bolivia	0.2367	0.2463	0.3306	0.2495	0.2825	0.2493
PYG	Guarani	Paraguay	0.0004	0.0004	0.0005	0.0004	0.0004	0.0004
UYU	Uruguayan Peso	Uruguay	0.0829	0.0887	0.0959	0.0876	0.0889	0.0858
CLP	Chilean Peso	Chile	0.0036	0.0034	0.0037	0.0034	0.0036	0.0035

[1] As described in Note 1 the subsidiary—Brahma Venezuela was incorporated by Cerveceria Regional as part of the restructuring of operations in that country.

(e) Hyperinflationary Economies

In hyperinflationary economies, the local currency-denominated non-monetary assets, liabilities, income statement accounts as well as equity accounts are re-measured by applying a general price index. The financial statements adjusted for inflation are then translated into the presentation currency at the closing rate.

As of November 30, 2009, Venezuela was assessed to be a highly inflationary economy and the Company has price-level restated the accounts based on the price index announced by Venezuela's central bank for the period from December 2009 to October 20, 2010, when the Venezuelan operations were deconsolidated, following the transaction between Ambev and Cerveceria Regional (Note 1).

(cc) Segment Reporting

Under IFRS 8 *Operating Segments* reporting segments are identified based on internal reports regularly reviewed by the chief operating decision maker of the Company for purposes of evaluating the performance of each segment and allocating resources to those segments. Based on the standard, the appropriate segment presentation has been determined to be geographically based because the Company's risks and rates of return are affected predominantly by its regional business areas. The Company's management structure and internal reporting system to the board of directors reflect this basis.

Ambev operates its business through three zones identified as reportable segments:

- Latin America North, which includes (a) our operations in Brazil, where we operate two sub business units: (i) Beer and (ii) Soft drinks; and (b) our Hispanic Latin America Operations, Excluding Latin America South ("HILA-Ex"), which includes our operations in the Dominican Republic, Venezuela, Ecuador, Guatemala (which also serves El Salvador and Nicaragua) and Peru. Financial data for Venezeuela was consolidated until October 20, 2010 when we combined our business with Cerveceria Regional;
- Latin America South, which includes our operations in Argentina, Bolivia, Paraguay, Uruguay and Chile; and
- Canada, represented by Labatt's operations, which includes domestic sales in Canada.

5. Acquisition and Disposal of Subsidiaries

	Acquisition			Disposal		
	2010	**2009**	**2008**	**2010**	**2009**	**2008**
Assets						
Non-current assets						
Property, plant and equipment	—	17.2	—	(121.4)	—	—
Intangible assets	—	25.5	—	—	—	—
Investment securities	—	0.1	—	125.5	—	—
Trade and other receivables	—	—	—	(1.0)	—	—
	—	42.8	—	3.1	—	—
Current assets						
Inventories	—	4.0	—	(24.3)	—	—
Trade and other receivables	—	1.2	—	(18.4)	—	—
Cash and cash equivalents	—	11.4	—	(12.3)	—	—
Assets held for sale	—	—	—	—	—	—
	—	16.6	—	(55.0)	—	—
Non-current liabilities						
Employee benefits	—	(2.4)	—	—	—	—
Provisions	—	(1.5)	—	0.5	—	—
	—	(3.9)	—	0.5	—	—
Liabilities						
Current liabilities						
Interest-bearing loans and borrowings	—	—	—	7.6	—	—
Income tax payable	—	(4.5)	—	—	—	—
Trade and other payables	—	(13.8)	—	(5.8)	—	—
	—	(18.3)	—	1.8	—	—
Net identifiable assets and liabilities	—	37.3	—	(49.6)	—	—
Goodwill on acquisition	—	18.7	—	—	—	—
Loss/(gains) on disposal	—	—	—	49.6	—	—
Consideration paid/(received), satisfied in cash	—	—	—	6.3	—	—
Cash (acquired)/disposed of	—	(11.4)	—	12.3	—	—
Net cash outflow/(inflow)	—	44.5	—	18.7	—	—

Disposal in 2010

On October 20, 2010, Ambev and Cerveceria Regional executed a transaction pursuant to which they combined their businesses in Venezuela, whereupon Cerveceria Regional assumed an 85% interest and Ambev the remaining 15% which may be increased to 20% over the next four years. The measurement at fair value of the retained interest, as prescribed by Amended IAS 27 *Consolidated and separate financial statements*, led to the recognition of an impairment loss of R$49.6.

8. Special Items (in part)

IAS 1 *Presentation of financial statements* requires material items of income and expense to be disclosed separately. Special items are those that in management's judgment need to be disclosed by virtue of their size or incidence. In determining whether an event or transaction is special, management considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence, and the potential for variation of impact on profit or loss. These items are disclosed on the face of the consolidated income statement or separately disclosed in the notes to the financial statements. Transactions which may give rise to special items are principally restructuring activities, impairments, and gains or losses on disposal of assets and investments. The Company considers these items to be of significance in nature, and accordingly, management has excluded these from their segment measure of performance (Note 4).

Special items are detailed below:

	2010	**2009**	**2008**
Restructuring	(45.7)	(42.8)	(20.6)
Labatt brands indemnity	—	239.4	—
Impairment disposal Venezuela	(55.9)	—	—
Merger and Acquisition activities	—	—	(17.1)
Labatt Hamilton Brewery closure expenses	(46.2)	—	—
Disputes	—	—	(21.5)
Others	(3.1)	—	—
Special items	(150.9)	196.6	(59.2)

The restructuring expenses in 2010, 2009 and 2008, amounting to R$45.7, R$42.8 and R$20.6, respectively, are related to the realignment of the structure and processes in all reportable segments.

The measurement at fair value of the new investment resulting from the combination of the Ambev and Cervecería Regional businesses in Venezuela, as prescribed by Amended IAS 27 *Consolidated and separate financial statements*, led to the recognition of an impairment loss of R$49.6 and transaction costs of R$6.3, totaling R$55.9 (Note 5).

13. Property, Plant and Equipment

	2010				
	Land and Buildings	Plant and Equipment	Fixtures and Fittings	Under Construction	Total
Acquisition Cost					
Balance at end of previous year	3,152.2	10,081.4	2,020.7	612.1	15,866.3
Effect of movements in foreign exchange	(112.1)	(471.0)	(50.7)	(11.5)	(645.3)
Acquisitions	4.0	139.7	44.1	2,037.1	2,224.8
Disposals through the sale of subsidiary	(98.1)	(477.0)	(33.5)	(1.9)	(610.6)
Disposals	(4.8)	(140.7)	(147.9)	(0.5)	(294.0)
Transfer to other asset categories	49.1	511.5	471.8	(1,235.5)	(203.1)
Other[(i)]	17.1	85.0	6.2	1.6	109.9
Balance at end of year	3,007.3	9,728.9	2,310.5	1,401.4	16,448.1
Depreciation and Impairment					
Balance at end of previous year	(1,380.6)	(6,597.2)	(1,293.4)	—	(9,271.3)
Effect of movements in foreign exchange	54.1	352.9	25.3	—	432.4
Depreciation	(100.7)	(869.6)	(293.5)	—	(1,263.8)
Impairment losses[(ii)]	—	(150.3)	(2.6)	—	(152.9)
Disposals through the sale	65.9	408.7	12.8	—	487.4
Disposals	1.5	75.3	160.0	—	236.8
Transfer to other asset categories	8.5	405.2	(231.1)	—	182.6
Other[(i)]	(12.7)	(58.4)	4.1	—	(67.0)
Balance at end of year	(1,364.0)	(6,433.3)	(1,618.4)	—	(9,415.8)
Carrying amount:	—	—	—	—	—
December 31, 2009	1,771.6	3,484.2	727.2	612.1	6,595.1
December 31, 2010	1,643.3	3,295.5	692.1	1,401.4	7,032.3

	2009				
	Land and Buildings	Plant and Equipment	Fixtures and Fittings	Under Construction	Total
Acquisition Cost					
Balance at end of previous year	3,280.2	9,982.1	1,984.8	796.0	16,043.1
Effect of movements in foreign exchange	(355.3)	(1,104.2)	(141.5)	(86.8)	(1,687.7)
Acquisition through business combinations	7.2	8.3	1.6	—	17.0
Acquisitions	6.1	209.7	51.5	1,039.8	1,307.1
Disposals	(35.0)	(100.4)	(109.0)	(0.7)	(245.2)
Transfer to other asset categories	130.9	597.9	199.2	(1,145.0)	(217.0)
Other[(i)]	118.1	488.0	34.1	8.8	649.0
Balance at end of year	3,152.2	10,081.4	2,020.7	612.1	15,866.3
Depreciation and Impairment					
Balance at end of previous year	(1,283.5)	(6,188.3)	(1,266.6)	—	(8,738.5)
Effect of movements in foreign exchange	93.6	590.4	83.8	—	767.8
Depreciation	(111.1)	(775.1)	(222.8)	—	(1,109.0)
Impairment losses[(ii)]	—	(100.9)	—	—	(100.9)
Disposals	4.1	79.9	100.2	—	184.2
Transfer to other asset categories	(0.3)	198.0	3.0	—	200.7
Other[(i)]	(83.4)	(401.2)	9.0	—	(475.6)
Balance at end of year	(1,380.6)	(6,597.2)	(1,293.4)	—	(9,271.3)
Carrying amount:					
December 31, 2008	1,996.7	3,793.8	718.2	796.0	7,304.6
December 31, 2009	1,771.6	3,484.2	727.2	612.1	6,595.1

[(i)] Includes price-level restatement of our operations in Venezuela of R$4.3 (R$123.8—December 31, 2009), of which R$17.7 (R$551.3—December 31, 2009) corresponding to the acquisition cost and R$(12.7) (R$(427.5)—December 31, 2009) to depreciation, respectively.
[(ii)] R$33.9 relates to impairment losses of the Labatt Hamilton Brewery (Note 8) and the balance primarily to losses on returnable packaging.

Foreign Subsidiary Adjusted for Inflation Prior to Translation into Presentation Currency

10.19

East Asiatic Company Ltd. A/S (Dec 2010)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

DKK Million	2010	2009
Net profit for the year	761	214
Other Comprehensive Income:		
Foreign exchange adjustments etc.:		
Foreign currency translation adjustments, foreign entities	274	-13
Foreign currency translation adjustments, transferred to profit from discontinued operations	-36	
Foreign currency translation adjustments, transferred to gain on disposal of associates	9	
Devaluation of the Bolivar (VEF) in EAC Foods, January 2010	-855	
Inflation adjustment for the year (and at 1 January)	299	649
Value adjustments:		
Value adjustment, hedging instruments		-25
Realised exchange gains/losses, where hedging has ceased, transferred to financial income		-19
Other adjustments:		
Tax on other comprehensive income (primarily deferred tax related to inflation adjustments at 1 January 2009)	-2	-82
Other comprehensive income net of tax	-311	510
Total comprehensive income	450	724

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (in part)

DKK Million	Share Capital	Hedging Reserve	Translation Reserves	Retained Earnings	Proposed Dividend for the Year	EAC's Share of Equity	Non-Controlling Interests	Total Equity
Equity at 1 January 2010	960	9	379	938	69	2,355	106	2,461
Comprehensive income for the year								
Profit for the year				392	343	735	26	761
Other comprehensive income								
Foreign currency translation adjustments, foreign entities			267			267	7	274
Reclassified		-9	9			0		0
Foreign currency translation adjustments, transferred to profit from discontinued operations			-36			-36		-36
Foreign currency translation adjustments, transferred to gain on disposal of associates			9			9		9
Devaluation of the Bolivar (VEF) in EAC Foods, January 2010			-808			-808	-47	-855
Inflation adjustment for the year			285			285	14	299
Tax on other comprehensive income			-2			-2		-2
Total other comprehensive income	0	-9	-276	0	0	-285	-26	-311
Total comprehensive income for the year	0	-9	-276	392	343	450	0	450
Transactions with the equity holders of the parent EAC								
Ordinary dividends paid to shareholders					-67	-67	-11	-78
Dividends, treasury shares				2	-2			
Interim dividend paid to shareholders					-267	-267		-267
Interim dividend, treasury shares				7	-7			
Purchase of treasury shares				-119		-119		-119
Share based payments				10		10		10
Total transactions with the equity holders of the parent EAC	0	0	0	-100	-343	-443	-11	-454
Equity at 31 December 2010	960	0	103	1,230	69	2,362	95	2,457

At the end of the year proposed dividends of DKK 69m are included in retained earnings (DKK 5 per share). Total paid dividend during the year amounts to DKK 25 per share. No dividend is declared on treasury shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Accounting Policies for the Consolidated Financial Statements (in part)

Hyperinflation

Effective from 2009, Venezuela has been classified as a hyperinflationary economy. As a consequence, the accounting figures for EAC Foods' activities in Venezuela have been adjusted for inflation prior to translation to the Group's presentation currency. The effect of the inflation adjustment is further described in note 37.

4. Operating Segments

(Products and Services)	**Foods (Processsed Meat Products)**		**Moving & Relocation Services (Moving & Relocation Services)**		**Reportable Segments**		**Parent and Unallocated Activities**		**EAC Group, Pro Forma, Continuing Operations Historical Accounting Policy**		**Inflation Adjustment, Foods**		**Reported EAC Group, Continuing Operations (IAS 29)**	
DKK Million	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Income Statement														
External revenue	2,956	4,340	640	560	3,596	4,900	—	—	3,596	4,900	262	360	3,858	5,260
Operating profit before depreciation and amortisation (EBITDA) and non-recurring items	425	680	69	60	494	740	-57	-47	437	693	-108	-71	329	622
Depreciation and amortisation	51	80	12	11	63	91	1	1	64	92	60	76	124	168
Reportable segment operating profit (EBIT)	374	600	57	49	431	649	-58	-48	373	601	-168	-147	205	454
Financials, net	-79	-75	-8	-3	-87	-78	-14	-3	-101	-81	56	37	-45	-44
Share of profit from associates	—	—	1	1	1	1	12	17	13	18	0	0	13	18
Gain on disposal of associates	—	—	3	—	3	—	194	—	197	0	0	0	197	0
Profit before tax	295	525	53	47	348	572	134	-34	482	538	-112	-110	370	428
Income tax expense	50	153	14	14	64	167	31	29	95	196	61	52	156	248
Reportable segment profit from continuing operations	245	372	39	33	284	405	103	-63	387	342	-173	-162	214	180
Balance Sheet														
Goodwill	0	0	402	74	402	74	0	0	402	74	0	0	402	74
Other intangible assets	0	3	210	2	210	5	0	0	210	5	2	4	212	9
Property, plant and equipment and livestock	663	900	87	41	750	941	13	15	763	956	440	505	1,203	1,461
Deferred tax asset	108	135	13	2	121	137	1	1	122	138	-107	-131	15	7
Other financial fixed assets	0	0	1	2	1	2	11	10	12	12	0	0	12	12
Investment in associates	0	0	0	4	0	4	25	43	25	47	0	0	25	47
Inventories	489	654	10	5	499	659	0	0	499	659	15	26	514	685
Trade receivables	387	518	208	86	595	604	0	0	595	604	0	0	595	604
Cash	252	320	118	84	370	404	684	148	1,054	552	0	0	1,054	552
Other current assets	93	241	70	35	163	276	21	21	184	297	1	1	185	298
Discontinued operations	—	—	—	—	—	—	—	—	—	723	—	—	—	723
Total assets	1,992	2,771	1,119	335	3,111	3,106	755	238	3,866	4,067	351	405	4,217	4,472

(continued)

(Products and Services)	Foods (Processsed Meat Products)		Moving & Relocation Services (Moving & Relocation Services)		Reportable Segments		Parent and Unallocated Activities		EAC Group, Pro Forma, Continuing Operations Historical Accounting Policy		Inflation Adjustment, Foods		Reported EAC Group, Continuing Operations (IAS 29)	
DKK Million	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Non-current liabilities ex. debt	25	55	62	22	87	77	31	29	118	106	14	0	132	106
Current liabilities ex. debt	340	546	307	120	647	666	41	20	688	686	0	0	688	686
Interest bearing debt	784	866	154	24	938	890	2	2	940	892	0	0	940	892
Liabilities	1,149	1,467	523	166	1,672	1,633	74	51	1,746	1,684	14	0	1,760	1,684
Non-controlling interests	41	44	17	12	58	56	1	0	59	56	36	50	95	106
Equity	—	—	—	—	—	—	—	—	—	—	—	—	2,362	2,355
Discontinued operations	—	—	—	—	—	—	—	—	—	—	—	—	—	327
Total equity and liabilities	—	—	—	—	—	—	—	—	—	—	—	—	4,217	4,472
Invested capital	1,375	1,850	631	123	2,006	1,973	-38	-13	1,968	1,960	—	—	2,305	2,365
Working capital employed	712	915	56	37	768	952	-1	-1	767	951	—	—	783	977
Cash Flows														
Cash flows from operations	83	207	34	74	—	—	—	—	—	—	—	—	185	342
Cash flows from investing activities	-223	-331	-426	-11	—	—	—	—	—	—	—	—	477	-337
Cash flows from financing activities	219	214	415	-43	—	—	—	—	—	—	—	—	-94	90
Cash flows from discontinued operations	—	—	—	—	—	—	—	—	—	—	—	—	6	—
Changes in cash & cash equivalents	79	90	23	20	—	—	—	—	—	—	—	—	574	95
Financial Ratios in %														
Operating margins:														
EBITDA	14.4	15.7	10.8	10.7	—	—	—	—	12.2	14.1	—	—	8.6	11.8
EBIT	12.7	13.8	8.9	8.8	—	—	—	—	10.4	12.3	—	—	5.3	8.6
Return on average invested capital (ROIC) including goodwill	23.2	37.6	15.1	35.6	—	—	—	—	19.0	34.8	—	—	8.8	23.6
Return on average invested capital (ROIC) excluding goodwill	23.2	37.6	41.0	75.6	—	—	—	—	21.6	36.4	—	—	9.8	24.5

The segment reporting is based on the internal management reporting in which pro forma figures are prepared under the historical accounting policies without any hyperinflation adjustments. Such adjustments are presented separately.

EAC's operating segments comprise strategic business units which sell different products and services. The segments are managed independently of each other and have different customers. No inter segment sales occur. Each segment comprises a set of units and none of these are of a magnitude which requires them to be viewed as a separate reportable segment.

Consolidated revenue includes sale of goods in the amount of DKK 3,218m (DKK 4,700m). Remaining revenue is related to sale of services.

Reconciliation items in "Parent and unallocated items" are primarily related to corporate costs and corporate assets including cash and cash equivalents held by the Parent Company.

14. Intangible Assets (in part)

DKK Million	Goodwill	Trademarks	Software	Other[1]	Total
2010					
Cost:					
01.01.	104	84	147	42	377
Translation adjustments including devaluation loss	12	-5	-51	4	-40
Inflation adjustments	—	—	26	—	26
Additions	—	—	1	—	1
Additions related to discontinued operations	36	—	—	—	36
Additions due to business combinations	321	167	—	40	528
Disposals, discontinued operations	71	—	9	46	126
Disposals	—	-9	—	—	-9
31.12.	402	237	114	40	793
Amortisation:					
01.01.	0	84	135	17	236
Translation adjustments including devaluation loss	—	-5	-49	2	-52
Inflation adjustments	—	—	25	—	25
Amortisation for the year	—	—	4	4	8
Disposals, discontinued operations	—	—	6	23	29
Disposals	—	-9	—	—	-9
31.12.	0	70	109	0	179
Carrying amount 31.12.	402	167	5	40	614

15. Property, Plant and Equipment (in part)

DKK Million	Land and Buildings Etc.	Plants Etc.	Other Assets, Installations, Vehicles Etc.	IT Equipment	Construction in Progress	Total
2010						
Cost:						
01.01.	1,186	788	337	78	340	2,729
Translation adjustment including devaluation loss	-477	-360	-87	-25	-155	-1,104
Inflation adjustment	157	143	6	9	50	365
Additions	1	—	10	1	236	248
Additions due to business combinations	2	—	43	1	—	46
Disposals	2	1	19	1	1	24
Disposals, discontinued operations	72	4	56	12	3	147
Reclassification	122	95	12	15	-244	0
31.12.	917	661	246	66	223	2,113
Depreciation						
01.01.	469	492	211	57	0	1,229
Translation adjustment including devaluation loss	-185	-226	-54	-17	—	-482
Inflation adjustment	62	89	3	6	—	160
Depreciation for the year	37	42	29	8	—	116
Disposals	2	—	16	5	—	23
Disposals, discontinued operations	31	—	34	10	—	75
31.12.	350	397	139	39	0	925
Carrying amount 31.12.	567	264	107	27	223	1,188
Financial leases	—	—	—	—	—	0

16. Livestock

DKK Million	2010	2009
Reconciliation of Carrying Amounts of Breeding Stock		
Carrying amount 01.01	21	15
Translation adjustment including devaluation loss	-10	0
Inflation adjustment	3	8
Increase due to purchases	16	20
Gain/loss arising from changes in fair value less estimated point-of-sale costs attributable to physical changes	-11	-15
Decrease due to sales	4	7
Carrying amount 31.12	15	21

The reproducing livestock is presented at the updated acquisition cost net of accumulated amortisation since there is no available market price and no other reliable alternatives to determine the fair value. The assets comprise pig herds and stock of cattle with an amortisation period of 2.5 and 5 years, respectively.

As of 31 December 2010, Plumrose owns 12,000 reproducing livestock (31 December 2009:12,000).

27. Credit Risk, Currency Risk and Interest Rate Risk (in part)

Group Policy for Managing Risk and Capital

Given the international scope of EAC's business activities, the Group is exposed to financial market risk, i.e. the risk of losses as a result of adverse movements in currency exchange rates, interest rates and/or commodity prices. It also encompasses financial counterparty credit risk, liquidity and funding risk.

EAC operates in relatively volatile markets in South America and Asia Pacific where sudden currency and interest movements can be expected. Consequently, EAC maintains a conservative debt-equity ratio providing management with sufficient flexibility to act in support of its businesses, if and when so required. EAC will continuously strive to achieve an efficient debt-equity ratio in the operating businesses, while maintaining a cautious cash position and equity ratio in the Parent Company.

EAC's financial risk management activities are decentralised, although co-ordinated by the EAC Group within a policy framework approved by the Supervisory Board. It is the EAC Group's policy not to engage in any active speculation in financial risks. Therefore, the Group's financial management is focused on managing or eliminating financial risks relating to operations and funding, in particular on reducing the volatility of the EAC Group's cash flows in local currencies. The Group does currently not apply any material financial derivatives for hedging.

Currency Risk

The EAC Group is exposed to translation risks from currency translation into the Group reporting currency (DKK). EAC's business activities are conducted in different currencies: Venezuelan Bolivar, Asia Pacific currencies and to a minor extent DKK. In order to minimise the currency risk, EAC seeks to match the currency denomination of income and expenses and of assets and liabilities on a country-by-country basis. Consequently, EAC's functional currency varies from country to country and is typically different from the reporting currency in DKK of the listed entity, EAC A/S. The objective of EAC's currency management strategies is to minimise currency risks relating to the functional currencies, i.e. to protect profit margins in local currency.

Due to the significance of EAC Foods' activities in Venezuela, the currency exposure to the Bolivar (VEF) is relatively high. On 8 January 2010, the Venezuelan government announced a devaluation of the official exchange rate of the VEF to the USD, which had remained pegged at VEF/USD 2.15 since March 2005 to a new split rate of VEF/USD 2.60 for the importation of food, pharmaceuticals and other essential goods and at VEF/USD 4.30 for all other items. The devaluation reduced consolidated assets by DKK 1.6bn and equity by DKK 0.9bn. Further the devaluation reduced outstanding royalties from H1 2008 to Q4 2009 by DKK 50m.

On 30 December 2010, the Venezuelan government announced that it would unify the official exchange rates with effect from 1 January 2011 and consequently the VEF/USD 2.60 exchange rate has been eliminated, leaving the official rate of VEF/USD 4.30. In addition to the official exchange rate system, limited amounts of foreign currency may also be purchased through the Sistema de Tranacciones con Titulos en Moneda Extranjera (SITME) at a variable rate currently VEF/USD 5.30. The devaluation had no impact on outstanding royalties at year end 2010, but created uncertainty regarding the rate to be used for outstanding dividends.

From a Group point of view, net assets in EAC Foods are translated at the official rate of VEF/USD 4.30. Outstanding dividends from EAC Foods are summarised below including the impact from applying VEF/USD 4.30 versus VEF/USD 2.60 for dividend repatriation:

Outstanding Dividends from EAC Foods:

	Expectation Before Exchange Rate Unification		Exchange Rate Unification Impact		Potential Impact
Period	Exchange Rate	USD'000	Exchange Rate	USD'000	USD'000
2007	VEF/USD 2.60	37,816	VEF/USD 4.30	22,866	14,950
2008	VEF/USD 2.60	23,423	VEF/USD 4.30	14,163	9,260
2009	VEF/USD 4.30	152	VEF/USD 4.30	152	0
Total		61,391		37,181	24,210

Due to uncertainty, the Parent Company only recognises dividends from Venezuela upon receipt. Any payment of dividends at the expected exchange rate before unification will accordingly give rise to an increase of the EAC Group's equity reported in DKK.

EAC Parent Company royalty receivables at exchange rate VEF/USD 4,30 from EAC Foods are summarised below:

Period	USD'000
Q4 2009	4,286
Q1 2010	3,584
Q2 2010	4,127
Q3 2010	4,571
Q4 2010	5,714
Total	22,282

During 2010, CADIVI approved payment of USD 25.9m of outstanding royalties for the periods Q3 2008 to Q3 2009 at the VEF/USD 2,60 exchange rate.

The devaluation in 2010 and the exchange rate unification is further described in note 37.

The EAC Group has foreign exchange risk on balance sheet items, partly in terms of translation of debt denominated in a currency other than the functional currency for the relevant Group entity, and partly in terms of translation of net investments in entities with a functional currency other than DKK. The former risk affects the operating profit.

Developments in exchange rates between DKK and the functional currencies of subsidiaries had an impact on the EAC Group's revenue and operating profit (EBIT) for 2010 reported in DKK. In a number of countries (particularly in Asia Pacific) where the EAC Group has significant activities, the currency correlates partly with the USD. In 2010, the average DKK/USD rate (563.62) was 5.3 per cent higher than in 2009 (DKK/USD 535.44). As a consequence of the appreciation of a number of key currencies compared to DKK, revenue and operating profit (EBIT) for 2010 increased in EAC Moving & Relocation Services by DKK 49m and DKK 6m respectively.

In foreign subsidiaries that operate in hyperinflationary economies, income and expenses are translated at the exchange rate at the balance sheet date which had a positive impact in EAC Foods due to the appreciation of the exchange rate from DKK/USD 519.01 end of 2009 to DKK/USD 561.33 end of 2010. The associated impact on revenue and operating profit (EBIT) was an increase of DKK 243m and DKK 16m respectively, which only to a minor extent offset the effect of the devaluation effective from 8 January 2010, which reduced 2010 revenue and operating profit (EBIT) by DKK 3.0bn and DKK 191m respectively, provided all other factors remain unchanged.

37. Accounting Impact of Venezuela's Status as a Hyperinflationary Economy

As described in the accounting policies for the consolidated financial statements, the assessment as to when an economy is hyperinflationary is based on qualitative as well as quantitative factors.

Due to recent years' rising inflation in Venezuela, the country was considered a hyperinflationary economy for accounting purposes effective from 30 November 2009. This was based on the fact that the cumulative inflation for the three years ending 30 November 2009 exceeds 100 per cent and that the other qualitative characteristics of a hyperinflationary economy have all been met.

Based on this assessment, the EAC Group has retrospectively from 1 January 2009 onwards applied IAS 29 "Financial Reporting in Hyperinflationary Economies" for the activities of EAC Foods as if the economy has always been hyperinflationary.

IAS 29 requires the financial reporting of EAC Foods to be restated to reflect the current purchasing power at the end of the reporting period, and as a result all non-monetary assets, such as property, plant and equipment and inventories, should be restated to the current purchasing power as of 31 December using a general price index from the date when they were first recognised in the accounts (or 1 January 2004 when IFRS was first applied as basis of preparation of the consolidated financial statements). Monetary assets and liabilities are by their nature stated at their current purchasing power and accordingly a gain/loss on the monetary net position from 1 January to 31 December is recognised as financial income or expense for the year representing the gain/loss obtained from maintaining a monetary liability or asset position respectively during an inflationary period. For the income statement, all items are restated for changes in the general price index from the date of the transaction to the reporting date of 31 December except for items related to non-monetary assets such as depreciation and amortization and consumption of inventories etc. Deferred tax is adjusted accordingly.

IAS 29 and IAS 21 require the end-of-period reporting exchange rate to be applied when translating both the income statement and the balance sheet from the hyperinflationary currency, VEF, into the presentation currency of the EAC Group, DKK.

At 31 December 2010, the applicable rate for translation purposes was the official exchange rate of VEF/USD 4.30 (VEF/USD 2,15) as the Group expects to receive future royalties as well as dividends at this exchange rate. The alternative parallel exchange rate in May 2010 (prior to suspension of the parallel exchange market) was in the region of VEF/USD 7.50. The implied VEF/USD exchange rate through issuance of bonds by the Venezuelan republic and PDVSA during 2010 ranged between VEF/USD 5.51–6.62 (based on bond purchases/sales by EAC Foods during 2010).

Since the EAC Group's presentation currency, DKK, is non-inflationary, comparatives are not adjusted for the effects of inflation in the current period. The net impact from inflation adjustment of EAC Foods' net asset is taken directly to the equity (as part of other comprehensive income for the year).

The inflation adjustment for 2010 is based on available data for changes in the Consumer Price Index (CPI) for the Metropolitan Area of Caracas until December 2007 and the National Consumer Price Index (NCPI) as from January 2008 published by the Central Bank of Venezuela (BCV). Based on these indices, the inflation for 2010 is 27.2 per cent (25.1 per cent) and the hyperinflation closing index at 31 December 2010 was 210 (165).

The hyperinflation adjustment during 2010 is not offset by a corresponding devaluation of the VEF exchange rate as this, since the devaluation on 8 January 2010, has been fixed against the USD at the official rate of VEF/USD 4.30. Accordingly, the hyperinflation adjustment under IAS 29 has correspondingly increased the consolidated accounting figures reported in DKK including revenue, non-current assets and equity.

The impact from applying IAS 29 on the consolidated financial statements for 2010 is summarised in a separate column in note 4, to which reference is made.

The most material inflation accounting adjustments between the historical accounting policies of EAC Foods (now applied for internal management reporting) as well as recognition and measurement after IAS 29 can be explained as follows:

- Revenue increases as it is restated for changes in the general price index from the date of the transaction until 31 December.
- Gross profit decreases due to higher costs of goods sold and fixed costs following restatement for changes in the general price index from the date of the transaction until 31 December.
- Operating profit decreases due to higher depreciation charges following the restatement of property, plant and equipment for changes in the general price index from the date of the transaction until 31 December.
- Profit before income tax is impacted, in addition to as set out above, by the recognition of a gain on the net monetary position which is due to the purchasing power impact resulting from EAC Foods' having monetary liabilities in excess of monetary assets as of 31 December.
- Net profit is further impacted by changes to deferred tax following the change in the accounting values of the non-monetary assets (hyperinflated).
- Total equity increases primarily due to the restatement of the fixed assets to a higher inflation adjusted level.
- Total assets and equity increase primarily due to restatement of non-current assets to a higher inflation-adjusted level.

For 2010, the gain on the net monetary position amounts to DKK 60 million (DKK 42 million) which has been recognised as financial income.

38. Devaluation of the Bolivar

Devaluation in January 2010

On 8 January 2010, the Venezuelan government announced a devaluation of the official exchange rate of the Bolivar (VEF) to the USD, which had been pegged at VEF/USD 2.15 since March 2005, to a new split rate of VEF/USD 2.60 for the importation of food, pharmaceuticals and other essential goods and VEF/USD 4.30 for all other items. The existence of a third floating rate—known as the parallel rate—was officially acknowledged and will onwards be managed through central bank intervention to avoid excessive speculation with this initiative. The government aimed to stabilise the parallel rate at a rate close to VEF/USD 4.30.

