

Example Consolidated Financial Statements

International Financial Reporting Standards (IFRS)

Illustrative Corporation Group

31 December 2010



Introduction

Example Consolidated Financial Statements 2010

The preparation of financial statements in accordance with International Financial Reporting Standards (IFRS) is challenging. The challenges have been increased as a result of the publication by the International Accounting Standards Board (IASB) of several new Standards and Amendments that will have a significant impact both on the presentation of the primary statements and the accompanying disclosures.

The member firms within Grant Thornton International Ltd (Grant Thornton International) - one of the world's leading organisations of independently owned and managed accounting and consulting firms - have extensive expertise in the application of IFRS. Grant Thornton International, through its IFRS team, develops general guidance that supports its member firms' commitment to high quality, consistent application of IFRS and is therefore pleased to share these insights by publishing *Example Consolidated Financial Statements 2010*. This publication reflects the collective experience of Grant Thornton International's IFRS team and member firm IFRS experts. This publication is intended to illustrate the 'look and feel' of IFRS financial statements and to provide a realistic example of their presentation.

Example Consolidated Financial Statements 2010 is based on the activities and results of Illustrative Corporation and subsidiaries (the Group) - a fictional manufacturing and retailing entity that has been preparing IFRS financial statements for several years. The form and content of IFRS financial statements depend of course on the activities and transactions of each reporting entity. Our objective in preparing *Example Consolidated Financial Statements 2010* was to illustrate one possible approach to financial reporting by an entity engaging in transactions that are 'typical' across a range of non-specialist sectors. However, as with any example, this illustration does not envisage every possible transaction and cannot therefore be regarded as comprehensive. Management is responsible for the fair presentation of financial statements and therefore may find other approaches more appropriate in their specific circumstances.

Example Consolidated Financial Statements 2010 has been reviewed and updated to reflect changes in IFRSs that are effective for the year ending 31 December 2010. However, no account has been taken of any new developments published after **30 November 2010**.

Using this publication

In some areas, alternative presentation and disclosure approaches are also illustrated in the Appendices. For further guidance on the Standards and Interpretations applied, reference is made to IFRS sources throughout the document on the left hand side of each page.

This publication does not address any jurisdictional or regulatory requirements in areas such as management commentary, remuneration reporting or audit reporting. Most importantly, the use of this publication is **not** a substitute for the use of a comprehensive and up to date disclosure checklist to ensure completeness of the disclosures in IFRS financial statements.

Grant Thornton International Ltd

December 2010

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Comments: Statement of financial position

The statement of financial position complies with IAS 1 *Presentation of Financial Statements* (Revised 2007).

If the entity; (i) applies an accounting policy retrospectively, (ii) makes a retrospective restatement of items in its financial statements, or (iii) reclassifies items in the financial statements, the entity shall present a statement of financial position as at the beginning of the earliest comparative period, ie an extra comparative statement of financial position at for example 31 December 2008 (IAS 1.10(f) and IAS 1.39).

The statement of financial position includes a current/non-current distinction. When presentation based on liquidity is reliable and more relevant, the entity can choose to present the statement of financial position in order of liquidity (IAS 1.60). The entity will then not present a current/non-current distinction in the statement of financial position. However the disclosure requirements for amounts expected to be recovered or settled before or after 12 months must still be applied (IAS 1.61).

The *Example Consolidated Financial Statements 2010* use the terminology in IAS 1 (Revised 2007), however an entity may use other titles (eg balance sheet) for the primary financial statements (IAS 1.10).

Statement of financial position

IAS 1.51(c)	Assets	Notes	2010	2009	2008
IAS 1.51(d-e)			CU000	CU000	CU000
IAS 1.60, IAS 1.66	Non-current				
IAS 1.57	Goodwill	9	5,041	3,537	1,234
IAS 1.54(c)	Other intangible assets	10	17,424	13,841	10,664
IAS 1.54(a)	Property, plant and equipment	11	22,439	20,647	21,006
IAS 1.54(e), IAS 28.38	Investments accounted for using the equity method	7	430	23	11
IAS 1.54(b)	Investment property	13	12,662	12,277	12,102
IAS 1.54(d)	Other long-term financial assets	14	3,765	3,880	4,327
IAS 1.54(o), IAS 1.56	Deferred tax assets	15	-	225	520
IAS 1.60	Non-current assets		<u>61,761</u>	<u>54,430</u>	<u>49,864</u>
IAS 1.60, IAS 1.66	Current				
IAS 1.54(g)	Inventories	16	18,548	17,376	18,671
IAS 1.54(h)	Trade and other receivables	17	33,629	25,628	20,719
IAS 1.55	Derivative financial instruments	14	582	212	490
IAS 1.54(d)	Other short-term financial assets	14	655	649	631
IAS 1.54(n)	Current tax assets		-	308	-
IAS 1.54(i)	Cash and cash equivalents	18	34,789	11,237	10,007
IAS 1.60	Current assets		<u>88,203</u>	<u>55,410</u>	<u>50,518</u>
IAS 1.54(j)	Assets and disposal group classified as held for sale	19	103	3,908	-
IAS 1.55	Total assets		<u><u>150,067</u></u>	<u><u>113,748</u></u>	<u><u>100,382</u></u>

See comments on page 6.

Statement of financial position

IAS 1.57

IAS 1.51(c)	Equity and liabilities	Notes	2010	2009	2008
IAS 1.51(d-e)			CU000	CU000	CU000
	Equity				
	Equity attributable to owners of the parent:				
IAS 1.54(r)	Share capital	20	13,770	12,000	12,000
IAS 1.55	Share premium	20	19,645	3,050	3,050
IAS 1.55	Other components of equity		621	205	888
IAS 1.54(r)	Retained earnings		49,165	36,541	22,739
			<u>83,201</u>	<u>51,796</u>	<u>38,677</u>
IAS 1.54(q)	Non-controlling interest		713	592	476
IAS 1.55	Total equity		<u>83,914</u>	<u>52,388</u>	<u>39,153</u>
	Liabilities				
IAS 1.60, IAS 1.69	Non-current				
IAS 1.55	Pension and other employee obligations	21	11,224	10,812	10,242
IAS 1.54(m)	Borrowings	14	21,000	21,265	21,405
IAS 1.54(k)	Trade and other payables	23	4,096	4,608	5,002
IAS 1.55	Other liabilities	24	2,020	1,500	1,600
IAS 1.54(o), 1.56	Deferred tax liabilities	15	5,397	3,775	2,664
IAS 1.55	Non-current liabilities		<u>43,737</u>	<u>41,960</u>	<u>40,913</u>
IAS 1.60, IAS 1.69	Current				
IAS 1.54(l)	Provisions	22	1,215	3,345	4,400
IAS 1.55	Pension and other employee obligations	21	1,467	1,496	1,336
IAS 1.54(k)	Trade and other payables	23	9,059	7,096	7,702
IAS 1.54(m)	Borrowings	14	4,815	3,379	3,818
IAS 1.54(n)	Current tax liabilities		3,102	-	228
IAS 1.54(m)	Derivative financial instruments	14	-	160	-
IAS 1.55	Other liabilities	24	2,758	3,475	2,832
IAS 1.55	Current liabilities		<u>22,416</u>	<u>18,951</u>	<u>20,316</u>
IAS 1.54(p)	Liabilities included in disposal group held for sale	19	-	449	-
IAS 1.55	Total liabilities		<u>66,153</u>	<u>61,360</u>	<u>61,229</u>
IAS 1.55	Total equity and liabilities		<u>150,067</u>	<u>113,748</u>	<u>100,382</u>

See comments on page 6.

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Comments: Income statement

The statement of comprehensive income (separate income statement) has been prepared in accordance with IAS 1 *Presentation of Financial Statements* (Revised 2007), which introduced the concept of a statement of comprehensive income. The statement of comprehensive income may be presented in one of the following ways:

- in a **single** statement of comprehensive income, or
- in **two** statements: a statement displaying components of profit or loss (separate income statement) and a statement of comprehensive income.

The example financial statements illustrate a statement of comprehensive income in **two** statements. A single statement presentation is shown in Appendix B.

This income statement format illustrates an example of the 'nature of expense method'. See Appendix A for a format illustrating the 'function of expense' or 'cost of sales' method.

This income statement presents an 'operating profit' subtotal, which is commonly seen but is not required or defined in IFRS. Where this subtotal is provided, the figure disclosed should include items that would normally be considered to be operating. It is inappropriate to exclude items clearly related to operations (eg inventory write-downs and restructuring and relocation expenses) on the basis that they do not occur regularly or are unusual in amount (see IAS 1 Basis for Conclusions paragraph 56).

This income statement includes an amount representing the entity's share of profit from equity accounted investments. This amount represents profit after tax and non-controlling interest in those investments (as indicated in the Illustrative Financial Statement Structure in IAS 1).

Income statement

IAS 1.51(c) IAS 1.51(d-e)		Notes	2010 CU000	2009 CU000
IAS 1.82(a)	Revenue	8	206,193	191,593
IAS 1.85	Other income		427	641
IAS 1.85	Changes in inventories		(7,823)	(5,573)
IAS 1.85	Costs of material		(42,634)	(40,666)
IAS 1.85	Employee benefits expense	21	(114,190)	(108,673)
IAS 1.85	Change in fair value of investment property	13	310	175
IAS 1.85	Depreciation, amortisation and impairment of non-financial assets		(7,942)	(6,061)
IAS 1.85	Other expenses		(12,722)	(12,285)
	Operating profit		21,619	19,151
IAS 1.82(c)	Share of profit from equity accounted investments	7	60	12
IAS 1.82(b)	Finance costs	25	(3,473)	(3,594)
IAS 1.85	Finance income	25	994	793
IAS 1.85	Other financial items	26	3,388	3,599
	Profit before tax		22,588	19,961
IAS 1.82(d)	Tax expense	27	(7,132)	(6,184)
	Profit for the year from continuing operations		15,456	13,777
IAS 1.82(e)	Loss for the year from discontinued operations	19	(9)	(325)
IAS 1.82(f)	Profit for the year		15,447	13,452
	Profit for the year attributable to:			
IAS 1.83(a)(i)	Non-controlling interest		121	116
IAS 1.83(a)(ii)	Owners of the parent		15,326	13,336
			15,447	13,452
	Earnings per share	28	CU	CU
IAS 33.67A	Basic earnings per share			
IAS 33.66	Earnings from continuing operations		1.22	1.14
IAS 33.68	Loss from discontinued operations		(0.00)	(0.03)
IAS 33.66	Total		1.22	1.11
IAS 33.68A	Diluted earnings per share			
IAS 33.66	Earnings from continuing operations		1.22	1.14
IAS 33.68	Loss from discontinued operations		(0.00)	(0.03)
IAS 33.66	Total		1.22	1.11

See comments on page 10.

Comments: Statement of comprehensive income

IAS 1 (Revised 2007) requires the entity to disclose reclassification adjustments and related tax effects relating to components of other comprehensive income either on the face of the statement or in the notes.

In this example the entity presents reclassification adjustments and current year gains and losses relating to other comprehensive income on the face of the statement of comprehensive income (IAS 1.92). An entity may instead present reclassification adjustments in the notes, in which case the components of other comprehensive income are presented after any related reclassification adjustments (IAS 1.94).

According to IAS 1.90 an entity shall disclose the amount of income tax relating to each component of other comprehensive income, either on the face of the statement of comprehensive income or in the notes. In this example the entity presents components of other comprehensive income before tax with one amount shown for the aggregate amount of income tax relating to all components of other comprehensive income (IAS 1.91(b)). Alternatively, the entity may present each component of other comprehensive income net of related tax effects, IAS 1.91(a). If the tax effects of each component of other comprehensive income are not presented on the face of the statement this shall be presented in the notes (see note 15).

Statement of comprehensive income

IAS 1.51(c) IAS 1.51(d-e)		Notes	2010 CU000	2009 CU000
IAS 1.81(b)	Profit for the year		15,447	13,452
IAS 1.82(g)	Other comprehensive income:			
IAS 16.77(f)	Revaluation of land	11	303	-
	Cash flow hedging	14		
IFRS 7.23(c-d)	- current year gains (losses)		367	(47)
IAS 1.92	- reclassification to profit or loss		260	(425)
	Available-for-sale financial assets	14		
IFRS 7.20(a)(ii)	- current year gains (losses)		113	35
IAS 1.92	- reclassification to profit or loss		(50)	-
IAS 21.52(b)	Exchange differences on translating foreign operations		(664)	(341)
	Share of other comprehensive income of equity			
IAS 1.82(h)	accounted investments		5	-
IAS 1.92	- reclassification to profit or loss		(3)	-
IAS 1.90	Income tax relating to components of other comprehensive income	15	85	95
	Other comprehensive income for the year, net of tax		416	(683)
IAS 1.82(i)	Total comprehensive income for the year		<u>15,863</u>	<u>12,769</u>
	Total comprehensive income for the year attributable to:			
IAS 1.83(b)(i)	Non-controlling interest		121	116
IAS 1.83(b)(ii)	Owners of the parent		15,742	12,653
			<u>15,863</u>	<u>12,769</u>

See comments on pages 10 and 12.

Statement of changes in equity¹

		Share capital	Share premium	Translation reserve	Revaluation reserve	Available-for-sale financial assets	Cash-flow hedges	Retained earnings	Total attributable to owners of parent	Non-controlling interest	Total equity
		CU000	CU000	CU000	CU000	CU000	CU000	CU000	CU000	CU000	CU000
IAS 1.51(d-e)											
IAS 1.106(d)	Balance at 1 January 2010	12,000	3,050	(359)	689	35	(160)	36,541	51,796	592	52,388
	Dividends	-	-	-	-	-	-	(3,000)	(3,000)	-	(3,000)
	Issue of share capital under share-based payment	270	1,415	-	-	-	-	-	1,685	-	1,685
	Employee share-based payment options	-	-	-	-	-	-	298	298	-	298
	Issue of share capital	1,500	15,180	-	-	-	-	-	16,680	-	16,680
IAS 1.106(d)(iii)	Transactions with owners	1,770	16,595	-	-	-	-	(2,702)	15,663	-	15,663
IAS 1.106(d)(i)	Profit for the year	-	-	-	-	-	-	15,326	15,326	121	15,447
IAS 1.106(d)(ii)	Other comprehensive income:										
	Cash flow hedges										
IFRS 7.23(c)	- current year gains (losses)	-	-	-	-	-	367	-	367	-	367
IFRS 7.23(d)	- reclassification to profit or loss	-	-	-	-	-	260	-	260	-	260
IFRS 7.20(a)(ii)	Available-for-sale financial assets										
	- current year gains (losses)	-	-	-	-	113	-	-	113	-	113
	- reclassification to profit or loss	-	-	-	-	(50)	-	-	(50)	-	(50)
IAS 16.77(f)	Revaluation of land	-	-	-	303	-	-	-	303	-	303
IAS 21.52(b)	Exchange differences on translating foreign operations	-	-	(664)	-	-	-	-	(664)	-	(664)
IAS 1.82(h)	Equity accounted investments	-	-	-	-	-	5	-	5	-	5
IAS 1.82(h)	- reclassification to profit or loss	-	-	-	-	-	(3)	-	(3)	-	(3)
IAS 12.81(a), IAS 1.90	Income tax relating to components of other comprehensive income	-	-	176	(91)	-	-	-	85	-	85
IAS 1.106(a)	Total comprehensive income for the year	-	-	(488)	212	63	629	15,326	15,742	121	15,863
IAS 1.106(d)	Balance at 31 December 2010	13,770	19,645	(847)	901	98	469	49,165	83,201	713	83,914

¹ IFRS 2 *Share-based Payment* requires an entity to recognise equity-settled share-based payment transactions as changes in equity but does not specify how this is presented, eg in a separate reserve within equity or within retained earnings. In our view, either approach would be allowed under IFRSs. Retained earnings has been credited with an increase in equity in this example (see also note 4.25).

Statement of changes in equity

	Share capital CU000	Share premium CU000	Trans- lation reserve CU000	Reva- luation reserve CU000	Available- for-sale financial assets CU000	Cash-flow hedges CU000	Retained earnings CU000	Total attri- butable to owners of parent CU000	Non- controlling interest CU000	Total equity CU000
IAS 1.51(d-e) IAS 1.106(d) Balance at 1 January 2009	12,000	3,050	(113)	689	-	312	22,739	38,677	476	39,153
Employee share-based payment options	-	-	-	-	-	-	466	466	-	466
IAS 1.106(d)(iii) Transactions with owners	-	-	-	-	-	-	466	466	-	466
IAS 1.106(d)(i) Profit for the year	-	-	-	-	-	-	13,336	13,336	116	13,452
IAS 1.106(d)(ii) Other comprehensive income:										
Cash flow hedges										
IFRS 7.23(c) - current year gains (losses)	-	-	-	-	-	(47)	-	(47)	-	(47)
IFRS 7.23(d) - reclassification to profit or loss	-	-	-	-	-	(425)	-	(425)	-	(425)
IFRS 7.20(a)(ii) Available-for-sale financial assets										
- current year gains (losses)	-	-	-	-	35	-	-	35	-	35
- reclassification to profit or loss	-	-	-	-	-	-	-	-	-	-
IAS 21.52(b) Exchange differences on translating foreign operations	-	-	(341)	-	-	-	-	(341)	-	(341)
IAS 1.82(h) Equity accounted investments	-	-	-	-	-	-	-	-	-	-
IAS 1.82(h) - reclassification to profit or loss	-	-	-	-	-	-	-	-	-	-
IAS 12.81(a), IAS 1.90 Income tax relating to components of other comprehensive income	-	-	95	-	-	-	-	95	-	95
IAS 1.106(a) Total comprehensive income for the year	-	-	(246)	-	35	(472)	13,336	12,653	116	12,769
IAS 1.106(d) Balance at 31 December 2009	12,000	3,050	(359)	689	35	(160)	36,541	51,796	592	52,388

Statement of cash flows²

IAS 1.51(c) IAS 1.51(d-e) IAS 7.10	Notes	2010 CU000	2009 CU000
Operating activities			
Profit before tax		22,588	19,961
Adjustments	29	8,741	7,440
Contributions to defined benefit plans		(1,186)	(1,273)
Net changes in working capital	29	(2,133)	(1,092)
Settling of derivative financial instruments		(33)	716
IAS 7.35 Taxes paid		(1,948)	(5,588)
Net cash from continuing operations		26,029	20,164
IFRS 5.33(c) Net cash from discontinued operations	19	(22)	811
Net cash from operating activities		26,007	20,975
Investing activities			
IAS 7.10 Purchase of property, plant and equipment		(76)	(3,281)
Proceeds from disposals of property, plant and equipment		86	-
Purchase of other intangible assets		(3,666)	(3,313)
Proceeds from disposals of other intangible assets		924	-
IAS 7.39 Acquisition of subsidiaries, net of cash	5	(15,714)	(12,076)
IAS 7.39 Proceeds from sale of subsidiaries, net of cash	5	3,117	-
Proceeds from disposals and redemptions of non-derivative financial assets		228	132
IAS 7.31 Interest received	25	752	447
IAS 7.31 Dividends received	25	62	21
IAS 7.35 Taxes paid		(244)	(140)
Net cash used in investing activities		(14,531)	(18,210)
Financing activities			
IAS 7.10 Proceeds from bank loans		1,441	-
Repayment of bank loans		(3,778)	(649)
Proceeds from issue of share capital		18,365	-
IAS 7.31 Interest paid	25	(1,035)	(907)
IAS 7.31 Dividends paid	28	(3,000)	-
Net cash from (used in) financing activities		11,993	(1,556)
Net change in cash and cash equivalents		23,469	1,209
Cash and cash equivalents, beginning of year		11,259	10,007
IAS 7.28 Exchange differences on cash and cash equivalents		61	43
		34,789	11,259
- included in disposal group	19	-	(22)
IAS 7.45 Cash and cash equivalents, end of year	18	34,789	11,237

² This format illustrates the indirect method of determining operating cash flows (IAS 7.18(b)). An entity may also determine the operating cash flows using the direct method (IAS 7.18(a)).

Notes to the consolidated financial statements

1 Nature of operations

- IAS 1.51(a) Illustrative Corporation and subsidiaries' (the Group) principal activities include
IAS 1.51(b) the development, consulting, sale and service of customised IT and telecommunication systems.
- IAS 1.138(b) The Group provides phone and intranet based in-house applications including the integration of mobile end devices into new and existing IT and telecommunication structures. By integrating these activities, the Group acts as a one-stop-shop for the modern day communication requirements of small- to medium-sized companies. Services include consulting activities that concentrate on the design of combined IT and telecommunication systems for clients. The Group also delivers IT and telecommunication solutions specifically designed for the customer through modification of complex equipment. The Group sells the hardware and software products of the Group's business partners and delivers extensive after-sale service and maintenance for these products. The acquisitions and disposals described in note 5 are in line with the Group's strategy to increase online sales capacity.

2 General information and statement of compliance with IFRS

- IAS 1.16 The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).
- IAS 1.138(a) Illustrative Corporation Ltd (Illustrative Corporation) is the Group's ultimate
IAS 1.138(c) parent company. Illustrative Corporation is a limited liability company incorporated and domiciled in Euroland. The address of its registered office and its principal place of business is 149a Great Place, 40237 Greatville, Euroland. Illustrative Corporation's shares are listed on the Greatstocks Stock Exchange.
- IAS 1.51(c) The consolidated financial statements for the year ended 31 December 2010
IAS 10.17 (including comparatives) were approved and authorised for issue by the board of directors on 8 March 2011 (see note 35). Under the security regulations act of Euroland, amendments to the financial statements are not permitted after approval.

3 Changes in accounting policies

3.1 Overall considerations

IAS 1.117 The Group has adopted the following revisions and amendments to IFRS issued by the International Accounting Standards Board, which are relevant to and effective for the Group's financial statements for the annual period beginning 1 January 2010³:

- IFRS 3 *Business Combinations* (Revised 2008)
- IAS 27 *Consolidated and Separate Financial Statements* (Revised 2008)
- *Improvements to IFRSs 2009*

Significant effects on current, prior or future periods arising from the first-time application of these new requirements in respect of presentation, recognition and measurement are described in notes 3.2 to 3.4. An overview of standards, amendments and interpretations to IFRSs issued but not yet effective is given in note 3.5.

3.2 Adoption of IFRS 3 Business Combinations (Revised 2008)

IAS 8.28(a) The revised standard on business combinations (IFRS 3R) introduced major
IAS 8.28(c) changes to the accounting requirements for business combinations. It retains the major features of the purchase method of accounting, now referred to as the acquisition method. The most significant changes in IFRS 3R that had an impact on the Group's acquisition in 2010 are as follows:

- acquisition-related costs of the combination are recorded as an expense in the income statement. Previously, these costs would have been accounted for as part of the cost of the acquisition
- any contingent consideration is measured at fair value at the acquisition date. If the contingent consideration arrangement gives rise to a financial liability, any subsequent changes are generally recognised in profit or loss. Previously, contingent consideration was recognised only once its payment was probable and changes were recognised as an adjustment to goodwill
- the measurement of assets acquired and liabilities assumed at their acquisition-date fair values is retained. However, IFRS 3R includes certain exceptions and provides specific measurement rules.

³ The discussion of the initial application of IFRSs needs to be disclosed only in the first financial statements after the new or revised rules have been adopted by the entity.

IAS 8.28(b) IFRS 3R has been applied prospectively to business combinations for which the
IAS 8.28(f) acquisition date is on or after 1 January 2010. For the year ended 31 December 2010, the adoption of IFRS 3R has affected the accounting for the Group's acquisition of Goodtech GmbH (see note 5.1) by increasing the Group's expenses related to acquisition-related costs by CU 223,000. Current tax expense has decreased by CU 66,900. Basic and diluted earnings per share for the current period have decreased by CU 0.01.

Business combinations for which the acquisition date is before 1 January 2010 have not been restated.

3.3 Adoption of IAS 27 Consolidated and Separate Financial Statements (Revised 2008)

IAS 8.28(a) The adoption of IFRS 3R required that the revised IAS 27 (IAS 27R) is adopted
IAS 8.28(c) at the same time. IAS 27R introduced changes to the accounting requirements for transactions with non-controlling (formerly called 'minority') interests and the loss of control of a subsidiary. These changes are applied prospectively. During the current period, the Group had no transactions with non-controlling interests. The disposal of the investment in Highstreet Ltd (see note 5.2) was not affected by the adoption of IAS 27R.

3.4 Adoption of Improvements to IFRSs 2009 (Issued in April 2009)

IAS 8.28(a) The *Improvements to IFRSs 2009* made several minor amendments to IFRSs. The
IAS 8.28(c) only amendment relevant to the Group relates to IAS 17 *Leases*. The amendment requires that leases of land are classified as finance or operating by applying the general principles of IAS 17. Prior to this amendment, IAS 17 generally required a lease of land to be classified as an operating lease. The Group has reassessed the classification of the land elements of its unexpired leases at 1 January 2010 on the basis of information existing at the inception of those leases and has determined that none of its leases require reclassification.

3.5 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group⁴

IAS 8.30 At the date of authorisation of these financial statements, certain new standards,
IAS 8.31 amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Group.

Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's financial statements.

Annual Improvements 2010 (effective from 1 July 2010 and later)

The IASB has issued *Improvements to IFRS 2010* (2010 Improvements). Most of these amendments become effective in annual periods beginning on or after 1 July 2010 or 1 January 2011. The 2010 Improvements amend certain provisions of IFRS 3R, clarify presentation of the reconciliation of each of the components of other comprehensive income and clarify certain disclosure requirements for financial instruments. The Group's preliminary assessments indicate that the 2010 Improvements will not have a material impact on the Group's financial statements.

IFRS 9 *Financial Instruments* (effective from 1 January 2013)

The IASB aims to replace IAS 39 *Financial Instruments: Recognition and Measurement* in its entirety. The replacement standard (IFRS 9) is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning 1 January 2013. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

Management have yet to assess the impact that this amendment is likely to have on the financial statements of the Group. However, they do not expect to implement the amendments until all chapters of IFRS 9 have been published and they can comprehensively assess the impact of all changes.

⁴ These example financial statements were published in December 2010 and take into account new and amended standards and interpretations published up to and including 30 November 2010. In practice, this note should reflect those new and amended standards and interpretations published up to the date the financial statements are authorised for issue.

- IAS 1.114(b) **4 Summary of accounting policies**
 4.1 Overall considerations
- IAS 1.117(b) The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarised below.⁵
- IAS 1.117(a) The consolidated financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below.
- 4.2 Presentation of financial statements**
- IAS 1.81 The consolidated financial statements are presented in accordance with IAS 1 *Presentation of Financial Statements* (Revised 2007). The Group has elected to present the 'Statement of comprehensive income' in two statements: the 'Income statement' and a 'Statement of comprehensive income'.
- IAS 1.39 IAS 1 requires two comparative periods to be presented for the statement of financial position in certain circumstances. The Group has elected to provide the additional comparatives in all circumstances to maintain a more consistent presentation each year.⁶
- 4.3 Basis of consolidation**
- IAS 1.117(a) The Group financial statements consolidate those of the parent company and all of its subsidiary undertakings drawn up to 31 December 2010. Subsidiaries are all entities over which the Group has the power to control the financial and operating policies. The Group obtains and exercises control through more than half of the voting rights. All subsidiaries have a reporting date of 31 December.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

⁵ Disclosure of accounting policies shall reflect the facts and circumstances of the entity. In this set of example financial statements the accounting policies reflect the activities of the fictitious entity, Illustrative Corporation and subsidiaries. The accounting policies should therefore in all cases be tailored to the facts and circumstances in place, which may prescribe that less extensive accounting policies are disclosed for the entity.

⁶ Illustrative Corporation has elected to include a third statement of financial position in the current year even though it is not required by IAS 1, as there have been no retrospective changes or reclassifications of items in the financial statements (IAS 1.39). This approach allows entities to maintain a more consistent format and layout from one year to the next and may therefore save on design and printing costs.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

4.4 Business combinations

IAS 1.117(a) For business combinations occurring since 1 January 2010, the requirements of
IAS 1.117(b) IFRS 3R have been applied (see note 3.2). The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non-controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (ie gain on a bargain purchase) is recognised in profit or loss immediately.

Prior to 1 January 2010, business combinations were accounted under the previous version of IFRS 3 (see note 3.2 for a the summary of the significant changes).

4.5 Investments in associates and joint ventures

IAS 31.57 Entities whose economic activities are controlled jointly by the Group and other
IAS 1.117(a) venturers independent of the Group (joint ventures) are accounted for using the
IAS 1.117(b) proportionate consolidation method, whereby the Group's share of the assets, liabilities, income and expenses is included line by line in the consolidated financial statements.

Associates are those entities over which the Group is able to exert significant influence but which are neither subsidiaries nor joint ventures. Investments in associates are initially recognised at cost and subsequently accounted for using the equity method. Any goodwill or fair value adjustment attributable to the Group's share in the associate is not recognised separately and is included in the amount recognised as investment in associates.

The carrying amount of the investments in associates is increased or decreased to recognise the Group's share of the profit or loss and other comprehensive income of the associate. These changes include subsequent depreciation, amortisation or impairment of the fair value adjustments of assets and liabilities.

Unrealised gains and losses on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

Amounts reported in the financial statements of associates and jointly controlled entities have been adjusted where necessary to ensure consistency with the accounting policies of the Group.

4.6 Foreign currency translation

IAS 21.53 The consolidated financial statements are presented in currency CU, which is also the functional currency of the parent company.

IAS 1.117(a) Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at year-end exchange rates are recognised in profit or loss.

IAS 1.117(b)

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not retranslated). Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

In the Group's financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than the CU (the Group's presentation currency) are translated into CU upon consolidation. The functional currency of the entities in the Group have remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into CU at the closing rate at the reporting date. Income and expenses have been translated into the Group's presentation currency at the average rate⁷ over the reporting period. Exchange differences are charged/credited to other comprehensive income and

⁷ Note that the use of average rates is appropriate only if rates do not fluctuate significantly (IAS 21.40).

recognised in the currency translation reserve in equity. On disposal of a foreign operation the cumulative translation differences recognised in equity are reclassified to profit or loss and recognised as part of the gain or loss on disposal. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into CU at the closing rate.