As all future royalties and dividends will be received at VEF/USD 4.30, this exchange rate has consequently been applied as of 1 January 2010 for translation of the financial statements of EAC Foods into the reporting currency of the EAC Group, DKK.

Due to the significance of EAC Foods' activities in Venezuela, the devaluation has an adverse effect on the consolidated accounting figures as illustrated below:

EAC Group (Pro Forma)

DKK Million	Reported 2009 (Translated at Official Rate of VEF/USD 2.15)	Pro Forma 2009 (Translated at Devaluated Official Rate of VEF/USD 4.30)	Devaluation Impact
Revenue	6,607	4,257	-2,350
Gross profit	1,872	1,156	-716
Operating profit	510	284	-226
Profit before income tax	475	268	-207
Net profit for the year	214	109	-105
Total equity	2,461	1,606	-855
Non-current assets	1,746	1,038	-708
Total assets	4,472	2,875	-1,597

Suspension of the Parallel Exchange Market and Introduction of the SITME Allocation System

On 14 May 2010, the Venezuelan government announced that it would take over management of the VEF/USD parallel market. As a consequence, purchase of USD could henceforth only be made from CADIVI and via the Central Bank of Venezuela through the SITME allocation system at a rate of VEF/USD 5.30 and subject to a number of restrictions.

Simplification of the Venezuelan Exchange Rate System in December

On 30 December 2010, the Venezuelan government announced the elimination of the preferential VEF/USD 2.60 exchange rate used for importation of certain product categories including EAC Foods' imports. The elimination will primarily impact future import transactions into Venezuela, which now will take place at VEF/USD 4.30.

SECTION 11: SERVICE CONCESSION ARRANGEMENTS*

IFRIC 12, *SERVICE CONCESSION ARRANGEMENTS*

SIC 29, *SERVICE CONCESSION ARRANGEMENTS: DISCLOSURES*

IFRSs Overview and Comparison to U.S. GAAP

11.01 *Service concession arrangements* are a mechanism by which a public sector entity (such as a governmental agency) or an entity acting as an agent for a public sector entity procures public services by entering into an arrangement with a private sector entity. Rather than the public entity developing, funding, building, operating, and maintaining infrastructure assets alone, the public sector entity contracts some or all of these activities to one or more private sector entities. Examples of service concession arrangements include developing, funding, building, operating, and maintaining roads, bridges, tunnels, hospitals, railroads, and prisons, among other arrangements.

11.02 As part of these arrangements, private sector entities provide one or more, but not necessarily all, of the services necessary to make the infrastructure asset operational. In some cases, the private sector entity constructs the infrastructure asset (a road, for example). In other cases, the infrastructure asset may already exist, such as an airport, and the public sector entity contracts with a private sector entity to manage and operate the asset.

11.03 When providing high quality, transparent, and comparable information, the accounting challenge is to reflect the substance of the arrangement between the public sector entity (grantor) and private sector entity (operator). International Financial Reporting Interpretations Committee (IFRIC) Interpretation 12, *Service Concession Arrangements*, establishes the requirements and provides guidance for reporting public-to-private service concession arrangements on the financial statements of service concession operators. Standing Interpretations Committee (SIC) Interpretation 29, *Service Concession Arrangements: Disclosures*, establishes the disclosure requirements.

11.04 IFRIC 12 is effective for annual periods beginning on or after 1 January 2008. If an entity early adopts IFRIC 12, it should disclose that fact in the relevant financial statements.

Recognition and Measurement

IFRSs

11.05 IFRIC 12 establishes requirements and provides guidance for private sector operators on accounting for public-to-private service concession arrangements. It does not provide accounting guidance to the public sector grantor of the service concession. This interpretation applies to those arrangements in which the grantor controls (*a*) the services that the operator will provide with the infrastructure asset, to whom those services will be provided, and the price for those services and (*b*) any significant residual interest in the infrastructure asset at the end of the term of the arrangement. The grantor's control of the residual interest in the infrastructure asset may exist through ownership, beneficial entitlement, or other means. As long as both conditions are met, IFRIC 12 applies to infrastructure assets used in service concession arrangements for the entirety of these assets' economic lives.

11.06 IFRIC 12 addresses recognition and measurement of the following:

- Operator's rights over the infrastructure asset
- Arrangement consideration
- Construction or upgrade services
- Operating services
- Borrowing costs
- Subsequent treatment of recognized financial assets and intangible assets
- Items provided to the operator by the grantor

11.07 When a service concession arrangement meets the two conditions previously described, IFRIC 12 concludes that the arrangement only gives the operator a right of access to, not a right to use, the infrastructure asset. The right of access allows the operator to provide services on behalf of the grantor in accordance with the contractual terms of the arrangement. This conclusion is significant because the interpretation does not permit the infrastructure assets to be recognized as property, plant, and equipment (PPE) under International Accounting Standard (IAS) 16, *Property, Plant and Equipment*, or as a leased asset under IAS 17, *Leases*. The infrastructure asset itself does not meet the definition of PPE in IAS 16, which requires the asset to be held for use, or the definition of a leased asset in IAS 17, which requires a lease to convey the right to use an asset.

11.08 Therefore, IFRIC 12 requires the operator to recognize either a financial asset or an intangible asset. The operator should recognize a financial asset to the extent that it has an unconditional right to receive cash or another financial asset. The operator should recognize an intangible asset to the extent that consideration is dependent upon the use of the asset to provide services. In some cases, the operator might recognize both a financial and an intangible asset. An entity classifies a financial asset as a loan or receivable, an available-for-sale financial asset, or designated at fair value through profit and loss in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*.

* Unless otherwise indicated, references to International Accounting Standards Board (IASB) standards and interpretations throughout this 2011 edition of *IFRS Accounting Trends & Techniques* refer to the version of those standards and interpretations included in the *IFRS 2011* bound volume, the official printed consolidated text of IASB standards and interpretations, including revisions, amendments, and supporting documents, issued as of 1 January 2011.

Author's Note

International Financial Reporting Standard (IFRS) 9, *Financial Instruments*, issued December 2009 and effective for annual periods beginning on or after 1 January 2013, amends the classification and measurement requirements for financial assets recognized in accordance with IFRIC 12. In accordance with IFRS 9, an entity measures the amount due from, or at the direction of, the grantor at either amortized cost or fair value through profit or loss. If the financial asset is carried at amortized cost, IFRS 9 requires the entity to use the effective interest method and to recognize interest income in profit or loss. Early adoption of IFRS 9 is permitted. See a more extensive discussion of the financial instruments convergence project in section 8, "Financial Instruments and Related Disclosures."

11.09 In accordance with IAS 11, *Construction Contracts,* when the outcome of a construction contract can be measured reliably, an entity should recognize revenues and contract costs for construction and upgrade services using the percentage of completion method. An entity should recognize revenue for providing services in accordance with IAS 18, *Revenue*. Revenue is measured at the fair value of the consideration received or receivable. If the operator provides more than one service, then the entity should allocate the consideration to the different services based on the relative fair values of the delivered services when separately identifiable.

Author's Note

In June 2010, the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) issued an exposure draft, *Revenue from Contracts with Customers*, proposing to create a single revenue recognition standard that would replace the requirements of both IAS 18 and FASB *Accounting Standards Codification* (ASC) 605, *Revenue Recognition*. Entities would apply the new standard across various industries and capital markets. The boards believe that "publication of this joint proposal represents a significant step forward toward global convergence in one of the most important and pervasive areas in financial reporting." In June 2011, the boards decided to re-expose their revised proposals for a common revenue recognition standard to give constituents an opportunity to comment on the revisions to the draft issued in 2010. The IASB expects to issue a revised exposure draft in the third quarter of 2011, analyze comments received by the first quarter of 2012, and issue a final standard later that year. See the discussion of the proposals in section 3, "Statement of Comprehensive Income and Related Disclosures."

11.10 To the extent that the infrastructure asset is a qualifying asset under IAS 23, *Borrowing Costs*, an operator should capitalize interest in accordance with that standard. Otherwise, the operator should expense borrowing costs.

11.11 When the grantor provides assets that the operator can, at his or her sole discretion, retain or dispose of, the operator should recognize the assets separately and measure them at fair value on initial recognition, with a corresponding liability representing the obligations it has assumed in exchange.

11.12 An entity should recognize and measure maintenance obligations in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

U.S. GAAP

11.13 Service concession arrangements are not defined in the FASB ASC glossary, and FASB ASC does not include specific guidance on the applicable accounting treatment. As a result, there is likely to be diversity in practice. For example, although service concession arrangements, as defined in IFRIC 12, are excluded from the scope of IAS 17, some of these types of arrangements may be accounted for as leases under FASB ASC 840, *Leases*.

11.14 As reflected in current practice, operators generally do not recognize infrastructure assets as PPE under the FASB ASC. However, if an operator determined that lease accounting was appropriate under FASB ASC 840 and concluded that the lease constituted a finance (capital) lease under FASB ASC 840-30, the entity effectively accounts for the leased infrastructure asset as PPE and depreciates the asset accordingly. Operators generally do not recognize intangible assets in connection with service concessions.

11.15 A potentially significant difference between IFRSs and FASB ASC affecting revenue and expense recognition is the requirement under FASB ASC 605-25 to evaluate the arrangement to determine whether it is a multiple element arrangement. In a *multiple element arrangement*, the entity allocates the consideration received or receivable to individual elements and determines the timing of revenue and expense recognition separately for each element. FASB ASC 605-25-25-2 requires the consideration received or receivable for delivery of multiple services to be allocated to the identified elements either by reference to relative fair values (as in IFRSs) or, if fair values are not available for all services delivered, by using a residual method.

Author's Note

"Pending Content" in FASB ASC 605-25-25-2, amends this paragraph to change the words *fair values* to *selling prices*.

11.16 FASB ASC 605-25 requirements for multiple element arrangements differ from IFRSs in two ways. First, under FASB ASC 605-25-30-2, consideration is allocated only by reference to the relative fair values of the individual services to be delivered. Second, although IAS 18 requires an entity to separately identify components of a single transaction in order to reflect the substance of the transaction, IFRSs provide little guidance for this process. Therefore, it is likely that entities would recognize revenue differently under FASB ASC 605-25 and IFRSs.

Author's Note

"Pending Content" in FASB ASC 605-25-30-2, also amends this paragraph to change the words *fair values* to *selling prices*.

11.17 Absent specific guidance in FASB ASC, an operator would generally not recognize as separate assets items provided by the grantor as part of the consideration for services to be provided and which the operator has the discretion to retain or dispose of. Instead, the operator would allocate

these items in the same manner as other consideration. Similarly, an entity would not recognize liabilities unless cash is received in advance.

11.18 Although not separately defined, a receivable meets the definition of a *financial asset* in the FASB ASC glossary (that is, a contract that conveys to one entity a right to receive cash or another financial instrument from a second entity). Therefore, consistent with IFRSs and in the absence of more specific guidance, it is generally agreed an operator should recognize a receivable to the extent that it has an unconditional right to receive cash irrespective of the infrastructure's use.

Disclosure

IFRSs

11.19 SIC 29 applies not only to all public-to-private service concession arrangements within the scope of IFRIC 12 but also to private-to-private service concession arrangements, as long as the services provided give the public access to major economic or social infrastructure assets. However, outsourcing of internal services of a public sector entity (for example, building maintenance and technology) is excluded.

11.20 Arrangements with the following rights and obligations of the service concession operator are subject to the disclosures required by SIC 29:

- Rights to provide services that give the public access to major economic or social facilities
- Rights to use specified tangible assets, intangible assets, and financial assets (in some cases)
- Obligations to provide services according to the terms and conditions of the agreement over the concession period
- Obligations to return any rights received at the end of the concession period (when applicable)

11.21 Additional disclosures may be required by other standards and interpretations depending on the nature of the asset or liability recognized (for example, IAS 38, *Intangible Assets*, or IFRS 7, *Financial Instruments: Disclosures*).

U.S. GAAP

11.22 Because there is no separate standard or interpretation for service concession arrangements, disclosures would depend on the specific FASB ASC topic or other U.S. generally accepted accounting principles guidance applied.

Author's Note

None of the survey companies whose excerpts are provided in this section early adopted IFRS 9.

Presentation and Disclosure Excerpts

Service Concession—Intangible Assets, Indemnities Receivable

11.23

Companhia de Saneamento Basico do Estado de Sao Paolo—SABESP (Dec 2010)

CONSOLIDATED BALANCE SHEETS (in part)

As of December 31, 2010 and 2009
Amounts in thousands of reais

Assets	Note	December 31, 2010	December 31, 2009
Noncurrent assets			
Customer accounts receivable, net	7	352,839	266,543
Accounts receivable from related party, net	8	231,076	260,365
Indemnities receivable	9	146,213	146,213
Escrow deposits	—	43,543	46,365
Deferred income taxes	14	78,440	43,636
Intangible assets, net	10	18,546,836	16,917,417
Property, plant and equipment, net	11	249,606	190,430
Other assets	—	111,910	101,032
Total noncurrent assets		19,760,463	17,972,001
Total assets		23,350, 584	20,243,124

CONSOLIDATED STATEMENTS OF CASH FLOWS (in part)

Years Ended December 31, 2010, 2009 and 2008
Amounts in thousands of reais unless otherwise indicated

	Note	2010	2009	2008
Profit before income tax and social contribution		2,292,756	2,110,352	1,148,224
Adjustments for:				
Depreciation and amortization		552,184	562,236	618,198
Losses on disposal of property, plant and equipment and intangible assets		16,385	23,372	176,439
Allowance for doubtful accounts expense		402,694	308,188	336,264
Change in provisions		352,614	596,543	461,654
Interest on loans and financing		450,297	395,897	502,817
Foreign exchange and monetary (gains) losses on loans and financing		21,139	(535,409)	564,095
Interest and inflation adjustment gains		(55,804)	(14,252)	(87,789)
Provision from São Paulo agreement		80,368	—	—
Provision for defined contribution plan		32,587	—	—
Fair value margin on intangible assets arising from concession contracts		(49,603)	(30,145)	(26,367)
Other adjustments		19,331	8,197	7,495
Adjusted net income		4,114,948	3,424,979	3,701,030

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Operations

Companhia de Saneamento Básico do Estado de São Paulo ("SABESP" or the "Company") is a mixed-capital company headquartered in São Paulo, controlled by the São Paulo State Government. The Company is engaged in the provision of basic and environmental sanitation services, supplies treated water on a wholesale basis and provides sewage treatment services to six other municipalities in the Greater São Paulo Metropolitan Area.

In addition to providing basic sanitation services in the State of São Paulo, SABESP may perform these activities in other states and countries, and can operate in drainage, urban cleaning, solid waste handling and energy markets. The objective set in the new vision of SABESP is to be recognized as the company that ensured universal access to water and sewage services in its marketplace, focused on the customer, and in a sustainable and competitive manner, with excellence in environmental solutions.

On December 31, 2010, the company operates water and sewage services in 364 of municipalities of the State of São Paulo, having temporarily discontinued operations in five of these municipalities, Itapira, Araçoiaba da Serra, Iperó, Cajobi and Tarumã, due to judicial orders under ongoing lawsuits. Most of these municipalities operations are based on 30-year concession agreements. As of December 31, 2010, 119 concessions had expired and are being negotiated. From 2011 to 2030, 44 concessions will expire, and the remaining concessions operate on rollover basis. These concessions with indefinite terms and expired concessions under negotiation are amortized over the useful lives of the underlying assets. By December 31, 2010, 201 concession program contracts were signed (2009—174 concession program contracts). In February 2011 the Company restarted the operation in the municipality of Tarumã by judicial order.

Management believes that all concessions expired and not yet renewed will result in new contracts or contract extensions, disregarding the risk of discontinuity in the provision of municipal water supply and sewage services. As of December 31, 2010, the carrying amount of the underlying assets used in the 119 concessions of the municipalities under negotiation totaled R$ 5,465 million and the related revenue for the year then ended totaled R$ 2,591 million.

The Company's operations are concentrated in the municipality of São Paulo, which accounted for 54.66% of the gross revenues in 2010. On June 23, 2010, the State of São Paulo, the Municipality of São Paulo, the Company and the regulatory agency "Agência Reguladora de Saneamento e Energia—ARSESP" signed an agreement to share the responsibility for water supply and sewage services to the Municipality of São Paulo based on a 30-year concession agreement. This agreement is extendable for another 30 years. This agreement sets forth SABESP as the exclusive service provider and designates ARSESP as regulator, establishing prices, controlling and monitoring services.

Also, on June 23, 2010, the State of São Paulo, the city of São Paulo and SABESP signed the "Public service provision agreement of water supply and sewage services," a 30-year concession agreement which is extendable for another 30 years. This agreement involves the following activities:

(i) protection of the sources of water in collaboration with other agencies of the State and the City;
(ii) capture, transport and treatment of water;
(iii) collect, transport, treatment and final disposal of sanitary sewage; and
(iv) adoption of other actions of basic and environmental sanitation.

In the municipality of Santos, in the Baixada Santista region, which has a significant population, the Company operates under an authorization by public deed, a situation similar to other municipalities in that region and in the Ribeira valley, where the Company started to operate after the merger of the companies that formed it.

On January 5, 2007, Law 11,445 was enacted, establishing the basic sanitation regulatory framework, providing for the nationwide guidelines and basic principles for the provision of such services, such as social control, transparency, the integration authority of sanitation infrastructure, water resources management, and the articulation between industry

policies and public policies for urban and regional development, housing, suppression of poverty, promotion of health and environmental protection, and other related issues.

The Company's shares have been listed in the *Novo Mercado* (New Market) segment of BM&FBOVESPA (the São Paulo Stock Exchange) since April 2002 and on the New York Stock Exchange (NYSE) as American Depositary Receipts ("ADRs") since May 2002.

These financial statements were approved by the Board of Directors on June 2, 2011.

2. Summary of Significant Accounting Practices (in part)

2.2. Proportional Consolidation (in part)

The consolidated financial statements include the financial statements of the Company and its investees: Sesamm—Serviços de Saneamento de Mogi Mirim S/A, Águas de Andradina S.A., Saneaqua Mairinque S.A. e Aquapolo Ambiental S.A., which were proportionally consolidated according to the equity interest over its investees.

The Company has no majority shares of its investees, but according to investees' By-Laws approvals of any subject by shareholders in general meeting, except for the approval of any subject mentioned in the investees' By-Laws, which relates to decisions that affect financial and operational policies, for example, approval of the business plan, will be made by a majority vote, and SABESP has power of veto.

For the purposes of calculating the Company's proportional share of revenues, expenses, assets and liabilities of its investees, unrealized gains or transactions between the Company and its investees were eliminated in proportion to the Company's interest; unrealized losses are also eliminated, unless the transaction presents evidence of impairment of the transferred asset. The accounting policies applied by the investees are consistent with the accounting policies adopted by the Company.

Sesamm

On August 15, 2008, the Company, together with the companies OHL Médio Ambiente, Inima S.A.U. Unipersonal ("Inima"), Técnicas y Gestión Medioambiental S.A.U. ("TGM") and Estudos Técnicos e Projetos ETEP Ltda. ("ETEP") incorporated the company Serviços de Saneamento de Mogi Mirim S.A.—SESAMM ("SESAMM"), for a period of 30 years from the date the concession agreement with the municipality of Mogi Mirim for the purpose of providing complementary services to the sewage diversion system and implementing and operating a sewage treatment system in the municipality of Mogi Mirim, including the disposal of solid waste.

SESAMM's capital as of December 31, 2010 and 2009, totaled R$ 10,669, and was represented by 10,669,549 registered shares without a par value. SABESP holds 36% of its equity interest and Inima holds another 36% of its equity interest. The Company concluded that both, SABESP and Inima, have joint control over SESAMM. Accordingly, SABESP records their interest over SESAMM applying the proportional consolidation method, equivalent to the 36% of SESAMM's assets and liabilities, revenues and expenses.

As of December 31, 2010, SESAMM´s operations had not been started yet.

2.7. Revenue from Sales and Services

Revenue from water supply and sewage collection are recognized as the water is consumed and services are provided. Revenues, including the revenues unbilled, are recognized at the fair value of the consideration received or receivable for the sale of those services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts. Revenues from unbilled represent incurred revenues in which the services were provided, but not yet billed until the end of the each period. Water supply and sewage services are recorded as trade accounts receivable based on monthly estimates of the completed services.

The Company recognizes revenue when: i) products are delivered or services are rendered; ii) the amount of revenue can be reliably measured, iii) it is probable that future economic benefits will flow to the Company and iv) it is probable that the amounts will be collected. The amount of revenue is not considered to be reliably measurable until all conditions relating to the sale have been satisfied. Amounts in dispute are recognized as revenue when collected.

Construction Revenue

Revenue from concession construction contracts is recognized in accordance with IAS 11 Construction Contracts using the percentage-of-completion method, provided that the applicable conditions for application are fulfilled. The percentage of completion is calculated from the ratio of the actual costs incurred on the balance sheet date to the planned total costs (cost-to-cost method). Revenue from cost plus contracts is recognized by reference to the construction costs incurred during the period plus a fee earned. The fee represents the additional margin related to the work performed by the Company in relation to such construction contracts and it is added to the construction costs incurred and the total is recognized as construction revenue.

2.11 Intangible Assets (in part)

Intangibles are stated at cost combined with the following aspects:

> Valued at acquisition cost and/or construction of the underlying assets, including interest capitalized during the construction period, where applicable, for the qualifying assets. Qualifying assets are assets that, necessarily, take a substantial period to get ready for its intended use or sale. The Company considers that substantial period means a period greater than 12 months. This period was established by considering the completion period of the majority of its constructions which is greater than 12 months. The historical cost was adjusted to fair value in 1991 and 1992, in accordance with former Brazilian GAAP.

The amortization is calculated when the intangible assets are available for use in the necessary condition established by the Company.

The amortization reflects the period over the expected future economic benefits generated by the intangible asset and can be the period of the contract, depending on the contract. The utilization of the assets is related to its useful life of the assets constructed by the Company and the amortization of the intangible assets is considered in the calculation of the tariff.

The amortization of the intangible assets finishes when the underlying asset is totally consumed or is alienated, not being considered in the calculation of the tariff any longer, whichever occurs first.

Infrastructure to which the operator is given access by the grantor of the concession or donation received from third parties is not recognized in the consolidated balance sheet, since such donations are controlled by the municipalities.

(a) Concession Arrangements

The infrastructure used by SABESP subject to service concession arrangements is considered to be controlled by the concession grantor when:

(i) The grantor controls or regulates what services the operator must provide with the infrastructure, to whom it most provide them, and at what price; and
(ii) The grantor controls the infrastructure, i.e., retains the right to take back the infrastructure at the end of the concession.

SABESP's rights over infrastructure operated under concession arrangements are accounted for as an intangible asset as SABESP has the right to charge for use of the infrastructure assets, and users (consumers) have the primary responsibility to pay SABESP for the services.

The fair value of construction and other work on the infrastructure represents the cost of the intangible asset and is recognized as revenue when the infrastructure is built, provided that this work is expected to generate future economic benefits.

The great majority of the Company's contracts for service concession arrangements entered with each municipality (grantor) is under service concession agreements in which the Company has the legal right to receive, at the end of the contract, a compensation equivalent to the unamortized asset balance of the underlying physical assets. The concession intangible assets are, therefore, amortized considering the useful lives of the underlying physical assets. Thus, at the end of the contract, the remaining value of the intangible will be equal to the residual value of the related physical assets.

Concession intangible assets under Concession contracts and Program contracts, when there is no right to receive the residual value of the assets at the end of the contract, are amortized on a straight-line basis over the period of the contract, or the useful life of the underlying asset.

(b) Amortization Rates

The annual amortization rates based on the related underlying assets as of December 31, 2010 are as follows:

Description of the Underlying Asset	
Water and sewage infrastructure	2%
Equipment	5%
Transportation equipment	10%
Furniture and fixtures	6.7%
Others	5%

4. Critical Accounting Estimates and Judgments (in part)

Estimates and judgments are continually evaluated and are based on historical experience and on other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical Accounting Estimates and Assumptions (in part)

(b) Intangible Assets Arising from Concession Contracts

The Company recognizes intangible assets arising from concession contracts under IFRIC 12. The Company estimates the fair value of construction and other work on the infrastructure to recognize the cost of the intangible asset, which is recognized when the infrastructure is built and provided that it will generate future economic benefits. The great majority of the Company's contracts for service concession arrangements entered with each grantor is under service concession agreements in which the Company has the right to receive, at the end of the contract, a payment equivalent to the unamortized asset balance of the concession intangible asset, which in this case, are amortized over the useful life of the underlying physical assets, thus at the end of the contract, the remaining value of the intangible would be equal to the residual value of the related physical asset.

Concession intangible assets under Concession contracts and Program contracts, in which, at the end of the contract, the Company has no right to receive a payment equivalent to the unamortized asset balance of the concession intangible, are amortized on a straight-line basis over the useful life of the contract. Additional information on the accounting for intangible assets arising from concession contracts is disclosed in Note 2.11(a).

The recognition of fair value for the intangible assets arising on concession contracts is subject to assumptions and estimates, and the use of different assumptions could affect the balances recorded. The estimated useful lives of the underlying assets also requires significant assumptions and estimates, which different assumptions and estimates and changes in future circumstances, could affect the remaining useful lives of the intangible assets and can have a significant impact on the results of operations.

(c) Impairment of Long-Lived Assets

The Company reviews annually long-lived assets for indicators of impairment, primarily intangible assets arising from concession contracts, which include water and sewage system physical assets to be held and used in the business, for the purpose of determining and measuring impairment when events or changes in circumstances indicate that the carrying value of an asset or group of assets may not be recoverable. The assets include the intangible asset of the concession contracts related to water and sewage systems.

In evaluating impairment of long-lived assets, the evaluation requires significant assumptions and estimates regarding matters that are inherently uncertain, including projections of future operating income and cash flows, future growth rates, and the remaining useful lives of the assets and/or the period of the contract, among other factors. In addition, projections are computed over an extended period of time, which subjects those assumptions and estimates to an even larger degree of uncertainty. While the Company believes that the estimates used are reasonable, the use of different assumptions could materially affect the recoverable amount.

No impairment provisions were required in 2010, 2009 and 2008.

9. Indemnities Receivable

Indemnities receivable are a noncurrent asset that represents amounts receivable from the Municipalities of Diadema and Mauá as an indemnity for their unilateral termination of the concessions for water supply and sewage services of the Company in 1995. As of December 31, 2010 and 2009, this balance totaled R$ 146,213.

Due to these concession agreements, the Company invested in the construction of water and sewage systems in those municipalities in order to meet the concession service commitments. For the unilateral termination of the Diadema and Mauá concessions, the municipalities assumed the responsibility of supplying water and sewage services in those regions. At that time, the Company reclassified the balances of property, plant and equipment related to the assets used in those municipalities to noncurrent assets (indemnities receivable).

As of December 31, 2010, the net book value of property, plant, and equipment relating to the municipality of Diadema, reclassified in December 1996, amounted to R$ 75,231 and the indemnity balance from the municipality amounted to R$ 60,295, on December 31, 2010.

As of December 31, 2010, the net book value of property, plant, and equipment relating to the municipality of Mauá, reclassified in December 1999, totaled R$ 103,763 and the indemnities receivables from the municipality totaled R$ 85,918.

The Company's right to recover these amounts has been challenged by the municipalities.

SABESP filed lawsuits to collect the amounts due by the municipalities. With respect to Diadema, the decision of the lower court judge was unfavorable to SABESP, which filed an appeal in November 2000. In December 2005, SABESP's appeal to have the agreement entered into with the municipality of Diadema declared valid was partially accepted. Even though this Municipal Government filed appeals against this decision, they were all denied and an unappealable decision was issued in April 2009. In December 2007, the decision that accepted the execution of the Companhia de Saneamento the Diadema—Saned was rendered, ordering this company to be summoned to pay the full amount of the debt within 15 days under the penalty of fine. Saned filed an interlocutory appeal against the decision but the appeal was rejected by the Court of Justice in June 2008. The judge approved the seizure of cash from Saned's bank accounts and short-term investments (online seizure) of up to 10% of the adjusted debt. An appeal was filed against this decision, but the Appellate Court upheld the final and unappealable decision. R$ 2,919 were seized and withdrawn on March 3, 2009. Subsequently, the Court of Justice issued an injunction determining the seizure through weekly deposits by Saned in the amount corresponding to 20% of everything received in its bank accounts and short-term investments. This injunction was confirmed in the sentence of the Court of Justice, which can still be appealed.

On December 29, 2008, Saned and the Municipality of Diadema entered into a Letter of Intent with the São Paulo State and SABESP for the purpose of preparing studies and conducting negotiations to guide Diadema's and SABESP's decisions, aiming to establish SABESP as the exclusive provider of water supply and sewage services for the City of Diadema.

The parties agree that the settlement of the existing conflicts between the companies is indispensable for the proper development of the public utility services of water supply and sewage services in the municipality of Diadema.

In January 2009, the parties filed a joint petition requesting the suspension of new seizures, for a three-month period, trying to enable an agreement. The suspension was confirmed by the Tax Court. As the settlement on which a possible agreement will be based was maintained, the suspension request was last renewed in April 2010.

With respect to Mauá, a lower court decision demanded this Municipality pay the amount of R$ 153.2 million to SABESP as a compensation for loss of profits. In April 2005, the Municipality of Mauá filed an appeal against this decision. In July 2006, the decision was converted into a measure consisting of an expert clarification on the amount of the indemnity for loss of profits. The clarification was provided in December 2007, and the expert confirmed the amount of the loss of profits determined by the lower court. In August 2008, the Court of Justice decided for the integral maintenance of the lower court decision. The Municipality of Mauá filed special and extraordinary appeals against the decision that confirmed the sentence to indemnify SABESP. Both appeals were denied by the Court of Justice, which led to the filing of a bill of review with the Superior Court of Justice and Federal Supreme Court. Based on the opinion of its legal advisors, management continues to believe that the Company is entitled to receive the amounts related to the indemnity and continues to monitor the status of the lawsuits.

Based on legal opinion, management believes that the Company has legal rights to receive the indemnities and is monitoring the judicial lawsuit.

10. Intangible Assets

	December 31, 2010			December 31, 2009		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Intangible Rights Arising From Concession Contracts						
Service concession agreements	13,980,141	(3,242,270)	10,737,871	23,074,648	(7,702,533)	15,372,115
Concession contracts	706,423	(189,145)	517,278	669,301	(165,156)	504,145
Program contracts	900,686	(36,302)	864,384	794,561	(21,772)	772,789
Program contracts—commitments	333,942	(22,666)	311,276	271,194	(12,391)	258,803
Service contract—São Paulo	6,196,699	(99,837)	6,096,862	—	—	—
New businesses	12,129	(901)	11,228	—	—	—
	22,130,020	(3,591,121)	18,538,899	24,809,704	(7,901,852)	16,907,852
Software licenses	49,458	(41,521)	7,937	42,679	(33,114)	9,565
Total	22,179,478	(3,632,642)	18,546,836	24,852,383	(7,934,966)	16,917,417

Movements on the intangible assets are as follows:

	January 1, 2008	Additions	Write-Off and Disposals	Amortization	December 31, 2008
Intangible Rights Arising on Concession Contracts					
Service concession agreements	13,775,366	869,438	(176,340)	(396,957)	14,071,507
Concession contracts	507,789	23,444	—	(21,509)	509,724
Program contracts	8,704	623,391	—	(9,712)	622,383
Program contracts—commitments	—	252,770	—	(3,131)	249,639
	14,291,859	1,769,043	(176,340)	(431,309)	15,453,253
Software licenses	—	29,725	—	(20,123)	9,602
	14,291,859	1,798,768	(176,340)	(451,432)	15,462,855

	December 31, 2008	Additions	Write-Off and Disposals	Amortization	December 31, 2009
Intangible Rights Arising on Concession Contracts					
Service concession agreements	14,071,507	1,849,993	(51,778)	(497,607)	15,372,115
Concession contracts	509,724	17,429	—	(23,008)	504,145
Program contracts	622,383	162,466	—	(12,060)	772,789
Program contracts—commitments	249,639	18,424	—	(9,260)	258,803
	15,453,253	2,048,312	(51,778)	(541,935)	16,907,852
Software licenses	9,602	12,954	—	(12,991)	9,565
	15,462,855	2,061,266	(51,778)	(554,926)	16,917,417

	December 31, 2009	Additions	Reclassification	Write-Off and Disposals	Amortization	December 31, 2010
Intangible Rights on Concession Contracts						
Service concession agreements	15,372,115	1,767,747	(6,019,568)	(15,857)	(366,566)	10,737,871
Concession contracts	504,145	37,122	—	—	(23,989)	517,278
Program contracts	772,789	106,125	—	—	(14,530)	864,384
Program contracts—commitments	258,803	62,748	—	—	(10,275)	311,276
Service contract—São Paulo	—	177,131	6,019,568	—	(99,837)	6,096,862
New businesses	—	12,129	—	—	(901)	11,228
	16,907,852	2,163,002	—	(15,857)	(516,098)	18,538,899
Software licenses	9,565	6,779	—	—	(8,407)	7,937
	16,917,417	2,169,781	—	(15,857)	(524,505)	18,546,836

The status of our aggregated construction in progress of the underlying assets of concession contracts at the end of the year is as follows:

	As of December 31, 2008		
	Water Supply	Sewage Services	Total
Construction costs incurred	551,655	1,098,848	1,650,503
Recognized profits less recognized losses	560,346	1,116,523	1,676,869

	As of December 31, 2009		
	Water Supply	Sewage Services	Total
Construction costs incurred	760,706	1,248,957	2,009,663
Recognized profits less recognized losses	772,117	1,267,691	2,039,808

	As of December 31, 2010		
	Water Supply	Sewage Services	Total
Construction costs incurred	1,028,115	1,052,956	2,081,071
Recognized profits less recognized losses	1,051,419	1,079,256	2,130,675

There are no contingent assets or liabilities related to the construction contracts outstanding.

Investments Committed

The estimated amount related to investments is R$ 2,262 million to be spent from 2011 to 2015 (unaudited).

Intangible Rights Arising from Concession Contracts

The Company operates concession contracts as defined by IFRIC 12 covering the provision of basic and environmental sanitation services, water supply and sewage services. These concession arrangements set out rights and obligations relative to the infrastructure and to the public service (See Note 2.11(a)). A general obligation also exists to return the concession infrastructure to the grantor in good working condition at the end of the concession.

As of December 31, 2010 and 2009, the Company operates in 364 municipalities in the State of São Paulo. In most of these municipalities operations are based on 30-year concession period. The agreement with the municipality of São Paulo is accounted for as a service concession arrangement.

The services provided by the Company are billed at a price established by the "*Agência Reguladora de Saneamento e Energia do Estado de São Paulo*" ("ARSESP"). Intangible rights arising on concession contracts are comprised of:

(i) Service concession agreements
The concession contracts state that the property will revert to the grantor at the end of the period, through compensation for the residual value or market value of the underlying physical assets in accordance with the stipulations in each contract and amortization are calculated using the straight-line method, which consider the physical assets economic useful lives.

(ii) Concession contracts
From 1999 through 2006, the negotiations for new concessions were conducted on the basis of the economic and financial profit or loss of the transaction, determined in a valuation report issued by independent appraisers.
The amount determined in the related contract, after the transaction is closed with the municipal authorities, realized through the subscription of the Company's shares or in cash, is recorded as "concession contract" and amortized over the period of the related concession (usually 30 years). As of December 31, 2010, 2009 and 2008 there were no amounts pending related to these payments to the municipalities.
Intangible assets are amortized on a straight line basis over the term of the concession agreements or for the useful lives of the underlying assets, which was lower, entered into with the related municipality.

(iii) Program contracts—Commitments
After the enactment of the regulatory framework in 2007, renewals of concession agreements are made through "program contracts." In some program contracts the Company committed to financially participate in social and environmental sanitation actions. These assets built and commitments assumed are being amortized on a straight line basis according to the effective period of the program contract (mostly 30 years).
As of December 31, 2010, the amounts not yet disbursed related to commitments under the program contracts are recorded in "Other obligations" in current liabilities in the amount of R$ 38,427 and R$ 45,584, and noncurrent liabilities in the amount of R$ 106,696 and R$ 93,292, as of December 31, 2010 and 2009, respectively.

(iv) Program contracts
It refers to the renew of contracts formerly denominated full concession to operation concession, by program contracts which purpose is the water supply, sewage and sanitation public service, where the Company has the control of the assets acquired or constructed during the contract period (30 years) or for the useful lives of the underlying assets, which was lower.

(v) New businesses
In August 2009, the Company and Companhia de Saneamento de Alagoas—CASAL signed 60 month-period agreement to provide specialized technical services to implement a program to reduce the losses and retain revenues in the municipality of Maceio. The construction started in 2010.
As of December 31, 2010 the total amount was R$ 11,228.

(a) Disposals of Concession Intangible Assets

In 2010, 2009 and 2008, the Company wrote off concession intangible assets items totaling R$ 15,857, R$ 51,778 and R$ 176,340, respectively, due to obsolescence, theft, misplacements, unproductive wells and projects considered economically unfeasible.

(b) Capitalization of Interest and Financial Charges

The capitalization occurs during the construction period of the assets, considering the average interest rate of the loans in place in the date of the capitalization.

The Company analyzes the loans and financing acquired in foreign currency and considers if such loans and financing were obtained in local currency, establishing a limit to capitalize interest and exchange rate variation by the amount that were capitalized if such loans and financing were acquired in local currency.

In 2010, 2009 and 2008, the Company capitalized interest and inflation adjustment, including related foreign currency exchange effects, in concession intangible assets during the construction period of the qualifying assets totaling R$ 228,899, R$ 51,625 and R$ 219,430, respectively.

(c) Revenue from Construction

The Company is responsible to construct and install the infrastructure related to the concession contract, using its own resources or contracting third parties to perform the work, being exposed to its risks and benefits.

The Company recognizes revenue from construction related to construction costs added by gross margin. In general, the constructions regarding the concessions are performed by third parties. In this case the margin is lower and it is to cover the costs of management and supervision of the construction. Based on the studies and the benchmark with companies in the construction market the margin used in 2010 was 2.6%.

The amount, net of amortization, in December 31, 2010 was 33,485 (R$ 28,828 in 2009).

(d) Expropriations

As a result of the construction of priority projects related to water and sewage systems, the Company was required to expropriate or establish rights of way in third-parties' properties,

and the owners of these properties will be compensated either amicably or through courts.

The assets received as a result of expropriations are recorded as concession intangible assets after the transaction is completed. In 2010, 2009 and 2008, the amount related to expropriations was R$ 10,779, R$ 6,244 and R$ 11,004, respectively.

(e) Assets Pledged as Guarantee

As of December 31, 2010 and 2009, the Company had underlying physical assets totaling R$ 249,034 offered as guarantee to the request for the PAES (tax debt refinancing program) (Note 13).

(f) Public-Private-Partnership (PPP)

The Company and CAB-Sistema Produtor Alto Tiete S.A., special purpose entity, formed by Galvão Engenharia S.A. and Companhia Águas do Brasil—Cab Ambiental, signed in June 2008 the contract of public-private-partnership of Alto Tiete production system.

The contract last 15 years which purpose is expand the capacity of treated water of Taiaçupeba from 10 thousand to 15 thousand of liters per second.

As of December 31, 2010 and 2009 the amount recognized as intangible asset related to PPP was R$ 353,468 and R$ 150,281, respectively.

14. Deferred Income Taxes (in part)

Breakdown of Deferred Taxes

	December 31, 2010	December 31, 2009
Deferred Income Tax Assets[i]		
Provisions	539,394	541,511
Pension obligations—G1	162,552	177,736
Accounts receivable from related party—G0	85,271	85,271
Donations of underlying assets on concession agreements	38,213	35,334
Other	179,356	87,077
Total deferred tax assets	1,004,786	926,929
Deferred Income Tax Liabilities		
Temporary differences of concession intangible assets	(711,283)	(721,620)
Capitalization of borrowing costs	(102,339)	(66,507)
Revenue—government entities	(72,968)	(73,005)
Other	(39,756)	(22,161)
Total deferred tax liabilities	(926,346)	(883,293)
Deferred tax asset (liability) in the balance sheet	78,440	43,636

[i] The expectation of the Company's management is to realize the deferred income tax assets in 2012 in the same portion of 2011, and the residual amount to be realized in 2013.

The movements in deferred income tax assets and liabilities in 2010, 2009 and 2008 are as follows:

Deferred Income Tax Assets	Provisions	Pension Obligations	Accounts Receivable From Related Party	Concession Intangible Assets	Other	Total
As of January 1, 2008	334,489	138,681	—	28,989	11,574	513,733
Credited (charged) to income statement	76,986	18,577	85,271	5,258	45,705	231,797
As of December 31, 2008	411,475	157,258	85,271	34,247	57,279	745,530
Credited (charged) to income statement	130,036	20,478	—	1,087	29,798	181,399
As of December 31, 2009	541,511	177,736	85,271	35,334	87,077	926,929
Credit (charged) to income statement	(2,117)	(15,184)	—	2,879	92,279	77,857
As of December 31, 2010	539,394	162,552	85,271	38,213	179,356	1,004,786

Deferred Income Tax Liabilities	Temporary Differences of Concession Intangible Assets	Capitalization of Borrowing Costs	Revenue—Government Entities	Other	Total
As of January 1, 2008	(787,666)	—	(86,487)	(5,142)	(879,295)
Credited (charged) to income statement	28,944	—	12,117	(9,763)	31,298
As of December 31, 2008	(758,722)	—	(74,370)	(14,905)	(847,997)
Credited (charged) to income statement	37,102	(66,507)	1,365	(7,256)	(35,296)
As of December 31, 2009	(721,620)	(66,507)	(73,005)	(22,161)	(883,293)
Credit (changed) to income statement	10,337	(35,832)	37	(17,595)	(43,053)
As of December 31, 2010	(711,283)	(102,339)	(72,968)	(39,756)	(926,346)

15. Provisions (in part)

(viii) Other Concession-Related Legal Proceedings

(a) On March 25, 2005, the municipality of Itapira revoked the concession contract and filed an Assets Repossession Action against SABESP. The outcome of this claim was unfavorable to the Company. The Company appealed the decision, but in view of the compensation lawsuit filed against the aforementioned municipality, the Company has waived the appeal.

(b) The municipality of Cajobi has filed a Repossession Action that seeks the takeover of the water supply and sewage services, and sentencing the Company to pay for losses and damages for amounts received as water and sewage tariffs not received in view of utilities explored since the enactment of the Municipal Decree, and for the use of assets related to the concession. The court decision confirmed the Municipality's takeover of the water and sewage services. On August 25, 2008, SABESP filed an appeal that awaits judgment. The Municipality provides water supply and sewage collection services since May 29, 2007 under injunction granted in the interlocutory appeal.

(c) The City of Araçoiaba da Serra filed a Repossession Action seeking an authorization to enter concession-related facilities, including all properties and chattels linked to the water supply and sewage treatment services. The Municipality is now managing and operating these services in view of the termination of the concession agreement on September 23, 2006. The Municipality also claims the definitive takeover of the services, including due handover of all assets, rights and privileges previously transferred to SABESP. The initially granted injunction and confirmed by the appellate court maintained the Municipality as the service provider. The Company has subsequently filed for an injunction to request the early production of evidence. The lawsuit is in the fact-finding phase.

(d) On July 2, 2010, the City of Tarumã filed a writ of prevention related to all assets related to the collection, treatment and water supply and sewage services systems. On January 19, 2011 the Company restarted its operation in this municipality by a court decision. By injuction decision, the assets will be under SABESP´s custody due to eventual liquidation of the indemnity to SABESP. SABESP awaits the final decision.

(e) In December 2, 1997, the municipality of Santos enacted a law expropriating the Company's water and sewerage mains in Santos. The Company requested an injunction against the expropriation which was denied by the lower court. This decision was subsequently reversed by the State of Săo Paulo appellate court, which then issued an injunction suspending the law. The Company was granted a favorable decision at the lower court, and the municipality of Santos appealed against the decision. Although the decision was maintained by the Court of Justice, it is not final. Despite the pending action, the Company is operating the water supply and sewage collection systems in the municipality of Santos.

(f) The municipality of Tuiuti has brought a declaratory action seeking to recognize the inexistence of any judicial or legal grounds to justify our permanence as the provider of water supply and sewage services in the municipality of Tuiuti, and the subsequent taking over of these services by the municipality. The Company responded with a counterclaim against the municipality seeking a statement corroborating the existence of a legal relationship between the two parties for subsequent compensation for investments made. The lower court decision was partially unfavorable to SABESP as it declared that there was no legal relationship between the Municipality and SABESP relative to the service concession and confirmed the injunction authorizing the takeover of the services. However, the court's decision was favorable to the counterclaim filed by SABESP and sentenced the Municipality to pay R$ 541, restated from March 1996. The Company filed an appeal on July 22, 2009. On the other hand, the Municipality also filed an appeal. The State Appellate Court partially agreed with SABESP to increase the indemnity to R$ 1.1 million (Dec./1995). SABESP is not operating in this municipality as required by the injunction granted to the Municipality.

(g) On January 12, 2001, the Company filed an ordinary action against the municipality of Presidente Prudente for the purpose of recognizing the contractual right to maintain SABESP as the sanitation service until the legal and formal cancellation of the contract, including the respective indemnity, which recognizes the abusive and illegal the acts of the municipality. The Company still provides sanitation service in Presidente Prudente according to the Decree nº 21,228/2010, which extended the concession contract of Presidente Prudente up to March 2011.

As of December 31, 2010, the lawsuits filed by the Municipalities of Itapira, Cajobi, Araçoiaba da Serra and Tarumă totaled approximately R$ 12.2 million and, based on our legal advisors' assessment, the likelihood of loss in possible. Our legal advisors assessed the likelihood of loss as probable regarding the municipalities of Santos, Tuiuti. With regards to Presidente Prudente the likelihood of loss is considered remote.

SECTION 12: FIRST-TIME ADOPTION OF IFRSs*

IFRS 1, *FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS*

Author's Note

U.S. generally accepted accounting principles (GAAP) have no comparable standard for an entity adopting U.S. GAAP or transitioning to U.S. GAAP from another set of accounting principles.

IFRSs Overview and Comparison to U.S. GAAP

12.01 The International Accounting Standards Board (IASB) issued International Financial Reporting Standard (IFRS) 1, *First-time Adoption of International Financial Reporting Standards*, to ensure that an entity's first IFRS financial statements, as well as any interim statements issued in the same reporting period, provide a suitable starting point for accounting in accordance with IFRSs. The objective of IFRS 1 is for an entity's first IFRS financial statements to provide high quality information that is transparent to users and comparable over all periods presented, subject to the constraint that cost should not exceed benefits.

Author's Note

IFRS 1 is not a static standard. As new jurisdictions permit or require companies to adopt IFRSs, the entities affected bring additional issues to the IASB. Many of the significant provisions are discussed in further detail in "Author's Notes" appearing later in this section. The IASB has since amended IFRS 1 in the following documents:

- International Financial Reporting Interpretations Committee (IFRIC) 18, *Transfers of Assets from Customers* (issued January 2009 with an effective date of 1 July 2009)
- *Additional Exemptions for First-time Adopters: Proposed amendments to IFRS 1* (issued July 2009 with an effective date of 1 January 2010)
- IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (issued November 2009 with an effective date of 1 July 2010)
- *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters: Amendment to IFRS 1* (issued January 2010 with an effective date of 1 January 2010)
- *Improvements to IFRSs* (issued May 2010 with an effective date of 1 January 2011)
- IFRS 9, *Financial Instruments* (issued November 2009 with an effective date of 1 January 2013)
- *Disclosures—Transfers of Financial Assets: Amendments to IFRS 7* (issued October 2010 with an effective date of 1 July 2011)
- IFRS 9, *Financial Instruments* (issued October 2010 with an effective date of 1 January 2013)
- *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters: Amendments to IFRS 1* (issued December 2010 with an effective date of 1 July 2011)

The amendments previously mentioned are effective for periods beginning on or after the effective dates noted. Earlier application is permitted. The timing of the effective dates of these revisions impacts the availability of illustrative excerpts from survey companies' financial statements. Accordingly, the excerpts appearing later in the section may not reflect some or all of these revisions. The following commentary only addresses the requirements of IFRSs effective on or before 1 January 2010.

12.02 An entity should apply IFRS 1 in its first IFRS financial statements. It should also apply IFRS 1 in any interim financial statements presented in accordance with International Accounting Standard (IAS), *Interim Financial Reporting*, for part of the period covered by its first IFRS financial statements. IFRS 1 considers an entity to present its first IFRS financial statements when these financial statements contain an explicit, unreserved statement of compliance with IFRSs. Unless an entity makes this explicit, unreserved statement of compliance, it has not yet presented its first IFRS financial statements. IFRS 1 identifies several cases that do not relieve or disqualify an entity from applying IFRS 1 in the first set of financial statements in which full compliance is claimed. One such case is a subsidiary that prepares an IFRS-compliant consolidation package for a parent that issues IFRS-compliant consolidated financial statements. However, the subsidiary only issues financial statements in its national GAAP. Because the subsidiary itself has not issued a complete set of financial statements as defined in IAS 1, *Presentation of Financial Statements*, with an explicit unreserved statement of compliance, it would still be eligible to apply IFRS 1 if it chooses, or is required, to adopt IFRSs in the future.

12.03 A first-time adopter of IFRSs is required to comply with IFRS 1. However, an entity has one, and only one, opportunity to apply IFRS 1 to its financial statements to take advantage of the various exemptions available to first-time adopters. Even if an entity fails to provide IFRS-compliant financial statements in some period after its first IFRS financial statements, it should not apply IFRS 1 subsequently.

12.04 An entity already reporting under IFRSs should only apply the requirements of IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, to a change in accounting policy. IFRS 1 should not be applied.

* Unless otherwise indicated, references to International Accounting Standards Board (IASB) standards and interpretations throughout this 2011 edition of *IFRS Accounting Trends & Techniques* refer to the version of those standards and interpretations included in *IFRS 2011* bound volume, the official printed consolidated text of IASB standards and interpretations, including revisions, amendments, and supporting documents, issued as of 1 January 2011.

Recognition and Measurement

IFRSs

12.05 At the date of transition to IFRSs, IFRS 1 requires an entity to prepare and present its opening balance sheet in accordance with IFRSs. Additionally, the entity should apply the same accounting policies in its opening IFRS balance sheet and throughout all periods presented in its first IFRS financial statements. These accounting policies should comply with each IFRS that is effective at the end of its first IFRS reporting period, except as otherwise permitted by IFRS 1. The standards effective at the end of the entity's first IFRS reporting period may be different from those that were in effect at the entity's transition date, which is the date of its opening IFRS balance sheet.

12.06 Unless a specific exemption or exception is provided or required by IFRS 1, IAS 8 requires retrospective application for all changes in accounting policy. Retrospective application involves preparation of the financial statements as if the entity always applied the new accounting policy. Retrospective application may be costly or impracticable for an entity to accomplish or may permit an entity to use hindsight to achieve an advantageous result. For the benefit of first-time adopters of IFRSs, IFRS 1 provides both relief (exemptions) and prohibitions (exceptions) from retrospective application, as explained in more detail subsequently.

12.07 Exemptions from retrospective application are voluntary. An entity should explicitly identify, elect, and then discuss the elected exemptions in disclosures required by IFRS 1. Exemptions exist for the following:

- *Business combinations*. An entity may elect to apply IFRS 3, *Business Combinations*, prospectively to all subsequent business combinations either from the date of transition or a specifically selected earlier date. When elected, this exemption permits an entity to avoid restating any business combination that occurred before the selected date, regardless of the method(s) of accounting used at the original dates of prior combinations (for example, combinations accounted for as a pooling of interests would not be restated).
- *Share-based payments*. This exemption relieves a first-time adopter from applying IFRS 2, *Share-based Payments*, to equity instruments granted on or before 7 November 2002. However, if an entity decides to apply IFRS 2 to instruments granted before this date, it should disclose the instruments' fair value. An additional exemption relieves a first-time adopter from applying IFRS 2 to equity instruments granted after 7 November2002, and vested before the later of its date of transition to IFRSs or 1 January 2005.
- *Insurance contracts*. An entity may elect the transition provisions of IFRS 4, *Insurance Contracts*.
- *Deemed cost for property, plant, and equipment (PPE); investment property; and intangible assets*. An entity may elect to measure at fair value individual assets of PPE, investment property, and intangible assets that meet the criteria for revaluation and use the cost model for subsequent measurement in accordance with the relevant standard. Alternative measures of fair value under this exemption are a revaluation under the entity's previous GAAP done at or before the date of transition if that revaluation is broadly comparable to fair value, and cost or depreciated cost, in accordance with IFRSs, adjusted to reflect, for example, changes in a general or specific price index. An entity may also use as deemed cost an event-driven fair value determined previously (for example, at the time of a privatization or initial public offering.)
- *Deemed cost for oil and gas assets*. When an entity transitions from a previous GAAP in which exploration and development costs for oil and gas properties in the development or production phases are accounted for in cost centers that include all properties in a large geographical area, the entity may elect to measure the exploration and evaluation assets at the amount determined under the entity's previous GAAP and the assets in the development or production phases at the amount determined for the cost center under the entity's previous GAAP. The entity should allocate the amount to the cost centre's underlying assets on a pro rata basis using reserve volumes or reserve values as of the date of transition.
- *Deemed cost for operations subject to rate regulation*. An entity may hold and use items of PPE or intangible assets, either currently or previously, in operations subject to rate regulation. The carrying amount of these assets may include amounts measured under the previous GAAP that would not qualify for capitalization under IFRSs. This exemption permits an entity to use the previous GAAP carrying amount as deemed cost at the date of transition on an item-by-item basis. However, the entity should test each of these items for impairment, in accordance with IAS 36, *Impairment of Assets*, as of the date of transition. IFRS 1 describes operations subject to rate regulation as those that provide goods or services to customers at prices (that is, rates) established by an authorized body empowered to establish rates binding on customers and designed both to recover the specific costs the entity incurs in providing the regulated goods or services and to earn a specified return, which could be a minimum or range rather than a fixed or guaranteed return.
- *Leases*. An entity may elect the transitional provisions in IFRIC Interpretation 4, *Determining Whether an Arrangement Contains a Lease*, which permits an entity to apply IFRIC 4 to arrangements existing at the date of transition based on the facts and circumstances existing at that date. Under this exemption, an entity is not required to reassess any arrangements for which it had made the same assessment required by IFRIC 4 at some time prior to its date of transition.
- *Actuarial gains or losses on defined benefit plans*. If an entity uses the corridor approach to recognize actuarial gains and losses under IAS 19, *Employee Benefits*, some gains and losses remain unrecognized. This exemption permits an entity to recognize all unrecognized cumulative actuarial gains and losses existing at the date of transition, even if it will use the corridor approach after transition.
- *Cumulative translation differences*. This exemption permits an entity to set the cumulative translation adjustment account to zero at the date of transition. Therefore, gains or losses on subsequent disposal of a foreign operation will exclude all foreign currency translation adjustments that occurred before transition.
- *Investments in subsidiaries, associates, and jointly controlled entities*. This exemption applies to the separate (unconsolidated) financial statements of a parent entity. Separate financial statements may be required

by regulatory authorities or issued voluntarily. Sometimes company-only (parent-only) financial statements are included within consolidated financial statements. In these separate financial statements, an entity may measure its investments in subsidiaries, associates, and jointly controlled entities at cost or in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*. This exemption permits cost to be determined either in accordance with IAS 27, *Consolidated and Separate Financial Statements*, or at deemed cost (that is, either the fair value in accordance with IAS 39 at the entity's date of transition to IFRSs in its separate financial statements or the previous GAAP carrying amount at that date).

- *Assets and liabilities of subsidiaries, associates, and jointly controlled entities*. When a subsidiary, associate, or jointly controlled entity adopts IFRSs later than its parent, this exemption permits the subsidiary, associate, or jointly controlled entity to apply either IFRS 1 in its first IFRS financial statements or to use the carrying amounts that would be included in the parent's consolidated IFRSs financial statements. However, when the parent becomes a first-time adopter later than a subsidiary, associate, or jointly controlled entity, the parent should use the carrying amounts reported in that investment's IFRS financial statements.
- *Compound financial instruments*. When the liability component of a compound financial instrument is no longer outstanding, an entity is not required to retrospectively separate the liability and equity components to determine the carrying amount of the equity component at the date of transition.
- *Designation of previously recognized financial instruments*. In most cases, IAS 39 limits an entity's ability to reclassify financial assets and liabilities after initial recognition. This exemption permits an entity to designate, as of the date of transition, a financial instrument as available-for-sale or as at fair value through profit or loss, provided that the relevant criteria for designation are met.
- *Fair value measurement of financial assets or financial liabilities at initial recognition*. This exemption permits an entity to apply the last sentence of paragraphs AG76 and AG76A[1] in IAS 39, prospectively, to transactions entered into after one of two dates:
  — 25 October 2002
  — 1 January 2004

[1] The text of the relevant paragraphs in International Accounting Standard (IAS) 39, *Financial Instruments: Recognition and Measurement*, reads as follows:

AG76 (in part): The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (that is, the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable market transactions in the same instrument (without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

AG76A: The subsequent measurement of the financial asset or financial liability and the subsequent recognition of gains or losses should be consistent with the requirements of this Standard or IFRS 9 as appropriate. The application of paragraph AG76 may result in no gain or loss being recognized on the initial recognition of a financial asset or liability. In such a case, IAS 39 requires that a gain or loss should be recognized after initial recognition only to the extent that it arises from a change in a factor (including time) that market participants would consider in setting a price.

Author's Note

In August 2010, the IASB issued an exposure draft, *Removal of Fixed Dates for First-time Adopters (proposed amendments to IFRS 1)*, proposing to replace these specific dates in IFRS 1 with the date of transition. On 30 September 2010, the IASB issued an exposure draft, *Severe Hyperinflation*, which proposed guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. Both proposals were finalized in December 2010 when the IASB issued *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters: Amendments to IFRS 1*. These amendments are effective for annual reporting periods beginning on or after 1 July 2011.

- *Decommissioning liabilities included in the cost of PPE*. An entity that elects this exemption should measure the decommissioning liability in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. To the extent that the liability is within the scope of IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, the entity should estimate the amount that would have been included in the carrying value of the asset when the liability first arose (using a historical risk-adjusted interest rate) and calculate a carrying amount of accumulated depreciation based on its current estimates of the asset's useful life and residual value and its chosen depreciation method. When an entity applies the exemption described previously with respect to oil and gas assets accounted for in cost centers that include properties in a large geographical area, it may elect to apply IFRIC 1 or to measure its decommissioning, restoration, and similar liabilities at the date of transition, in accordance with IAS 37 and recognize directly in retained earnings the difference between that amount and the carrying amount of those liabilities at the date of transition determined under its previous GAAP.
- *Financial assets or intangible assets accounted for in accordance with IFRIC 12*, Service Concession Arrangements. An entity may elect to apply the transitional requirements in IFRIC 12. When retrospective application is impracticable, these transition requirements permit an entity to recognize financial assets and intangible assets as of the date of transition and to use the previous carrying amounts of these assets in the opening balance sheet. The entity should test these assets for impairment at the date of transition or, if impracticable, at the start of the current reporting period.
- *Borrowing costs*. An entity may elect to apply the transitional provisions in IAS 23, *Borrowing Costs*, which permit the entity to capitalize interest on qualifying assets as of a designated date but not later than the date of transition.

Author's Note

In 2007, the Institute of Chartered Accountants in England and Wales published a study, *EU Implementation of IFRS and the Fair Value Directive: A Report for the European Commission*, that it conducted for the European Commission regarding application of IFRS 1 exemptions and other applications of IFRSs in European-listed companies' first IFRSs' financial statements. The study of 151 companies reports that when an exemption was applicable, all companies surveyed used the following exemptions:

- Business combinations
- Deemed cost (for PPE or investment property, although practice varied over the amounts used as deemed cost)
- Actuarial gains and losses on defined benefit plants (when the entity elected to use the corridor after transition)
- Cumulative translation differences
- Compound financial instruments
- Share-based payments

No first-time adopters used the deemed cost exemption for intangible assets.

- *Transfers of assets from customers*. This exemption permits a first-time adopter to apply the transitional provisions in paragraph 22 of IFRIC 18. An entity should interpret the reference in that paragraph to the effective date to be the later of 1 July 2009, or the date of transition to IFRSs. In addition, a first-time adopter may designate any date before the date of transition to IFRSs and apply IFRIC 18 to all transfers of assets from customers received on or after that date.
- *Extinguishing financial liabilities with equity instruments*. This exemption permits a first-time adopter to use the transition provisions in IFRIC 19.

12.08 IFRS 1 includes two categories of exceptions to retrospective application: estimates and retrospective application of other IFRSs. Essentially, these exceptions prohibit the use of hindsight to achieve a potentially preferable accounting treatment. With respect to estimates, this exception requires an entity's estimates at the date of transition to be consistent with those applied under its previous GAAP at the same date (after adjustments for changes in accounting policy), unless there is objective evidence that the previous GAAP estimates were in error. With respect to retrospective application in accordance with other IFRSs, IFRS 1 prohibits an entity from using retrospective application in the following circumstances:

- Designating hedging relationships.
- Recognizing previously derecognized financial assets or financial liabilities, unless they would qualify for recognition as a result of a later transaction or event.
- Applying IFRS 27 at a date earlier than it elects to apply IFRS 3 to business combinations. Refer to the previous discussion of the exemption related to IFRS 3.

Presentation

IFRSs

12.09 To comply with IAS 1, IFRS 1 states that a first time adopter's financial statements should include at least three statements of financial position (which includes this statement as of the date of transition), two statements of comprehensive income, two separate income statements (if presented), two statements of cash flows, and two statements of changes in equity and related notes, including comparative information.

12.10 IFRS 1 does not require an entity to restate information prior to the date of transition when such information is included in historical summaries of selected data. An entity should clearly label any information prepared under previous GAAP and describe the main adjustments needed to comply with IFRSs.

Disclosure

IFRSs

12.11 An entity should explain how the transition from its previous GAAP to IFRSs affected its reported financial position, financial performance, and cash flows. In addition to narrative discussions, this explanation should include reconciliations of equity in accordance with previous GAAP to equity in accordance with IFRSs, at both the date of transition and the date of the most recent financial statements prepared under the previous GAAP. This explanation also includes a reconciliation of comprehensive income in accordance with previous GAAP to comprehensive income in accordance with IFRSs for the year of the most recent financial statements prepared under the previous GAAP. These reconciliations should include sufficient detail to enable users of the financial statements to understand the material adjustments to the balance sheet and the statement of comprehensive income.

12.12 If the entity recognized any impairment losses or reversals in its opening balance sheet, it should provide disclosures in accordance with IAS 36 or other applicable IFRSs.

12.13 An entity should clearly distinguish error corrections from changes in accounting principle.

12.14 An entity should explain the IFRS 1 exemptions that it elected. Additional disclosures are required when an entity elects the exemptions for derecognition of financial assets or financial liabilities and deemed cost.

12.15 Interim reports in the period covered by an entity's first IFRS financial statements prepared under IAS 34 should include reconciliations similar to those required in the first IFRS financial statements for the current interim period and comparable interim period of the immediately preceding financial year.

Presentation and Disclosure Excerpts

Author's Note

The following excerpts illustrating the required disclosures under IFRS 1 are all taken from survey companies whose 2010 financial statements were the first IFRS financial statements, regardless of the date of transition. At a minimum, the date of transition is two years prior to a company's first IFRS financial statements.