4.7 Segment reporting

- IFRS 8.22(a) In identifying its operating segments, management generally follows the Group's service lines, which represent the main products and services provided by the Group.
- IFRS 8.22(b) The activities undertaken by the *consulting segment* includes the sale, customisation and integration of IT and telecommunication systems. Maintenance of these systems is undertaken by the *service segment*. The *retail segment* includes the entire Group's internet-based selling activities of hardware and software products.
- IFRS 8.27(a) Each of these operating segments is managed separately as each of these service lines require different technologies and other resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.
- IFRS 8.27(b-d) The measurement policies the Group uses for segment reporting under IFRS 8 are the same as those used in its financial statements, except that:
- post-employment benefit expenses
 - expenses relating to share-based payments
 - research costs relating to new business activities
 - revenue, costs and fair value gains from investment property
- are not included in arriving at the operating profit of the operating segments. In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment. In the financial periods under review, this primarily applies to the Group's headquarters and the Illustrative Research Lab in Greatville.
- IFRS 8.27(e) There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

4.8 Revenue

Revenue comprises revenue from the sale of goods and the rendering of services plus the Group's share of the revenue of its joint ventures. Revenue from major products and services is shown in note 8.

- IAS 18.35(a) Revenue is measured by reference to the fair value of consideration received or receivable by the Group for goods supplied and services provided, excluding sales taxes, rebates, and trade discounts.

The Group often enters into sales transactions involving a range of the Group's products and services (multiple components), for example for the delivery of hardware, software and related after-sales service. The Group applies the revenue recognition criteria set out below to each separately identifiable component of the sales transaction in order to reflect the substance of the transaction. The consideration received from these transactions is allocated to the separately identifiable component by taking into account the relative fair value of each component.

Revenue is recognised when the amount of revenue can be measured reliably, collection is probable, the costs incurred or to be incurred can be measured reliably, and when the criteria for each of the Group's different activities have been met. These activity-specific recognition criteria are based on the goods or solutions provided to the customer and the contract conditions in each case, and are described below.

IAS 1.117(b) Sale of goods (hardware or software)

Sale of goods comprises the sale of software and hardware, and is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods supplied. Significant risks and rewards are generally considered to be transferred to the buyer when the customer has taken undisputed delivery of the goods.

Revenue from the sale of hardware or software products with no significant service obligation is recognised on delivery. Where software or hardware requires significant tailoring, modification or integration the revenue is recognised using the percentage of completion method as described below.

When goods are sold together with customer loyalty incentives, the arrangement is considered a multiple-element arrangement. The consideration receivable is allocated between the components of the sale based on their fair values. Revenue from sales of incentives is recognised when they are redeemed by customers in exchange for products supplied by the Group.

IAS 1.117(b) Rendering of services

Services comprise after-sales service and maintenance, consulting, rental income and construction contracts for telecommunication solutions (see note 8).

The Group commits to extensive after-sales support and maintenance in its service segment. The amount of the selling price associated with the servicing agreement is deferred and recognised as revenue over the period during which the service is performed. This deferred income is included in 'other liabilities'.

Revenue from consulting services is recognised when the services are provided by reference to the stage of completion of the contract at the reporting date (see below for further information on the stage of completion).

Rental income from operating leases of the Group's investment properties is recognised on a straight-line basis over the term of the lease.

IAS 1.117(b) Construction contracts for telecommunication solutions

The Group provides telecommunication solutions specifically customised to each customer. These contracts specify a fixed price for the development and installation of IT and telecommunication systems, and are within the scope of IAS 11 *Construction Contracts*.

IAS 11.39(b) When the outcome can be assessed reliably, contract revenue and associated costs
IAS 18.35(a) are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date. Revenue is measured at the fair value of consideration received or receivable in relation to that activity.

When the Group cannot measure the outcome of a contract reliably, revenue is recognised only to the extent of contract costs that have been incurred and are recoverable. Contract costs are recognised 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 immediately in profit or loss.

IAS 1.117(a) The stage of completion of any construction contract is assessed by management
IAS 11.39(c) by taking into consideration all information available at the reporting date. The
IAS 1.122 Group's construction contracts usually define milestones for the project work to be carried out. The maximum amount of revenue to be recognised for each milestone is determined by estimating relative contract fair values of each project phase, ie by comparing overall revenue that the Group expects from its construction contract with the profit expected to be made on fulfilling the corresponding milestone. Progress and related contract revenue in-between milestones is determined by comparing costs incurred to date with the total estimated costs estimated for that particular milestone (this procedure is sometimes referred to as the 'cost-to-cost' method).

The gross amount due from customers for contract work is presented as an asset within 'trade and other receivables' for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings. The gross amount due to customers for contract work is presented as a liability within 'other liabilities' for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less losses).

Interest and dividend income

- IAS 18.30 Interest income and expenses are reported on an accrual basis using the effective interest method. Dividend income, other than those from investments in associates, are recognised at the time the right to receive payment is established.

4.9 Operating expenses

- IAS 1.117(b) Operating expenses are recognised in profit or loss upon utilisation of the service or at the date of their origin. Expenditure for warranties is recognised and charged against the associated provision when the related revenue is recognised.

4.10 Borrowing costs

- IAS 1.117(b) Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed in the period in which they are incurred and reported in 'finance costs' (see note 25).

4.11 Profit or loss from discontinued operations

- IAS 1.117(b) A discontinued operation is a component of the entity that either has been disposed of, or is classified as held for sale, and:
- IFRS 5.32
- represents a separate major line of business or geographical area of operations
 - is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or
 - is a subsidiary acquired exclusively with a view to resale.
- IFRS 5.33 Profit or loss from discontinued operations, including prior year components of profit or loss, are presented in a single amount in the income statement. This amount, which comprises the post-tax profit or loss of discontinued operations and the post-tax gain or loss resulting from the measurement and disposal of assets classified as held for sale (see also note 4.22), is further analysed in note 19.
- IFRS 5.34 The disclosures for discontinued operations in the prior year relate to all operations that have been discontinued by the reporting date for the latest period presented. Where operations previously presented as discontinued are now regarded as continuing operations, prior period disclosures are correspondingly re-presented.

4.12 Goodwill

- IAS 1.117(a) Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognised. See note 4.4 for information on how goodwill is initially determined. Goodwill is carried at cost less accumulated impairment losses. Refer to note 4.16 for a description of impairment testing procedures.

4.13 Other intangible assets

IAS 38.118(a) Other intangible assets include acquired and internally developed software used in production or administration and brand names and customer lists that qualify for recognition as an intangible asset in a business combination. They are accounted for using the cost model whereby capitalised costs are amortised on a straight-line basis over their estimated useful lives, as these assets are considered finite. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing as described in note 4.16. The following useful lives are applied:

- Software: 3-5 years
- Brand names: 15-20 years
- Customer lists: 4-6 years.

IAS 38.118(d) Amortisation has been included within 'depreciation, amortisation and impairment of non-financial assets'.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and install the specific software. Subsequent expenditure on brands is expensed as incurred.

IAS 1.117(b) Costs associated with maintaining computer software, ie expenditure relating to patches and other minor updates as well as their installation, are expensed as incurred.

Research and Development Expenditure

IAS 1.117(b) Expenditure on research (or the research phase of an internal project) is recognised as an expense in the period in which it is incurred.

IAS 38.57 Costs that are directly attributable to the development phase of new customised software for IT and telecommunication systems are recognised as intangible assets provided they meet the following recognition requirements:

- completion of the intangible asset is technically feasible so that it will be available for use or sale;
- the Group intends to complete the intangible asset and use or sell it;
- the Group has the ability to use or sell the intangible asset;
- the intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits;
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

Development costs not meeting these criteria for capitalisation are expensed as incurred.

- IAS 38.118(a) Directly attributable costs include employee (other than directors) costs incurred
IAS 38.118(b) on software development along with an appropriate portion of relevant overheads and borrowing costs. Internally generated software developments recognised as intangible assets are subject to the same subsequent measurement method as externally acquired software licences. However, until completion of the development project, the assets are subject to impairment testing only as described below in note 4.16.

The gain or loss arising on the disposal of an intangible asset is determined as the difference between the proceeds and the carrying amount of the asset, and is recognised in profit or loss within 'other income' or 'other expenses'.

4.14 Property, plant and equipment

- IAS 16.73(a) Land held for use in production or administration is stated at revalued amounts.
IAS 16.73(b) As no finite useful life for land can be determined, related carrying amounts are not depreciated. Revalued amounts are fair market values determined in
IAS 16.73(c) appraisals by external professional valuers once every two years, unless market-based factors indicate a material change in fair value, in which case a further
IAS 1.117(a) revaluation is performed.

- IAS 1.117(b) Any revaluation surplus arising upon appraisal of land is recognised in other comprehensive income and credited to the 'revaluation reserve' in equity. To the extent that any revaluation decrease or impairment loss (see note 4.16) has previously been recognised in profit or loss, a revaluation increase is credited to profit or loss with the remaining part of the increase recognised in other comprehensive income. Downward revaluations of land are recognised upon appraisal or impairment testing, with the decrease being charged to other comprehensive income to the extent of any revaluation surplus in equity relating to this asset and any remaining decrease recognised in profit or loss. Any revaluation surplus remaining in equity on disposal of the asset is transferred to retained earnings.

- IAS 16.73(a) Buildings, IT equipment and other equipment (comprising fittings and furniture)
IAS 1.117(a) are carried at acquisition cost or manufacturing cost less subsequent depreciation and impairment losses.

Buildings that are leasehold property are also included in property, plant and equipment if they are held under a finance lease. Such assets are depreciated over their expected useful lives (determined by reference to comparable owned assets) or over the term of the lease, if shorter.

IAS 16.73(b) Depreciation is recognised on a straight-line basis to write down the cost or
IAS 16.73(c) valuation less estimated residual value of property, plant and equipment other than freehold land. The periods generally applicable are:

- Buildings: 25-50 years
- IT equipment: 2-5 years
- Other equipment: 3-12 years.

Material residual value estimates and estimates of useful life are updated as required, but at least annually, whether or not the asset is revalued.

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised in profit or loss within 'other income' or 'other expenses'.

4.15 Leased assets

IAS 1.117(a) In accordance with IAS 17 *Leases*, the economic ownership of a leased asset is
IAS 1.117(b) transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is then recognised at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognised as a finance leasing liability, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease. Leases of land and buildings are classified separately and are split into a land and a building element, in accordance with the relative fair values of the leasehold interests at the date the asset is recognised initially.

Depreciation methods and useful lives for assets held under finance lease agreements correspond to those applied to comparable assets which are legally owned by the Group. The corresponding finance leasing liability is reduced by lease payments less finance charges, which are expensed as part of finance costs.

The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to profit or loss over the period of the lease.

All other leases are treated as operating leases. Payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

4.16 Impairment testing of goodwill, other intangible assets and property, plant and equipment

IAS 1.117(b) For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors goodwill.

Cash-generating units to which goodwill has been allocated are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

IAS 1.122 An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect their respective risk profiles as assessed by management.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

4.17 Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation, and are accounted for using the fair value model.

IAS 40.75(a) Investment properties are revalued annually and are included in the statement of
IAS 40.75(d) financial position at their open market values. These are determined by external
IAS 40.75(e) professional valuers with sufficient experience with respect to both the location and the nature of the investment property and supported by market evidence.

IAS 1.117(b) Any gain or loss resulting from either a change in the fair value or the sale of an investment property is immediately recognised in profit or loss within 'change in fair value of investment property'.

Rental income and operating expenses from investment property are reported within 'revenue' and 'other expenses' respectively, and are recognised as described in notes 4.8 and 4.9.

4.18 Financial instruments

IFRS 7.21 Financial assets and financial liabilities are recognised when the Group
IAS 1.117(b) becomes a party to the contractual provisions of the financial instrument.

IAS 1.117(b) Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

IAS 1.117(a) Financial assets and financial liabilities are measured initially at fair value adjusted by transactions costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Financial assets and financial liabilities are measured subsequently as described below.

IAS 1.117(a) **Financial assets**
For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- loans and receivables
- financial assets at fair value through profit or loss
- held-to-maturity investments
- available-for-sale financial assets.

The category determines subsequent measurement and whether any resulting income and expense is recognised in profit or loss or in other comprehensive income.

IFRS 7.B5(f) All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within 'finance costs', 'finance income' or 'other financial items', except for impairment of trade receivables which is presented within 'other expenses'.

IAS 1.117(a) Loans and receivables

IAS 1.117(b) Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

IFRS 7.B5(f) Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

IAS 1.117(a) Financial assets at fair value through profit or loss

IAS 1.117(b) Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply (see below).

Also:

IFRS 7.B5(a)

IFRS 7.B5(e) Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of derivative financial instruments are determined by reference to active market transactions or using a valuation technique where no active market exists.

IAS 1.117(a) Held-to-maturity investments

IAS 1.117(b) Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as held-to-maturity if the Group has the intention and ability to hold them until maturity. The Group currently holds listed bonds designated into this category.

IFRS 7.B5(f) Held-to-maturity investments are measured subsequently at amortised cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognised in profit or loss.

IAS 1.117(a) **Available-for-sale financial assets**

IAS 1.117(b) Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Group's available-for-sale financial assets include listed securities and debentures, and the equity investment in XY Ltd.

IFRS 7.B5(b)

The equity investment in XY Ltd is measured at cost less any impairment charges, as its fair value cannot currently be estimated reliably. Impairment charges are recognised in profit or loss.

IAS 1.117(a) All other available-for-sale financial assets are measured at fair value. Gains and losses are recognised in other comprehensive income and reported within the available-for-sale reserve within equity, except for impairment losses and foreign exchange differences on monetary assets, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to profit or loss and presented as a reclassification adjustment within other comprehensive income. Interest calculated using the effective interest method and dividends are recognised in profit or loss within 'finance income' (see note 4.8).

IAS 1.117(b)

Reversals of impairment losses are recognised in other comprehensive income, except for financial assets that are debt securities which are recognised in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

IAS 1.117(b) **Financial liabilities**

The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments.

IAS 1.117(a) Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through profit or loss, that are carried subsequently at fair value with gains or losses recognised in profit or loss.

All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at fair value through profit or loss.

- IAS 1.117(a) IFRS 7.B5(a) The Group has designated some financial liabilities at fair value through profit or loss to reduce significant measurement inconsistencies between investment properties in the United States and related US-dollar bank loans with fixed interest rates. These investment properties are measured using the fair value model in IAS 40 *Investment Property*. Changes in the fair value of these assets are therefore recognised in profit or loss. The fair value of loans used to finance these assets correlates significantly with the valuation of the investment properties held by the Group, because both measures are highly reactive to the market interest rate for 30-year government bonds. The loans are managed and evaluated on a fair value basis through a quarterly management review in comparison with the property valuations. It is therefore the Group's accounting policy to designate such fixed interest rate loans as at fair value through profit or loss if they are secured by specific investment property assets that are held by the Group. This accounting policy reduces significantly what would otherwise be an accounting mismatch.
- IAS 1.117(b) All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within 'finance costs' or 'finance income'.
- Derivative financial instruments**
- IAS 1.117(b) A specific accounting treatment is required for derivatives designated as hedging instruments in cash flow hedge relationships. To qualify for hedge accounting, the hedging relationship must meet several strict conditions with respect to documentation, probability of occurrence of the hedged transaction and hedge effectiveness. All other derivative financial instruments are accounted for at fair value through profit or loss.
- IFRS 7.22(a) IFRS 7.22(c) For the reporting periods under review, the Group has designated certain forward currency contracts as hedging instruments in cash flow hedge relationships. These arrangements have been entered into to mitigate currency exchange risk arising from certain legally binding sales and purchase orders denominated in foreign currency.
- IAS 1.117(a) All derivative financial instruments used for hedge accounting are recognised initially at fair value and reported subsequently at fair value in the statement of financial position.
- IAS 1.117(b) To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognised immediately in profit or loss.

At the time the hedged item affects profit or loss, any gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and presented as a reclassification adjustment within other comprehensive income. However, if a non-financial asset or liability is recognised as a result of the hedged transaction, the gains and losses previously recognised in other comprehensive income are included in the initial measurement of the hedged item.

If a forecast transaction is no longer expected to occur or if the hedging instrument becomes ineffective, any related gain or loss recognised in other comprehensive income is transferred immediately to profit or loss.

4.19 Inventories

- IAS 2.36(a) Inventories are stated at the lower of cost and net realisable value. Cost includes
IAS 1.117(a) all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Costs of ordinarily interchangeable items are assigned using the first in, first out cost formula. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

4.20 Income taxes

- IAS 1.117(a) Tax expense recognised in profit or loss comprises the sum of deferred tax and
IAS 1.117(b) current tax not recognised in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with investments in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future.

- IAS 1.117(a) Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always provided for in full.

IAS 1.122 Deferred tax assets are recognised to the extent that it is probable that they will be able to be utilised against future taxable income. For management's assessment of the probability of future taxable income to utilise against deferred tax assets, see note 4.27.

Deferred tax assets and liabilities are offset only when the Group has a right and intention to set off current tax assets and liabilities from the same taxation authority.

IAS 1.117(b) Changes in deferred tax assets or liabilities are recognised as a component of tax income or expense in profit or loss, except where they relate to items that are recognised in other comprehensive income (such as the revaluation of land) or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively.

4.21 Cash and cash equivalents

IAS 7.46 Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

4.22 Non-current assets and liabilities classified as held for sale and discontinued operations

IAS 1.117(a) When the Group intends to sell a non-current asset or a group of assets (a disposal group), and if sale within 12 months is highly probable, the asset or disposal group is classified as 'held for sale' and presented separately in the statement of financial position.

Liabilities are classified as 'held for sale' and presented as such in the statement of financial position if they are directly associated with a disposal group.

IAS 1.117(b) Assets classified as 'held for sale' are measured at the lower of their carrying amounts immediately prior to their classification as held for sale and their fair value less costs to sell. However, some 'held for sale' assets such as financial assets or deferred tax assets, continue to be measured in accordance with the Group's accounting policy for those assets. No assets classified as 'held for sale' are subject to depreciation or amortisation subsequent to their classification as 'held for sale'.

Any profit or loss arising from the sale or remeasurement of discontinued operations is presented as described in note 4.11.

4.23 Equity, reserves and dividend payments

IAS 1.79(b)

Share capital represents the nominal value of shares that have been issued.

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

The revaluation reserve within equity comprises gains and losses due to the revaluation of property, plant and equipment. Foreign currency translation differences arising on the translation of the Group's foreign entities are included in the translation reserve (see note 4.6). Gains and losses on certain financial instruments are included in reserves for available-for-sale financial assets and cash-flow hedges respectively (see note 4.18).

Retained earnings include all current and prior period retained profits.

Dividend distributions payable to equity shareholders are included in 'other liabilities' when the dividends have been approved in a general meeting prior to the reporting date.

All transactions with owners of the parent are recorded separately within equity.

4.24 Post employment benefits and short-term employee benefits

IAS 1.117(b)

The Group provides post employment benefits through defined benefit plans as well as various defined contribution plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into an independent entity. The Group has no legal or constructive obligations to pay further contributions after its payment of the fixed contribution. The Group contributes to several state plans and insurances for individual employees that are considered defined contribution plans. Contributions to the plans are recognised as an expense in the period that relevant employee services are received.

Plans that do not meet the definition of a defined contribution plan are defined benefit plans. The defined benefit plan sponsored by the Group defines the amount of pension benefit that an employee will receive on retirement by reference to length of service and final salary. The legal obligation for any benefits remains with the Group, even if plan assets for funding the defined benefit plan have been set aside. Plan assets may include assets specifically designated to a long-term benefit fund as well as qualifying insurance policies.

The liability recognised in the statement of financial position for defined benefit plans is the present value of the defined benefit obligation (DBO) at the reporting date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs.

IAS 1.117(a) Management estimates the DBO annually with the assistance of independent actuaries. The estimate of its post-retirement benefit obligations is based on standard rates of inflation, medical cost trends and mortality. It also takes into account the Group's specific anticipation of future salary increases. Discount factors are determined close to each year-end by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

IAS 19.120A(a) Actuarial gains and losses are not recognised as an expense unless the total unrecognised gain or loss exceeds 10% of the greater of the obligation and related plan assets. The amount exceeding this 10% corridor is charged or credited to profit or loss over the employees' expected average remaining working lives. Actuarial gains and losses within the 10% corridor are disclosed separately. Past service costs are recognised immediately in profit or loss, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

Interest expenses related to pension obligations are included in 'finance costs' in profit or loss. Return on plan assets is included in 'other financial items'. All other post employment benefit expenses are included in 'employee benefits expense'.

Short-term employee benefits, including holiday entitlement, are current liabilities included in 'pension and other employee obligations', measured at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

4.25 Share-based employee remuneration

IAS 1.117(b) The Group operates equity-settled share-based remuneration plans for its employees. None of the Group's plans feature any options for a cash settlement.

IAS 1.117(a) All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions).

All share-based remuneration is ultimately recognised as an expense in profit or loss with a corresponding credit to 'retained earnings'.⁸

If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital with any excess being recorded as share premium.

4.26 Provisions, contingent liabilities and contingent assets

IAS 1.117(b) Provisions are recognised when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Group and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, product warranties granted, legal disputes or onerous contracts. Restructuring provisions are recognised only if a detailed formal plan for the restructuring has been developed and implemented, or management has at least announced the plan's main features to those affected by it. Provisions are not recognised for future operating losses.

IAS 1.117(a) Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision.

⁸ IFRS 2 does not stipulate where in equity the credit entry in an equity-settled share-based payment transaction should be recognised. It is acceptable for the credit to be taken to retained earnings, however, this is subject to national law. Alternatively, it could be taken to a separate equity reserve. The accounting upon exercise of the share options may also depend on applicable national law relating to share capital.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

- IAS 1.117(a) In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognised, unless it was assumed in the course of a business combination (see note 4.4). In a business combination, contingent liabilities are recognised on the acquisition date when there is a present obligation that arises from past events and the fair value can be measured reliably, even if the outflow of economic resources is not probable. They are subsequently measured at the higher amount of a comparable provision as described above and the amount recognised on the acquisition date, less any amortisation.

Possible inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets.

4.27 Significant management judgement in applying accounting policies

- IAS 1.122 The following are significant management judgements in applying the accounting policies of the Group that have the most significant effect on the financial statements. Critical estimation uncertainties are described in note 4.28.

Revenue

The Group commits to extensive after-sales support in its service segment. The amount of the selling price associated with the subsequent servicing agreement is deferred and recognised as revenue over the period during which the service is performed. The nature of services provided depends on the customers use of the products. Therefore management needs to exercise significant judgement in determining when to recognise income from after-sales services. In particular, this considers historical experience and requires knowledge of the customers and the markets in which the Group operates.

Construction contract revenue

The stage of completion of any construction contract is assessed by management by taking into consideration all information available at the reporting date. In this process management exercises significant judgement about milestones, actual work performed and the estimated costs to complete the work. Further information on the Group's accounting policy for construction contracts is provided in note 4.8.

Internally generated software and research costs

Management monitors progress of internal research and development projects by using a project management system. Significant judgement is required in distinguishing research from the development phase. Development costs are recognised as an asset when all the criteria are met, whereas research costs are expensed as incurred.

To distinguish any research-type project phase from the development phase, it is the Group's accounting policy to also require a detailed forecast of sales or cost savings expected to be generated by the intangible asset. The forecast is incorporated into the Group's overall budget forecast as the capitalisation of development costs commences. This ensures that managerial accounting, impairment testing procedures and accounting for internally-generated intangible assets are based on the same data.

Management also monitors whether the recognition requirements for development costs continue to be met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems after the time of recognition.

Leases

In applying the classification of leases in IAS 17, management considers its leases of IT equipment as well as its main warehouse facilities as finance lease arrangements. In some cases, the lease transaction is not always conclusive, and management uses judgement in determining whether the lease is a finance lease arrangement that transfers substantially all the risks and rewards incidental to ownership.

Deferred tax assets

The assessment of the probability of future taxable income in which deferred tax assets can be utilised is based on the Group's latest approved budget forecast, which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. The tax rules in the numerous jurisdictions in which the Group operates are also carefully taken into consideration. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilised without a time limit, that deferred tax asset is usually recognised in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances.

Held-to-maturity investments

Management has confirmed its intention and ability to hold the bonds that are classified as held-to-maturity investments until they mature. This is based on the Group's current liquidity and capital maintenance requirements and plans.

IAS 1.125 **4.28 Estimation uncertainty**

When preparing the financial statements management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses.

The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results.

Information about significant judgements, estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below.

Impairment

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows (see note 4.16). In the process of measuring expected future cash flows management makes assumptions about future operating results. These assumptions relate to future events and circumstances. The actual results may vary, and may cause significant adjustments to the Group's assets within the next financial year.

In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

The Group has incurred an impairment loss of CU 799,000 on goodwill in 2010 (2009: CU 190,000) for its Telco Consult unit in order to reduce the carrying amount of goodwill to its recoverable amount (see note 9). If the discount rate of the Group's Telco Consult unit was increased by 1% a further impairment loss of CU 300,000 would have to be recognised, of which CU 245,000 would be written off against goodwill and CU 55,000 against property, plant and equipment.

Business combinations

On initial recognition, the assets and liabilities of the acquired business and the consideration paid for them are included in the consolidated financial statements at their fair values. In measuring fair value, management uses estimates of future cash flows and discount rates. Any subsequent change in these estimates would affect the amount of goodwill if the change qualifies as a measurement period adjustment. Any other change would be recognised in the income statement in the subsequent period. Details of acquired assets and liabilities assumed are given in note 5.

Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets to the Group. The carrying amounts are analysed in notes 10 and 11. Actual results, however, may vary due to technical obsolescence, particularly relating to software and IT equipment.

Construction contract revenue

The carrying amount of construction contracts of CU 1,374,000 (2009: CU 974,000; 2008: CU 670,000), and revenue recognised from construction contracts, reflect management's best estimate about each contract's outcome and stage of completion. Management assesses the profitability of ongoing construction contracts and the order backlog at least monthly, using extensive project management procedures. For more complex contracts in particular, costs to complete and contract profitability are subject to significant estimation uncertainty.

Inventories

Inventories are measured at the lower of cost and net realisable value. In estimating net realisable values, management takes into account the most reliable evidence available at the times the estimates are made. The Group's core business is subject to technology changes which may cause selling prices to change rapidly. Moreover, future realisation of the carrying amounts of inventory assets of CU 18,548,000 (2009: CU 17,376,000; 2008: CU 18,671,000) is affected by price changes in different market segments.

Defined benefit liability

Management estimates the defined benefit liability annually with the assistance of independent actuaries; however, the actual outcome may vary due to estimation uncertainties. The defined benefit liability of CU 12,470,000 (2009: CU 12,005,000; 2008: CU 11,298,000) is based on standard rates of inflation, medical cost trends and mortality. It also takes into account the Group's specific anticipation of future salary increases. Discount factors are determined close to each year-end by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. Estimation uncertainties exist particularly with regard to medical cost trends (analysis given in note 21.3), which may vary significantly in future appraisals of the Group's defined benefit obligations.

Fair value of financial instruments

Management uses valuation techniques in measuring the fair value of financial instruments where active market quotes are not available. Details of the assumptions used are given in the note 14. In applying the valuation techniques management makes maximum use of market inputs, and uses estimates and assumptions that are, as far as possible, consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about the assumptions that market participants would make. These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Provisions

The Group is currently defending certain lawsuits where the actual outcome may vary from the amount recognised in the financial statements. None of the provisions will be discussed here in further detail so as not to seriously prejudice the Group's position in the related disputes.

The amount recognised for warranties for which customers are covered for the cost of repairs is estimated based on management's past experience and the future expectations of defects.

Other liabilities

The amount recognised for deferred service income of CU 2,123,000 (2009: CU 2,291,000; 2008: CU 2,512,000) has been estimated by management after observation of the services actually performed and detailed consideration of the types of service arrangements entered into. However, the actual outcome may vary due to unexpected changes in the pattern of services performed.

5 Acquisitions and disposals

5.1 Acquisition of Goodtech GmbH in 2010

IFRS 3R.B64 (a) - (d) On 31 March 2010, the Group acquired 100% of the equity instruments of Goodtech GmbH (Goodtech), a Hamburg (Euroland) based business, thereby obtaining control. The acquisition was made to enhance the Group's position in the retail market for computer and telecommunications hardware in Euroland. Goodtech is a significant business in Euroland in the Group's targeted market.

The details of the business combination are as follows:

	CU000
IFRS 3R.B64(f) Fair value of consideration transferred	
IFRS 3R.B64(f)(i) Amount settled in cash	16,058
IFRS 3R.B64(f)(iii) Fair value of contingent consideration	600
IAS 7.40(a) Total	<u>16,658</u>
IFRS 3R.B64(i) Recognised amounts of identifiable net assets	
IAS 7.40(d) Property, plant and equipment	4,622
Intangible assets	5,255
Investments accounted for using the equity method	345
Investment property	75
Total non-current assets	<u>10,297</u>
Inventories	8,995
Trade and other receivables	7,792
Cash and cash equivalents	567
Total current assets	<u>17,354</u>
Borrowings	(3,478)
Deferred tax liabilities	(632)
Total non-current liabilities	<u>(4,110)</u>
Provisions	(1,320)
Other liabilities	(2,312)
Trade and other payables	(5,689)
Total current liabilities	<u>(9,321)</u>
Identifiable net assets	<u>14,220</u>
Goodwill on acquisition	<u>2,438</u>
IAS 7.40(b) Consideration transferred settled in cash	16,058
IAS 7.40(c) Cash and cash equivalents acquired	(567)
IAS 7.42 Net cash outflow on acquisition	<u>15,491</u>
Acquisition costs charged to expenses	223
Net cash paid relating to the acquisition	<u>15,714</u>

Consideration transferred

- IFRS 3R.B64 (f)(i) The acquisition of Goodtech was settled in cash of CU 16,058,000.
- IFRS 3R.B64 (g)(i-iii) The purchase agreement included an additional consideration of CU 1,310,000, payable only if the average profits of Goodtech for 2010 and 2011 exceed a target level agreed by both parties. The additional consideration will be paid on 1 April 2012. The CU 600,000 fair value of the contingent consideration liability initially recognised represents the present value of the Group's probability-weighted estimate of the cash outflow. It reflects management's estimate of a 50% probability that the targets will be achieved and is discounted using an interest rate of 4.4%.⁹ As at 31 December 2010, there have been no changes in the estimate of the probable cash outflow but the liability has increased to CU 620,000 due to the unwinding of the discount.
- IFRS 3RB67 (b) (i-iii)
- IFRS 3R.B64 (m) Acquisition-related costs amounting to CU 223,000 are not included as part of consideration transferred and have been recognised as an expense in the consolidated income statement, as part of 'other expenses.'

Identifiable net assets

- IFRS 3R.B64 (h) (i-iii) The fair value of the trade and other receivables acquired as part of the business combination amounted to CU 7,792,000, with a gross contractual amount of CU 7,867,000. As of the acquisition date, the Group's best estimate of the contractual cash flow not expected to be collected amounted to CU 75,000.