Securities regulators in different jurisdiction impose different requirements on companies to discuss a forthcoming transition to IFRS. Disclosures required prior to those in a company's first IFRS financial statements are not illustrated.

Transition From Canadian GAAP to IFRSs—IFRS 1 Exemptions Elected

12.16

Brookfield Asset Management, Inc. (Dec 2010)

CONSOLIDATED BALANCE SHEETS

(Millions)	Note	Dec. 31, 2010	Dec. 31, 2009[1]	Jan. 1, 2009[1]
Assets				
Cash and cash equivalents		$ 1,713	$ 1,309	$ 1,169
Other financial assets	5	4,419	5,146	4,506
Accounts receivable and other	6	7,869	4,709	3,803
Inventory	7	5,849	5,560	4,752
Investments	8	6,629	4,466	4,646
Property, plant and equipment	9	18,148	16,723	15,597
Investment properties	10	22,163	19,219	16,719
Timber	11	3,206	2,968	2,839
Intangible assets	12	3,805	1,048	619
Goodwill	13	2,546	2,363	1,992
Deferred income tax asset	14	1,784	1,454	984
		$78,131	$64,965	$57,626
Liabilities and Equity				
Accounts payable and other	15	$10,334	$ 7,827	$ 6,977
Corporate borrowings	16	2,905	2,593	2,284
Non-recourse borrowings				
Property-specific mortgages	17	23,454	19,712	17,808
Subsidiary borrowings	17	4,007	3,800	3,661
Deferred income tax liability	14	4,970	5,232	4,748
Capital securities	18	1,707	1,641	1,425
Interests of others in funds	19	1,562	1,021	548
Equity				
Preferred equity	20	1,658	1,144	870
Non-controlling interests	20	14,739	10,186	8,038
Common equity	20	12,795	11,809	11,267
		29,192	23,139	20,175
		$78,131	$64,965	$57,626

[1] Refer to Note 3 for the effects of the adoption of IFRS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Significant Accounting Policies

a) Statement of Compliance

These consolidated financial statements represent the first annual financial statements of the company prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The company adopted IFRS in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" ("IFRS 1") as discussed in Note 3.

These financial statements were authorized for issuance by the Board of Directors of the company on March 23, 2011.

3. Transition to IFRS

The company prepared its financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") for all periods up to and including December 31, 2009. These financial statements for the year ending December 31, 2010 are the company's first annual financial statements that have been prepared in accordance with IFRS.

The company adopted IFRS effective January 1, 2010. The company's transition date is January 1, 2009 and the company prepared its opening IFRS balance sheet at that date. These financial statements have been prepared in accordance with the accounting policies described in Note 2. This note explains the impact of the company's transition to IFRS.

The company issued its January 1, 2009 and December 31, 2009 transitional IFRS balance sheets and statement of operations in its March 31, 2010, June 30, 2010, and September 30, 2010 interim reports in anticipation of adopting IFRS. These financial statements include the final comparative balance sheets and Statement of Operations which reflect the correction of certain immaterial differences arising from the final selection of accounting policies and finalization of certain estimates and assumptions. These adjustments resulted in: a $33 million increase in equity as at January 1, 2009, of which $29 million is attributable to the company's common shareholders; a $167 million increase in comprehensive income, of which a decrease of $127 million is attributable to the company's common shareholders; and a $105 million decrease in equity as at December 31, 2009, of which $58 million is attributable to the company's common shareholders.

(a) Elected Exemptions from Full Retrospective Application

These consolidated financial statements have been prepared in accordance with IFRS 1 *First-time Adoption of International Financial Reporting Standards* ("IFRS 1"). In doing so, the company has applied certain of the optional exemptions from full retrospective application of IFRS. The optional exemptions applied are described below.

(i) Business Combinations

The company has elected to not apply IFRS 3 retrospectively to past business combinations. Accordingly, the company has not restated business combinations that took place prior to the transition date.

(ii) Fair Value or Revaluation as Deemed Cost

The company has elected to measure certain items of property, plant and equipment at fair value as at the transition date or revaluation amounts previously determined under Canadian GAAP and use that amount as deemed cost as at the transition date.

(iii) Employee Benefits

The company has elected to recognize all cumulative actuarial gains and losses for the company's employee benefit plans as at the transition date in opening retained earnings.

(iv) Cumulative Translation Differences

The company has elected to set the previously accumulated cumulative translation account, which is included in accumulated other comprehensive income in equity, to zero at the transition date. This exemption has been applied to all subsidiaries.

(v) Share-Based Payment Transactions

IFRS 2 *Share-based Payment* ("IFRS 2") only requires recognition of equity instruments in respect of share-based payment transactions granted by the company prior to the transition date. The company has elected to apply IFRS 2 to equity instruments granted after November 7, 2002 that have not vested by the transition date.

(b) Mandatory Exceptions to Retrospective Application

In preparing these consolidated financial statements in accordance with IFRS 1 the company has applied certain mandatory exceptions from full retrospective application of IFRS. The mandatory exceptions applied from full retrospective application of IFRS are described below.

(i) Hedge Accounting

Hedging relationships that satisfied the hedge accounting criteria as of the transition date are reflected as hedges in the company's results under IFRS. Any derivative not meeting the IAS 39 *Financial Instruments: Recognition and Measurement* criteria for hedge accounting was recorded as a non-hedging derivative financial instrument.

(ii) Estimates

Hindsight was not used to create or revise estimates and accordingly the estimates previously made by the company under Canadian GAAP are consistent with their application under IFRS.

(c) Reconciliation of Equity as Reported Under Canadian GAAP to IFRS

The following is a reconciliation of the company's equity reported in accordance with Canadian GAAP to its equity in accordance with IFRS as at the transition date:

(Millions)	Note	Common Equity	Preferred Equity	Non-Controlling Interests	Equity
As reported under Canadian GAAP—December 31, 2008		$ 4,911	$870	$ —	$ 5,781
Reclassification of non-controlling interests to equity under IFRS		—	—	6,321	6,321
Differences increasing (decreasing) reported amount:					
Revaluations:					
Revaluation method for property, plant and equipment	(i)	8,000	—	580	8,580
Investment property	(ii)	1,227	—	2,143	3,370
Agricultural assets	(iii)	237	—	122	359
Fair value as deemed cost	(iv)	226	—	13	239
Financial instruments	(v)	195	—	(133)	62
Lease accounting	(vi)	(216)	—	(210)	(426)
Deferred revenue	(vii)	(127)	—	(63)	(190)
Unrecognized portion of employee benefits	(viii)	(168)	—	(56)	(224)
Renewable power generation sales	(ix)	(327)	—	(109)	(436)
Basis of accounting	(x)	—	—	(247	(247)
Deferred income taxes	(xi)	(2,701)	—	(312)	(3,013)
Other		10	—	(11)	(1)
		6,356	—	1,717	8,073
As reported under IFRS—January 1, 2009		$11,267	$870	$8,038	$20,175

The following is a reconciliation of the company's equity reported in accordance with Canadian GAAP to its equity in accordance with IFRS as at December 31, 2009:

(Millions)	Note	Common Equity	Preferred Equity	Non-Controlling Interests	Equity
As reported under Canadian GAAP—December 31, 2009		$ 6,403	$1,144	$ —	$ 7,547
Reclassification of non-controlling interests to equity under IFRS		—	—	8,969	8,969
Differences increasing (decreasing) reported amount:					
Revaluations:					
Revaluation method for property, plant and equipment	(i)	8,052	—	563	8,615
Investment property	(ii)	745	—	1,895	2,640
Agricultural assets	(iii)	333	—	213	546
Fair value as deemed cost	(iv)	237	—	(14)	223
Financial instruments	(v)	(212)	—	(419)	(631)
Lease accounting	(vi)	(294)	—	(270)	(564)
Deferred revenue	(vii)	(109)	—	(147)	(256)
Unrecognized portion of employee benefits	(viii)	(171)	—	(58)	(229)
Renewable power generation sales	(ix)	(281)	—	(94)	(375)
Basis of accounting	(x)	—	—	(248)	(248)
Deferred income taxes	(xi)	(2,862)	—	(181)	(3,043)
Other		(32)	—	(23)	(55)
		5,406	—	1,217	6,623
As reported under IFRS—December 31, 2009		$11,809	$1,144	$10,186	$23,139

(i) Revaluation Method for Property, Plant and Equipment

Under IFRS the company measures renewable power generation, utilities, and transport and energy assets at their revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and any accumulated impairment losses whereas for Canadian GAAP the company recorded such assets at historic cost less accumulated depreciation. The increase in equity relates to the difference in the fair value of renewable power generation, utilities, and transport and energy assets and their carried amounts for Canadian GAAP.

(ii) Investment Property

The company measures its commercial property and certain other assets as investment property and records the assets at fair value under IFRS whereas for Canadian GAAP the company recorded such assets at historic cost less any accumulated amortization. The increase in equity relates to the

difference in the fair value of investment property and its carried amount for Canadian GAAP.

(iii) Agricultural Assets

The company's standing timber and other agricultural assets are measured at fair value less estimated costs to sell for IFRS whereas for Canadian GAAP the company recorded such assets at historic cost less accumulated depletion. The increase in equity relates to the difference in the fair value, less estimated costs to sell, of the company's standing timber and other agricultural assets and its carried amounts for Canadian GAAP.

(iv) Fair Value as Deemed Cost

The majority of the company's assets are revalued at least annually, however a smaller amount is carried at historical cost under IFRS. The company elected to measure certain of the assets at fair value that would otherwise not be revalued and used that amount as deemed cost on transition to IFRS. The increase in equity relates to the net difference between the fair value used as deemed cost and the carried amounts for Canadian GAAP. The established deemed cost amount will be amortized to net income over the useful lives of the assets.

The aggregate amount of assets which the company elected to measure at fair value and use that amount as deemed cost at the transition date was an increase of $239 million which was recorded in the following account balances on the transitional Consolidated Balance Sheets: an increase of $287 million in property, plant and equipment and a decrease of $48 million in intangible assets.

(v) Financial Instruments

Certain equity securities that were measured at historical cost under Canadian GAAP are measured at fair value for IFRS. Additionally, non-controlling interests of others in the net assets of consolidated subsidiaries held in the form of equity securities that contain a feature that allows the holder to redeem the instrument for cash or another financial asset are presented as a liability under IFRS. These liabilities are recorded at fair value and are included in Interests of others in funds on the Consolidated Balance Sheets. For Canadian GAAP, these interests were presented within non-controlling interests and measured at the proportionate share of net assets not owned by the company of such consolidated subsidiaries. The effect on equity of these and other differences related to financial instruments is as follows:

(Millions)	Common Equity	Non-Controlling Interests	Equity
As at January 1, 2009			
Fair value of equity securities	$ 324	$ 25	$ 349
Interests of others in funds	(137)	(146)	(283)
Other	8	(12)	(4)
	$ 195	$(133)	$ 62
As at December 31, 2009			
Fair value of equity securities	$ 355	$ 51	$ 406
Interests of others in funds	(562)	(459)	(1,021)
Other	(5)	(11)	(16)
	$(212)	$(419)	$(631)

(vi) Lease Accounting

Under Canadian GAAP, the company recognized intangible assets and liabilities on the acquisition of commercial properties related to the difference between the fair value and contracted amounts of in place leases. These intangible assets and liabilities were amortized into revenue over the life of the underlying leases. As a result of electing to fair value investment properties under IFRS, as noted in 3(c)(ii), the company derecognized these intangible assets and liabilities as they are included as a component of the fair value attributable to investment properties. In addition, rental revenue from operating leases is recognized on a straight-line basis over the term of the lease for both Canadian GAAP and IFRS. Under IFRS however, rental revenue from operating leases is determined considering all rentals from the inception of the lease whereas for Canadian GAAP this determination considered only rental revenues to be received on a prospective basis subsequent to January 1, 2004, the adoption date of this accounting policy for Canadian GAAP purposes.

(vii) Revenue Recognition

IFRIC 15 *Agreements for the Construction of Real Estate* provides specific guidance to determine whether an agreement represents a contract for the construction of real estate or the sale of real property. For both Canadian GAAP and IFRS construction contracts are measured using the percentage-of-completion method and sales of real property are recognized in revenue upon completion, when title passes to the purchaser and the collectibility is reasonably assured. Upon transition to IFRS certain contracts in the company's Brazilian development business that were measured for Canadian GAAP using the percentage-of-completion method were determined to be contracts for the sale of real property under IFRS. Accordingly these contracts are recognized in revenue upon completion of construction and title transfers to the purchaser under IFRS.

(viii) Employee Benefits

The company elected to recognize all cumulative actuarial gains and losses as at January 1, 2009. Cumulative actuarial gains and losses that existed at the transition date were recognized in opening retained earnings for all of the company's employee benefit plans.

(ix) Renewable Power Generation Sales

Certain power generation sales are recognized on a levelized basis for Canadian GAAP but are recognized on an accrual basis for IFRS.

(x) Basis of Accounting

Under Canadian GAAP the conclusion as to whether an entity should be consolidated or not is determined by using two different frameworks: the variable interest entity framework or voting control model. Under IFRS an entity is consolidated if it is controlled by the company. Control under IFRS is defined as the power to govern the financial and operating policies of an entity to obtain benefit and is presumed to exist when the parent controls, directly or indirectly through subsidiaries, more than one half of an entity's voting power, but also exists when the parent owns half or less of the voting power but has legal or contractual rights to control, or de facto control.

The decrease represents the effect of deconsolidating certain of the company's investments under IFRS that were previously consolidated under Canadian GAAP, partially offset by the impact of consolidating certain of the company's investments under IFRS that were previously deconsolidated.

(xi) Deferred Taxes

The decrease in equity related to deferred taxes reflects the change in temporary differences resulting from the effect of the IFRS and Canadian GAAP adjustments described.

(d) Reconciliation of Net Income (Loss) as Reported Under Canadian GAAP to IFRS

The following is a reconciliation of the company's net income reported in accordance with Canadian GAAP to its net loss in accordance with IFRS for the year ended December 31, 2009:

Year Ended December 31, 2009 (Millions)	Note	Common Equity	Non-Controlling Interests	Net Income (Loss)
Net income as reported under Canadian GAAP		$ 454	$ —	$ 454
Add back: non-controlling interests	(i)	—	219	219
Differences increasing (decreasing) reported net income:				
Depreciation of fair value adjustments	(ii)	(140)	(30)	(170)
Investment property	(iii)	(596)	(415)	(1,011)
Agricultural assets	(iv)	(11)	(27)	(38)
Financial instruments	(v)	(314)	155	(159)
Lease accounting	(vi)	(63)	(50)	(113)
Revenue recognition	(vii)	(61)	(77)	(138)
Deferred gains	(viii)	(410)	(9)	(419)
Renewable power generation sales	(ix)	61	15	76
Basis of accounting	(x)	—	10	10
Deferred income taxes	(xi)	234	77	311
Other		10	(8)	2
		(1,290)	(359)	(1,649)
Net loss as reported under IFRS		$ (836)	$(140)	$ (976)

(i) Non-Controlling Interests

Non-controlling interests are included in the determination of net income under IFRS reported by an entity. This adjustment adds back non-controlling interests expense to net income as reported under Canadian GAAP.

(ii) Depreciation of Fair Value Adjustments

Certain property, plant and equipment were recorded at fair value on transition at carried values in excess of their recorded amount under Canadian GAAP. Accordingly, these increased carrying values resulted in higher amounts of depreciation during the year.

(iii) Investment Property

For IFRS the company measures investment property at fair value and records any change in fair value in net income during the period of change. Under Canadian GAAP commercial property was recorded at historic cost and depreciated over its estimated useful life. The effect on net income of these differences is as follows:

Year Ended December 31, 2009 (Millions)	Common Equity	Non-Controlling Interests	Net Income (Loss)
Changes in fair value recorded under IFRS	$(1,128)	$(579)	$(1,707)
Depreciation and amortization recorded under Canadian GAAP	532	164	696
	$ (596)	$(415)	$(1,011)

(iv) Agricultural Assets

For IFRS the company's standing timber and other agricultural assets are measured at fair value less estimated cost to sell, with changes in fair value or costs to sell recorded in net income during the period of change. Under Canadian GAAP, the company recorded such assets at historic cost and charged a depletion amount to net income based upon harvest levels. Depletion is not recorded under IFRS. The effect on net income of these differences is as follows:

Year Ended December 31, 2009 (Millions)	Common Equity	Non-Controlling Interests	Net Income (Loss)
Changes in fair value recorded under IFRS	$(53)	$(90)	$(143)
Depletion recorded under Canadian GAAP	42	63	105
	$(11)	$(27)	$ (38)

(v) Financial Instruments

Under Canadian GAAP, certain equity securities that were carried at historic cost are recorded at fair value under IFRS. Furthermore under IFRS, changes in the fair value of the equity securities and interests of others in funds classified outside of shareholders' equity is recorded in net income in the period of change. Under IFRS changes in fair value attributable to changes in foreign currency exchange rates of available-for-sale debt securities denominated in foreign currencies is recorded in net income whereas for Canadian GAAP this amount was recorded in other comprehensive income. The following table shows the effect on net income of these differences:

Year Ended December 31, 2009 (Millions)	Common Equity	Non-Controlling Interests	Net Income (Loss)
Fair value of equity securities	$ (5)	$ 50	$ 45
Investments of others in funds	(332)	100	(232)
Foreign exchange on debt securities	23	5	28
	$(314)	$155	$(159)

(vi) Lease Accounting

As described in 3(c)(vi), under IFRS the company derecognized intangible assets and liabilities recognized on the acquisition of investment property. Under Canadian GAAP, these intangible assets and liabilities were amortized into revenue. In addition, under IFRS, rental revenue from operating leases is determined considering all rentals from the inception of the lease whereas for Canadian GAAP this determination considers only rentals to be received on a prospective basis subsequent to the adoption of this accounting policy for Canadian GAAP purposes.

(vii) Revenue Recognition

As described in 3(c)(vii), upon transition to IFRS certain contracts that were measured using the percentage of completion method for Canadian GAAP were determined to be contracts for the sale of real property under IFRS. Accordingly for IFRS, sales under these contracts are recognized in revenue upon completion of construction and transfer of title to the purchaser.

(viii) Deferred Gains

In Canadian GAAP, the company recognized gains in net income resulting from the partial disposition of a subsidiary when the company retains a controlling interest in the subsidiary after the sale. Under IFRS, gains on the partial disposition of a subsidiary are recorded in equity.

(ix) Renewable Power Generation Sales

Certain renewable power generation sales are recognized on a levelized basis for Canadian GAAP but are on an accrual basis for IFRS.

(x) Basis of Accounting

The company either consolidates or does not consolidate entities under IFRS that were accounted for differently under Canadian GAAP. Accordingly, where the company has deconsolidated entities, the results of operations attributable to the non-controlling interests are excluded from the determination of net income under IFRS. When the company commenced consolidation under IFRS, the results attributable to non-controlling interests are included in net income under IFRS.

(xi) Deferred Taxes

Deferred taxes are impacted by the change in temporary differences resulting from the effect of the IFRS and Canadian GAAP reconciling items described above.

(e) Reconciliation of Comprehensive Income as Reported Under Canadian GAAP to IFRS

The following is a reconciliation of the company's comprehensive income reported in accordance with Canadian GAAP to its comprehensive income in accordance with IFRS for the year ended December 31, 2009:

For the Year Ended December 31, 2009 (Millions)	Note	Common Equity	Non-Controlling Interests	Comprehensive Income
Comprehensive income as reported under Canadian GAAP		$ 1,829	$ —	$ 1,829
Add back: non-controlling interests	(i)	—	806	806
Differences increasing (decreasing) reported comprehensive income:				
Differences in net income	(ii)	(1,290)	(359)	(1,649)
Foreign currency translation	(iii)	488	60	548
Financial instruments	(iv)	(58)	(8)	(66)
Revaluations of property, plant and equipment	(v)	(228)	(8)	(236)
Equity accounted investments	(vi)	(77)	(53)	(130)
Deferred taxes	(vii)	96	11	107
		(1,069)	(357)	(1,426)
Comprehensive income as reported under IFRS		$ 760	$ 449	$ 1,209

(i) Non-Controlling Interests

Non-controlling interests are included in the determination of comprehensive income under IFRS reported by an entity. This adjustment adds back non-controlling interests expense as determined under Canadian GAAP.

(ii) Differences in Net Income

Reflects the differences in net income between Canadian GAAP and IFRS as described in 3(d) for the year ended December 31, 2009.

(iii) Foreign Currency Translation

Reflects the impact of foreign currency arising from the IFRS adjustments described above.

(iv) Financial Instruments

The differences primarily relate to securities that are not traded in an active market and that were measured at cost for Canadian GAAP whereas for IFRS, these securities are recorded at fair value, with changes in fair value recorded in other comprehensive income. In addition, as described in Note (d)(v), fair value changes related to foreign exchange translation of available-for-sale debt securities is recorded in net income under IFRS, whereas it was recorded in other comprehensive income for Canadian GAAP.

(v) Revaluations of Property, Plant and Equipment

The company measures renewable power generation, utilities, and transport and energy assets at their revalued amount under IFRS. Revaluations of these assets in excess of their cost base less accumulated depreciation are recorded in revaluation surplus as a component of equity.

(vi) Equity Accounted Investments

The difference reflects the impact of various changes in IFRS to equity accounted investments.

(vii) Deferred Taxes

The difference related to deferred taxes reflects the change in temporary differences resulting from the effect of the reconciling items described above that are recorded in other comprehensive income.

(f) Statement of Cash Flow As Reported Under Canadian GAAP and IFRS

The following items are the differences in cash flow reported in accordance with Canadian GAAP from cash flow reported in accordance with IFRS:

(i) Differences in Net Income

Reflects the differences in net income between Canadian GAAP and IFRS as described in 3(d) for the year ended December 31, 2009.

(ii) Fair Value Changes

Reflects the adjustment of non-cash fair value changes to investment properties, agricultural assets, and financial instruments recognized under IFRS as described in 3(d)(iii) and 3(d)(iv) for the year ended December 31, 2009.

(iii) Basis of Accounting

The company either consolidates or does not consolidate entities under IFRS that were accounted differently under Canadian GAAP. The results of operations attributable to the non-controlling interests of entities that were deconsolidated under IFRS, are excluded from cash flow for the year ended December 31, 2009. When the company commenced consolidation under IFRS, the results of operations attributable to the non-controlling interests are included in cash flow.

Transition From Argentine GAAP to IFRSs—IFRS 1 Exemptions Elected

12.17

Nortel Inversora S.A. (Dec 2010)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In millions of Argentine pesos)

	Note	As of December 31		
		2010	2009	As of January 1, 2009(*)
Assets				
Current assets				
Cash and cash equivalents	5	1,385	1,273	902
Investments	5	2	16	223
Trade receivables, net	6	1,463	1,163	1,009
Other receivables, net	7	322	241	209
Inventories, net	8	452	250	252
Total current assets		3,624	2,943	2,595
Non-current assets				
Other receivables, net	7	100	76	88
Investments	5	1	1	7
Property, plant and equipment, net	9	7,365	6,767	6,119
Intangible assets, net	10	1,233	1,072	1,080
Total non-current assets		8,699	7,916	7,294
Total assets		12,323	10,859	9,889
Liabilities				
Current liabilities				
Trade payables	11	2,908	2,212	1,769
Financial debt	12	42	763	1,355
Salaries and social security payables	13	390	300	237
Income tax payables	14	491	431	290
Other taxes payables	15	531	338	336
Other liabilities	16	84	84	73
Provisions	17	64	73	36
Total current liabilities		4,510	4,201	4,096
Non-current liabilities				
Trade payables	11	—	24	27
Financial debt	12	121	58	688
Salaries and social security payables	13	110	82	83
Deferred income tax liabilities	14	247	243	266
Income tax payables	14	14	13	—
Other liabilities	16	274	267	231
Provisions	17	536	374	319
Total non-current liabilities		1,302	1,061	1,614
Total liabilities		5,812	5,262	5,710
Equity				
Equity attributable to owners of the Parent		6,404	5,509	4,098
Noncontrolling interest		107	88	81
Total equity	19	6,511	5,597	4,179
Total liabilities and equity		12,323	10,859	9,889

(*) Opening IFRS statement of financial position, included as required by IFRS 1 (Note 1.c).

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1—Description of Business and Basis of Preparation of the Consolidated Financial Statements (in part)

c) Basis of Preparation

These consolidated financial statements are the first published financial statements of the Company in accordance with IFRS as issued by the International Accounting Standards Board. Accordingly, IFRS 1 "First-time adoption of International Financial Reporting Standards" has been used in the preparation of these financial statements.

The accounting policies set out in Note 3 have been applied in preparing the financial statements for the year ended December 31, 2010, the comparative information presented in these financial statements for the year ended December 31, 2009 and in the preparation of the opening IFRS statement of financial position at January 1, 2009 (the Company's date of transition). In preparing its opening IFRS statement of financial position (as required by IFRS 1), the Company has adjusted amounts reported previously in financial statements prepared under Argentine GAAP. An explanation of how the transition from Argentine GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in Note 4.

Our financial statements (except for cash flow information) are prepared on an accrual basis of accounting. Under this basis, the effects of transactions and other events are recognized when they occur. Therefore income and expenses are recognized at fair value on an accrual basis regardless of when they are perceived or paid. When significant, the difference between the fair value and the nominal amount of income and expenses is recognized as finance income or expense using the effective interest method over the relevant period.

The accompanying consolidated financial statements have been prepared on a going concern basis (further details are provided in Note 3) and in accordance with IFRS. IFRS comprises all effective IAS together with all the SIC and all interpretations issued by the IFRIC.

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

Publication of these consolidated financial statements for the year ended December 31, 2010 was approved by resolution of the Board of Directors' meeting held on June 23, 2011.

Note 4—Transition to IFRS

These financial statements for the year ended December 31, 2010 are the first annual financial statements that are fully compliant with IFRS as issued by the IASB. The Company has adopted the standards effective as of December 31, 2010. Additionally, the Company early adopted IFRS 9 as issued in October 2010.

The mandatory adoption of IFRS for public companies in Argentina is effective for financial years beginning January 1, 2012, while early adoption is permitted for financial years beginning January 1, 2011. Therefore, the consolidated financial statements as of December 31, 2010 for filing with the CNV were prepared in accordance with Argentine GAAP. Argentine GAAP differs in certain respects from IFRS. Notwithstanding the CNV regulations, financial statements under IFRS for the year 2010 are allowed to be presented as additional information to the consolidated financial statements prepared under Argentine GAAP.

The reconciliations that are presented in this Note reconcile the previously published financial statement information under Argentine GAAP as of and for the year ended December 31, 2009 and as of January 1, 2009 to the corresponding amounts calculated in accordance with IFRS in compliance with IFRS 1.

For the purposes of this quantification, Management of the Company has elected to make use of some of the exemptions provided for in IFRS 1 with the aim to simplify the first-time adoption of IFRS. The Company made use of the exemptions as detailed below:

Optional Exemptions Provided by IFRS 1 Upon First-Time Adoption of IFRS:

- *Deemed cost for fixed assets*: Argentine GAAP valuation for fixed assets has been used as deemed cost at the transition date to IFRS, since it was considered to be broadly comparable to cost or depreciated cost in accordance with IFRS, adjusted to reflect changes in a general or specific price index.
- *Cumulative translation differences for foreign operations*: The cumulative translation differences for all foreign operations were deemed to be zero at the date of transition to IFRS. This exemption applies to the financial statements translations of the subsidiaries Núcleo and Telecom USA.
- *Business combinations*: The Company has elected not to apply IFRS 3 (as revised in 2008) retrospectively to business combinations that occurred before the date of transition to IFRS.
- *Share-based payment transactions*: The Company has elected not to apply IFRS 2 "Share-based Payment" to equity instruments that were granted on or before November 7, 2002. This exemption applies to the Share Ownership Program described in note 19.

IFRS Mandatory Exceptions Provided by IFRS 1 Upon First-Time Adoption of IFRS:

- *Estimates exception*: IFRS estimates as at January 1, 2009, are consistent with the estimates as at the same date made in conformity with Argentine GAAP.

The other compulsory exceptions of IFRS 1 have not been applied as these are not relevant to the Company.

a) Impacts of the Application of IFRS on the Opening Statement of Financial Position at January 1, 2009 and the Consolidated Financial Statements at December 31, 2009

IFRS provides for alternative criteria for measurement after initial recognition of each class of PP&E and Intangible Assets. An entity shall choose either the "cost model" or the "revaluation model." Management of Telecom Group has

elected to continue applying the "cost model" for all classes of PP&E and Intangible Assets.

After considering exemptions elected and the "cost model" chosen to measure PP&E and Intangible Assets, the main differences identified between Argentine GAAP and IFRS and their impact on equity at January 1, 2009 and December 31, 2009 and net income for the year ended December 31, 2009 are described below:

	Total Equity at January 1, 2009	Total Equity at December 31, 2009	Net Income for the Year Ended December 31, 2009
Total amounts under Argentine GAAP	2,189	2,953	758
IFRS Adjustments:			
1. Noncontrolling interest	1,900	2,552	651
Subtotal amounts and noncontrolling interest under Argentine GAAP	4,089	5,505	1,409
2. Classification of Class "A" Preferred shares	(1,039)	(1,156)	(117)
3. Revenue recognition			
3.1 Upfront connection fees	(106)	(105)	1
3.2 Revenues from contracts for the construction of networks and other assets	—	—	—
3.3 Customer loyalty programs	(6)	(8)	(2)
3.4 Revenue recognition on contracts with multiple deliverables	—	—	—
4. Intangible Assets			
4.1 Service connection or habilitation costs	121	114	(7)
4.2 Subscriber acquisition costs	188	186	(2)
5. Reversal of the adjustments for the effects of inflation in foreign entities' financial statements	—	(17)	(11)
6. Borrowing costs that do not qualify for capitalization	(67)	(57)	10
7. Other adjustments			
7.1 Inventories	(8)	1	9
7.2 Fixed assets held for sale	(2)	(2)	—
8. Tax effects on IFRS adjustments	(42)	(43)	(1)
Total amounts under IFRS	3,128	4,418	1,289
Equity attributable to the parent	1,192	1,837	642
Equity attributable to noncontrolling interest	1,936	2,581	647

1. Noncontrolling Interest

Under IFRS, the noncontrolling interest in a subsidiary should be presented within total equity in the consolidated statement of financial position, identifying separately the portion attributable to the parent (economic rights attributable to the Company as Parent Company) and the portion attributable to the noncontrolling interest instead of being presented as a separate caption between total liabilities and equity as required by Argentine GAAP.

Likewise, the noncontrolling interest in a subsidiary's profit or loss for the year is presented within net income (loss) in the consolidated statement of income as a gain or loss incurred by the parent.

Therefore, a reconciling item has been included to present noncontrolling interest as required by IFRS (although measured under Argentine GAAP) representing an increase of $1,900 and $2,552 in total equity as of January 1, 2009 and December 31, 2009, respectively, and an increase in net income of $651 for the year ended December 31, 2009.

2. Classification of Class "A" Preferred Shares

Pursuant to IFRS, a financial liability is "a contractual obligation" (i) to deliver money or other financial asset to another entity, or (ii) to exchange financial assets or liabilities with another entity under conditions that are potentially unfavorable. As described in Note 19, Nortel's Class "A" preferred shares provide a mandatory repayment schedule. Although payments to the holders of such shares become due only to the extent that the Company has liquid and realized profits, legally available for distribution under Argentine law, the Company's payment obligation does not disappear as a result of the temporary lack of such profits. Therefore, the Company's payment obligations under the terms of issuance of the Class "A" preferred shares shall be classified as liability and valued at their amortized cost. Under Argentine Corporations Law, the Class "A" Preferred Shares has to be included in the Company's shareholders' equity.

3. Revenue Recognition

3.1 Upfront Connection Fees

Under IFRS, non-refundable up-front connection fees for fixed telephony, data and Internet services that are non-separable from the service are accounted for as a single transaction and deferred over the term of the contract, or in the case of indefinite period contracts, over the average period of the customer relationship. This approach is consistent with the recognition of service connection costs described in 3.1 below. This accounting treatment differs from that provided for under Argentine GAAP, where up-front connection fees are fully recognized as income when the customer is

connected to the network or the service is enabled, which usually occurs at the beginning of the relationship with the customer.