Goodwill

- IFRS 3R.67(e) Goodwill of CU 2,438,000 is primarily related to growth expectations, expected future profitability, the substantial skill and expertise of Goodtech's workforce and expected cost synergies. Goodwill has been allocated to cash-generating units at 31 December 2010. The goodwill that arose from this business combination is not expected to be deductible for tax purposes.
- IAS 36.133
- IFRS 3R.B64(k)

Goodtech's contribution to the Group results

- IFRS 3R.B64 (q)(i-ii) Goodtech incurred a loss of CU 20,000 for the 9 months from 31 March 2010 to the reporting date, primarily due to integration costs.

If Goodtech had been acquired on 1 January 2010, revenue of the Group for 2010 would have been CU 212 million, and profit for the year would have increased by CU 350,000.

⁹ The determination of the acquisition-date fair value of the contingent consideration should consider the expected outcome of the contingency. This example illustrates one possible approach in estimating the fair value of contingent consideration.

5.2 Disposal of Highstreet Ltd in 2010

On 30 September 2010, the Group disposed of its 100% equity interest in its subsidiary, Highstreet Ltd. The subsidiary was classified as held for sale in the 2009 financial statements (see note 19).

IAS 7.40(d) The consideration was received in 2010. The carrying amount of the net assets
IAS 7.40(b) of Highstreet Ltd recognised at the date of disposal (30 September 2010) were as follows:

		CU000
	Property, plant and equipment	2,475
	Total non-current assets	2,475
	Inventories	1,121
IAS 7.40(c)	Cash and cash equivalents	-
	Total current assets	1,121
	Provisions	(232)
	Borrowings	(8)
	Trade and other payables	(210)
	Total current liabilities	(450)
	Total net assets	3,146
IAS 7.40(a)	Total consideration received in cash	3,117
	Cash and cash equivalents disposed of	-
IAS 7.42	Net cash received	3,117
	Loss on disposal	(29)

5.3 Acquisition of Good Buy Inc. in 2009¹⁰

IFRS 3.66 On 30 June 2009, the Group acquired 100% of the equity instruments of Good
IFRS 3.67(a) Buy Inc. (Good Buy), a Delaware (USA) based business. The acquisition of
IFRS 3.67(b) Good Buy was made to enhance the Group's position as a retailer for computer
IFRS 3.67(c) and telecommunications hardware in the US market.

IAS 7.40(a) The total cost of acquisition includes the components stated below.
IAS 7.40(b)

		CU000
IFRS 3.67(d)	Purchase price, settled in cash	12,345
	Due diligence cost and valuers	55
	Legal advisers	21
	Total cost of acquisition	12,421

¹⁰ IFRS 3R only applies to business combinations occurring on or after 1 January 2010. Business combinations prior to this are not affected by IFRS 3R's disclosure requirements. Accordingly, the references in this disclosure footnote relate to the previous version of IFRS 3.

IFRS 3.67(f) The allocation of the purchase price to the assets and liabilities of Good Buy was completed in 2009. The amounts recognised at the acquisition date for each class of the acquiree's assets, liabilities and contingent liabilities are as follows:

IAS 7.40(d)		CU000
	Property, plant and equipment	3,148
	Intangible assets	3,005
	Total non-current assets	<u>6,153</u>
	Inventories	5,469
	Trade and other receivables	5,200
IAS 7.40(c)	Cash and cash equivalents	345
	Total current assets	<u>11,014</u>
	Deferred tax liabilities	<u>(435)</u>
	Non-current liabilities	<u>(435)</u>
	Provisions and contingent liabilities	(1,234)
	Other liabilities	(657)
	Trade and other payables	<u>(4,989)</u>
	Total current liabilities	<u>(6,880)</u>
	Net identifiable assets and liabilities	<u>9,852</u>
	Goodwill on acquisition	<u>2,569</u>
	Cost of acquisition, satisfied in cash	<u>12,421</u>
IAS 7.40(c)	Cash and cash equivalents acquired	<u>(345)</u>
IAS 7.42	Net cash outflow on acquisition	<u>12,076</u>

IFRS 3.67(f) (*) Disclosure of the carrying amounts of the acquiree's assets and liabilities immediately before the combination in accordance with IFRS was impracticable. Good Buy had not applied IFRS prior to its acquisition as at 30 June 2009. Therefore, essential data needed for pro-forma IFRS accounts of Good Buy prior to the date of acquisition was not available.

IFRS 3.67(e) No major line of business will be disposed of as a result of the acquisition.

IFRS 3.67(h) A significant part of the acquisition costs can be attributed to the sales force and the sales know-how of key personnel of Good Buy. At the acquisition date however, no intangible asset qualified for separate recognition in this respect. These circumstances contributed to the amount recognised as goodwill. All goodwill arising on the business combination had been allocated to cash-generating units by 31 December 2009.

IFRS 3.67(i) Good Buy contributed CU 400,000 to the consolidated profit for the 6 months from 1 July 2009 to 31 December 2009. If Good Buy had been acquired on 1 January 2009, revenue of the Group for 2009 would have been CU 196 million. However, due to a lack of IFRS-specific data prior to the acquisition of Good Buy, pro-forma profit or loss of the combined entity for the complete 2009 reporting period cannot be determined reliably.

6 Jointly controlled entities

IAS 31.56 Halftime Ltd is the only jointly controlled entity within the Group and the ownership percentage is 50%. Its financial statements have been incorporated into the consolidated financial statements using the proportionate consolidation method. The aggregate amounts relating to Halftime Ltd are as follows:

	2010 CU000	2009 CU000	2008 CU000
Non-current assets	300	250	245
Current assets	310	190	189
Total assets	610	440	434
Non-current liabilities	(50)	(40)	(45)
Current liabilities	(150)	(125)	(129)
Total liabilities	(200)	(165)	(174)
Income	400	389	385
Expenses	(320)	(321)	(322)

IAS 31.54 The Group has not incurred any contingent liabilities or other commitments
IAS 31.55 relating to its joint venture.

7 Investments in associates

IAS 28.37(e) The Group holds a 25% voting and equity interest in Equipe Consultants S.A. which provides support to the Group's consulting activities. As from 31 March 2010 the Group holds a 30% voting and equity interest in Shopmore GmbH, acquired through acquisition of Goodtech (see note 5.1). The investments are accounted for under the equity method. Both associates have a reporting date of 31 December.

IAS 28.37(a) The shares are not publicly listed on a stock exchange and hence published price quotes are not available. The aggregate amounts of certain financial information of the associates can be summarised as follows:

	2010 CU000	2009 CU000	2008 CU000
Assets	4,698	470	408
Liabilities	(3,247)	(380)	(365)
Revenues	1,710	560	510
Profit (loss)	256	49	(10)
Profit attributable to the Group	60	12	(2)

IAS 28.37(f) Dividends are subject to the approval of at least 51% of all shareholders of the associates. During 2010 and 2009 the Group received no dividends.

IAS 28.40 The Group has not incurred any contingent liabilities or other commitments relating to its investments in associates.

8 Segment reporting

IFRS 8.22(a) Management currently identifies the Group's three service lines as operating segments as further described in note 4.7. These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

IFRS 8.16 In addition, two minor operating segments, for which the quantitative thresholds have not been met, are currently combined below under 'other'. The main sources of revenue for this operating segment is sale and disposal of used IT equipment that the Group collects from its customers.

Segment information can be analysed as follows for the reporting periods under review¹¹:

		Consulting	Service	Retail	Other	Total
		2010	2010	2010	2010	2010
		CU000	CU000	CU000	CU000	CU000
	Revenue					
IFRS 8.23(a)	From external customers	110,810	18,140	72,098	4,079	205,127
	Discontinued operations	-	-	9,803	-	9,803
IFRS 8.23(b)	From other segments	231	-	-	-	231
	Segment revenues	111,041	18,140	81,901	4,079	215,161
	Changes in inventories	(4,694)	-	(3,129)	-	(7,823)
IFRS 8.23(f)	Costs of material	(17,468)	(5,442)	(22,040)	(1,397)	(46,347)
	Employee benefits expense	(54,224)	(10,863)	(46,359)	(2,447)	(113,893)
	Depreciation and amortisation of non-financial assets	(3,388)	(555)	(2,205)	(125)	(6,273)
IFRS 8.23(e)						
IAS 36.129(a)	Impairment of non-financial assets	(1,669)	-	-	-	(1,669)
	Other expenses	(9,446)	(30)	(1,333)	(10)	(10,819)
IFRS 8.23	Segment operating profit	20,152	1,250	6,835	100	28,337
IFRS 8.23	Segment assets	68,103	11,149	44,311	2,507	126,070

¹¹ IFRS 8 requires the amount of each operating segment item to be disclosed using the measures reported to the chief operating decision maker (ie based on internal management information). The disclosures in the example financial statements are therefore based on substantial assumptions (eg there is no measure of segment liabilities regularly reported to the chief operating decision maker), and so cannot be viewed as the only acceptable way of providing segment disclosures. It is therefore important to emphasise that segment reporting should be tailored on the basis of the entity's internal management reporting.

		Consulting	Service	Retail	Other	Total
		2009	2009	2009	2009	2009
		CU000	CU000	CU000	CU000	CU000
	Revenue					
IFRS 8.23(a)	From external customers	109,302	17,832	59,310	4,121	190,565
	Discontinued operations	-	-	11,015	-	11,015
IFRS 8.23(b)	From other segments	110	-	-	-	110
	Segment revenues	109,412	17,832	70,325	4,121	201,690
	Changes in inventories	(3,344)	-	(2,229)	-	(5,573)
IFRS 8.23(f)	Costs of material	(18,516)	(5,350)	(19,197)	(1,319)	(44,382)
	Employee benefits expense	(56,277)	(10,498)	(38,997)	(2,473)	(108,245)
	Depreciation and amortisation of non-financial assets	(3,585)	(587)	(2,332)	(132)	(6,636)
IFRS 8.23(e)						
IAS 36.129(a)	Impairment of non-financial assets	(190)	-	-	-	(190)
	Other expenses	(9,203)	(100)	(1,761)	(20)	(11,084)
IFRS 8.23	Segment operating profit	18,297	1,297	5,809	177	25,580
IFRS 8.23	Segment assets 2009	51,615	8,450	33,583	1,900	95,548
IFRS 8.23	Segment assets 2008	45,550	7,457	29,637	1,677	84,321

The Group's revenues from external customers and its non-current assets (other than financial instruments, investments accounted for using the equity method, deferred tax assets and post-employment benefit assets) are divided into the following geographical areas:

		2010		2009		2008
		CU000		CU000		CU000
		Revenue	Non-current assets	Revenue	Non-current assets	Non-current assets
IFRS 8.33(a)						
IFRS 8.33(b)	Euroland (domicile)	164,102	46,053	152,452	40,242	36,005
	United Kingdom	20,513	5,757	19,057	5,030	4,501
	USA	18,461	5,181	17,151	4,527	4,051
	Other countries	2,051	575	1,905	503	449
	Total	205,127	57,566	190,565	50,302	45,006

IFRS 8.33(a) Revenues from external customers in the Group's domicile, Euroland, as well as its major markets, the United Kingdom and the USA, have been identified on the basis of the customer's geographical location. Non-current assets are allocated based on their physical location. The above table does not include discontinued operations (disposal groups), for which revenue and assets can be attributed to Euroland.

IFRS 8.34 During 2010, CU 24,744,000 or 12% of the Group's revenues depended on a single customer in the consulting segment (2009: CU 21,076,000 or 11%).

The totals presented for the Group's operating segments reconcile to the key financial figures as presented in its financial statements as follows:

		2010 CU000	2009 CU000	
IFRS 8.28(a)	Revenues			
	Total reportable segment revenues	211,082	197,569	
	Other segment revenues	4,079	4,121	
	Rental income from investment property	1,066	1,028	
	Discontinued operations	(9,803)	(11,015)	
	Elimination of intersegment revenues	(231)	(110)	
	Group revenues	206,193	191,593	
IFRS 8.28(b)	Profit or loss			
	Total reportable segment operating profit	28,237	25,403	
	Other segment profit	100	177	
	Rental income from investment property	1,066	1,028	
	Change in fair value of investment property	310	175	
	Share-based payment expenses	(298)	(466)	
	Post-employment benefit expenses	(6,099)	(6,373)	
	Research and development costs	(1,690)	(1,015)	
	Other income not allocated	427	641	
	Other expenses not allocated	(303)	(286)	
	Operating profit of discontinued operations	(73)	(106)	
	Elimination of intersegment profits	(58)	(27)	
	Group operating profit	21,619	19,151	
	Share of profits from equity accounted investments	60	12	
	Finance costs	(3,473)	(3,594)	
	Finance income	994	793	
	Other financial items	3,388	3,599	
	Group profit before tax	22,588	19,961	
IFRS 8.28(c)	Assets	2010 CU000	2009 CU000 2008 CU000	
	Total reportable segment assets	123,563	93,648	82,644
	Other segment assets	2,507	1,900	1,677
	Group headquarters	3,967	2,073	1,386
	Investment property	12,662	12,277	12,102
	Illustrative Research Lab	5,101	2,665	1,782
	Other assets	3,401	1,777	1,188
	Consolidation	(1,134)	(592)	(397)
	Group assets	150,067	113,748	100,382

IFRS 8.28 In the periods under review, unallocated operating income and expense mainly consist of research expenditure as well as post-employment benefits expenses. The Group's headquarters, its investment properties and its main research facility, Illustrative Research Lab, are considered corporate assets and are not allocated to any segment's assets.

IFRS 8.32 The Group's revenue may be analysed as follows for each major product and
IAS 18.35(b) service category (excluding revenue from discontinued operations):

		2010	2009
		CU000	CU000
IFRS 8.32	Sale of hardware	47,585	39,145
	Sale of software	24,513	20,165
	Other	4,079	4,121
IAS 18.35(b)(i)	Sale of goods	76,177	63,431
	After-sales service and maintenance	18,140	17,832
	Consulting	59,837	60,116
IAS 11.39(a)	Construction contracts for telecommunication solutions	50,973	49,186
IAS 40.75(f)	Rental income	1,066	1,028
IAS 18.35(b)(ii)	Rendering of services	130,016	128,162
	Group revenue	206,193	191,593

9 Goodwill

IFRS 3R.B67(d) The main changes in the carrying amounts of goodwill result from the acquisition of Good Buy in 2009 and Goodtech in 2010. The net carrying amount of goodwill can be analysed as follows:

		2010	2009
		CU000	CU000
IFRS 3R.B67(d)	Gross carrying amount		
IFRS 3R.B67(d)(i)	Balance 1 January	3,727	1,234
IFRS 3R.B67(d)(ii)	Acquired through business combination	2,438	2,569
IFRS 3R.B67(d)(vi)	Net exchange difference	(135)	(76)
IFRS 3R.B67(d)(viii)	Balance 31 December	6,030	3,727
	Accumulated impairment		
IFRS 3R.B67(d)(i)	Balance 1 January	(190)	-
IFRS 3R.B67(d)(v)	Impairment loss recognised	(799)	(190)
IFRS 3R.B67(d)(vi)	Net exchange difference	-	-
IFRS 3R.B67(d)(viii)	Balance 31 December	(989)	(190)
	Carrying amount at 31 December	5,041	3,537

IAS 36.134 For the purpose of annual impairment testing goodwill is allocated to the following cash-generating units, which are the units expected to benefit from the synergies of the business combinations in which the goodwill arises.

		2010 CU000	2009 CU000	2008 CU000
	Online retailing, Europe	2,388	-	-
IAS 36.134(a)	Online retailing, USA	2,408	2,493	-
	Telco Consult	245	1,044	1,234
	Goodwill allocation at 31 December	5,041	3,537	1,234

IAS 36.134(c) The recoverable amounts of the cash-generating units were determined based on value-in-use calculations, covering a detailed three-year forecast, followed by an extrapolation of expected cash flows for the units' remaining useful lives using the growth rates stated below. The growth rates reflect the long-term average growth rates for the product lines and industries of the cash-generating units. The growth rate for online retailing exceeds the overall long-term average growth rates for Euroland. This is appropriate because this sector is expected to continue to grow at above-average rates for the foreseeable future.

		Growth rates			Discount rates		
		2010	2009	2008	2010	2009	2008
IAS 36.134(d)(iv)							
IAS 36.134(d)(v)	Online retailing, Europe	3.1%	-	-	9.0%	-	-
	Online retailing, USA	3.0%	3.0%	-	9.5%	9.5%	-
	Telco Consult	0.1%	0.5%	2.4%	10.9%	10.1%	9.5%

IAS 36.134(d)(i) **Online retailing (Europe and USA)**

IAS 36.134(d)(ii) Management's key assumptions for the online retailing unit include stable profit margins, which have been determined based on past experience in this market. The Group's management believes that this is the best available input for forecasting this mature market.

IAS 36.130(a) **Telco Consult**

IAS 36.130(d) The forecast for the Telco Consult unit was adjusted in 2009 for the decline of consulting services related to conventional telecommunication solutions. This market shifted considerably towards inter- and intranet based solutions during 2009. This development continued in 2010. Impairment testing, taking into account these latest developments, resulted in the further reduction of goodwill in 2010 to the recoverable amount of the cash-generating unit.

IAS 36.126(a) The related goodwill impairment loss of CU 799,000 in 2010 (2009: CU 190,000)
IAS 36.129(a) was included within 'depreciation, amortisation and impairment of non-financial
IAS 36.130(b), assets' and is allocated to the consulting segment (see note 8).
and (d)(ii)

IAS 36.134(d)(i) As a result of the developments in this unit during 2009 and 2010, management
IAS 36.134(d)(ii) expects lower growth and moderately declining profit margins for this unit.

IAS 36.134(f) Apart from the considerations described in determining the value-in-use of the cash-generating units described above, management is not currently aware of any other probable changes that would necessitate changes in its key estimates. IAS 1.125 However, the estimate of recoverable amount for the Telco Consult unit is particularly sensitive to the discount rate. The impact from a reasonable change in discount rate is assessed in note 4.28 together with other estimation uncertainty.

10 Other intangible assets

The Group's other intangible assets comprise acquired software licences, own software developments, brand names and customer lists. The carrying amounts for the reporting periods under review can be analysed as follows:

		Acquired software licenses CU000	Internally generated software CU000	Brand names CU000	Customer lists CU000	Total CU000
IAS 38.118	Gross carrying amount					
	Balance at 1 January 2010	13,608	14,794	760	374	29,536
IAS 38.118(e)(i)	Addition, separately acquired	440	-	-	-	440
	Addition, internally developed	-	3,306	-	-	3,306
	Acquisition through business combination	3,653	-	215	1,387	5,255
IAS 38.118(e)(ii)	Disposals	(1,159)	-	-	-	(1,159)
IAS 38.118(e)(vii)	Net exchange differences	(73)	(54)	-	-	(127)
	Balance at 31 December 2010	16,469	18,046	975	1,761	37,251
	Amortisation and impairment					
	Balance at 1 January 2010	(6,063)	(9,381)	(162)	(89)	(15,695)
IAS 38.118(e)(vi)	Amortisation	(1,978)	(1,315)	(125)	(110)	(3,528)
IAS 38.118(e)(iv)	Impairment losses	-	(870)	-	-	(870)
IAS 38.118(e)(ii)	Disposals	350	-	-	-	350
IAS 38.118(e)(vii)	Net exchange differences	(48)	(36)	-	-	(84)
	Balance at 31 December 2010	(7,739)	(11,602)	(287)	(199)	(19,827)
	Carrying amount 31 December 2010	8,730	6,444	688	1,562	17,424
IAS 38.118	Gross carrying amount					
	Balance at 1 January 2009	8,672	14,600	-	-	23,272
IAS 38.118(e)(i)	Addition, separately acquired	3,097	-	-	-	3,097
	Addition, internally developed	-	216	-	-	216
	Acquisition through business combination	1,859	-	768	378	3,005
IAS 38.118(e)(vii)	Net exchange differences	(20)	(22)	(8)	(4)	(54)
	Balance at 31 December 2009	13,608	14,794	760	374	29,536
	Amortisation and impairment					
	Balance at 1 January 2009	(4,442)	(8,166)	-	-	(12,608)
IAS 38.118(e)(vi)	Amortisation	(1,607)	(1,201)	(156)	(87)	(3,051)
IAS 38.118(e)(vii)	Net exchange differences	(14)	(14)	(6)	(2)	(36)
	Balance at 31 December 2009	(6,063)	(9,381)	(162)	(89)	(15,695)
	Carrying amount 31 December 2009	7,545	5,413	598	285	13,841
	Carrying amount 31 December 2008	4,230	6,434	-	-	10,664

IAS 38.126 Additions to research and development costs include capitalised borrowing costs of CU 80,000 (2009: CU 78,000). In addition to development costs capitalised, the Group expensed as 'other expenses' CU 1,690,000 of research and development costs during the year (2009: CU 1,015,000).

- IAS 38.122(e) During the year the Group entered into an agreement to acquire enterprise resource planning software, to support the administration and control of the Group. Minimum contractual commitments resulting from this agreement are CU 97,000 payable during 2011. No other material contractual commitments were entered into during 2010 or 2009.
- IAS 36.130(a) One internally generated software product was subject to impairment testing during 2010 as the market in telecommunication consulting shifted considerably towards inter- and intranet based solutions. The impairment loss amounted to CU 870,000 (2009: Nil). The impaired asset was designed to support the implementation and customisation of installed telecommunication equipment and remote maintenance of these systems. The recoverable amount of the asset is its value-in-use (see note 9 for discount rates). This intangible asset has been allocated to the consulting segment (see note 8).
- IAS 36.130(b)
- IAS 36.130(c)(i)
- IAS 36.130(c)(ii)
- IAS 38.118(d) All amortisation and impairment charges (or reversals if any) are included within 'depreciation, amortisation and impairment of non-financial assets'. No intangible assets have been pledged as security for liabilities.
- IAS 36.126(a)
- IAS 38.122(d)

11 Property, plant and equipment

The Group's property, plant and equipment comprise land, buildings, IT equipment and other equipment primarily comprising fittings and furniture. The carrying amount can be analysed as follows:

		Land CU000	Buildings CU000	IT equip- ment CU000	Other equip- ment CU000	Total CU000
	Gross carrying amount					
IAS 16.73(d)	Balance 1 January 2010	7,697	19,362	5,579	2,594	35,232
IAS 16.73(e)(i)	Additions	-	76	-	-	76
IAS 16.73(e)(iii)	Acquisition through business combination	730	1,221	2,306	365	4,622
IAS 16.73(e)(ii)	Disposals	-	(401)	-	-	(401)
IAS 16.73(e)(iv)	Revaluation increase	303	-	-	-	303
IAS 16.73(e)(viii)	Net exchange differences	(21)	(81)	(79)	(54)	(235)
IAS 16.73(d)	Balance 31 December 2010	8,709	20,177	7,806	2,905	39,597
	Depreciation and impairment					
IAS 16.73(d)	Balance 1 January 2010	-	(12,159)	(1,503)	(923)	(14,585)
IAS 16.73(e)(ii)	Disposals	-	315	-	-	315
IAS 16.73(e)(viii)	Net exchange differences	-	(54)	(53)	(36)	(143)
IAS 16.73(e)(vii)	Depreciation	-	(1,315)	(890)	(540)	(2,745)
IAS 16.73(d)	Balance 31 December 2010	-	(13,213)	(2,446)	(1,499)	(17,158)
	Carrying amount 31 December 2010	8,709	6,964	5,360	1,406	22,439

		Land	Buildings	IT equip- ment	Other equip- ment	Total
		CU000	CU000	CU000	CU000	CU000
	Gross carrying amount					
IAS 16.73(d)	Balance 1 January 2009	7,697	23,067	4,316	1,226	36,306
IAS 16.73(e)(i)	Additions	-	1,001	1,390	890	3,281
IAS 16.73(e)(iii)	Acquisition through business combination	-	-	2,310	838	3,148
IAS 16.73(e)(ii)	Held for sale or included in disposal group	-	(4,598)	(2,422)	(348)	(7,368)
IAS 16.73(e)(viii)	Net exchange differences	-	(108)	(15)	(12)	(135)
IAS 16.73(d)	Balance 31 December 2009	7,697	19,362	5,579	2,594	35,232
	Depreciation and impairment					
IAS 16.73(d)	Balance 1 January 2009	-	(12,944)	(1,805)	(551)	(15,300)
IAS 16.73(e)(viii)	Net exchange differences	-	(72)	(10)	(8)	(90)
IAS 16.73(e)(ii)	Held for sale or included in disposal group	-	3,200	990	200	4,390
IAS 16.73(e)(vii)	Depreciation	-	(2,343)	(678)	(564)	(3,585)
IAS 16.73(d)	Balance 31 December 2009	-	(12,159)	(1,503)	(923)	(14,585)
	Carrying amount 31 December 2009	7,697	7,203	4,076	1,671	20,647
	Carrying amount 31 December 2008	7,697	10,123	2,511	675	21,006

- IAS 16.77(a) The Group's land was revalued on 23 November 2010 by independent valuers.
IAS 16.77(b) The land was previously revalued in November 2008. Fair values were estimated
IAS 16.77(c) based on recent market transactions, which were then adjusted for specific
IAS 16.77(d) conditions relating to the land.

The value of land recognised upon the acquisition of Goodtech (see note 5.1) was CU 730,000. This land was not revalued to fair value at the reporting date as management determined that the effect of changes in market prices between the acquisition and reporting dates is immaterial.

- IAS 16.77(e) If the cost model had been used, the carrying amounts of the revalued land,
IAS 16.77(f) including the fair value adjustment upon acquisition of Goodtech, would be CU 7,421,000 (2009 and 2008: CU 6,712,000). The revalued amounts include a revaluation surplus of CU 1,288,000 before tax (2009 and 2008: CU 985,000), which is not available for distribution to the shareholders of Illustrative Corporation.

- IAS 36.126(a) All depreciation and impairment charges (or reversals if any) are included within
IAS 36.126(b) 'depreciation, amortisation and impairment of non-financial assets'.

- IAS 16.74(a) The Group's land and buildings have been pledged as security for 'other bank borrowings' (see note 14.5).

- IAS 16.74(c) The Group has a contractual commitment to acquire IT equipment of CU 1,304,000 payable in 2011. In 2010 or 2009 there were no other material contractual commitments.

12 Leases

12.1 Finance leases as lessee

IAS 17.31(a) The Group's main warehouse and related facilities are held under a finance lease arrangement. The net carrying amount of the assets held under the lease is CU 3,362,000 (2009: CU 3,723,000; 2008: CU 4,151,000). The assets are included under 'buildings' which form an integral part of 'property, plant and equipment' (see note 11).

Furthermore, the Group has leased IT equipment under finance lease arrangements. CU 231,000 of the net carrying amount recognised as 'IT equipment' (see note 11) relates to leased IT equipment (2009: CU 480,000; 2008: CU 589,000).

Finance lease liabilities (see note 23) are secured by the related assets held under finance leases.

Future minimum finance lease payments at the end of each reporting period under review were as follows:

		Minimum lease payments due			
		within 1 year CU000	1 to 5 years CU000	after 5 years CU000	Total CU000
31 December 2010					
IAS 17.31(b)	Lease payments	727	1,415	3,539	5,681
	Finance charges	(215)	(330)	(528)	(1,073)
	Net present values	512	1,085	3,011	4,608
31 December 2009					
IAS 17.31(b)	Lease payments	726	1,432	4,072	6,230
	Finance charges	(220)	(336)	(560)	(1,116)
	Net present values	506	1,096	3,512	5,114
31 December 2008					
IAS 17.31(b)	Lease payments	828	1,429	4,531	6,788
	Finance charges	(230)	(337)	(621)	(1,188)
	Net present values	598	1,092	3,910	5,600

IAS 17.31(e) The lease agreement for the main warehouse includes fixed lease payments and a purchase option at the end of the 10 year lease term. The agreement is non-cancellable but does not contain any further restrictions.

IAS 17.31(c-d) No contingent rents were recognised as an expense in the reporting periods under review, and no future sublease income is expected to be received as all assets are used exclusively by the Group.

12.2 Operating leases as lessee

The Group's future minimum operating lease payments are as follows:

		Minimum lease payments due			
		within 1 year	1 to 5 years	after 5 years	Total
		CU000	CU000	CU000	CU000
IAS 17.35(a)	31 December 2010	4,211	12,567	25,678	42,456
	31 December 2009	3,431	12,100	24,342	39,873
	31 December 2008	3,362	11,858	23,855	39,075
IAS 17.35(c)	Lease payments recognised as an expense during the period amount to CU 3,568,000 (2009: CU 3,398,000). This amount consists of minimum lease payments. No sublease payments or contingent rent payments were made or received. No sublease income is expected as all assets held under lease agreements are used exclusively by the Group.				
IAS 17.35(b)					
IAS 17.35(d)	The rental contract for the office and production building rented since 1 December 2002 at Great Place 152, Smallville has a non-cancellable term of 15 years. The building was subject to a sale and lease back transaction in 2002. A related gain was included in 'other liabilities' and is being amortised over the remaining non-cancellable lease term (see also note 24).				
IAS 17.35(d)	The Group's operating lease agreements do not contain any contingent rent clauses. None of the operating lease agreements contain renewal or purchase options or escalation clauses or any restrictions regarding dividends, further leasing or additional debt.				

12.3 Operating leases as lessor

The Group leases out investment properties on operating leases. Details of the leases are given in note 13.

13 Investment property

Investment property includes real estate properties in the surrounding area of the Group's headquarters and in the United States, which are owned to earn rentals and capital appreciation.

IAS 40.75(d)	The fair values of investment properties were estimated using observable data on recent transactions and rental yields for similar properties.
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Changes to the carrying amounts presented in the statement of financial position can be summarised as follows:

		CU000
IAS 40.76	Carrying amount 1 January 2009	12,102
IAS 40.76(e)	Net exchange differences	25
IAS 40.76(d)	Net gain (loss) from fair value adjustments	<u>150</u>
IAS 40.76	Carrying amount 31 December 2009	12,277
	Additions:	
IAS 40.76(b)	- through business combinations	75
IAS 40.76(e)	Net exchange differences	22
IAS 40.76(d)	Net gain (loss) from fair value adjustments	<u>288</u>
IAS 40.76	Carrying amount 31 December 2010	<u>12,662</u>

IAS 40.75(g) Investment properties valued at CU8,327,000 are pledged as security for related borrowings.