The impact of the deferral of up-front connection fees under IFRS, net of the effect of the deferred fees accrued during the year, represents a decrease of $106 and $105 in total equity as of January 1, 2009 and December 31, 2009, respectively, and an increase of $1 in net income for the year ended December 31, 2009. Such impacts are substantially originated in Telecom Argentina from the connection of fixed line customers, with an estimated deferral period of 9 years.

3.2 Revenues from Contracts for the Construction of Networks and Other Assets

Revenue from construction contracts are substantially derived from the construction of data networks or other value-added services assets for large customers of fixed telephony.

Under IFRS, revenues from construction contracts that are specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use, in which the buyer is able to specify the major structural elements of the design before construction, should be accounted for by reference to the stage of completion of the contract activity. Under this method, contract revenue and contract costs associated with the construction contract shall be recognized as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period, thus recognizing profit margin of the contract. The stage of completion of a contract may be determined in a variety of ways. Telecom Group has used the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. Any expected loss by reason of the contract should be recognized immediately as an expense.

Under Argentine GAAP revenues for construction contracts are fully recognized when construction is completed and the assets are transferred to the buyer together with related risks and benefits.

There was no impact in revenue for construction contracts under IFRS for the financial year 2009.

3.3 Customer Loyalty Programs

Personal offers to its customers a loyalty program named “Club Personal.” Under such program Telecom Group grants award credits as part of the sales transactions which can be subsequently redeemed for goods or services. IFRS requires that the fair value of the award credits be accounted for as deferred revenue, and recognized as revenue when the award credits are redeemed or expire. Those revenues are classified as service or goods revenues depending on the goods or services redeemed by the customers. Under Argentine GAAP such program is accounted for considering the cost of the points expected to be redeemed by the customers. Such cost is recorded as operating expenses at the time the points are granted to the customers. Reconciling item reflects the net effect of (i) deferral of revenues associated with unredeemed points valued at exit fair value, net of income accrued for the year, and (ii) reversal of operating costs accrued under Argentine GAAP based on points expected to be effectively redeemed.

The impact of the measurement of the customer loyalty program under IFRS represents a decrease of $6 and $8 in total equity as of January 1, 2009 and December 31, 2009, respectively, and a decrease of $2 in net income for the year ended December 31, 2009.

3.4 Revenue Recognition on Contracts With Multiple Deliverables

Under IFRS, total revenue generated by transactions that include separately identifiable components (as equipment and service) should be allocated to the separately identifiable units of accounting based on their fair values, provided that the total amount of revenue to be recognized does not exceed the contract revenue.

IFRS does not prescribe a specific method for such allocation of revenue. However, telecommunications industry practice generally applies the method known as “residual method.”

The “residual method” requires identifying all the components that comprise a transaction and allocating its fair value on an individual basis to each of them. Under this method, the fair value of a delivered item (which could not be individually determined) is determined as the difference between the total arrangement consideration and the sum of the fair value of those elements for which fair value can be estimated on a stand-alone basis.

Telecom Group is engaged in sale transactions including multiple identifiable components whose fair value determination becomes more complex and relate to sales of equipment to customers jointly with contracts with minimum duration, fixed monthly bills for services and cancellation fees for early termination. For such transactions, equipment is sold at a discount compared to selling price of equipment sold without related service contract. However, the fair value of services sold is independent of the fact that the customer purchases a handset together with the service. Therefore the fair value of equipment sold can be determined as the difference between the total arrangement consideration and the service fair value.

Consequently, the allocation of revenues between equipment and services under IFRS is equivalent to the revenues accounted for under Argentine GAAP, where revenues from sale of each component of the transaction are recognized by the amount contractually agreed with the client, recognizing equipment revenues when the item is delivered to the customer and service revenues when rendered.

Therefore, considering the industry accounting practices currently prevailing under IFRS there is no quantitative impact for this matter between IFRS and Argentine GAAP.

4. Intangible Assets

4.1 Service Connection or Habilitation Costs

Under IFRS direct costs incurred for connecting customers to the network are accounted for as assets and then amortized over the term of the contract with the customer if certain conditions are met. This approach is consistent with the recognition of up-front connection fees described in 2.1 above. For indefinite period contracts, the deferral of these costs is limited to the amount of non contingent revenue from the customer and expensed over the average period life of the customer relationship. Costs exceeding that amount are expensed as incurred. Connection costs are generated mainly in Telecom Argentina for the installation of fixed lines whose average deferral period is 9 years.

Under Argentine GAAP, connection costs are expensed as incurred, in order to match these costs with connection revenues that are fully recognized in the same period.

The effect of deferral of connection costs under IFRS, net of accumulated depreciation, represents an increase of $121 and $114 in total equity as of January 1, 2009 and December 31, 2009, respectively, and a decrease in net income of $7 for the year ended December 31, 2009.

4.2 Subscriber Acquisition Costs

Under IFRS, direct and incremental costs incurred for the acquisition of new subscribers with minimum contractual duration are capitalized when the following conditions are met: the asset is separately identifiable, it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and the cost of the asset can be measured reliably. Capitalized SAC is amortized on a straight-line basis over the term of the contract with the customer.

The cost of acquiring postpaid and "cuentas claras" customers in mobile telephony and broadband customers in fixed telephony meet the conditions established by IFRS for its recognition as intangible asset, since these contracts establish a minimum contractual period, include an enforced termination penalty and fixed monthly bill for services. SAC are mainly composed of upfront commissions paid to third parties and subsidies on the sale of handsets. Under Argentine GAAP, these costs are expensed as incurred since there are no specific criteria for deferral of costs associated with customer contracts.

The impact of capitalization of SAC as intangible assets under IFRS, net of accumulated depreciations, represents an increase of $188 and $186 in total equity as of January 1, 2009 and December 31, 2009, respectively, and a decrease of $2 in net income for the year ended December 31, 2009.

5. Reversal of the Adjustments for the Effects of Inflation in Foreign Entities' Financial Statements

Under IFRS financial statements of any entity whose functional currency is the currency of a hyperinflationary economy shall be stated in terms of the measuring unit current at the end of the reporting period. Under Argentine GAAP financial statements of Núcleo are prepared in guaraníes—the local and functional currency of Núcleo—restated in terms of the measuring unit current at the end of the reporting period. However, the economic environment where Núcleo performs its activities does not meet the requirements established by IFRS to consider the Paraguayan economy as hyperinflationary. The reconciling item reflects the reversal of the inflation adjustment made under Argentine GAAP, after considering the IFRS 1 exemption for deemed cost for the measurement of fixed assets described above.

The impact of reversing the inflation adjustment recorded under Argentine GAAP is summarized in the table below:

Impact of Reversing the Restatement at the End of the Reporting Period:	Total Equity as of December 31, 2009	Net Income for the Year Ended December 31, 2009	Other Comprehensive Income (Loss) for the Year Ended December 31, 2009
Attributable to the parent	(7)	(4)	(3)
Attributable to noncontrolling interest	(10)	(7)	(3)
Total of the reconciling item	(17)	(11)	(6)

6. Borrowing Costs that do not Qualify for Capitalization

Under IFRS, capitalization of foreign currency exchange differences originated in foreign currency denominated debt is required as part of the cost of a qualifying asset, when they are considered to be an adjustment to interest costs. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use.

Under Argentine GAAP, foreign currency exchange differences (gains or losses) generated on or after January 6, 2002 through July 28, 2003, in connection with foreign-currency denominated debts as of such dates were capitalized as part of the cost of assets acquired or constructed with such financing, as long as a series of conditions and requirements were met (the devaluation of the Peso in that period was approximately 180%).

The reconciliation item represents the reversal of the amounts capitalized under Argentine GAAP that do not comply with the requirements for capitalization under IFRS, net of accumulated depreciation. Such reversal represents a decrease of $67 and $57 in total equity as of January 1, 2009 and December 31, 2009, respectively, and an increase of $10 in net income for the year ended December 31, 2009.

7. Other Adjustments

7.1 Inventories

Under IFRS inventories are measured at the lower of cost and net realizable value, and "Last in first out" method is not allowed. Under Argentine GAAP inventories are stated at replacement cost.

The reconciliation item for valuation of inventories under IFRS represents a decrease of $8 and an increase of $1 in total equity as of January 1, 2009 and December 31, 2009, respectively, and an increase of $9 in net income for the year ended December 31, 2009. Such impacts are substantially generated in Personal with a lower impact generated by Núcleo´s inventories.

7.2 Fixed Assets Held for Sale

According to IFRS non-current assets should be classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. To meet that definition, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

Under Argentine GAAP Telecom Group classifies certain fixed assets as held for sale. Such assets are included under the caption "Other assets" and measured at the lower of cost less depreciation at the time of transfer to the Held-for-sale category or net recoverable value. As far as those assets do not comply with the requirements stated by IFRS to be classified as held for sale, they should be classified as PP&E and measured at cost less accumulated depreciation.

The impact of this reconciling item represents a decrease of $2 in total equity as of January 1, 2009 and December 31, 2009, respectively, with no impact in net income for the year ended December 31, 2009. Such impacts are fully generated in Telecom Argentina.

8. Tax Effects on IFRS Adjustments

This adjustment represents the effect on deferred income taxes of the foregoing reconciling items, as appropriate, at a tax rate of 35% (except for Núcleo, for which the tax rate is 10%). The effect of the IFRS adjustments on income taxes represents a decrease of $42 and $43 in total equity as of January 1, 2009 and December 31, 2009, respectively, and a decrease in net income of $1 for the year ended December 31, 2009.

It should be noted that these amounts include the effect of the additional income tax provided by currently enforceable Argentine tax law on the undistributed profits of Núcleo as it is considered probable that those results will flow to Personal in the form of dividends. Under Argentine GAAP this additional income tax obligation is recognized at the time a dividend distribution proposal is submitted to the approval of the shareholders of Núcleo.

b) Impacts of the Application of IFRS on the Cash Flow Statements for the Year Ended December 31, 2009

The Company considers as cash equivalents all short-term and highly liquid investments that are readily convertible to known amounts of cash, subject to an insignificant risk of changes in value and their original maturity or the remaining maturity at the date of purchase does not exceed 3 months. As a result, no differences exist between the total amount of the increase or decrease in cash and cash equivalents reported in the consolidated financial statements under Argentine GAAP and the same totals that would be reported in a statement of cash flows prepared based on IFRS amounts. However, certain differences exist between cash flows from operating, investing and financing activities reported in the consolidated financial statements under Argentine GAAP and the cash flows from operating, investing and financing activities under IFRS. These differences are mainly related to the payments of SAC allocated in investing activities instead of operating activities.

In addition, under Argentine GAAP the effect of exchange rate changes on cash and cash equivalents was not presented in a separate cash flow statement category as required by IFRS.

The following tables set forth the condensed consolidated statement of cash flows prepared in accordance with IFRS and Argentine GAAP:

	Years Ended December 31, 2009	
	Under Argentine GAAP	Under IFRS
Cash flows provided by operating activities	3,280	3,679
Cash flows from investing activities	(1,223)	(1,688)
Cash flows from financing activities	(1,686)	(1,681)
Net foreign exchange differences on cash and cash equivalents	—	61
Increase in cash and cash equivalents	371	371
Cash and cash equivalents at the beginning of year	902	902
Cash and cash equivalents at year end	1,273	1,273

c) Impacts of the Application of IFRS on the Consolidated Income Statement for the Year Ended December 31, 2010

After considering exemptions elected and the "cost model" chosen to measure PP&E and Intangible Assets, the main differences identified between Argentine GAAP and IFRS and their impact on net income for the year ended December 31, 2010 are described below:

	Net Income for the Year Ended December 31, 2010	Revenues	Operating Expenses	Depreciation	Finance Income (Expense)	Income Tax
Total amounts under Argentine GAAP	1,004	—	—	—	—	—
IFRS Adjustments:						
1. Noncontrolling interest	843	—	—	—	—	—
Subtotal amounts and noncontrolling interest under Argentine GAAP	1,847	—	—	—	—	—
2. Classification of Class "A" Preferred shares	(171)	—	—	—	(171)	—
3. Revenue recognition						
3.1 Upfront connection fees	5	5	—	—	—	—
3.2 Revenues from contracts for the construction of networks and other assets	4	14	(10)	—	—	—
3.3 Customer loyalty programs	4	(1)	5	—	—	—
4. Intangible assets						
4.3 Service connection or habilitation costs	(7)	—	19	(26)	—	—
4.4 Subscriber acquisition costs	173	—	534	(361)	—	—
5. Reversal of the adjustments for the effects of inflation in foreign entities´ financial statements	(23)	(70)	50	18	(21)	—
6. Borrowing costs that do not qualify for capitalization	10	—	—	10	—	—
7. Other adjustments						
7.1 Inventories	8	—	(7)	—	15	—
7.2 Fixed assets held for sale	1	—	—	1	—	—
8. Tax effects on IFRS adjustments	(66)	—	—	—	—	(66)
Total amounts under IFRS	1,785	(52)	591	(358)	(177)	(66)
Equity attributable to the parent	895					
Equity attributable to noncontrolling interest	890					

COMPANY INDEX

Company Name	*Accounting Technique Illustration*
A.G. Barr plc	1.137
A/S Dampskibsselskabet TORM	
Absa Group Limited	1.80, 3.218
Abu Dhabi Aviation	
Abu Dhabi National Hotels PJSC	
Abu Dhabi Ship Building PJSC	2.73
Adecoagro S.A.	1.135, 2.18, 2.136, 2.211, 3.388, 7.25
AEGON N.V.	2.365
Aixtron SE (formally, Aixtron Aktiengesellschaft)	
Alcatel-Lucent	2.28
Alesco Corporation Limited	1.114, 1.176, 3.288
Allied Irish Bank plc	
Alumina Limited	1.81, 2.168
Anooraq Resources Corporation	1.72, 2.25, 3.202
Aquarius Platinum Limited	2.191, 9.26
ArcelorMittal	2.27, 2.305, 5.26
ARM Holdings plc	
ARYZTA AG	
Ashtead Group plc	1.113, 2.112
AstraZeneca plc	1.82, 2.398
Autonomy Corporation plc	
Aviva plc	2.20, 2.32
AXA SA	
Barclays plc	1.138
Barloworld Limited	3.111
Barry Callebaut AG	1.221, 2.52, 3.307
BBA Aviation plc	
BHP Billiton plc and BHP Billiton Limited	
BP plc	2.307, 3.142
Brewin Dolphin Holdings plc	
British Sky Broadcasting Group plc	2.31, 2.113
Brookfield Asset Management, Inc.	2.19, 2.138, 2.214, 3.321, 3.346, 4.14, 12.16
Brookfield Office Properties Canada	3.60, 5.36
BT Group plc	
Cellcom Israel Ltd	
Centum Investment Company Ltd	
China Eastern Airlines Corporation Limited	5.33
China Gold International Resources Corp, Ltd. (formerly, Jinshan Gold Mines Inc.)	2.29
China Mobile Limited	
China Southern Airlines Company Limited	
China Telecom Corporation Limited	
China Xiniya Fashion Limited	2.21
China Yuchai International Limited	1.145, 3.344
Chocoladefabriken Lindt & Sprüngli AG	
City Telecom (H.K.) Limited	3.56
Clariant Ltd.	
Clicks Group Limited	3.109
CNOOC Limited	
Compagnie Financière Richemont SA	2.51, 3.61
Compagnie Générale de Géophysique-Veritas, S.A.	
Companhia de Bebidas das Américas (American Beverage Company)—Ambev	1.133, 2.352, 3.345, 10.18
Companhia de Saneamento Basico do Estado de Sao Paolo—SABESP	1.71, 11.23

Company Name	*Accounting Technique Illustration*
Compañia Cervecerías Unidas S.A.	
Copa Holdings, S.A.	2.259
Credicorp Ltd	
CRH Public Limited Company	
CSR plc	
Daimler AG	
Delhaize Brothers and Co “The Lion” (Delhaize Group) SA	2.303, 3.240
Deutsche Bank Aktiengesellschaft	1.177, 5.34
Deutsche Telekom AG	
DHT Holdings, Inc	
Diageo plc	3.11
Diploma Group Limited	
East Asiatic Company Ltd. A/S	10.19
Eastern Platinum Limited	
Elbit Imaging Ltd.	
Embotelladora Andina S.A.	2.17, 2.22, 5.31
Empresa Nacional de Electricidad S.A. (Endesa-Chile)	3.137
Enersis S.A.	
Eni S.p.A	2.353, 3.219, 8.56
Flughafen Zürich AG	
France Telecom	8.60, 9.28
Galenica Ltd.	1.139
Gerdau S.A.	2.366
Givaudan SA	1.74
GlaxoSmithKline plc	3.108, 3.201
Gol Linhas Aéreas Inteligentes S.A.	5.27
GrainCorp Limited	
Guangshen Railway Company Limited	1.202
Harmony Gold Mining Company Limited	2.189, 3.26, 3.290
Heatherdale Resources Ltd	4.18
Helical Bar plc	2.26
HGL Limited	3.138
Hikma Pharmaceuticals PLC	
Homburg Invest Inc.	2.53, 2.137, 4.19, 6.27
HSBC Holdings plc	8.57
Huaneng Power International, Inc.	3.24
InterContinental Hotels Group plc	1.136, 3.306
JSC BTA Bank	1.76
JSC Halyk Bank	4.16
Julius Baer Group Ltd	
Koninklijke Philips Electronics NV	3.141, 3.347
Lan Airlines S.A.	1.235, 5.23, 6.25
Luxottica Group S.p.A	2.30, 3.155
Magyar Telekom plc	1.141, 3.305
Millicom International Cellular S.A.	1.111, 2.260, 3.387
Mondi Limited and Mondi plc	5.28
N Brown Group plc	
National Grid plc	1.73, 4.15
National Westminster Bank Plc	1.112, 2.115
Nestlé SA	4.20
Newcrest Mining Limited	3.59
Nobel Biocare Holding AG	
Nokia Corporation	2.302
Nortel Inversora S.A.	2.397, 7.28, 8.54, 10.17, 12.17
Northern Dynasty Minerals Ltd	
Novartis AG	2.114
Novo Nordisk A/S	
OAO Gazprom	3.63
Panalpina World Transport (Holding) Ltd	
Pargesa Holding AG	1.134
Partner Communications Company Ltd.	
Pearson plc	9.27

Company Name	*Accounting Technique Illustration*
Philippine Long Distance Telephone Company	5.25, 5.32, 8.58
Portugal Telecom, SGPS, S.A.	2.75, 3.343
Prudential plc	
PSP Swiss Property Ltd	1.14
Randgold Resources Limited	
REA Vipingo Plantations Limited	2.213
Reckitt Benckiser Group plc	3.153
Reed Elsevier NV and Reed Elsevier PLC	2.23
Repsol YPF, S.A.	
Rio Tinto Limited and Rio Tinto plc	1.143, 2.167, 2.351
Roche Holding Ltd	
Royal Bank of Scotland Group plc, The	3.62
Royal Dutch Shell plc	2.304, 3.156
Ryanair Holdings plc	
sanofi-aventis	
SAP AG	1.77, 3.58
Sappi Limited	8.61
Sasini Limited	2.74, 3.140, 3.320
Sasol Limited	7.26
Seven Arts Pictures Plc	3.389
Siemens Aktiengesellschaft	3.184, 8.62
Silver Fern Farms Limited	1.142, 2.24, 3.241, 3.289
Sims Metal Management Limited	2.190, 3.291, 5.24
Smith & Nephew plc	
SouthGobi Resources Ltd.	
Stagecoach Group plc	
Sterlite Industries (India) Limited	1.178, 3.292, 5.29
Straumann Holding AG	1.200
Subsea 7 S.A. (formerly, Acergy S.A.)	3.90 + B174
Swiss Life Holding Ltd	4.17
Swisscom Ltd	
Syngenta AG	
TAM S.A.	1.79, 3.139
Taylor Wimpey plc	
Technicolor SA	6.26
Telecom Corporation of New Zealand Limited	1.201, 3.242
Telecom Italia S.p.A.	
Telefónica S.A.	
Tenaris S.A.	3.57
Ternium S.A.	
Thomson Reuters Corporation	1.70, 3.154
TOTAL S.A.	
Tourism Holdings Limited	
Travis Perkins plc	
Trencor Limited	
Trinity Biotech plc	1.203, 2.50, 2.116, 3.386
Turkcell Iletisim Hizmetleri AS	1.75
U308 Corp.	5.35
UBS AG	1.78
Ultra Electronics Holdings plc	3.55
Unilever N.V. and Unilever plc	1.144, 2.111
Veolia Environnement	2.306
Vina Concha y Toro S.A.	2.117, 2.212, 2.354, 3.25, 5.30, 8.55
Vodafone Group plc	1.222, 7.27, 8.59
WPP plc	
Yanzhou Coal Mining Company Limited	3.385

IFRS ATT-COM

PRONOUNCEMENTS INDEX

Note that paragraph references ending with "n" refer to an Author's Note following the numbered paragraph.

No.	*Title*	*Paragraph*
	American Institute of Certified Public Accountants (AICPA)	
1	*Identification and Discussion of Certain Financial Accounting and Reporting Issues Concerning LIFO Inventories (issues paper)*	2.49
	FASB Accounting Standards Codification (ASCs)	
105-10-05		1.24
105-10-05-1		1.25
205-10-45		1.37
205-10-45-2		1.36
205-10-50-1		1.38, 1.59
205-20		6.12, 6.14
205-20-45-1		6.14
205-20-45-3		6.2
205-20-50-1		3.304
205-20-50-2		6.24
210-10		2.159
210-10-05-4		2.12
210-10-45		2.12
210-10-45-1		2.47
210-10-45-4		2.66
210-10-45-5		2.298
210-20		1.39, 2.293
210-20-45		8.51
210-20-45-1		8.35
210-20-45-6		2.392
220-10-4		4.07n
220-10-45-3		4.09
220-10-45-5		3.16
220-10-45-8		3.17
220-10-45-9		3.17
220-10-45-10		3.17, 4.08
220-10-45-12		3.18
220-10-45-13		3.16
220-10-45-14		3.17, 4.08
220-10-55-2(h)-(j)		3.149
220-10-65-1		4.07n
225-10		3.23

No.	Title	Paragraph
225-20		2.160, 3.21
225-20-45		3.23
225-20-45-3		3.21
230	*Statement of Cash Flows*	5.15
230-10-45		5.13, 5.15, 5.21
230-10-45-3		5.22
230-10-45-15		5.15
230-10-45-24		5.21, 6.20, 6.24
230-10-45–30		5.21
230-10-50-1		5.2
235		3.52
235-10-05		1.6
235-10-50-1		3.237
235-10-50-3		3.52
250-10		1.38
250-10-45		1.30–1.31
250-10-45-1		1.26–1.27
250-10-45-2		1.26
250-10-45-5		1.28
250-10-45-7		1.28, 1.31
250-10-45-8		1.28
250-10-45-17		1.29
250-10-45-18		1.30, 3.129
250-10-45-19		1.30, 3.129
250-10-50		1.68–1.69
250-10-50-1		1.64, 1.64n, 1.65
250-10-50-4		1.67
250-10-50-5		1.67
255	*Changing Prices*	10.16
260-10		3.379
260-10-45		3.362, 3.364, 3.368–3.372
260-10-45-2		3.377
260-10-45-3		3.378
260-10-45-5		3.379
260-10-45-7		3.38
260-10-45-11A		3.363
260-10-45-12A		3.364
260-10-45-16		3.365, 3.368
260-10-45-17		3.366
260-10-45-21		3.367
260-10-45-35		3.369

No.	Title	Paragraph
260-10-45-37		3.369
260-10-50-1		3.383
260-10-50-2		3.384
260-10-55-12		1.124
260-10-55-38		3.365
272-10		2.151
275-10-05-2		1.61
275-10-50		1.61
275-10-50-1		1.61
280	*Segment Reporting*	7.01, 7.13–7.14, 7.22, 7.24
280-10-15		7.13
280-10-15-3		7.13
280-10-50-9		7.14
280-10-50-22		7.22
280-10-50-22(f)		7.23
280-10-50-25(b)		7.24
280-10-55-22(i)		7.23
310	*Receivables*	8.23
320	*Investments—Debt and Equity Securities*	3.211, 8.23
323	*Investments—Equity Method and Joint Ventures*	2.151, 2.165, 2.179
323-10		2.151, 2.179, 3.217
323-10-15		2.151
323-10-15-3		2.152, 2.179
323-10-15-4		2.151
323-10-15-4(c)		2.179
323-10-15-5		2.151
323-10-15-6		2.153
323-10-15-8		2.154
323-10-15-9		2.154
323-10-35		3.212
323-10-35-4		2.155, 3.208–3.209
323-10-35-5		3.208
323-10-35-6		2.155
323-10-35-18		2.155
323-10-35-19		2.156, 3.209
323-10-35-35		3.21
323-10-35-36		3.211
323-10-35-37		3.211
323-10-45		2.160, 2.185, 3.214
323-10-45-1		2.159
323-10-45-3		2.160, 3.215

No.	Title	Paragraph
323-10-50-3		2.165–2.166, 3.217
323-10-50-3(c)		2.188
323-10-50-3(d)		2.166
323-30		2.151, 2.181
330	*Inventory*	2.45, 3.97
330-10		3.98, 3.100
330-10-30-9		2.44
330-10-35		3.99–3.100
330-10-35-1		2.44, 3.97
330-10-35-7		3.98
330-10-35-14		2.45
330-10-50		3.103
330-10-50-1		3.105
330-10-50-2		3.107
340-20-25		2.97
340-20-50		2.11
350	*Intangibles—Goodwill and Other*	3.126, 3.265, 3.276
350-10-65-2		3.273n
350-20-35		3.273
350-20-35-1		2.94, 3.267
350-20-35-31		6.15
350-20-45		3.276
350-20-50-1		3.287, 6.13
350-20-50-2		2.109, 3.287
350-30-05-1		2.92
350-30-25-1		2.91
350-30-25-2		2.92
350-30-25-3		2.95
350-30-35		2.94
350-30-35-8		3.127
350-30-35-9		3.127
350-30-35-15		2.94
350-30-35-17A		2.95
350-30-45		3.132
350-30-45-1		2.99
350-30-50-1		2.107–2.108
350-30-50-2		3.136
350-30-50-3		3.286
350-40		2.96
350-50		2.96

No.	Title	Paragraph
360	*Property, Plant, and Equipment*	2.62, 2.130, 2.299, 3.126, 3.128, 3.128n, 3.132, 3.265, 3.268, 3.276, 6.01, 6.12
360-10		2.62
360-10-35		2.63, 3.129
360-10-35-3		3.128n
360-10-35-4		3.13
360-10-35-17		3.269
360-10-35-20		3.270–3.271
360-10-35-21		3.268
360-10-35-22		3.128, 3.270
360-10-35-25		3.266
360-10-35-26		3.272
360-10-35-28		3.274
360-10-40		3.299–3.300
360-10-40-5		3.299
360-10-45		6.2
360-10-45-5		3.302
360-10-50		2.72
360-10-50-1		3.135
360-10-50-2		3.285
360-20-50		2.258
405	*Liabilities*	8.33
405-20-40-1		2.279
410	*Asset Retirement and Environmental Obligations*	2.286
410-20		2.299
410-20-25-5		2.62
410-20-35-2		3.13
410-20-35-8		2.64
410-20-50		2.299
420-10		2.335
420-10-25		2.288
420-10-25-1		2.287
420-10-25-3		2.289
420-10-25-9		2.288
420-10-30		2.287
420-10-50-1		2.301, 2.350
450	*Contingencies*	2.280, 2.299
450-20-25-2		2.281
450-20-30-1		2.283
450-20-50		2.3

No.	*Title*	*Paragraph*
450-20-50-5		2.282
450-30-25-1		1.124, 2.285
450-30-50-1		2.285, 2.300
460	*Guarantees*	2.252
460-10		2.284
460-10-25-5		2.284
470-10-45		1.124
480	*Distinguishing Liabilities from Equity*	8.33
505	*Equity*	3.171
505-10-50-2		4.08
505-10-50-5		1.62
505-10-50-11		1.63
505-10-S99-1		4.12
505-30		8.34
505-30-25		8.34
505-30-25-2		8.34
505-30-30		8.34
505-50-30-6		3.171
605	*Revenue Recognition*	3.26n, 3.40, 3.42, 3.53, 11.09n
605-10-25-1		3.41
605-10-25-4		3.42
605-25		3.46, 3.46n, 3.53, 11.15–11.16
605-25-15-2A		1.23
605-25-25-2		11.15, 11.15n
605-25-30-2		3.46, 11.16, 11.16n
605-25-50-1		3.53
605-25-65-1		3.46n
605-35		3.76, 3.85
605-35-05-5		3.81
605-35-25		3.78–3.80, 3.82–3.83
605-35-25-5		3.76
605-35-25-8		3.76
605-35-25-12		3.77
605-35-25-13		3.77
605-35-25-45		3.8
605-35-25-60		3.82
605-35-45		3.87
605-35-45-3		3.85
605-35-45-4		3.86
605-35-45-5		3.86

No.	Title	Paragraph
605-35-50		3.89
605-35-50-1		3.89
605-35-50-3		3.89
605-35-50-5		3.89
605-45		2.182, 3.47
605-45-50-3		3.5
710	*Compensation—General*	3.148
710-10-25-1		2.329
710-10-25-4		2.329
712	*Compensation—Nonretirement Postemployment Benefits*	1.98, 3.148
715	*Compensation—Retirement Benefits*	1.98, 3.148–3.149, 3.152
715-20-45		2.337
715-20-50		2.347–2.348
715-30-25-10		2.334
715-30-35-36		2.332
715-30-55-189		2.334
715-60-35-16		2.332
715-60-35-25		2.332
715-60-35-31		2.332
715-60-35-79		2.332
715-60-35-80		2.332
715-60-50		2.349
715-70-35-1		2.33
715-70-50		2.347
715-80-35-1		2.333
715-80-50		2.347
718	*Compensation—Stock Compensation*	2.361, 3.148, 3.171–3.172, 3.178
718-10-25		2.361, 3.172
718-10-25-6		2.361, 3.172
718-10-30		3.173–3.174
718-10-30-2		3.173
718-10-30-4		3.173
718-10-30-22		3.175
718-10-50		3.183
718-10-55-9		3.175
718-30		2.362, 2.364
718-40		3.176
718-50		3.176
720-15		2.97

No.	Title	Paragraph
740	*Income Taxes*	2.380, 2.392n, 3.326, 3.328
740-10		2.388
740-10-05-5		2.381, 2.385
740-10-05-7		2.382
740-10-10-1		2.383
740-10-10-3		2.384
740-10-25-3		2.385–2.386
740-10-25-6		2.387
740-10-25-15		1.124
740-10-25-29		2.385
740-10-30-2		3.327
740-10-30-3		3.327
740-10-30-5		2.385
740-10-45		3.332
740-10-45-4		2.391
740-10-45-5		2.391
740-10-45-6		2.392
740-10-45-11		2.391
740-10-45-13		2.392
740-10-50		3.342
740-10-50-2		2.395
740-10-50-3		2.396
740-10-50-6		2.396
740-10-50-9		3.34
740-10-50-10		3.341
740-10-50-12		3.342
740-10-50-13		3.342
740-10-50-17		1.219
740-20		2.389
805	*Business Combinations*	9.11n, 9.13–9.14, 9.22
805-10		9.17
805-10-15-4		9.13
805-10-25-17		9.24
805-10-35-1		2.94
805-10-50		9.23–9.24
805-10-50-2		9.23, 9.23n
805-20		2.92
805-20-25-10		2.91
805-20-30		9.13
805-20-30-1		2.93, 2.95, 9.12
805-20-50		9.25

No.	Title	Paragraph
805-20-55-37		2.66
805-40		9.15
805-40-25-1		9.15
805-40-30-2		9.15
808-10-45		2.182
810	*Consolidation*	1.98–1.99, 2.151, 2.179
810-10-05-8		1.99
810-10-15		2.179
810-10-15-8		1.98
810-10-15-10		1.98
810-10-15-12		1.98
810-10-15-14		1.99
810-10-25		1.98
810-10-40-3A		1.109
810-10-40-4		1.102
810-10-40-5		1.102, 1.109
810-10-45-11		1.103
810-10-45-12		1.1
810-10-45-14		2.181
810-10-45-16		1.101
810-10-50-1		1.108
810-10-50-1A		1.109
810-10-50-1A (d)		4.13
810-10-50-1B		1.109
815	*Derivatives and Hedging*	8.53
815-10		2.151
815-10-45-5		8.51
815-15		8.01n
815-15-25-1		8.24
820	*Fair Value Measurements and Disclosures*	2.92
820-10-50		2.299
825	*Financial Instruments*	8.23, 8.33
825-10-15		1.207
825-10-15-1		8.26
825-10-50		3.239, 8.49, 8.53
825-10-50-8		3.239, 8.49
825-10-50-10		8.5
825-10-50-11		8.5
825-10-50-12		8.5
825-10-50-14		8.48
825-10-50-15		8.51
825-10-50-16		8.52

No.	Title	Paragraph
825-10-50-19		8.52
825-10-50-23		8.53
830	*Foreign Currency Matters*	10.11, 10.15
830-10		1.162, 1.167
830-10-15-3		1.159
830-10-15-7		1.168
830-10-45		1.160, 10.12
830-10-45-10		10.13
830-10-45-11		10.11–10.12
830-10-45-12		10.11
830-10-45-17		1.166
830-10-45-18		1.162
830-10-55		1.160–1.161, 1.165
830-20-30-1		1.161
830-20-30-2		1.161
830-20-35		1.163
830-20-35-1		1.162
830-20-35-3		1.163
830-20-45-1		1.173
830-20-50-2		1.175
830-20-50-3		1.175
830-30-45		1.174
830-30-45-3		1.164–1.165
830-30-45-12		1.164
830-30-45-20		1.174
830-30-S99-1		1.161
835	*Interest*	3.193, 3.195–3.196, 3.300, 11.13
835-20-15		3.195
835-20-15-7		2.64
835-20-30-3		3.196
835-20-30-7		3.194
835-20-50		3.2
835-20-50-1		3.2
840	*Leases*	2.130, 2.229, 2.232–2.233, 2.238–2.239, 2.241, 2.251
840-10-5-2		2.234
840-10-15		2.230, 2.233
840-10-15-3		2.232
840-10-15-9		2.231

No.	Title	Paragraph
840-10-15-10		2.23
840-10-15-15		2.229
840-10-25		2.234, 2.236–2.237, 2.241, 3.226, 3.228
840-10-25-1		2.234–2.235, 2.241
840-10-25-29		2.234
840-10-25-31		2.238
840-10-25-43		2.241
840-10-25-43(d)		2.241
840-10-50		2.252, 2.255, 2.258, 3.237
840-20-25-1		2.240, 3.226, 3.228
840-20-35-3		2.239
840-20-45		2.244, 3.231
840-20-45-1		3.231
840-20-50-1		3.235
840-20-50-2		3.235
840-20-50-4		2.256, 3.238
840-30		3.228, 3.239, 11.14
840-30-25-1		3.227
840-30-30		2.237
840-30-35		3.227
840-30-45		2.243, 3.230
840-30-45-3		2.253, 3.230
840-30-45-4		2.244
840-30-45-5		2.244
840-30-50		2.257
840-30-50-1		2.253–2.254, 3.236
840-30-50-4		2.257
840-40-35		3.3
840-40-50-1		2.258
845-10		1.102
845-10-05-5		1.191
845-10-30-1		1.191
850-10-50-1		1.216–1.218
850-10-50-2		1.209
850-10-50-3		1.22
850-10-50-6		1.215
855	*Subsequent Events*	1.12
855-10-25		1.121
855-10-25-1A		1.121
855-10-25-2		1.121

No.	Title	Paragraph
855-10-25-3		1.122
855-10-25-4		1.123
855-10-50		1.13
855-10-50-2		1.132
855-10-50-3		1.126
855-10-S99		1.131
855-10-S99-2		1.131
860-20		8.23
905	*Agriculture*	2.198–2.199
905-10-15-4		2.198
905-205	*Agriculture—Presentation of Financial Statements*	2.204
905-330		2.200–2.201
905-330-25		2.2
905-330-25-3		2.2
905-330-30-1		2.2
905-330-35-1		2.2
905-330-50-1		2.21
905-360-25		2.201
905-360-25-4		2.201
905-360-30		2.201–2.202
905-360-35-2		2.201
905-360-50-1		2.21
932-323-45-1		2.181
940	*Financial Services—Broker and Dealers*	1.98
946	*Financial Services—Investment Companies*	1.98
946-810-45-3		1.98
970-323		2.182
985-20		2.96
8084-40-45		9.17

Financial Accounting Standards Board (FASB) Accounting Standards Updates (ASUs)

No.	Title	Paragraph
n/a	*Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities (exposure draft)*	8.01n
n/a	*Balance Sheet Offsetting*	8.27n
2009-13	*Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements—a consensus of the FASB Emerging Issues Task Force*	3.46n
2010-28	*Intangibles—Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Test for Reporting Units with Zero or Negative Carrying Amounts*	3.273n
2011-05	*Comprehensive Income (Topic 220): Presentation of Comprehensive Income*	4.07n

No.	Title	Paragraph
	Financial Accounting Standards Board (FASB) Statements	
n/a	*Leases: Preliminary Views (discussion paper)*	2.214n
n/a	*Preliminary Views on Revenue Recognition in Contracts with Customers (discussion paper)*	3.26n
n/a	*Revenue from Contracts with Customers (exposure draft)*	1.230n, 3.26n, 11.09n
	International Accounting Standards (IASs)	
1	*Presentation of Financial Statements*	1.011.82, 1.195, 1.208, 1.231, 2.012.32, 2.46, 2.49, 2.65, 2.78, 2.98, 2.131, 2.158, 2.184, 2.203, 2.242, 2.250, 2.290, 2.336, 2.338, 2.346, 3.013.26, 3.48, 3.91, 3.101, 3.131, 3.134, 3.177, 3.197, 3.199, 3.213, 3.229, 3.275, 3.301, 3.3303.331, 4.014.20, 5.01, 8.31, 8.43, 8.47, 9.16, 10.08, 12.02, 12.09
2	*Inventories*	2.33–2.53, 2.119, 2.127, 2.192, 3.91–3.111
7	*Statement of Cash Flows*	1.148, 5.01–5.36
8	*Accounting Policies, Changes in Accounting Estimates and Errors*	1.01–1.82, 1.188, 1.233, 2.04, 2.106, 3.06, 3.74, 3.116, 3.123, 5.16, 9.17n, 12.04, 12.06
10	*Events After the Reporting Period*	1.115–1.145
11	*Construction Contracts*	2.34, 2.264, 3.26n, 3.30, 3.64–3.90, 11.09
12	*Income Taxes*	2.05, 2.264, 2.367–2.398, 3.322–3.347, 9.08
14	*Segment Reporting*	7.01
16	*Property, Plant and Equipment*	1.21, 2.35, 2.54–2.75, 2.119, 2.123, 2.127, 2.135, 2.192, 2.223, 2.247, 3.112–3.142, 3.244, 3.293–3.321, 5.05, 6.09, 11.07
17	*Leases*	2.215–2.260, 2.264, 3.112–3.142, 3.220–3.242, 3.293–3.307, 8.05, 11.07, 11.13
18	*Revenue*	1.226, 3.26n, 3.27–3.64, 8.15, 11.09

No.	*Title*	*Paragraph*
19	*Employee Benefits*	1.211, 2.264, 2.308–2.354, 3.143–3.156, 8.03, 9.08, 12.07
20	*Accounting for Government Grants and Disclosure of Government Assistance*	1.179–1.203
21	*The Effects of Changes in Foreign Exchange Rates*	1.146–1.178, 5.09, 10.06
23	*Borrowing Costs*	2.71, 3.185–3.202, 5.10, 11.10, 12.07
24	*Related Party Disclosures*	1.204–1.222, 2.325, 2.338, 2.346, 3.182, 7.01n
27 (2008) [superceded]	*Consolidated and Separate Financial Statements*	1.83–1.114, 2.01n, 2.141, 2.143, 2.150, 2.174, 2.177–2.178, 2.183, 3.01–3.26, 8.03, 9.04, 12.07
27 (2011)	*Separate Financial Statements*	1.82n, 1.109n, 2.01–2.32, 3.01n
28	*Investments in Associates*	1.94, 1.96, 2.171, 2.178, 2.183, 3.203–3.219, 8.03
28 (2011)	*Investments in Associates and Joint Ventures*	2.139–2.168, 2.168n, 3.202n
29	*Financial Reporting in Hyperinflationary Economies*	10.1–10.19
31	*Interests in Joint Ventures*	1.96, 2.169–2.191, 3.203–3.219, 8.03
32	*Financial Instruments: Presentation*	1.84n, 2.34, 2.76, 2.266, 8.01–8.62
33	*Earnings Per Share*	3.348–3.389
34	*Interim Financial Reporting*	12.02, 12.15
36	*Impairment of Assets*	2.78, 2.88, 2.123, 2.149, 3.191, 3.207, 3.207n, 3.216, 3.222, 3.233, 3.243–3.292, 6.03, 6.06, 6.08, 12.07, 12.12
37	*Provisions, Contingent Liabilities and Contingent Assets*	1.229, 2.58, 2.148, 2.261–2.307, 2.307n, 2.346, 2.366n, 3.88, 3.119, 8.15, 11.12, 12.07
38	*Intangible Assets*	1.21, 2.76, 2.80–2.83, 2.85, 2.88, 2.91, 2.104, 2.107, 2.126, 2.192, 2.223, 3.112–3.142, 3.244, 3.293–3.321, 11.21

No.	Title	Paragraph
39	*Financial Instruments: Recognition and Measurement*	1.84n, 1.95–1.96, 1.169, 1.178n, 1.183, 2.10, 2.34, 2.140, 2.145, 2.149, 2.166n, 2.171, 2.178, 2.266, 3.31, 3.207, 3.243, 6.02, 8.01–8.62, 11.08, 12.07
40	*Investment Property*	2.55, 2.118–2.138, 2.192, 2.216, 2.366n, 3.112–3.142, 3.293–3.321, 6.02
41	*Agriculture*	1.179, 2.34, 2.38, 2.120, 2.192–2.214, 2.216, 2.228, 3.308–3.321, 6.02
	International Accounting Standards Board (IASB) Statements	
n/a	*Additional Exemptions for First-time Adopters: Proposed amendments to IFRS 1*	12.01n
n/a	*Deferred Tax: Recovery of Underlying Assets: Amendments to IAS 12*	2.366n
n/a	*Deferred Tax: Recovery of Underlying Assets: Proposed amendments to IAS 12*	3.321n
n/a	*Disclosures—Transfers of Financial Assets: Amendments to IFRS 7*	12.01n
n/a	*Financial Instruments: Amortised Cost and Impairment* (exposure draft)	8.01n
n/a	*Financial Instruments: Impairment*	8.01n
n/a	*Hedge Accounting* (exposure draft)	8.01n
n/a	*Improvements to IFRSs*	1.222n, 5.06n, 6.19, 7.01n, 9.01n, 9.07n–9.08n, 12.01n
n/a	*Leases: Preliminary Views* (discussion paper)	2.214n
n/a	*Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters: (Amendment to IFRS 1)*	12.01n
n/a	*Offsetting Financial Assets and Financial Liabilities* (exposure draft)	8.27n
n/a	*Preliminary Views on Revenue Recognition in Contracts with Customers* (discussion paper)	3.26n
n/a	*Removal of Fixed Dates for First-time Adopters (proposed amendments to IFRS 1) (exposure draft)*	12.07n
n/a	*Revenue from Contracts with Customers* (exposure draft)	1.230n, 3.26n, 11.09n
n/a	*Severe Hyperinflation* B511	12.07n
n/a	*Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters: Amendments to IFRS 1*	10.01n, 12.01n, 12.07n

No.	Title	Paragraph
	International Financial Reporting Interpretations Committee (IFRICs)	
1	*Changes in Existing Decommissioning, Restoration and Similar Liabilities*	2.58, 12.07
2	*Members' Shares in Co-operative Entities and Similar Instruments*	8.02
4	*Determining Whether an Arrangement Contains a Lease*	2.217, 12.07
7	*Applying the Restatement Approach under IAS 29* Financial Reporting in Hyperinflationary Economies	10.05
9	*Reassessment of Embedded Derivatives*	8.02
10	*Interim Financial Reporting and Impairment*	8.02
12	*Service Concession Arrangements*	2.214n, 11.01–11.23, 12.07
13	*Customer Loyalty Programmes*	1.223–1.235
14	*IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction*	2.308–2.354
15	*Agreements for the Construction of Real Estate*	3.64–3.90
16	*Hedges of a Net Investment in a Foreign Operation*	8.02
17	*Distributions of Non-cash Assets to Owners*	4.01–4.20
18	*Transfers of Assets from Customers*	12.01n, 12.07
19	*Extinguishing Financial Liabilities with Equity Instruments*	8.02n, 12.01n, 12.07
	International Financial Reporting Standards (IFRS)	
1	*First-Time Adoption of International Financial Reporting Standards*	12.01–12.17
2	*Share-based Payments*	1.211, 2.308, 2.355–2.366, 3.143, 3.157–3.184, 8.03, 8.36, 9.08, 9.08n, 12.07
3	*Business Combinations*	1.110n, 2.76–2.117, 2.178, 2.357, 2.374, 3.159, 4.05, 9.01–9.28, 12.07–12.08
4	*Insurance Contracts*	6.02, 8.03, 12.07
5	*Non-current Assets Held for Sale and Discontinued Operations*	1.95, 2.05, 2.65, 2.123, 2.143, 2.157, 2.177, 2.291, 3.114, 3.243, 4.05, 5.12, 6.01–6.27, 7.03, 9.08
7	*Financial Instruments: Disclosures*	2.246, 2.249, 2.266, 3.234, 3.239, 8.01–8.62, 11.21
8	*Operating Segments*	3.259, 6.23, 7.01–7.28
9	*Financial Instruments*	1.84n, 1.178n, 2.01n, 8.01n–8.02n, 8.06n, 11.08n, 11.22n, 12.01n

No.	Title	Paragraph
10	*Consolidated Financial Statements*	1.82n, 2.01n, 3.01n
11	*Joint Arrangements*	2.138n, 2.168n, 3.202n
12	*Disclosure of Interests in Other Entities*	2.138n, 2.168n, 3.202n
13	*Fair Value Measurement*	8.01n
27	*Consolidated and Separate Financial Statements*	12.08

Laws (U.S.)

	Investment Company Act of 1940	2.151
	Medicare Prescription Drug, Improvement, and Modernization Act of 2003	2.349

Other IFRS Guidance

	The Conceptual Framework for Financial Reporting (2010) (IFRS Conceptual Framework)	1.01, 1.01n, 1.02–1.09, 1.12, 1.16, 1.33, 1.40–1.41, 1.69n, 2.01–2.32, 3.01–3.26, 3.08n, 3.09, 3.27
	EU Implementation of IFRS and the Fair Value Directive: A Report for the European Commission	12.07n
	Framework for the Preparation and Presentation of Financial Statements	1.01, 1.01n, 2.01n, 3.01n

Securities and Exchange Commission (SEC) Regulations and Interpretations

Codification of Staff Accounting Bulletins		
	Topic 5(L), "LIFO Inventory Practices"	2.49
	Topic 5(Y), "Accounting and Disclosures Related to Loss Contingencies"	2.299
	Topic 5(Z)(4), "Disposal of Operation With Significant Interest Retained"	6.12
	Topic 11(F), "LIFO Liquidations"	2.49
	Topic 11(F), "LIFO Liquidations,"	3.106
	Topic 11(M), "Miscellaneous Disclosure—Disclosure of the Impact That Recently Issued Accounting Standards Will Have on the Financial Statements of the Registrant When Adopted in a Future Period"	1.66
	Topic 13, "Revenue Recognition"	3.43
	Topic 13(B), "Disclosures"	3.54
	Topic 14(A), "Share-Based Payment Transactions with Nonemployees"	3.171
	Topic 14(F), "Classification of Compensation Expense Associated with Share-Based Payment Arrangements"	3.178
Form 10-K		1.25n, 3.342n
Form 20-F		1.25n, 3.342n

No.	Title	Paragraph
Form 40-F		1.25n
Interpretation Commission Guidance Regarding Management's Discussion and Analysis of Financial Condition and Results of Operations		1.60n
Regulation S-K		
	Item 305	8.53
	Item 402, "Executive Compensation"	1.216
Regulation S-X		1.36, 2.11, 2.292, 2.298, 3.333
	Rule 3-01(a)	1.36, 2.11
	Rule 3-02(a)	1.36
	Rule 3-04	4.08, 4.12
	Rule 3A-02	2.11
	Rule 4.08(h)(2)	3.342n
	Rule 5-02	2.391
	Rule 5-02-6(c)	2.49
	Rule 5-03	3.21, 3.23, 3.49, 3.102, 3.276
	Rule 5-03, "Income Statements"	3.19–3.20
	Rule 5-03(b)	3.198
	Sec. 210.5-01 through 210.5-04	2.292

Standing Interpretations Committee (SICs)

No.	Title	Paragraph
10	*Government Assistance—No Specific Relation to Operating Activities*	1.187
12	*Consolidation—Special Purpose Entities*	1.83–1.114, 2.01n, 3.01n
21	*Income Taxes—Recovery of Revalued Non-depreciable Assets*	2.367–2.398
29	*Service Concession Arrangements: Disclosures*	11.01–11.23
31	*Revenue—Barter Transactions Involving Advertising Services*	3.27–3.63
32	*Intangible Assets—Web Site Costs*	2.90, 2.96

SUBJECT INDEX

Note that paragraph references ending with "n" refer to an author's note following the numbered paragraph.

A

Accelerated cost recovery system method, 3.129

Accounting estimates, Table 1–7. *See also* Change in accounting estimates

Accounting policies. *See also* Change in accounting policy
- basic and diluted EPS, 3.388
- consolidated financial statements, 1.91, 1.108
- construction contracts, 3.89
- defined, 1.15
- depreciation (amortization), 3.129
- disclosure, 1.46–1.47, 1.60, 1.176, 8.43
- government grants, 1.197
- investments in associates, 2.147
- leases, 2.223
- multiple element arrangements, 3.53
- revenue recognition, 3.51–3.52

Accounts payable, 2.397, 8.58

Accounts receivable, 2.398, 8.55

Accumulated postretirement benefit obligations (APBOs), 2.332

Acquirers, 9.05

Acquisition method, 9.01, 9.04

Acquisitions, 1.134, 1.138, 1.143

Actuarial gains and losses
- defined benefit plans, 3.147
- postemployment benefits, 3.151, 3.154–3.155
- recognition in other comprehensive income, 2.323, 2.352
- recognition using the corridor approach, 2.322, 2.353

Adjusting events after reporting period. *See* Events after reporting period

Adjustments for fair value gains on forestry assets, felling costs, and special items, 5.28

ADRs. *See* American Depositary Receipts (ADRs)

Advances, 5.32

Advertising costs, 2.110

Affiliates, 1.207

Agricultural activity. *See* Agriculture

Agricultural cooperatives, 2.210

Agricultural produce, 2.193–2.194, 2.200

Agricultural product producers, 2.36, 2.198

Agricultural products after harvest, 2.36, 2.192

Agriculture. *See also* Biological assets
- overview, 2.192
- disclosure, 2.205–2.210
- fair value model, 3.312, 3.318
- presentation, 2.203–2.204
- presentation and disclosure excerpts, 2.211–2.214
- recognition and measurement, 2.193–2.202

Aircraft, 5.33

American Depositary Receipts (ADRs), 3.386

Amortization. *See* Depreciation (amortization)

Animals raised for competitive sports, 2.198

Animals raised for sale, 2.202

Annuity method for depreciation (amortization), 3.129

APBOs. *See* Accumulated postretirement benefit obligations (APBOs)

Asset ceiling, 3.154

Asset groups, 3.266

Asset retirement obligations
- depreciation (amortization), 3.119, 3.130
- PPE, 2.58, 2.64
- provisions, contingent liabilities and contingent assets, 2.286, 2.299–2.300

Assets
- biological, *see* Biological assets
- contingent, *see* Provisions, contingent liabilities and contingent assets
- current, *see* Current assets
- deferred taxes, *see* Deferred tax assets
- defined, 1.07
- energy assets, 3.321
- financial, *see* Financial assets
- held for sale, *see* Held for sale assets
- held for trading, 5.29, 8.57
- held to maturity, 8.56
- identifiable, 2.76
- impairment, *see* Impairment of assets
- intangible, *see* Intangible assets
- interests in joint ventures, 2.191
- jointly controlled, 2.170, 2.172
- noncash, distributions to owners, 4.01–4.20
- noncurrent, *see* Noncurrent assets
- offsetting, 1.39, 2.176, 2.293, 2.336, 3.345
- recognition, defined contribution/benefit plans, 2.352
- reportable segment thresholds, 7.08
- revalued nondepreciable assets, recovery, 2.367–2.398
- service concession arrangements, 11.17
- transfer of, 8.61, 12.07

transfer of revaluation reserve to retained earnings on depreciation and disposal, 4.16
transportation assets, 3.321
utility assets, 3.321

Associates, 2.139. *See also* Investments in associates

Audit firms, Table 1–6

Available for sale assets, 8.57

Award credits. *See* Customer loyalty programmes

B

Balance sheet. *See also* Statement of financial position
overview, 2.01–2.03
biological assets, 2.193, 2.203, 2.210
classified balance sheet, 2.06, 2.12
comparative balance sheet, 2.11
disclosure, 2.13–2.16
employee benefits, 2.319, 2.336–2.337, 2.341
intangible assets, 2.98, 2.110
interests in joint ventures, 2.174, 2.184
inventories, 2.46
investment in associates, 2.158–2.159
investment property, 2.131
leases, 2.225, 2.227, 2.242–2.244, 2.253–2.254, 2.256
liquidity order balance sheet, 2.08
PPE, 2.65–2.66, 2.70
presentation, 2.05–2.12
presentation and disclosure excerpts, 2.17–2.20
provisions, contingent liabilities and contingent assets, 2.270, 2.273, 2.276, 2.280–2.281, 2.290, 2.298
tax assets/liabilities, 2.390–2.391
treasury stock, 2.10

Bank deposits
collections and payments, 5.31
restricted deposits, receipt and payment, 5.33

Bank overdrafts repayable on demand, 5.03, 5.13

Barter transactions, 3.26n, 3.33, 3.56

Basic earnings per share (EPS)
accounting policy disclosure, net loss, all potentially dilutive shares anti-dilutive, 3.388
continuing/discontinued operations, 3.387
net loss resulting in outstanding convertible preference shares, convertible debt, share options anti-dilutive in current year, dilutive in prior years, 3.389
reported on one line—no dilutive potential shares, 3.385
two classes of ordinary shares, disclosure of EPS per ADR, options and warrants anti-dilutive in prior year, 3.386

Benefit-years-of-service approach, 2.332

Bill and hold transactions, 3.57

Biological assets. *See also* Agriculture
on balance sheet, 2.193, 2.203, 2.210
change in fair value, 3.320
defined, 2.193
disclosure, 2.205–2.207
fair value model, 3.312
impairment, 3.243
investment property, exclusion, 2.120
leases, exception, 2.216
no reliable fair value, pledged as guarantee, 2.212
recognition and measurement, 2.193–2.194, 2.199
types of, 2.192

Bonds
convertible, 4.19
early repayment, 1.142
issue announcement, 1.144
perpetual, redeemable for shares, 8.60
repurchase adjustments, 5.27

Borrowing costs. *See also* Interest costs or expenses
overview, 3.185
capitalized borrowing costs, 2.71, 3.186, 3.189–3.192, 3.195–3.196, 3.199–3.200, 3.202
defined, 3.194, 3.197
disclosure, 3.199–3.200
exemption from retrospective application of IFRS 1, 12.07
finance costs, 3.201
presentation, 3.197–3.198
presentation and disclosure excerpts, 3.201–3.202
recognition and measurement, 3.186–3.196
service concession arrangements, 11.10

Brands and brand names, 2.112, 2.114, 2.117

Breeding animals, 2.201

Broker traders, 2.52

Buildings and other structures as investments. *See* Investment property

Business combinations. *See also* Consolidated financial statements; Separate financial statements
overview, 2.76–2.78, 9.01–9.04
acquired R&D, 2.114
acquisition financed through issue of ordinary shares and options over ordinary shares, 9.26
acquisition method, 9.01
brands and brand names, 2.112, 2.114, 2.117
comparative financial statements, 9.23n
computer software, 2.113, 2.115
contingencies, 9.25
contingent liabilities, 9.21
core deposit intangibles, 2.115
customer lists, 2.112
deferred tax expense, 3.325
defined, 9.05
development costs, 2.116
disclosure, 2.100–2.110
domains, 2.117
easement rights, 2.117
exemption from retrospective application of IFRS 1, 12.07
fair value, 9.21
gain on bargain purchase, 9.26

goodwill, 2.77, 2.111, 9.10, 9.21
intangible assets, *see* Intangible assets
IT programs, 2.117
noncontrolling interests, measurement, 9.07, 9.07n, 9.12–9.13, 9.21, 9.27
other acquired intangibles, 2.115
presentation, 2.98–2.99, 9.16–9.25
presentation and disclosure excerpts, 1.139, 2.111–2.117, 9.26–9.28
prior period adjustments, 9.24
prospective application of IFRS 3 (2008), 9.27–9.28
recognition and measurement, 2.79–2.97, 9.05–9.15
revaluation of previously held equity interest, 9.28
reverse acquisitions, 9.11, 9.15–9.16
share-based payments, 3.159, 9.08n
technology, 2.114
trademarks, 2.114
water rights, 2.117

Business segments. *See* Operating segments

C

Capital
disclosures, 1.77–1.78
increases, 5.34
regulatory capital, 1.78
share, *see* Share capital
working capital, 1.140

Capital leases. *See* Finance (capital) leases

Capital shares, 5.34

Capital structure, 2.23, Table 2–2

Capitalized borrowing costs. *See* Borrowing costs

Cash, 5.02, 5.13, 5.16, 5.20. *See also* Statement of cash flows

Cash dividends, 1.62, 1.133

Cash equivalents
change in accounting policy, 5.16, 5.20
defined, 5.02, 5.13–5.14
equity instruments, 5.14

Cash flow statement. *See* Statement of cash flows

Cash flows from operating activities. *See also* under Statement of cash flows
classifications of reported income tax, interest, and dividends, Table 5–2
reporting methods, Table 5–1

Cash generating units (CGUs)
defined, 3.245
goodwill, 3.245–3.263, 3.272–3.273, 3.282, 3.284
impairment, 3.245, 3.248, 3.264, 3.267

Cash-settled transactions, 3.160, 3.162, 3.170, 3.172, 3.184

Cattle held for sale, 2.211

CGUs. *See* Cash generating units (CGUs)

Change in accounting estimates
overview, 1.01, 1.06
business combinations, 9.17n
debentures, 5.27
defined, 1.15
depreciation (amortization), 3.123
disclosure, 1.52, 1.55–1.56, 1.67–1.68, 1.69n
events after reporting period, 1.124
intangible assets, 2.106
presentation and disclosure excerpts, 1.80
prospective application, 1.20, 1.29
recognition and measurement, 1.14–1.31
repayable government grants, 1.188

Change in accounting policy
cash and cash equivalents, 5.16, 5.20
customer loyalty programmes, 1.233
disclosure, 1.52, 1.64, 1.64n, 1.65
exceptions, 1.27
first-time adoption of IFRSs, 12.13
government grants and assistance, 1.202
measurement basis changes, 1.21
retrospective application, 1.19, 1.28
revaluation of previously held interests, 1.111
on statement of changes in equity, 4.06
when permitted, 1.26

Change in fair value of nonfinancial assets
overview, 3.308
disclosure, 3.316–3.319
presentation, 3.314–3.315
presentation and disclosure excerpts, 3.320–3.321
recognition and measurement, 3.309–3.313
recognition in other comprehensive income, 3.320–3.321
recognition in profit and loss, 3.320–3.321

Class of instrument, 8.37

Close family members, 1.206

Code of Professional Conduct and Bylaws (AICPA), 1.24n

Coffee, 2.211

Collaborative arrangements, 2.182

Commitments, categories of, Table 1–8

Commodity broker-dealers, 2.36

Common shares, 2.22, 2.152, 2.166, 4.14

Comparability of financial information, 1.04

Comparative financial statements
business combinations, 9.23n
hyperinflationary economies, 10.10
presentation, 1.32, 1.36–1.37

Completed-contract method, 3.81, 3.83, 3.86, 3.89

Component accounting (componentization), 3.113

Component of an entity, 6.10, 6.12, 6.14, 7.03

Compound financial instruments
defined, 8.30
exemption from retrospective application of IFRS 1, 12.07

presentation and disclosure excerpts, 8.60
share-based payments, 2.359, 3.161

Comprehensive income, reporting. *See* Statement of changes in equity

Computer software, 2.113, 2.115, 2.117, 3.58

The Conceptual Framework for Financial Reporting (IFRS *Conceptual Framework*)
disclosure, 1.40–1.41
financial statements, generally, 1.01–1.06, 1.01n
presentation, 1.33
presentation and disclosure excerpts, 1.69n
recognition and measurement, 1.07–1.09, 1.12, 1.16
statement of comprehensive income, 3.01n, 3.05–3.09, 3.27
statement of financial position, 2.01n, 2.04

Consolidated financial statements
overview, 1.83–1.84, 2.01–2.04, 3.01–3.09
changes in accounting policy—revaluation of previously held interests, 1.111
definitions, 1.83–1.84
disclosure, 1.104–1.110, 2.13–2.16, 3.22–3.23
dividends, restrictions on payments to shareholders by subsidiaries, 1.112
EPS, computation and presentation, 3.363, 3.375
exclusions to consolidation, 1.98
exemption from retrospective application of IFRS 1, 12.08
investments in associates or jointly controlled entities, 1.96
investments in joint ventures, 2.172
parent company disclosures in notes, 1.113
parent exemption from consolidated presentation, 1.86
parent's separate statements presented side-by-side with related parent's consolidated statements, 1.114
presentation, 1.32–1.39, 2.05–2.12, 3.10–3.21
presentation and disclosure excerpts, 1.111–1.114, 2.17–2.32, 3.24–3.26
recognition and measurement, 1.85–1.103

Construction contracts
overview, 3.64–3.65
defined, 3.64
disclosure, 3.88–3.89
impairment, 3.243
presentation, 3.84–3.87
presentation and disclosure excerpts, 3.90
provisions, contingent liabilities, and contingent assets, exclusion, 2.264
recognition and measurement, 3.30, 3.66–3.83
separate versus combined contracts, 3.66–3.68, 3.76–3.77
service concession arrangements, 11.09

Construction-in-progress accounts, 3.79

Constructive obligations, 2.309

Contingent assets. *See* Provisions, contingent liabilities and contingent assets

Contingent liabilities. *See* Provisions, contingent liabilities and contingent assets

Contingently issuable shares, 3.364, 3.383

Continuing operations, 3.341, 3.387

Contract costs, 3.70

Contract revenue, 3.69

Contracts. *See* Construction contracts; Onerous contracts

Controlling interest in subsidiary, 1.143

Convertible bonds, 4.19

Convertible debt, 3.389, 4.17

Convertible securities, 3.370

Copper, 3.59

Copyrights, 2.216, 2.229

Corporate joint ventures, 2.179–2.180

Corridor method, 2.322, 2.353, 3.147, 3.156

Cost flow assumptions. *See under* Inventories

Cost model
for measuring investment property, 2.123, 2.134–2.135
for measuring PPE, 2.60, 2.70, 2.73, 3.137–3.139