IAS 40.75(f) Rental income for 2010 amounts to CU 1,066,000 (2009: CU 1,028,000) included within 'revenue'. No contingent rents were recognised. Direct operating expenses of CU 213,000 (2009: CU 206,000) were reported within 'other expenses', of which CU 18,000 (2009: CU 12,000) was incurred on vacant properties that did not generate rental income in 2010.

IAS 17.56(c) The properties are all leased out on operating leases. The lease contracts are all non-cancellable for 8 years from the commencement of the lease. Future minimum lease rentals are as follows:

		Minimum lease income due			
		within 1	1 to 5	after 5	Total
		year	years	years	
		CU000	CU000	CU000	CU000
IAS 17.56(a)	31 December 2010	1,075	5,375	2,090	8,540
	31 December 2009	1,030	5,150	1,978	8,158
	31 December 2008	1,009	5,047	1,938	7,994

14 Financial assets and liabilities

14.1 Categories of financial assets and liabilities

The carrying amounts presented in the statement of financial position relate to the following categories of assets and liabilities:

			2010	2009	2008
	Financial assets	Note	CU000	CU000	CU000
IFRS 7.8(b)	Held-to-maturity investments				
	Bonds	14.2	2,814	2,992	3,124
IFRS 7.8(d)	Available-for-sale financial assets				
	Securities and debentures	14.2	951	888	1,203
IFRS 7.8(a)(ii)	Financial assets held for trading (carried at fair value through profit or loss)				
	Other short-term financial assets	14.3	655	649	631
	Derivative financial instruments	14.4	115	212	178
			770	861	809
IFRS 7.7	Derivatives designated as cash flow hedging instruments (carried at fair value)				
	Derivative financial instruments	14.4	467	-	312
IFRS 7.8(c)	Loans and receivables				
	Trade and other receivables	17	30,945	23,441	18,873
	Cash and cash equivalents	18	34,789	11,237	10,007
			65,734	34,678	28,880
	Financial liabilities				
IFRS 7.8(e)(i)	Financial liabilities designated at fair value through profit or loss:				
	Non-current borrowings	14.5	7,700	7,965	8,105
	Current borrowings	14.5	250	255	275
			7,950	8,220	8,380
IFRS 7.8(f)	Financial liabilities measured at amortised cost:				
	Non-current:				
	Borrowings	14.5	13,300	13,300	13,300
	Current:				
	Borrowings	14.5	4,565	3,124	3,543
	Trade and other payables	23	8,547	6,590	7,104
			26,412	23,014	23,947
IFRS 7.7	Derivatives designated as cash flow hedging instruments (carried at fair value)				
	Derivative financial instruments	14.4	-	160	-

IFRS 7.27(a)
IFRS 7.33

See note 4.18 for a description of the accounting policies for each category of financial instruments. Information relating to fair values are presented in the related notes. The methods used to measure fair value are described in note 14.6. A description of the Group's financial instrument risk, including risk management objectives and policies is given in note 32.

14.2 Other long-term financial assets

Other long-term financial assets include the following investments:

		2010 CU000	2009 CU000	2008 CU000
IFRS 7.8(b)	Held-to-maturity investments:			
	Bonds	2,814	2,992	3,124
IFRS 7.8(d)	Available-for-sale financial assets:			
	Securities and debentures	951	888	1,203
	Other long-term financial assets	3,765	3,880	4,327

IFRS 7.7 Bonds

Held-to-maturity financial assets comprise zero coupon and US straight bonds with fixed interest rates between 5.5 and 6.2%. They mature in 2011 and 2012. The carrying amounts, measured at amortised cost, and fair values of these financial assets are as follows:

		2010 CU000	2009 CU000	2008 CU000
	Carrying amount at amortised cost:			
	Zero coupon bonds	1,110	1,189	1,250
	US straight bonds	1,704	1,803	1,874
IFRS 7.8(b)	Carrying amount	2,814	2,992	3,124
	Fair value:			
IFRS 7.25	Zero coupon bonds	1,190	1,186	1,246
	US straight bonds	1,705	1,809	1,750
	Fair value	2,895	2,995	2,996

IFRS 7.27(a) These bonds are publicly traded, and fair values have been estimated by
IFRS 7.27(b) reference to their quoted bid prices at their reporting date. The fair value
valuation for the US straight bonds also reflects the US-dollar spot rate as at the
reporting date.

IFRS 7.36(a),(c) See note 32.4 for information on the Group's exposure to credit risk related to
IFRS 7.IG23(a) the bonds.

Securities and debentures

The carrying amounts of available-for-sale financial assets, comprising securities and debentures, are as follows:

		2010 CU000	2009 CU000	2008 CU000
IFRS 7.25	Listed equity securities	421	343	330
	Investment in XY Ltd	433	433	783
IFRS 7.25	Listed debentures	97	112	90
IFRS 7.8(d)	Carrying amount	951	888	1,203

Other than the investment in XY Ltd, the assets are stated at fair value.

IFRS 7.30(a)-(e) XY Ltd, one of the Group's suppliers in the telecommunication business, is not a listed company. XY Ltd is currently in its second year of a major restructuring process, which has triggered possible litigation by third parties. Due to numerous uncertainties regarding the future development of XY Ltd, the fair value of the Group's equity investment in this entity cannot be reliably measured. This investment has therefore been stated at cost less impairment charges. An impairment charge of CU 350,000 was recognised in 2009 within 'finance cost'. The Group plans to continue to hold its 15% interest in XY Ltd while it secures other supply lines.

14.3 Other short-term financial assets

IFRS 7.B5(a)(i) In the reporting periods under review, other short-term financial assets include various investments in money market funds considered to be held for short-term trading.

		2010 CU000	2009 CU000	2008 CU000
IFRS 7.8(a)(ii)	Financial assets held for trading (carried at fair value through profit or loss):			
IFRS 7.25	Money market funds	655	649	631

Money market funds are carried at fair value.

14.4 Derivative financial instruments

The carrying amounts for the Group's derivative financial instruments may be further analysed as follows:

		2010 CU000	2009 CU000	2008 CU000
IFRS 7.22(b)	Fair value:			
	US-dollar forward contracts - cash flow hedge	467	-	312
	Other forward exchange contracts - held-for-trading	115	212	178
	Derivative financial assets	582	212	490
	US-dollar forward contracts - cash flow hedge	-	(160)	-
	Derivative financial liabilities	-	(160)	-
	Net fair value of derivatives	582	52	490

All derivatives are measured at fair value.

IFRS 7.22(a) The Group uses forward foreign exchange contracts to mitigate exchange rate
IFRS 7.22(b) exposure arising from forecast sales in US dollars and other currencies. All US-
IFRS 7.22(c) dollar forward exchange contracts have been designated as hedging instruments in cash flow hedges in accordance with IAS 39.

Other forward exchange contracts are considered by management to be part of economic hedge arrangements but have not been formally designated.

- IFRS 7.23(a) The Group's US-dollar forward contracts relate to cash flows that have been
IFRS 7.23 (b) forecasted for October - December 2011. All forecast transactions for which
hedge accounting has been used are expected to occur.
- IFRS 7.23(c) During 2010, a gain of CU 367,000 was recognised in other comprehensive
income (2009: a loss of CU 47,000). The cumulative amount recorded in equity
amounts to a gain of CU 467,000 (2009: cumulative loss of CU 160,000;
2008: cumulative gain of CU 312,000).
- IFRS 7.23(d) During 2010, a loss of CU 260,000 (2009: net gain of CU 425,000) was
IFRS 7.23(e) reclassified from equity into profit or loss within 'revenue'.
- IFRS 7.24(b) There was no significant ineffectiveness of cash flow hedges in 2010 and 2009.

14.5 Borrowings

Borrowings include the following financial liabilities:

	Current			Non-current		
	2010	2009	2008	2010	2009	2008
	CU000	CU000	CU000	CU000	CU000	CU000
IFRS 7.8(e)(i) Financial liabilities designated at fair value through profit or loss:						
US-dollar loans	250	255	275	7,700	7,965	8,105
IFRS 7.8(f) Financial liabilities measured at amortised cost:						
Other bank borrowings	4,565	3,124	3,543	-	-	-
Non-convertible bond	-	-	-	8,300	8,300	8,300
Subordinated shareholder loan	-	-	-	5,000	5,000	5,000
Total carrying amounts	4,815	3,379	3,818	21,000	21,265	21,405

- IFRS 7.25 Other than the US-dollar loans, all borrowings are denominated in CU.
Estimated fair values are as follows:

	Fair value			Carrying amount		
	2010	2009	2008	2010	2009	2008
	CU000	CU000	CU000	CU000	CU000	CU000
US-dollar loans at fair value through profit or loss	7,950	8,220	8,380	7,950	8,220	8,380
Other bank borrowings	4,565	3,124	3,543	4,565	3,124	3,543
Non-convertible bond	8,259	8,383	8,466	8,300	8,300	8,300
Subordinated shareholder loan	4,975	5,050	5,100	5,000	5,000	5,000
Total borrowings	25,749	24,777	25,489	25,815	24,644	25,223

- IFRS 7.27 Fair values of long-term financial liabilities have been determined by calculating
their present values at the reporting date, using fixed effective market interest
rates available to the Group. Except for the US-dollar loans, no fair value
changes have been included in profit or loss for the period as financial liabilities
are carried at amortised cost in the statement of financial position.

US-dollar loans at fair value through profit or loss:

US-dollar loans are designated at fair value through profit or loss to significantly reduce measurement inconsistencies (see note 4.18). The interest rate is fixed at 4%. US-dollar loans at fair value through profit or loss can be summarised as follows:

		2010	2009
		CU000	CU000
	Carrying amount 1 January	8,220	8,380
	Repayments	(300)	(230)
	New borrowings	-	-
	Change in fair values:		
IFRS 7.10(a)	- changes in credit risk	-	-
	- other market factors	30	70
IFRS 7.25	Carrying amount 31 December	<u>7,950</u>	<u>8,220</u>
IFRS 7.10(a)	The cumulative changes since designation attributable to changes in credit risk		
IFRS 7.11(a)	are CU Nil (2009 and 2008: CU Nil). The Group estimates the credit-risk related change in fair value on a residual basis, as the difference between fair value-changes specifically attributable to interest rates and foreign exchange rates and the total change in fair value. At year-end the estimate shows an insignificant change attributable to credit risk.		
IFRS 7.10(b)	The total undiscounted amount repayable at maturity in respect of the loan, converted at year-end exchange rates is CU 7,755,000 (2009: CU 8,055,000; 2008: CU 8,285,000), equivalent to a difference between the carrying amount and the amount repayable of CU 195,000 (2009: CU 165,000; 2008: CU 95,000).		
IFRS 7.27	The fair value of the loans is measured as described in note 14.6.		
	Borrowings at amortised cost:		
IAS 16.74(a)	Other bank borrowings are secured by land and buildings owned by the Group		
IFRS 7.31	(see note 11). Current interest rates are variable and average 4.0 % (2009: 4.1%; 2008: 4.2%).		
IFRS 7.31	The Group's non-convertible bond with a fixed interest rate of 5.0% matures on 20 May 2013 and is therefore classified as non-current.		
IAS 24.17	The subordinated shareholder loan was provided by Illustrative Corporation's main shareholder, the LOM Investment Trust. It is perpetual and carries a fixed coupon of 4.0%. It is repayable only upon liquidation of Illustrative Corporation.		

14.6 Financial instruments measured at fair value

The following table presents financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

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

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. The financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy as follows:

IFRS 7.27B(a)	31 December 2010		Level 1	Level 2	Level 3	Total
		Note	CU000	CU000	CU000	CU000
Assets						
	Listed securities and debentures	a)	518	-	-	518
	Money market funds	b)	655	-	-	655
	US-dollar forward contracts - cash flow hedge	c)	-	467	-	467
	Other forward exchange contracts - held-for-trading	c)	-	94	21	115
	Total		1,173	561	21	1,755
Liabilities						
	US-dollar loans	d)	-	(7,950)	-	(7,950)
	Total		-	(7,950)	-	(7,950)
	Net fair value		1,173	(7,389)	21	(6,195)

IFRS 7.27B(a)	31 December 2009		Level 1	Level 2	Level 3	Total
		Note	CU000	CU000	CU000	CU000
Assets						
	Listed securities and debentures	a)	455	-	-	455
	Money market funds	b)	649	-	-	649
	Other forward exchange contracts - held-for-trading	c)	-	184	28	212
	Total		1,104	184	28	1,316
Liabilities						
	US-dollar forward contracts - cash flow hedge	c)	-	(160)	-	(160)
	US-dollar loans	d)	-	(8,220)	-	(8,220)
	Total		-	(8,380)	-	(8,380)
	Net fair value		1,104	(8,196)	28	(7,064)

IFRS 7.27B(b) There have been no significant transfers between levels 1 and 2 in the reporting period.

Measurement of fair value

IFRS 7.27 The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

a) Listed securities and debentures

IFRS 7.27(a) All the listed equity securities and debentures are denominated in CU and are
 IFRS 7.27(b) publicly traded in Euroland. Fair values have been determined by reference to their quoted bid prices at the reporting date.

b) Money market funds

IFRS 7.27(a) The fair value of the Group's investments in money market funds has been
 IFRS 7.27(b) determined by reference to their quoted bid prices at the reporting date. All money market funds are publicly traded on stock exchanges in Euroland. Gains and losses are recorded within 'other financial items'.

c) Derivatives

IFRS 7.27(a) Where derivatives are traded either on exchanges or liquid over-the-counter
 IFRS 7.27(b) markets the Group uses the closing price at the reporting date. Normally, the derivatives entered into by the Group are not traded in active markets. The fair values of these contracts are estimated using a valuation technique that maximises the use of observable market inputs, eg market exchange and interest rates (Level 2). Most derivatives entered into by the Group are included in Level 2 and consist of foreign currency forward contracts. A few of the Group's derivative positions in foreign currency forward contracts are classified within Level 3. These primarily relate to positions in currencies for which markets are less developed.

d) US-dollar loans

IFRS 7.27(a) The fair value of the loans is estimated using a valuation technique. All
 IFRS 7.27(b) significant inputs into the model are based on observable market prices, eg market interest rates of similar loans with similar risk. The interest rate used for this calculation is 3.9%.

Level 3 fair value measurements

The Group's measurement of financial assets and liabilities classified in Level 3 uses valuation techniques based on significant inputs that are not based on observable market data. The financial instruments within this level can be reconciled from beginning to ending balances as follows:

		2010 CU000	2009 CU000
IFRS 7.27B(c)	Opening balance	28	34
	Gains or losses recognised in:		
IFRS 7.27B(c)(i)	Profit or loss (a)	23	18
IFRS 7.27B(c)(ii)	Other comprehensive income	-	-
IFRS 7.27B(c)(iii)	Purchases	-	-
IFRS 7.27B(c)(iii)	Sales	-	-
IFRS 7.27B(c)(iii)	Issues	-	-
IFRS 7.27B(c)(iii)	Settlements	(30)	(24)
IFRS 7.27B(c)	Closing balance	21	28

(a) Gains and losses on other forward contracts are presented in 'finance

IFRS 7.27B(c)(i) income'

IFRS 7.27B(d) Gains or losses recognised in profit or loss for the period are presented in 'finance income' and can be attributed as follows:

	2010 CU000	2009 CU000
Assets held at the end of the reporting period	21	28
Assets not held at the end of the reporting period	2	(10)
Total gains or losses	23	18

IFRS 7.27B(e) Changing inputs to the Level 3 valuations to reasonably possible alternative assumptions would not change significantly amounts recognised in profit or loss, total assets or total liabilities or total equity.