Cost of sales, 3.26

Cost of sales format, 3.101

Cost-plus contracts, 3.64, 3.74, 3.78

Cost-recovery method (revenue recognition), 3.42

Cost-recovery-first method, 3.75n

Costs. *See* Expenses

Country of incorporation
statistical profiles, Table 1–3

Credit lines, 1.134

Critical accounting estimates, 1.60n, Table 1–7

Crops (agricultural), 2.211

Cumulative translation differences, 12.07

Current assets
advances, 2.28
biological assets, no reliable fair value, pledged as guarantee, 2.212
cattle held for sale, 2.211
coffee, 2.211
defined, 2.07, 2.12
exclusions, 2.66
growing crops, 2.211
growing herd, 2.211
prepaid expenses, 2.27, 2.29
prepaid lease payments, 2.29
progress payments, 2.28
sugarcane, 2.211

Current liabilities
advances from customers, 2.30
deferred income, 2.31
deferred revenue, 2.30
defined, 2.07, 2.12
employee entitlements, 2.351

premiums/discounts to suppliers, 2.30
presentation, 2.292, 2.298
sales commissions, 2.30
taxes not yet paid, 2.372

Current tax expense, 2.371

Customer lists, 2.112

Customer loyalty programmes
overview, 1.223–1.225
disclosure, 1.233–1.234
frequent flyer program, 1.235
presentation, 1.231–1.232
presentation and disclosure excerpts, 1.235
recognition and measurement, 1.226–1.230

D

Debentures, 5.27

Debt, 5.36

Debt components, 2.359

Decommissioning obligations, 2.265, 3.119, 3.130

Deferred shares, 2.26

Deferred tax assets
defined, 2.376, 2.387
disclosure, 2.394
impairment, 3.243
offsetting, 1.73, 2.392
presentation, 2.390
presentation and disclosure excerpts, 2.398
recognition and measurement, 2.373, 2.375, 2.387

Deferred tax expense (benefit), 3.325, 3.327

Deferred tax liabilities
defined, 2.376
offsetting, 1.73, 2.392
presentation, 2.390
presentation and disclosure excerpts, 2.397–2.398
provisions, contingent liabilities and contingent assets, exclusion, 2.264
recognition and measurement, 2.373, 2.387

Defined benefit plans
disclosure, 2.344–2.345
exemption from retrospective application of IFRS 1, 12.07
presentation and disclosure excerpts, 2.352–2.353
recognition and measurement, 2.316, 3.147, 3.149

Defined contribution plans
defined, 2.314, 2.330
disclosure, 2.339, 2.347
presentation and disclosure excerpts, 2.352–2.353
recognition and measurement, 2.315

Depletion, 3.142

Depreciation (amortization). *See also under* specific topics
overview, 3.112
adjustments, 5.26
amortized cost for financial assets or financial liabilities, 8.04, 8.15
commercial property debt issue, amortization and repayment, trust unit and class B limited partnership distributions, 5.36
cost model, PPE, 3.137–3.139
depletion, 3.142
disclosure, 3.133–3.136
financial instrument classification and measurement simplification project (IASB), 8.01n
on income statement, 3.132
intangible assets, 3.141
methods of, Table 3–4
presentation, 3.131–3.132
presentation and disclosure excerpts, 3.137–3.142
recognition and measurement, 3.113–3.130
revaluation model, PPE, 3.140
on statement of comprehensive income, 3.131, 3.134
straight-line method, 3.123

Derecognition
defined, 8.04
financial instrument derecognition project (IASB), 8.01n
financial instruments, 8.07–8.12
investment property, 2.128
provisions, contingent liabilities and contingent assets, 2.279

Derivative instruments (derivatives)
application of IFRS 9, 1.84n
characteristics, 8.24–8.25
defined, 8.04, 8.24
disclosure, 8.53
financial instrument classification and measurement simplification project (FASB), 8.01n
measurement, 8.15
presentation and disclosure excerpts, 8.62
reclassification, 8.17

Designation of previously recognized financial instruments, 12.07

Development costs, 2.116

Diluted earnings per share (EPS)
accounting policy disclosure, net loss, all potentially dilutive shares anti-dilutive, 3.388
continuing/discontinued operations, 3.387
net loss resulting in outstanding convertible preference shares, convertible debt, share options anti-dilutive in current year, dilutive in prior years, 3.389
reported on one line—no dilutive potential shares, 3.385
two classes of ordinary shares, disclosure of EPS per ADR, options and warrants anti-dilutive in prior year, 3.386

Direct financing leases, 2.241, 2.257

Direct method of reporting cash flows from operating activities, 5.05, 5.23–5.24

Disclosure. *See under* specific topics

Discontinued operations. *See also under* Noncurrent assets

basic and diluted EPS, 3.374, 3.378, 3.387
noncurrent assets held for sale and discontinued operations, 6.26–6.27
reclassification, 6.11
recognition and measurement, 6.10
on statement of cash flows, 5.21
on statement of comprehensive income, 3.10
statistical profiles, Table 6–2
tax effects, 3.339, 3.344

Disposal groups
defined, 6.02, 6.04
disclosure, 6.21–6.24
held for sale, 6.04
impairment, 3.243, 6.08
presentation, 2.291, 6.16–6.20
recognition and measurement, 6.04–6.15

Dividends
announcement, 1.144
cash dividends, 1.62, 1.133
declaration, not recognized as a liability, 1.79
income, 3.61
preference dividends, 3.383
preference shares (classified as equity), 4.16
preferred stock, subject to mandatory redemption, 5.25
recognition and measurement, 3.39, 3.51
restrictions on payments to shareholders by subsidiaries, 1.112
scrip dividend, 4.15
shares issued in lieu of, 4.15
on statement of changes in equity, 4.07, 4.11–4.12
of subsidiaries, 4.16
unrecognized, 1.50

Dividends received, 5.32

Domains, 2.117

Dual listed company (DLC) structure, 2.22n

E

Earnings per share (EPS). *See also* Basic earnings per share (EPS); Diluted earnings per share (EPS)
overview, 3.348
adjustments, events after reporting period, 1.124
disclosure, 3.381–3.384
disclosure per American Depositary Receipt (ADR), 3.386
non-IFRS EPS, 3.382
presentation, 3.373–3.380
presentation and disclosure excerpts, 3.385–3.389
recognition and measurement, 3.349–3.372

Easement rights, 2.117

Effective interest method of amortization, 2.222, 2.225, 3.221, 8.04

Elements of financial position, 1.07

Elements of performance, 1.08

Emissions rights, 3.63

Employee benefits. *See also* Postemployment benefits; Termination benefits
overview, 2.308–2.310, 3.143
actuarial gains and losses, immediate recognition in other comprehensive income, 2.352
actuarial gains and losses, recognition using the corridor approach, 2.353
assets, recognition, 2.352
on balance sheet, 2.319, 2.336–2.337, 2.341
current liabilities, 2.351
defined, 2.308, 3.143
defined benefit plans, 2.352–2.353
defined contribution plans, 2.352–2.353
disclosure, 2.338–2.350, 3.151–3.152
impairment, 3.243
plan obligations, presentation, 8.03
presentation, 2.336–2.337, 3.150
presentation and disclosure excerpts, 2.351–2.354, 3.153–3.156
recognition and measurement, 2.311–2.335, 3.144–3.149
senior management remuneration, 2.354
short-term benefits, 3.153

Employee share purchase plans, 3.176

Employee share-based payments, 3.171, 3.173, 3.178

Employee stock ownership plans, 3.176

Energy assets, 3.321

Environmental costs, 2.305, 2.307

Environmental rehabilitation, 2.265, 2.304

EPS. *See* Earnings per share (EPS)

Equity, 1.07

Equity components, 2.359. *See also* Statement of changes in equity

Equity instruments
as cash equivalents, 5.14
defined, 8.04
derivatives, 1.84n
exemption from retrospective application of IFRS 1, 12.07
extinguishing financial liabilities with, 8.02n

Equity interests, 3.154, 9.28

Equity method
interests in joint ventures, 2.173, 2.177, 2.184, 2.188, 2.190, 3.203, 3.205–3.206, 3.209, 3.211–3.212
investments in associates, 2.143–2.146, 2.149, 2.151, 2.155, 2.161–2.162, 2.165–2.166, 3.203, 3.205–3.206, 3.209, 3.211–3.212
limited liability companies, 2.181
partnerships, 2.181
unincorporated joint ventures, 2.181

Equity-method investments, 2.158–2.159, 3.10

Equity-settled transactions, 3.160–3.163, 3.171–3.172, 3.181, 3.184

Error correction. *See* Prior period errors

Events after reporting period
overview, 1.115
adjusting events, 1.116–1.117
binding offer to acquire another company, 1.134
binding offer to buy talc business received, 1.143
bond issue, announcement, 1.144
business combinations, 1.139
capital contribution by Swiss federal tax authorities, 1.140
cash dividend declaration and distribution, 1.133
credit lines extension, 1.134
disclosure, 1.127–1.132
divestiture of controlling interest in subsidiary, 1.143
early repayment of bonds, 1.142
financial statements subject to approval of shareholders, 1.137
increase in shareholding in associate, 1.145
initial public offering, 1.135
issue of court opinion in litigation, 1.138
nonadjusting events, 1.116, 1.118, 1.129
presentation, 1.125–1.126
presentation and disclosure excerpts, 1.133–1.145
private placement, 1.135
property sales by Swiss federal tax authorities, 1.140
quarterly dividend, announcement, 1.144
recognition and measurement, 1.116–1.124
sale and leaseback, 1.145
sale of building, 1.145
share buy back program, announcement, 1.143
tax reduction withdrawn by Hungarian government, 1.141
taxable bonus share issue to shareholders declared, 1.142
tender offer, 1.136
unrecognized subsequent events, 1.132

Exceptional items, 3.14n

Exchanges rates. *See* Foreign exchanges rates

Executory contracts, 2.264

Exit and disposal activities, 2.287

Expenses. *See also* Depreciation (amortization)
analysis by function, 3.22, 3.22n, 3.23, 3.26, 3.108–3.110, 3.134
analysis by nature, 3.22, 3.22n, 3.23, 3.111
construction contracts, 3.70–3.75, 3.78–3.79
defined, 1.08, 3.08
inventories, 3.94
recognition, 3.09
on statement of comprehensive income, 3.22
third party payments, 5.35

Expenses recognized in profit and loss, Table 3–1

Extraordinary items
defined, 3.21
on income statement, 3.21, 3.23
operating segments, 7.23
on statement of cash flows, 5.21
on statement of comprehensive income, 3.14, 3.14n

F

Fair value
business combinations, 9.07, 9.21
construction contract revenue, 3.69
defined, 8.01n, 8.04
exemption from retrospective application of IFRS 1, 12.07
felling costs, adjustments, 5.28
financial instruments, 8.13–8.14, 8.16, 8.19, 8.26, 8.45, 8.49–8.52
forestry assets, adjustments, 5.28
gain on held for trading assets, 5.29
government grants, initial recognition, 1.202
interests in joint ventures, 3.218
inventories, fair value less cost to sell—broker trader exemption from IAS 2, 2.52
net assets acquired in reverse acquisition, 4.18
nonfinancial assets, *see* Change in fair value of nonfinancial assets
revenues, 3.31
service concession arrangements, 11.11
share-based payments, 3.163, 3.165–3.166, 3.168, 3.170, 3.175, 3.180
special items, adjustments, 5.28

Fair value hierarchy, 8.45

Fair value less cost to sell (FVLCS)
agricultural assets, 2.194, 2.196–2.197, 2.208, 3.312, 3.318
biological assets, 2.194–2.197, 2.208
impairment of assets, 3.249–3.250, 3.254, 3.263, 3.279, 3.283
nonfinancial assets, 3.313–3.315, 3.319

Fair value model, investment property, 2.123, 2.126–2.127, 2.132–2.133

Fair value through profit or loss (FVTPL), 8.57

Faithful representation of financial information, 1.04

Fees and commissions, 3.62

Felling costs, 5.28

FIFO (First-in, first-out). *See under* Inventories

Films, 2.216, 2.229

Finance costs or expenses
defined, 2.214n, 3.197
disclosure, 3.199
presentation and disclosure excerpts, 3.201
on statement of comprehensive income, 3.10

Finance (capital) leases. *See also* Leases; Operating leases
overview, 2.215–2.216, 3.220
defined, 2.214n, 3.220
depreciation (amortization), 3.125–3.126, 3.221
disclosure, 2.245–2.258, 3.232–3.239
investment property, 2.121
lessees, 2.259–2.260
lessors, 2.260
presentation, 2.242–2.244, 3.229–3.231
presentation and disclosure excerpts, 2.259–2.260, 3.240–3.242

recognition and measurement, 2.218–2.241, 3.221–3.228
refunds of deposit pledges, 5.33
repayment, 5.33

Financial Accounting Standards Board (FASB)
financial instrument classification and measurement simplification project, 8.01n
IFRS 5 convergence project, 6.01, 6.15
lease accounting project, 2.214n
revenue recognition project, 3.26n

Financial assets
accounts receivable, 8.55
accounts receivable from related parties, 8.55
available for sale, 8.57
defined, 8.04, 11.18
designated at FVTPL, 8.57
disclosure, 8.38
exemption from retrospective application of IFRS 1, 12.07–12.08
held for trading, 8.57
held to maturity, 8.56
offsetting, 8.32, 8.35
reclassified to available for sale, 8.57
reclassified to loans and receivables, 8.57
service concession arrangements, 11.08, 11.08n
transfers, securitization of receivables, 8.61

Financial guarantee contracts, 8.04

Financial instruments
overview, 8.01–8.04
accounts payable, 8.58
accounts receivable, 8.55
available for sale, 8.57
classes of, 8.37
classification, 8.28, 8.33
classification and measurement simplification project (IASB/FASB), 8.01n
compound financial instruments, 8.60
defined, 8.01, 8.04
derecognition project (IASB), 8.01n
derivatives, 8.62
designated at FVTPL, 8.57
disclosure, 8.36–8.53
early adoption of IFRS 9 (first-time adoption of IFRS), 8.54
fair value, 8.13–8.14, 8.16, 8.19, 8.26, 8.45, 8.49–8.52
hedging, 8.62
held for trading, 8.57
held to maturity, 8.56
impairment, 8.20
notes payable, 8.58
perpetual bonds redeemable for shares, 8.60
preference shares redeemable classified as liabilities, 8.59
presentation, 8.28–8.35
presentation and disclosure excerpts, 8.54–8.62
reclassification, 8.17–8.18, 8.30, 8.39, 8.57
recognition and measurement, 8.05–8–27
risk exposure, 8.46, 8.53
transfers, securitization of receivables, 8.61
types of, Table 8–1
warrant liabilities, 8.58

Financial liabilities
accounts payable, 8.58
available for sale, 8.57
defined, 8.04, 8.29
designated at FVTPL, 8.57
disclosure, 8.38
exemption from retrospective application of IFRS 1, 12.08
extinguishing with equity instruments, 8.02n
held for trading, 8.57
notes payable, 8.58
offsetting, 8.32, 8.35
reclassified to available for sale, 8.57
reclassified to loans, 8.57
reclassified to receivables, 8.57
warrant liabilities, 8.58

Financial statements. *See also specific statements*
overview, 1.01–1.06, 2.01–2.04, 3.01–3.09, 4.01–4.03
advances, 2.28, 2.30
availability criteria, 1.121
basis of presentation, 1.72
capital disclosures, 1.77
capital structure—equalization agreement, 2.23
classified presentation—increasing/decreasing liquidity, 2.17–2.18
complete set, contents, 1.10
comprehensive disclosures, 1.70
cost of sales, disaggregation in note disclosure, 3.26
current assets, 2.27–2.29
current liabilities, 2.30–2.31
deferred income, 2.31
deferred revenue, 2.30
deferred shares, 2.26
deferred tax assets and liabilities, offsetting, 1.73, 2.392
disclosure, 1.40–1.69, 2.13–2.16, 3.22–3.23, 4.10–4.13
dividends declared and not recognized as a liability, 1.79
expenses by function, 3.25–3.26
expenses by nature, 3.24–3.25
first-time adoption of IFRSs, 12.09
going concern assessment, 1.72
insurance liabilities, 2.32
liquidity order presentation, 2.19–2.20, 2.32
minority interests, multiple classes, 2.25
noncurrent assets, 2.29
noncurrent liabilities, 2.31
pension obligations, offsetting, 1.74
premiums/discounts to suppliers, 2.30
prepaid expenses, 2.27, 2.29
prepaid lease payments, 2.29
presentation, 1.32–1.39, 1.75, 2.05–2.12, 3.10–3.21, 4.04–4.09
presentation and disclosure excerpts, 1.70–1.82, 2.17–2.32, 3.24–3.26
reclassifications, 1.76
recognition and measurement, 1.10–1.31
regulatory capital, disclosure, 1.78
regulatory environment information, 1.71
reissuance, when filed with regulatory agencies, 1.123

restatements, 1.76
sales commissions, 2.30
shares, 2.21–2.22, 2.24–2.26
statement of changes in equity
subject to approval of shareholders, 1.137
treasury shares, multiple classes, 2.25
unallocated divisible surplus, 2.32

Financing activities. *See under* Statement of cash flows

Financing arrangements, 3.31

Firm commitment, 8.04

First-in, first-out (FIFO). *See under* Inventories

First-time adoption of IFRSs
overview, 12.01–12.04
amendments to IFRS 1, 12.01n
application of IFRS 1, 12.02
disclosure, 1.54, 12.11–12.15
early adoption of IFRS 9, 8.54
exemptions from retrospective application, 12.07–12.08
hyperinflationary economies, 10.01n
presentation, 12.09–12.10
presentation and disclosure excerpts, 12.16–12.17
recognition and measurement, 12.05–12.08
transition from Argentine GAAP to IFRSs, IFRS 1 exemptions elected, 12.17
transition from Canadian GAAP to IFRSs, IFRS 1 exemptions elected, 12.16

Fiscal year end, Table 1–5

Fixed-price contracts, 3.64, 3.73, 3.78

Forecast transactions, 8.04

Foreign currency
defined, 10.09
gains/losses on translation, 2.163
recognition and measurement, 1.149–1.151
reconciliations on translation, 1.174
translation for statement of cash flows, 5.09

Foreign exchanges rates, changes in
overview, 1.146–1.148
disclosure, 1.169–1.176
functional currency, changes in, 1.177
IAS 21 disclosures with convenience translation, 1.178
presentation and disclosure excerpts, 1.176–1.178
recognition and measurement, 1.149–1.168

Foreign operations, 1.147, 10.09, 10.18

Forest product producers, 2.36

Forestry assets, 5.28

Forward agreements, 5.31, 8.05

Frequent flyer program, 1.235

Functional currency
changes in, 1.177
defined, 1.147, 1.160, 10.01, 10.06
hyperinflationary economies, *see* Hyperinflationary economies
remeasurements, 1.166, 10.12

Future operating losses, 2.275, 2.289

FVLCS. *See* Fair value less cost to sell (FVLCS)

FVTPL. *See* Fair value through profit or loss (FVTPL)

G

Gain contingency, 1.124

Gain on a bargain purchase, 9.10, 9.21

Gains/losses
actuarial, *see* Actuarial gains and losses
business combinations, gain on bargain purchase, 9.26
on consolidated financial statements, 1.102
defined, 3.07
derecognition of noncurrent assets, *see under* Noncurrent assets
employee benefits, 2.320–2.321
foreign currency translations, 2.163
project loss provisions, 2.302

Gas. *See* Oil and gas assets

General purpose financial statements, 4.03

Geographic segments
statistical profiles, Table 7–2

Going concern assessment
events after reporting period, 1.119, 1.121
presentation and disclosure excerpts, 1.72
uncertainties affecting, disclosure, 1.42, 1.58

Gold, 3.59

Goods, 3.32, 3.157

Goodwill. *See also* Intangible assets
business combinations, 2.77, 9.10, 9.21
CGUs, *see under* Cash generating units (CGUs)
defined, 2.76
depreciation (amortization), 2.102, 3.124
foreign operation acquisitions, 2.158
impairment losses, 3.247, 3.266–3.267, 3.272, 3.276, 3.286, 3.288
intangible assets, 2.76
investments in associates, 2.144
negative goodwill, 9.10
presentation and disclosure excerpts, 2.111
recognition and measurement, 2.374
statistical profiles, Table 2–5

Government grants and assistance
overview, 1.179–1.180
biological assets, 2.197
changes in accounting policy, 1.202
contingencies, 1.203
definitions, 1.180
disclosure, 1.197–1.199
forgivable loans, 1.182
initial recognition as reduction of carrying value of depreciable assets, 1.201
initial recognition at fair value, 1.202
initial recognition at nominal amount, 1.200

loans at below market rate, 1.178n, 1.183, 1.190
presentation, 1.192–1.196
presentation and disclosure excerpts, 1.200–1.203
recognition and measurement, 1.181–1.191
subsidies, purchase and sale, 5.30

Gross amount due from/to customers, 3.84

Groves (plants and trees), 2.201

Growing crops, 2.200. *See also* Agriculture

Guarantees, 2.253, 5.29

H

Healthcare benefits, 3.156

Hedges and hedging
disclosure, 8.44, 8.53
exemption from retrospective application of IFRS 1, 12.08
hedge accounting, IASB/FASB project, 8.01n
hedged items, 8.04
hedging effectiveness, 8.04
presentation and disclosure excerpts, 8.62
recognition and measurement, 8.22
recycling of deferred hedging gains, 5.26

Held for sale assets
defined, 6.04
gains/losses on derecognition, 3.305
impairment, 3.292
interests in joint ventures, 2.177
noncurrent assets, *see under* Noncurrent assets
presentation and disclosure excerpts, 6.27
withdrawal of business from held for sale and reclassification as continuing operations, 6.26

Held for sale liabilities, 6.27

Held for trading assets, 5.29, 8.57

Held for trading liabilities, 8.57

Held to maturity financial assets, 8.56

Home sales, 3.60

Hotels, 3.306

Hyperinflation adjustments, 4.20

Hyperinflationary economies
characteristics, 10.04
functional currency requirements, 1.167, 10.01, 10.01n, 10.03, 10.05–10.06, 10.08, 10.11–10.14
price changes, 10.16
reporting in
overview, 10.01–10.04
disclosure, 10.14–10.16
financial statements, translation, 1.157
foreign operations, deconsolidation in hyperinflationary economy, 10.18
foreign subsidiary, inflation adjustment prior to translation into presentation currency, 10.19
presentation and disclosure excerpts, 10.17–10.19
price-level adjustment for subsidiaries, elimination on transition to IFRSs, 10.17
recognition and measurement, 10.05–10.13
restatement requirements, 10.05, 10.07–10.09, 10.13–10.14

I

Identifiable assets, 2.76

IFRSs. *See* International Financial Reporting Standards (IFRSs)

Impairment of assets
overview, 3.243–3.245
adjustments, 5.26
disclosure, 3.277–3.287
financial instrument classification and measurement simplification project (IASB), 8.01n
financial instruments, 8.20
first-time adoption of IFRSs, 12.12
goodwill, *see under* Goodwill
held for sale assets, 3.292
intangible assets, losses, 3.288
interests in joint ventures, 3.218
inventories, 3.99
investment in associate, 3.290
investment in jointly controlled entities, 3.291
leases, 3.222, 3.233
noncurrent assets held for sale, 6.03, 6.08–6.09, 6.13, 6.15
PPE, losses and reversal of losses, 3.288–3.289
presentation, 3.275–3.276
presentation and disclosure excerpts, 3.288–3.292
recognition and measurement, 3.246–3.274
reversals of losses on property, plant and equipment held at revalued amount, 3.289
on statement of comprehensive income, 3.275

Impracticable, 1.15

Imputed rate of interest, 3.31

"In the money" contracts, 3.360

Income
defined, 1.08, 3.07, 3.27
emissions rights, 3.63
on statement of comprehensive income, 3.22

Income before tax, adjustments, 5.25

Income statement
borrowing costs (interest expense), 3.198
deferred tax accounts, changes, 3.332
depreciation (amortization), 3.132
employee benefits, 3.152
EPS for income from continuing operations, 3.477
expenses by function, 3.25
expenses by nature, 3.25
extraordinary items, 3.21, 3.23
impairment losses, 3.276
interests in joint ventures, 3.213

inventories, 3.101–3.102
investments in associates, 2.160, 3.213
leases, 3.230
revenue, 3.49

Income taxes
overview, 2.367–2.368, 3.322
assets/liabilities from the same tax authority, offsetting, 3.345
on balance sheet, 2.390–2.391
current tax payables, 2.397–2.398
current tax receivables, 2.398
deferred tax assets, 2.398
deferred tax liabilities, 2.397–2.398
defined, 2.381
disclosure, 2.393–2.396, 3.334–3.342
items recognized in other comprehensive income, 3.343–3.345
noncurrent tax payables, 2.397
presentation, 2.390–2.392, 3.329–3.333
presentation and disclosure excerpts, 2.397–2.398, 3.343–3.347
recognition and measurement, 2.369–2.389, 3.323–3.328
on statement of comprehensive income, 3.15, 3.18
tax effects of discontinued operations, 3.344
tax expense reconciliation disclosure, single domestic statutory tax rate, 3.346
tax loss carryforwards, 2.397, 3.345
tax rate changes, 3.343
tax rate reconciliation disclosure, weighted average statutory tax rate, 3.347

Incremental approach, 2.359

Indemnities receivable, 11.23

Indirect method of reporting cash flows from operating activities, 5.05, 5.25

Industry classification, Table 1–2

Inflation, 10.19

Initial public offerings (IPOs), 1.135

Installment method (revenue recognition), 3.42

Insurance, 2.303, 3.62

Insurance contracts, 3.243, 8.03, 12.07

Intangible assets. *See also* Computer software; Goodwill; Research and development (R&D) costs
overview, 2.76–2.78
on balance sheet, 2.98, 2.110
core deposit intangibles, 2.115
defined, 2.76, 2.91
depreciation (amortization), 2.108–2.109, 3.120–3.122, 3.124, 3.126–3.127, 3.132, 3.136, 3.141
disclosure, 2.100–2.110
exemption from retrospective application of IFRS 1, 12.07
gains/losses on derecognition, 3.294–3.304
goodwill, 2.76, 2.111
impairment losses, 3.247–3.248, 3.266, 3.286, 3.288
other acquired intangibles, 2.115
presentation, 2.98–2.99
presentation and disclosure excerpts, 2.111–2.117
recognition and measurement, 2.79–2.97
revaluation model, *see under* Revaluation model
sale, gains/losses on derecognition, 3.305
service concession arrangements, 11.08, 11.14, 11.23

Interest, 5.10, 5.23

Interest cost or expense, 2.214n, 3.10, 3.194, 3.198. *See also* Borrowing costs

Interest income, 3.39, 3.51, 3.59, 3.62

Interest paid and capitalized, 5.32

Interest received, 5.32

Interests in associates. *See* Investments in associates

Interests in joint ventures. *See also* Jointly controlled entities or operations
overview, 2.169–2.171, 3.203–3.204
associates and joint ventures designated at fair value through profit or loss, 3.218
on balance sheet, 2.174, 2.184
definitions, 2.168n, 2.169
disclosure, 2.186–2.188, 3.216–3.217
equity method, jointly controlled operations, 2.190
held for sale investments, 2.177
impairment losses, 3.218
offsetting assets/liabilities, 2.176
presentation, 2.184–2.185, 3.213–3.215, 8.03
presentation and disclosure excerpts, 2.189–2.191, 3.218–3.219
proportionate consolidation, 2.189
recognition and measurement, 2.172–2.183, 3.205–3.212
separate financial statements, 1.84
share of post-tax profit or loss of associates and joint ventures included in pre-tax operating profit, 3.218
significant joint ventures, 2.186

Intermediate-life plants, 2.201

International Accounting Standards Board (IASB)
authority to establish IFRSs, 1.24n
financial instrument classification and measurement simplification project, 8.01n
financial instrument derecognition project, 8.01n
income tax accounting proposals, 2.366n
lease accounting project, 2.214n
revenue recognition project, 3.26n
website, 8.01n

International Financial Reporting Standards (IFRSs)
Conceptual Framework, see *The Conceptual Framework for Financial Reporting* (IFRS *Conceptual Framework*)
first-time adoption, *see* First-time adoption of IFRSs
hierarchy, 1.16, 1.16n
IFRSs for financial instruments, 8.02n

Inventories
overview, 2.33, 3.91–3.92
analysis of expenses by function, 3.108–3.110
analysis of expenses by nature, 3.111
on balance sheet, 2.46

cost determination, Table 3–3
defined, 2.33, 2.43
disclosure, 2.48–2.49, 3.104–3.107
fair value less cost to sell, broker trader exemption from IAS 2, 2.52
first-in, first-out (FIFO), 2.40, 2.50, 3.93, 3.108
impairment, 3.99, 3.243
on income statement, 3.101–3.102
last-in, first-out (LIFO), 2.40, 2.44, 2.49, 3.93, 3.106
multiple cost flow assumptions, 3.110–3.111
presentation, 2.46–2.47, 3.101–3.103
presentation and disclosure excerpts, 2.50–2.53, 3.108–3.111
provision for inventory obsolescence, 3.110
recognition and measurement, 2.34–2.45, 3.93–3.100
recognition criteria, 2.37
reversal of writedowns, 2.45, 3.100, 3.108, 3.111
specific identification, 2.40, 2.51, 2.53, 3.93
statement at net realizable value, 3.109
on statement of comprehensive income, 3.101
weighted average cost, 2.40, 2.51, 3.93, 3.109
writedowns, 3.95–3.97, 3.107–3.108, 3.111, 5.26

Investing activities. *See under* Statement of cash flows

Investment property
overview, 2.118–2.120
carried at cost, 2.136
carried at fair value, 2.137–2.138
change in fair value, 3.321
defined, 2.118, 2.125
depreciation (amortization), 3.118, 3.128
disclosure, 2.132–2.135
exemption from retrospective application of IFRS 1, 12.07
fair value model, 3.311, 3.317
gains/losses on derecognition, 3.294–3.304
impairment, 3.243
leases, exception, 2.216
measurement models, Table 2–6
presentation, 2.131
presentation and disclosure excerpts, 2.136–2.138
recognition and measurement, 2.121–2.130

Investments in associates
overview, 2.139–2.140, 3.203–3.204
associate, defined, 2.139
associates and joint ventures designated at fair value through profit or loss, 3.218
associates' share of income not included in operating profit, 3.219
associates' share of other comprehensive income, 3.219
associates' share of post-tax profit/loss and joint ventures included in pre-tax operating profit, 3.218
on balance sheet, 2.158–2.159
capital increases, 5.31
disclosure, 2.161–2.166, 3.216–3.217
exemption from retrospective application of IFRS 1, 12.07
impairment, 3.218, 3.244, 3.290
increase in shareholding, 1.145
presentation, 2.157–2.160, 3.213–3.215, 8.03
presentation and disclosure excerpts, 2.167–2.168, 3.218–3.219
recognition and measurement, 2.141–2.156, 3.205–3.212
separate financial statements, 1.84
significant influence, 2.141–2.142, 2.145, 2.151, 2.153–2.154, 2.163–2.164, 2.167–2.168
on statement of cash flows, 5.11

Involuntary termination benefits, 2.335

IT programs. *See* Computer software

J

Joint arrangements, 2.168n

Joint control, 2.168n, 2.169

Joint operations, 2.168n

Joint ventures. *See* Interests in joint ventures

Jointly controlled entities or operations. *See also* Interests in joint ventures
accounting treatment, Table 2–7
assets, 2.170, 2.172, 2.191
defined, 2.170
exemption from retrospective application of IFRS 1, 12.07
impairment of investment, 3.244, 3.291
recognition and measurement, 2.172, 2.178

K

Key management personnel
compensation, 1.211, 1.222, 2.338
definitions, 1.206–1.207, 1.207n
disclosures, 1.208, 1.211
as related party, 1.205
remuneration and employment termination benefits, 2.354

L

Labor agreements, 5.26

Land as investment property. *See* Investment property

Land sales, 3.60

Last-in, first-out (LIFO). *See under* Inventories

Leasebacks, 1.145, 2.228, 2.250, 2.258

Leases. *See also* Finance (capital) leases; Operating leases
overview, 2.215–2.217, 3.220
accounting project (IASB/FASB), 2.214n

on balance sheet, 2.225, 2.227, 2.242–2.244, 2.253–2.254, 2.256
defined, 2.215, 2.229
depreciation (amortization), 2.223, 2.239, 2.244
disclosure, 2.245–2.258, 3.232–3.239
exemption from retrospective application of IFRS 1, 12.07
gains/losses on derecognition, 3.294–3.304
impairment, 3.233
impairment losses, 3.222
lease commitments, 2.260
multiple element arrangements, 2.233
presentation, 2.242–2.244, 3.229–3.231
presentation and disclosure excerpts, 2.259–2.260, 3.240–3.242
provisions, contingent liabilities and contingent assets, exclusion, 2.264
recognition and measurement, 2.218–2.241, 3.221–3.228, 8.05
right of use approach, 2.214n
service concession arrangements, 11.07, 11.13

Leveraged leases, 2.241, 2.244

Liabilities
contingency disclosure, 2.306
contingent, *see* Provisions, contingent liabilities and contingent assets
current, *see* Current liabilities
decommissioning, *see* Decommissioning obligations
deferred taxes, *see* Deferred tax liabilities
defined, 1.07, 2.289
financial, *see* Financial liabilities
financial liabilities, adjustments for accretion, 5.25
insurance liabilities, 2.32
in liquidity order, 2.32
offsetting, 1.39, 2.176, 2.293, 2.336, 3.345
service concession arrangements, 11.17
unallocated divisible surplus, 2.32
warranty, *see* Warranty obligations

Life insurance benefits, 3.156

LIFO (Last-in, first-out). *See under* Inventories

Limited liability companies, 2.181

Limited partnerships, 5.36

Liquidity order presentation, 2.17–2.20

Litigation, 1.138, 2.297, 2.305, 5.26

Livestock, 2.201, 2.211

Loans, 1.182, 8.05

Long-term debt, 5.34

Losses. *See* Actuarial gains and losses; Impairment of assets; Profits/losses

Lower of cost or market rule
animals raised for sale, 2.202
growing crops, 2.200
inventories, 2.44, 3.98, 3.105

Lower of cost or net realizable value, 2.39

M

Maintenance obligations, 11.12

Management. *See* Key management personnel

Management judgments, Table 1–7

Manuscripts, 2.216
licensing arrangements, 2.229

Market, 2.44, 3.97–3.98

Market-related value of plan assets, 2.332

Matching concept, 3.09

Material
customer loyalty programmes, 1.231
defined, 1.15
extraordinary items, 3.21
gains/losses on derecognition, 3.303
intangible assets, 2.103
interests in joint ventures, 2.188
nonadjusting events after reporting period, 1.129
related party transactions, 1.208, 1.216
share-based payments, 2.362
on statement of comprehensive income, 3.22

Materiality of financial information, 1.04

Measurement. *See under* specific topics

Minerals and mineral products, 2.36, 2.120, 2.216, 2.229

Mining rights, 2.62

Minority interests. *See* Noncontrolling interests

Monetary items, 1.147

"More likely than not," 2.387

Multiemployer plans, 2.333–2.334, 2.347

Multiple element arrangements
defined, 2.233, 3.46
revenue disclosures, 3.53
service concession arrangements, 11.15–11.16

Multiple-deliverable arrangements, 3.46n

N

Negative goodwill, 9.10

Net debt, 5.28

Net defined benefit obligation, 2.318

Net income/loss
basic and diluted EPS, 3.389
proposed appropriation of, 4.19
on statement of changes in equity, 4.07n
on statement of comprehensive income, 3.10

Net investment in a foreign operation, 1.147

Net realizable value, 2.41, 3.96–3.97

Nonadjusting events after reporting period. *See* Events after reporting period

Nonauthoritative accounting and financial reporting practices, 1.24, 1.24n

Noncash assets, distributions to owners
- overview, 4.01–4.03
- disclosure, 4.10–4.13
- presentation, 4.04–4.09
- presentation and disclosure excerpts, 4.14–4.20

Noncontrolling interests
- business combinations, 9.21
- capital contributions, 4.17
- on consolidated financial statements, 1.92, 1.101
- measurement, 9.07, 9.07n, 9.12–9.13, 9.27
- purchase of, 5.32
- on statement of comprehensive income, 3.11, 3.16
- subsidiaries held for sale, 6.19

Noncontrolling shareholders, 1.98

Noncurrent assets
- cattle held for sale, 2.211
- coffee, 2.211
- crops, 2.213
- defined, 6.02
- derecognition gains/losses
  - overview, 3.293
  - assets held for sale, 3.305
  - disclosure, 3.303–3.304
  - hotels, disposal, 3.306
  - intangible assets, sales, 3.305
  - PPE, sales, 3.305, 3.307
  - presentation, 3.301–3.302
  - presentation and disclosure excerpts, 3.305–3.307
  - recognition and measurement, 3.294–3.300
  - waste products, sales, 3.307
- growing crops, 2.211
- growing herd, 2.211
- held for sale and discontinued operations
  - overview, 6.01–6.03
  - defined, 6.04
  - disclosure, 6.21–6.24
  - impairment, 3.243, 6.03, 6.08–6.09, 6.13, 6.15
  - presentation, 6.16–6.20
  - presentation and disclosure excerpts, 6.25–6.27
  - reclassification, 6.11
  - recognition and measurement, 6.04–6.15
  - statistical profiles, Table 6–1
- nurseries, 2.213
- prepaid expenses, 2.29
- prepaid lease payments, 2.29
- purchase and sale, 5.30
- sugarcane, 2.211
- timber, 2.214

Noncurrent liabilities, 2.31

Nonfinancial assets. *See* Change in fair value of nonfinancial assets

Nonfinancial liabilities, 2.266n

Notes payable, 8.58

Notes to financial statements
- analysis of expenses by function or nature, 3.22, 3.22n
- changes in equity, 4.08
- comparative note disclosures, 1.44
- cost of sales, disaggregation in note disclosure, 3.26
- expenses by nature, disaggregation in note disclosure, 3.25
- extraordinary items, 3.23
- inventories, 3.101
- parent company disclosures, 1.113
- reconciliation of net cash flows from operating activities, 5.24
- reconciliation of profit before tax to cash from operating activities, 5.28
- revenue recognition policies, 3.51
- structure for disclosures, 1.45

Nurseries, 2.213

O

Offsetting
- deferred tax assets and liabilities, 1.73, 2.392
- financial assets and liabilities, 8.32, 8.35
- interests in joint ventures, 2.176
- pension obligations, 1.74
- postemployment benefits, 2.336
- provisions, contingent liabilities and contingent assets, 2.293
- when permitted, 1.39

Oil and gas assets, 2.216, 2.229, 12.07

Onerous contracts, 1.229, 2.263, 2.275, 2.303

Operating activities. *See under* Statement of cash flows

Operating leases. *See also* Finance (capital) leases; Leases
- overview, 2.215–2.216, 3.220
- disclosure, 2.245–2.258, 3.232–3.239
- investment property, 2.118, 2.125, 2.130, 2.132
- lessees, 2.259–2.260
- lessors, 2.260
- presentation, 2.242–2.244, 3.229–3.231
- presentation and disclosure excerpts, 2.259–2.260, 3.240–3.242
- recognition and measurement, 2.218–2.241, 3.221–3.228
- straight-line recognition of expenses, 3.223

Operating segments
- overview, 7.01–7.03
- characteristics, 7.03
- defined on the basis of business activities, 7.25–7.26
- defined on the basis of geographic areas, 7.27
- disclosure, 7.01n, 7.15–7.24
- extraordinary items, 7.23
- impairment losses, 3.278
- initial application of IFRSs and IFRS 8, 7.28
- presentation and disclosure excerpts, 7.25–7.28

recognition and measurement, 7.04–7.14
reconciliation of segment information presented under Argentine GAAP and IFRSs, 7.28
restatements, 7.21
revisions based on changes in organizational structure, 7.27
segment information provided in separate asset, liability, revenue and expense disclosures, 7.26
statistical profiles, Table 7–1

Operations subject to rate regulation, 12.07

Orchards, 2.201

Other comprehensive income. *See also* Statement of other comprehensive income
disaggregation of tax effects, 3.343
employee benefits, 2.332, 2.343, 3.152
foreign exchange differences, 1.153, 1.169
interests in joint ventures, 3.204, 3.213
investments in associates, 3.204, 3.213, 3.219
PPE, changes in revalued amount, 3.320–3.321
shown net of tax, 3.344–3.345
on statement of comprehensive income, 3.10
statistical profiles, Table 3–2
tax income/expense, 3.323–3.324, 3.330–3.331

Owner occupied land/buildings, 2.119

P

Parents
changes in ownership interest, 1.93, 4.13
consolidated financial statements, *see* Consolidated financial statements
defined, 1.83
separate financial statements presented side-by-side with related parent company's consolidated financial statements, 1.114
on statement of comprehensive income, 3.11

Partnerships, 2.181

Patents, 2.216, 2.229

PBOs. *See* Projected benefit obligations (PBOs)

Percentage-of-completion method (revenue recognition), 3.37, 3.71, 3.81–3.82, 3.85, 3.89

Perpetual bonds redeemable for shares, 8.60

Phantom shares, cash-settled, 2.366

Pineapple growers, 2.198

Plays, 2.216, 2.229

Postemployment benefit plans. *See* Defined benefit plans; Defined contribution plans

Postemployment benefits. *See also* Termination benefits
actuarial gains and losses recognized immediately in equity, 3.154
changes in accounting policy for actuarial gains and losses, 3.155
corridor method, 3.156
effect of the asset ceiling, 3.154
life insurance benefits, 3.156
provisions, contingent liabilities and contingent assets, exclusion, 2.264
recognition and measurement, 2.314, 3.146
retirement healthcare, 3.156
special contributions, 3.154
termination benefits, 3.155

PPE. *See* Property, plant and equipment (PPE)

Precious metals, 2.229, 3.59

Preference dividends, 3.383

Preference shares
convertible preference shares, 3.389
convertible redeemable preference shares, 2.24
dividends classified as equity, 4.16
dividends subject to mandatory redemption, 5.25
issuance, 4.14, 5.34
multiple classes, 2.25
redeemable, classified as liabilities, 8.59

Presentation currency, 1.147, 1.155, 10.10

Price changes, 10.16

Prior period errors
business combinations, adjustments, 9.24
correction, 1.31, 1.56, 1.69, 1.81–1.82
defined, 1.15
first-time adoption of IFRSs, 12.13
retrospective restatement, 1.22
on statement of changes in equity, 4.06

Private placement, 1.135

Pro forma financial data, 1.126

Probable, 2.261, 2.375

Product infringement, 2.302

Production animals, 2.201

Production costs, 2.38

Profits/losses
change in fair value of nonfinancial assets, 3.320–3.321
construction contracts, 3.80, 3.87
derecognition of noncurrent assets, *see under* Noncurrent assets
foreign exchange differences, 1.169
government grants and assistance, 1.185, 1.198
interests in joint ventures, 3.203, 3.218
investments in associates, 2.148, 2.156, 3.203, 3.218
reconciliation of net cash flows from operating activities provided in a note disclosure, 5.24
reportable segment thresholds, 7.08
on statement of comprehensive income, 3.10

Projected benefit obligations (PBOs), 2.332

Projected unit credit method, 2.332

Property, plant and equipment (PPE)
overview, 2.54
on balance sheet, 2.65–2.66, 2.70
breeding animals, 2.201
classes of, Table 2–3

cost model for measuring PPE, *see under* Cost model
decommissioning provisions, 2.304
depreciation (amortization), 3.112–3.117, 3.126, 3.128, 3.128n, 3.135
disclosure, 2.67–2.72
exemption from retrospective application of IFRS 1, 12.07
gains/losses on derecognition, 3.294–3.304
impairment loss reversal, 3.289
impairment losses, 3.266, 3.288
livestock, 2.201
measurement models, Table 2–4
plants and trees, 2.201
presentation, 2.65–2.66
presentation and disclosure excerpts, 2.73–2.75
production animals, 2.201
recognition and measurement, 2.55–2.64
revaluation model for measuring PPE, *see under* Revaluation model
sale of building, 1.145
sales, 1.140
sales, gains/losses on derecognition, 3.305, 3.307
service concession arrangements, 11.07, 11.14

Property, plant and equipment held at revalued amount, 3.289

Proportionate consolidation method
interests in joint ventures, 2.173–2.175, 2.177, 2.186
unincorporated construction entities, 2.181
unincorporated extractive entities, 2.181

Provision for doubtful debts, 5.29

Provisions, contingent liabilities and contingent assets
overview, 2.261–2.266
on balance sheet, 2.270, 2.273, 2.276, 2.280–2.281, 2.290, 2.298
business combinations, 9.21, 9.25
categories of contingencies, Table 1–8
contingency, defined, 2.280
customer loyalty programmes, 1.229
decommissioning provisions, 2.304
definitions, 2.261–2.262, 2.266n, 2.280
disclosure, 2.294–2.301, 2.306
environmental provisions, 2.305
environmental rehabilitation provisions, 2.304
government grants, 1.197, 1.203
insurance provisions, 2.303
interests in joint ventures, 2.187–2.188
leases, 2.255–2.256
litigation provisions, 2.305
onerous contracts, 2.303
presentation, 2.290–2.293
presentation and disclosure excerpts, 2.302–2.307
product infringement, 2.302
project loss provisions, 2.302
provision, defined, 2.261, 2.266n
recognition and measurement, 2.267–2.289
reimbursement asset for environmental costs, 2.307
restructuring provisions, 2.302
store closings, 2.303
tax provisions, 2.302
warranties, 2.302

Public entities, 3.273n, 3.333, 7.13

Public utilities, 3.19

Public-to-private service concession arrangements, 11.05, 11.19

Purchase method. *See* Acquisition method

Puttable instruments, 1.49, 8.04, 8.29

Q

Qualitative characteristics of financial information, 1.04

Qualitative disclosures, 4.10, 8.46

Quantitative disclosures, 4.10, 8.46

R

R&D. *See* Research and development (R&D) costs

Receivables, 2.225, 8.61, 11.18

Reclassifications, 1.76
adjustments, 8.57
derivatives, 8.17
equity component of convertible debt, 4.17
financial instruments, 8.17–8.18, 8.30, 8.39, 8.57
noncurrent assets held for sale and discontinued operations, 6.11
on statement of comprehensive income, 3.04, 3.15, 3.18

Recognition criteria (inventories), 2.37

Reconciliations
applicable tax rate, 3.338, 3.342, 3.342n
cash flows, 5.16
depreciation (amortization), 3.135
employee benefits, 2.341
EPS, 3.383
foreign currency translations, 1.174
investment property revaluation, 2.134
leases, 2.246, 2.249
operating segments, 7.20
PPE, 2.67–2.68
provisions, contingent liabilities and contingent assets, 2.295

Recoverable amount, 3.243, 3.269

Recovery of revalued nondepreciable assets
overview, 2.367–2.368
disclosure, 2.393–2.396
presentation, 2.390–2.392
presentation and disclosure excerpts, 2.397–2.398
recognition and measurement, 2.369–2.389

Refundable deposits, 5.32

Regular way purchase or sale, 8.04

Regulatory environment, 1.71

Related parties, 1.204n, 1.205, 1.207

Related party disclosures
  overview, 1.204
  disaggregation by category of related party, 1.221
  disclosure, 1.210–1.220
  employee benefits, 2.325
  management compensation, 1.222
  operating segments, 7.01n
  presentation, 1.208–1.209
  presentation and disclosure excerpts, 1.221–1.222
  recognition and measurement, 1.205–1.207
  share-based payments, 3.182

Relevance of financial information, 1.04

Renewable power generation, 3.321

Rental revenue, 3.19, 3.60

Repayment of debt, 5.36

Reportable segments
  defined, 7.04
  disclosure, 7.16–7.17, 7.21
  impairment of assets, 3.280
  noncurrent assets held for sale, 6.23
  recognition and measurement, 7.08–7.11

Reporting currency. *See* Presentation currency

Reporting units, 3.267

Research and development (R&D) costs, 2.95, 2.105, 2.114

Residual value of PPE, 3.128n

Restatements
  first-time adoption of IFRSs, 12.10
  hyperinflationary economies, 10.05, 10.07–10.08, 10.13–10.14
  operating segments, 7.21
  presentation and disclosure excerpts, 1.76

Restructuring programs, 2.263, 2.276, 2.287, 2.302

Retirement plans. *See* Defined benefit plans; Defined contribution plans

Revaluation model
  for measuring intangible assets, 2.104, 3.310, 3.316
  for measuring PPE, 2.60–2.61, 2.70, 2.74–2.75, 3.117, 3.140, 3.309, 3.316

Revalued amount, 2.60, 2.87, 3.309

Revenue
  overview, 3.27
  barter transactions, 3.26n, 3.33, 3.56
  bill and hold transactions, 3.57
  computer software, support, subscription, consulting revenues and multiple element arrangements, 3.58
  construction contracts, 3.69, 3.71, 3.78
  contracts to provide services, 3.55
  customer loyalty programmes, 1.226–1.228
  defined, 1.08, 3.07, 3.27
  disclosure, 3.51–3.54
  dividend income, 3.61
  emissions rights, 3.63
  fair value, 3.31
  fees and commissions, 3.62
  home sales, 3.60
  on income statement, 3.49
  insurance net premium income, 3.62
  interest income, 3.59, 3.62
  land sales, 3.60
  operating segments, 7.19
  presentation, 3.48–3.50
  presentation and disclosure excerpts, 3.55–3.63
  recognition and measurement, 3.28–3.47
  rental revenue, 3.60
  reportable segment thresholds, 7.08
  revenue recognition project (IASB/FASB), 3.26n
  royalty income, 3.61
  sale of gold, copper and silver, 3.59
  sale of gold and silver bullion, 3.59
  sales of goods, 3.55
  sales of services, 3.56
  service concession arrangements, 11.09, 11.09n
  on statement of comprehensive income, 3.10, 3.48

Reverse acquisitions, 4.18, 9.11, 9.15–9.16

Right of setoff. *See* Offsetting

Rights issue, 4.15

Risk exposure, 1.61, 8.46
  financial instruments, 8.53

Royalty income, 3.39, 3.61
  recognition and measurement, 3.51

S

Sabbaticals, 2.327, 2.329

Sales, 1.145

Sales of goods, 3.34–3.35, 3.44, 3.51, 3.55

Sales of services, 3.56

Sales type leases, 2.241

Sales-type leases, 2.257

Scrip dividend, 4.15

Securities, 5.35

Securitization of receivables, 8.61

Senior management benefits, 2.354

Separate financial statements. *See also* Consolidated financial statements
  defined, 1.84
  disclosure, 1.105–1.106
  investments in subsidiaries, associates, or jointly controlled entities, 1.95
  parent's separate statements presented side-by-side with related parent's consolidated statements, 1.114
  when permitted, 1.86–1.87, 1.103

Service concession arrangements
overview, 11.01–11.04
defined, 11.1
disclosure, 11.19–11.22
intangible assets, indemnities receivable, 11.23
presentation and disclosure excerpts, 11.23
public-to-private arrangements, 11.05, 11.19
recognition and measurement, 11.05–11.18

Service contracts, 2.230, 3.55

Service revenues
recognition and measurement, 3.32, 3.37–3.38, 3.51
service contracts, 3.55
on statement of comprehensive income, 3.19

Setoff, legal right of. *See* Offsetting

Share capital
balance sheet disclosures, 2.13
issuance, 5.33
multiple classes, 2.22
one class, 2.21
reduction, 4.20

Share compensation, presentation, 3.178

Share options. *See also* Share-based payments; Stock options
anti-dilutive in current year, 3.389
anti-dilutive in prior year, 3.386
dilutive in prior years, 3.389
exercise, 5.35
presentation and disclosure excerpts, 9.26

Share warrants, 3.386

Share-based payments
overview, 2.355–2.357, 3.157–3.159
business combinations, 3.159
cash-settled phantom shares, 2.366
cash-settled share appreciation rights, 2.365
compound financial instruments, 3.161
deferred tax expense, 3.325
defined, 2.355, 3.157
disclosure, 2.363–2.364, 3.179–3.183
employee benefits, 2.308
exemption from retrospective application of IFRS 1, 12.07
fair value, 3.163, 3.165–3.166, 3.168, 3.170, 3.175, 3.180
measurement, 9.08n
payments to employees, 3.171, 3.173, 3.178
presentation, 2.362, 3.177–3.178, 8.03
presentation and disclosure excerpts, 2.365–2.366, 3.184
recognition and measurement, 2.358–2.361, 3.160–3.176
related party disclosures, 3.182
share-based compensation agreements, 5.34
stock option plan—cash settled and equity settled, 3.184
vested suppliers, 3.164

Shareholders, noncontrolling, 1.98

Shareholders' equity. *See* Statement of changes in equity

Shares. *See also* Basic earnings per share (EPS); Diluted earnings per share (EPS); Earnings per share (EPS); Preference shares; Treasury stock
appreciation rights, cash-settled, 2.365
buy back program announcement, 1.143
capital shares, 5.34
cash flow per share, 5.22
common shares, 2.22, 2.152, 2.166, 4.14
contingently issuable shares, 3.364, 3.383
declaration of taxable bonus share issue to shareholders, 1.142
deferred shares, 2.26
employee share purchase plans, 3.176
employee stock ownership plans, 3.176
issuance in lieu of dividends, 4.15
members' shares, 2.24
minority interest, multiple classes, 2.25
new ordinary shares, 2.24
ordinary shares, 2.26, 3.386, 9.26
perpetual bonds redeemable for, 8.60
phantom shares, cash-settled, 2.366
preference, *see* Preference shares
private placement issuance, 4.18
reduction in par value, 4.17
suppliers' investment shares, 2.24

Short-term benefits, 2.311, 3.153

Silver and silver bullion, 3.59

Software. *See* Computer software

Special contributions, 3.154

Special items, 5.28

Special purpose entities, 1.83n, 1.97, 1.99

Specific identification (inventories), 2.40, 2.51, 2.53, 3.93

Stable currency, 10.10

Statement of cash flows
overview, 5.01
direct method
defined, 5.05
disclosure, 5.21
interest paid/received presented in operating, investing, and financing activities, 5.23
reconciliation of profit (loss) to net cash flows from operating activities provided in a note disclosure, 5.24
disclosure, 5.16–5.22
discontinued operations, 5.21
extraordinary items, 5.21
financing activities
capital increase, issue and repayment of subordinated long-term debt, issuances of preferred securities, issues of capital shares under share-based compensation agreements, 5.34
characteristics of, 5.07, 5.15
commercial property debt issue, amortization and repayment, trust unit and class B limited partnership distributions, 5.36
interest paid/received, 5.23
issue of securities, expenditures paid by third party, exercise of stock options, 5.35

issue of share capital, sales and leaseback of aircraft, repayment of finance lease obligations, refunds of deposits pledges for finance leases, receipt and payment of restricted bank deposits, 5.33
foreign currency translation, 5.09
indirect method
adjustments to income before tax, adjustments for accretion on financial liabilities, dividends on preferred stock subject to mandatory redemption, 5.25
defined, 5.05
disclosure, 5.21
interest payments, 5.11
investing activities
characteristics of, 5.06, 5.06n
collections and payments of forward agreements, collection and payments of bank deposits, capital increases in associates, 5.31
control of subsidiaries, 5.12, 5.18
defined, 5.12
interest and dividends received, interest paid and capitalized, purchase of subsidiaries and noncontrolling interest, decrease (increase) in advances and refundable deposits, 5.32
interest paid/received, 5.23
purchase and sale of noncurrent assets, government subsidies, 5.30
investments in associates, 5.11
operating activities
adjustment for provision for doubtful debts, impairment of guarantees, fair value gain on financial assets held for trading, 5.29
adjustment for repurchase of bonds and changes in estimates related to debentures, 5.27
adjustments for depreciation, impairments, inventory writedowns, labor agreements, litigation provisions, recycling of deferred hedging gains, 5.26
characteristics of, 5.05, 5.15
interest paid/received, 5.23
note disclosure of the reconciliation of profit before tax to cash from operating activities, adjustments for fair value gains on forestry assets, felling costs, and special items, changes in net debt, 5.28
presentation, 5.02–5.15
presentation and disclosure excerpts, 5.23–5.36

Statement of changes in equity
overview, 4.01–4.03
changes in shareholders' equity, Table 4–2
common shares, issuance, 4.14
components of shareholders' equity, Table 4–1
convertible bonds, equity component, 4.19
convertible debt, reclassification of equity component, 4.17
disclosure, 4.10–4.13
hyperinflation, adjustments, 4.20
net assets acquired in reverse acquisition, fair value, 4.18
net income, proposed appropriation, 4.19
noncontrolling interests, 4.17
par value, reduction, 4.17
preference shares, dividends classified as equity, 4.16
preferred shares, issuance, 4.14
presentation, 4.04–4.09
presentation and disclosure excerpts, 4.14–4.20
revaluation reserve, transfer to retained earnings on depreciation and disposal of revalued assets, 4.16
rights issue, 4.15
scrip dividend, 4.15
share capital, reduction, 4.20
shares issued in lieu of dividends, 4.15
shares issued in private placement, 4.18
subsidiaries, dividends, 4.16
tax income/expense, 3.323
treasury shares, 4.15

Statement of compliance, 1.12, 1.72

Statement of comprehensive income
overview, 3.01–3.09
borrowing costs, 3.185–3.202
change in fair value of nonfinancial assets, 3.308–3.321
construction contracts, 3.64–3.90
depreciation (amortization), 3.112–3.142
disclosure, 3.22–3.23, 8.42
earnings per share, 3.348–3.389
employee benefits, 2.343, 3.143–3.156
expenses by function, 3.22, 3.22n, 3.23, 3.134
expenses by nature, 3.22, 3.22n, 3.23–3.24
impairment of assets, 3.243–3.292
income taxes, 3.322–3.347
interests in joint ventures, 3.203–3.219
inventories, 3.91–3.111
investments in associates, 3.203–3.219
leases, 3.220–3.242
noncurrent assets, gains/losses on derecognition, 3.293–3.307
presentation, 3.10–3.21
presentation and disclosure excerpts, 3.24–3.26
reclassifications, 3.15, 3.18
reclassifications on, 3.04
revenue, 3.27–3.63
share-based payments, 3.157–3.183

Statement of financial position. *See also* Balance sheet
overview, 2.01–2.04
agricultural activity, 2.192–2.214
business combinations, 2.76–2.117
disclosure, 2.13–2.16
employee benefits, 2.308–2.354
format, Table 2–1
income taxes, 2.367–2.398
intangible assets, 2.76–2.117
interests in joint ventures, 2.169–2.191
inventories, 2.33–2.53
investments in associates, 2.139–2.168
leases, 2.215–2.260
presentation, 2.05–2.12
presentation and disclosure excerpts, 2.17–2.32
property, plant and equipment, 2.54–2.75
provisions, contingent liabilities and contingent assets, 2.261–2.307
share-based payments, 2.355–2.366

Statement of other comprehensive income, 3.25, 4.04
  presentation, 4.07n

Statement of recognized income and expense, 3.152n. *See also* Statement of comprehensive income

Statistical profiles of surveyed entities. *See* Tables

Stock. *See* Shares; Treasury stock

Stock exchanges, Table 1–4

Stock option plans, 3.184

Stock options. *See* Share options

Store closings, 2.303

Subsequent events. *See* Events after reporting period

Subsidiaries
  cash flows from, on statement of cash flows, 5.12, 5.18
  changes in parent ownership interest, 4.13
  in consolidated financial statements, 1.88
  dividends, 4.16
  exemption from retrospective application of IFRS 1, 12.07
  foreign subsidiary, inflation adjustment prior to translation into presentation currency, 10.19
  impairment, 3.244
  interests in, presentation, 8.03
  price-level adjustment, elimination on transition to IFRSs, 10.17
  purchase of, 5.32

Sugarcane, 2.211

Sugarcane growers, 2.198

Surveyed entities, general information, Table 1–1

Systematic method (postemployment benefits), 3.147

T

Tables
  audit firms, Table 1–6
  business segments, Table 7–1
  capital structure, Table 2–2
  cash flows from operating activities
    classifications of reported income tax, interest, and dividends, Table 5–2
    reporting methods, Table 5–1
  commitments and contingencies, Table 1–8
  country of incorporation, Table 1–3
  critical accounting estimates, Table 1–7
  depreciation (amortization) methods, Table 3–4
  discontinued operations, Table 6–2
  expenses recognized in profit and loss, Table 3–1
  financial instruments by type, Table 8–1
  fiscal year end, Table 1–5
  geographic segments, Table 7–2
  goodwill, Table 2–5
  industry classification, Table 1–2
  inventory cost determination, Table 3–3
  investment property, measurement models, Table 2–6
  jointly controlled entities, accounting treatment, Table 2–7
  management judgments, Table 1–7
  noncurrent assets held for sale, Table 6–1
  other comprehensive income, Table 3–2
  PPE
    classes of, Table 2–3
    measurement models, Table 2–4
  shareholders' equity
    changes in, Table 4–2
    components of, Table 4–1
  statement of financial position, format, Table 2–1
  stock exchanges, Table 1–4
  surveyed entities, general information, Table 1–1

Tangible product sales, 3.19

Tax base, 2.369

Tax credit (loss) carrybacks/carryforwards, 2.385, 2.389, 2.396–2.397, 3.326, 3.345

Tax expense (income), 2.371, 3.10

Tax position, 2.388

Tax provisions, 2.302

Taxes
  current tax expense, 2.371
  deferred assets, *see* Deferred tax assets
  deferred liabilities, *see* Deferred tax liabilities
  deferred tax expense (benefit), 3.325
  income taxes, *see* Income taxes
  withdrawal of tax reduction by Hungarian government, 1.141

Technology, 2.114

Tender offer, 1.136

Termination benefits. *See also* Employee benefits
  defined, 2.307n
  disclosure, 2.346, 2.350
  presentation and disclosure excerpts, 3.155
  provisions, contingent liabilities and contingent assets, 2.288
  recognition and measurement, 2.307n, 2.328, 2.334
  senior management, 2.354
  on statement of comprehensive income, 3.145

Third parties, 2.128, 5.35

Timber, 2.198, 2.214, 2.229, 3.321

Timeliness of financial information, 1.04

Total comprehensive income, reporting. *See* Statement of changes in equity; Statement of comprehensive income

Trade payables, 8.48

Trade receivables, 8.48

Trademarks, 2.114

Transaction costs, 8.04

Transfer of assets, 8.61, 12.07

Transportation assets, 3.321

Treasury stock
accounting for, 8.31, 8.34
on balance sheet, 2.10
multiple classes, 2.25
purchase, 4.15
Treasury stock method, 3.369
True and fair view override, 1.12, 1.40–1.41, 1.57
Trust unit distributions, 5.36
Turnover, 3.48n

U

Underlying, 8.24
Understandability of financial information, 1.04
Unincorporated construction entities, 2.181
Unincorporated extractive entities, 2.181
Unincorporated joint ventures, 2.181
Unusual items, 3.14n
Utility assets, 3.321

V

Value in use (VIU), 3.249, 3.251, 3.254, 3.263, 3.279, 3.283
Variable interest entities (VIEs), 1.99
Verifiability of financial information, 1.04
Vested suppliers, 3.164
Video recordings, 2.216
VIEs. *See* Variable interest entities (VIEs)
Vineyards, 2.201
VIU. *See* Value in use (VIU)

W

Warranty obligations, 2.269, 2.284, 2.302, 8.58
Waste products, 3.307
Water rights, 2.117
Weighted average cost (inventories), 2.40, 2.51, 3.93, 3.109
Working capital, 1.140
Writedowns (inventories), 3.95–3.97, 3.107–3.108, 3.111, 5.26

Z

Zero-profit method, 3.75n