IFRS 7.27B(c)(iv) There have been no transfers into or out of level 3 in the reporting periods under review.

15 Deferred tax assets and liabilities

Deferred taxes arising from temporary differences and unused tax losses can be summarised as follows:

IAS 12.81(g)	Deferred tax liabilities(assets)	1 January	Recognised in	Recognised in	Recognised	31 December
		2010	other comprehensive income	business combination	in profit and loss	2010
		CU000	CU000	CU000	CU000	CU000
	Non-current assets					
	Other intangible assets	847	(63)	444	30	1,258
	Property, plant and equipment	2,130	(22)	188	406	2,702
	Other long-term financial assets	(95)	-	-	19	(76)
	Investment property	1,914	-	-	93	2,007
	Current assets					
	Trade and other receivables	(168)	-	-	38	(130)
	Non-current liabilities					
	Pension and other employee obligations	-	-	-	-	-
	Current liabilities					
	Provisions	(1,003)	-	-	639	(364)
	Unused tax losses	(75)	-	-	75	-
		<u>3,550</u>	<u>(85)</u>	<u>632</u>	<u>1,300</u>	<u>5,397</u>
	Recognised as:					
	Deferred tax asset	(225)				-
	Deferred tax liability	<u>3,775</u>				<u>5,397</u>

Deferred taxes for the comparative period 2009 can be summarised as follows:

IAS 12.81(g)	Deferred tax liabilities(assets)	1 January	Recognised in	Inclu-	Recognised	Recogn-	31
		2009	other comprehensive income	ded in disposal group	in business combination	nised in profit and loss	December 2009
		CU000	CU000	CU000	CU000	CU000	CU000
	Non-current assets						
	Other intangible assets	409	(27)	-	210	255	847
	Property, plant and equipment	1,528	(68)	-	225	445	2,130
	Other long-term financial assets	-	-	-	-	(95)	(95)
	Investment property	1,861	-	-	-	53	1,914
	Current assets						
	Trade and other receivables	(34)	-	-	-	(134)	(168)
	Non-current liabilities						
	Pension and other employee obligations	-	-	-	-	-	-
	Current liabilities						
	Provisions	(1,320)	-	74	-	243	(1,003)
	Unused tax losses	(300)	-	-	-	225	(75)
		<u>2,144</u>	<u>(95)</u>	<u>74</u>	<u>435</u>	<u>992</u>	<u>3,550</u>
	Recognised as:						
	Deferred tax asset	(520)					(225)
	Deferred tax liability	<u>2,664</u>					<u>3,775</u>

The amounts recognised in other comprehensive income relate to revaluation of land and exchange differences on translating foreign operations (see below).

IAS 12.81(f) A deferred tax liability of CU 1,000 (2009 and 2008: CU 2,000) associated with an investment in a domestic subsidiary has not been recognised, as the Group controls the timing of the reversal and it is probable that the temporary difference will not reverse in the foreseeable future. The tax value is equivalent to a temporary difference of CU 3,000 (2009 and 2008: CU 7,000).

IAS 12.81(e) All deferred tax assets (including tax losses and other tax credits) have been recognised in the statement of financial position.

The amount of income tax relating to each component of other comprehensive income can be summarised as follows:

	2010			2009		
	Before tax	Tax benefit (expense)	Net of tax	Before tax	Tax benefit (expense)	Net of tax
	CU000	CU000	CU000	CU000	CU000	CU000
Revaluation of land	303	(91)	212	-	-	-
Cash flow hedging	627	-	627	(472)	-	(472)
Available-for-sale financial assets	63	-	63	35	-	35
Exchange differences on translation of foreign operations	(664)	176	(488)	(341)	95	(246)
Other comprehensive income from equity accounted investments	2	-	2	-	-	-
Other comprehensive income	331	85	416	(778)	95	(683)

16 Inventories

Inventories recognised in the statement of financial position can be analysed as follows:

	2010	2009	2008
	CU000	CU000	CU000
Raw materials and consumables	7,737	7,907	7,710
Merchandise	10,811	9,469	10,961
Inventories	18,548	17,376	18,671

IAS 2.36(d) In 2010, a total of CU 35,265,000 of inventories was included in profit and loss as an expense (2009: CU 32,907,000). This includes an amount of CU 361,000 resulting from write down of inventories (2009: CU 389,000).

IAS 2.36(f) No reversal of previous write-downs was recognised as a reduction of expense in 2009 or 2010. None of the inventories are pledged as securities for liabilities.

IAS 2.36(g)

IAS 2.36(h)

17 Trade and other receivables

IAS 1.77	2010	2009	2008
IAS 1.78(b)	CU000	CU000	CU000
Trade receivables, gross	31,265	23,889	18,873
Allowance for credit losses	(432)	(560)	(112)
Trade receivables	30,833	23,329	18,761
Receivable due from ABC associates	112	112	112
Financial assets	30,945	23,441	18,873
Social security and other taxes	1,012	898	998
Construction contracts for telecommunication solutions	1,374	974	670
Prepayments	298	315	178
Non-financial assets	2,684	2,187	1,846
Trade and other receivables	33,629	25,628	20,719

IFRS 7.25 All amounts are short-term. The net carrying value of trade receivables is
IFRS 7.29 considered a reasonable approximation of fair value.

IAS 1.60 The receivable due from ABC associates relates to the remaining consideration due on the sale of a former subsidiary in 2008. The carrying amount of the receivable is considered a reasonable approximation of fair value as this financial asset (which is measured at amortised cost) is expected to be paid within six months, such that the time value of money is not significant.

IFRS 7.37(b) All of the Group's trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired and an allowance for credit losses of CU 72,000 (2009: CU 514,000) has been recorded accordingly within other expenses (see also note 25). The impaired trade receivables are mostly due from customers in the business-to-business market that are experiencing financial difficulties.

IFRS 7.16 The movement in the allowance for credit losses can be reconciled as follows:

	2010	2009
	CU000	CU000
IFRS 7.16 Balance 1 January	560	112
Amounts written off (uncollectable)	(200)	(66)
Impairment loss	72	514
Impairment loss reversed	-	-
Balance 31 December	432	560

An analysis of unimpaired trade receivables that are past due is given in note 32.4.

IFRS 7.36(d) The carrying amount of receivables whose terms have been renegotiated, that would otherwise be past due or impaired is CU Nil (2009 and 2008: CU Nil).

17.1 Construction contracts

IAS 11.39(a) Revenue of CU 50,973,000 (2009: CU 49,186,000) relating to construction contracts for telecommunication solutions has been included in revenue for the current reporting period.

IAS 11.43 The amounts recognised in the statement of financial position relate to
IAS 11.44 construction contracts in progress at the end of the reporting period. The amounts are calculated as the net amounts of costs incurred plus recognised profits, less recognised losses and progress billings. The carrying amounts of assets and liabilities are analysed as follows:

		2010 CU000	2009 CU000	2008 CU000
IAS 11.40(a)	Aggregate amount of costs incurred and recognised profits and losses for all contracts in progress	3,421	3,121	3,345
	Less, progress billings	(2,335)	(2,354)	(2,675)
		<u>1,086</u>	<u>767</u>	<u>670</u>
	Recognised as:			
IAS 11.42(a)	Due from customers for construction contract work, recognised in trade and other receivables	<u>1,374</u>	<u>974</u>	<u>670</u>
IAS 11.42(b)	Due to customers for construction contract work, recognised in other liabilities	<u>288</u>	<u>207</u>	<u>-</u>

IAS 11.40(b) Advances paid from customers for construction contracts related to work not yet performed have been recognised in 'other liabilities' (see note 24) and amount to CU 225,000 (2009: CU 220,000; 2008: CU 220,000).

IAS 11.40(c) Retentions on construction contracts amount to CU 10,000 (2009 and 2008: CU Nil) included within 'trade and other receivables'. Retentions will be received upon acceptance by the customer of the work performed.

18 Cash and cash equivalents

IAS 7.45 Cash and cash equivalents include the following components:

	2010 CU000	2009 CU000	2008 CU000
Cash at bank and in hand:			
- CU	24,352	7,867	7,026
- GBP	2,087	674	550
- USD	1,392	449	430
Short-term deposits (CU)	<u>6,958</u>	<u>2,247</u>	<u>2,001</u>
Cash and cash equivalents	<u>34,789</u>	<u>11,237</u>	<u>10,007</u>

IAS 7.48 Following the acquisition of Goodtech some bank deposits of the acquiree were
IAS 10.19 temporarily not available for general use by the Group because of legal restrictions. The amount of cash and cash equivalents inaccessible to the Group as at 31 December 2010 amounts to CU 500,000 (2009 and 2008: CU Nil). All the restrictions on bank deposits were removed by the time of the approval of the consolidated financial statements on 8 March 2011.

19 Assets and disposal groups classified as held for sale and discontinued operations

IFRS 5.41(a)-(d) At the end of 2009 management decided to discontinue in-store sale of IT and telecommunications hardware. This decision was taken in line with the Group's strategy to focus on its web-based online retail business. Consequently, assets and liabilities allocable to Highstreet Ltd and subsidiaries (included in the retail segment) were classified as a disposal group. Revenue and expenses, gains and losses relating to the discontinuation of this subgroup have been eliminated from profit or loss from the Group's continuing operations and are shown as a single line item on the face of the income statement (see 'loss for the year from discontinued operations').

IAS 7.40(a) On 30 September 2010, Highstreet Ltd and subsidiaries were sold for a total of CU 3,117,000 in cash resulting in a loss of CU 29,000 before tax primarily due to related selling costs (see note 5.2). Operating profit of Highstreet Ltd and subsidiaries' until the date of disposal and the profit or loss from re-measurement and disposal of assets and liabilities classified as held for sale is summarised as follows:

		2010 CU000	2009 CU000
IFRS 5.33(b)(i)	Revenue	9,803	11,015
	Costs of material	(3,540)	(3,633)
	Employee benefits expense	(6,100)	(6,411)
	Depreciation and amortisation	-	(765)
	Other expenses	(90)	(100)
	Operating profit	73	106
	Finance costs	(56)	(60)
	Profit from discontinued operations before tax	17	46
IFRS 5.33(b)(ii), also IAS 12.81(h)	Tax expense	(5)	(14)
	Profit for year	12	32
Gain (loss) on remeasurement and disposal			
IFRS 5.33(b)(iii)	Loss before tax on measurement to fair value less cost to sell	-	(510)
	Loss before tax on disposal	(29)	-
IFRS 5.33(b)(iv), also IAS 12.81(h)	Tax income (expense)	8	153
	Total gain (loss)	(21)	(357)
	Loss for the year from discontinued operations	(9)	(325)

IFRS 5.41(b)-(d) Most of the assets and all of the liabilities have been disposed of in this transaction, however, the Group continues to own some former Highstreet storage facilities. Management expects to sell these remaining assets during 2011.

IFRS 5.38 The carrying amounts of assets and liabilities in this disposal group is summarised as follows:

	2010 CU000	2009 CU000	2008 CU000
Non-current assets			
Property, plant and equipment	103	2,578	-
Deferred tax	-	227	-
Current assets			
Inventories	-	1,081	-
Cash and cash equivalents	-	22	-
Assets classified as held for sale	103	3,908	-
Non-current liabilities			
Deferred tax	-	-	-
Current liabilities			
Provisions	-	(245)	-
Trade and other payables	-	(190)	-
Current tax liabilities	-	(14)	-
Liabilities classified as held for sale	-	(449)	-

IFRS 5.33(c) Cash flows generated by Highstreet Ltd and subsidiaries for the reporting periods under review until the disposal is summarised as follows:

	2010 CU000	2009 CU000
Operating activities	(22)	811
Investing activities	3,117	-
Financing activities	-	-
Cash flows from discontinued operations	3,095	811

Cash flows from investing activities relate solely to the proceeds from the sale of Highstreet Ltd.

20 Equity

20.1 Share capital

IAS 1.79(a)(iii) The share capital of Illustrative Corporation consists only of fully paid ordinary
IAS 1.79(a)(v) shares with a par value of CU 1. All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at the shareholders' meeting of Illustrative Corporation.

		2010	2009
IAS 1.79(a)(iv)	Shares issued and fully paid:		
	Beginning of the year	12,000,000	12,000,000
	Issued under share-based payments	270,000	-
	Share issue	1,500,000	-
IAS 1.79(a)(ii)	Shares issued and fully paid	13,770,000	12,000,000
	Shares authorised for share based payments	600,000	600,000
IAS 1.79(a)(i)	Total shares authorised at 31 December	14,370,000	12,600,000

Additional shares were issued during 2010 relating to share-based payments (see note 21.2 for details on the Group's share-based employee remuneration schemes).

The Group issued 1,500,000 shares on 30 October 2010, corresponding to 12.5% of total shares issued. Each share has the same right to receive dividend and the repayment of capital and represents one vote at the shareholders' meeting of Illustrative Corporation.

IAS 1.79(a)(vii) The authorised shares that have not yet been issued have been authorised solely for use in the Group's share-based remuneration programmes (see note 21.2).

IAS 1.79(a)(vi) None of the parent's shares are held by any company in the Group.

20.2 Share premium

Proceeds received in addition to the nominal value of the shares issued during the year have been included in share premium, less registration and other regulatory fees and net of related tax benefits. Costs of new shares charged to equity amounted to CU 70,000 (2009: CU Nil).

Share premium has also been recorded in respect of the issue of share capital related to employee share-based payment (see note 21.2).

IAS 12.81(a) No current tax benefit has been credited to share premium (2009: CU Nil) in connection with shares issued.

21 Employee remuneration

21.1 Employee benefits expense

Expenses recognised for employee benefits are analysed below:

		2010	2009
		CU000	CU000
IAS 19.142	Wages, salaries	96,564	91,226
	Social security costs	11,229	10,608
IFRS 2.51(a)	Share-based payments	298	466
	Pensions - defined benefit plans	1,608	2,130
IAS 19.46	Pensions - defined contribution plans	4,491	4,243
	Employee benefits expense	<u>114,190</u>	<u>108,673</u>

21.2 Share-based employee remuneration

As at 31 December 2010 the Group maintained two equity settled share-based payment schemes for employee remuneration, the *Star Programme* and the *Stay Programme*.

IFRS 2.45(a) The *Star Programme*, is part of the remuneration package of the Group's senior management. Options will only vest subject to the achievement of the following total shareholder return performance condition. If the Company's total shareholder return (representing dividend per share plus increase in share price divided by initial share price) is in the top quartile of companies in the Greatstocks Index (the Index) over the vesting period, the full number of options will vest. For performance between median and upper quartile, vesting will occur on a straight-line basis so that 25% of the options vest for median performance and full vesting occurs for top quartile performance. No options will vest if the total shareholder return is below the median in the Index. In addition, persons eligible to participate in this programme have to be employed until the end of the arranged vesting period. Upon vesting, each option allows the holder to purchase one ordinary share at a discount of 20-25% of the market price determined at grant date.

IFRS 2.45(a) The *Stay Programme*, is part of the remuneration package of the Group's research and development and sales personnel. For the options granted to vest, persons eligible to participate in this programme have to remain employed for the agreed vesting period. The maximum term of the options granted under the *Stay Programme* ends on 31 January 2011. Upon vesting, each option allows the holder to purchase one ordinary share at a discount of 15-20% of the market price determined at grant date.

All share-based employee remuneration will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options.

Share options and weighted average exercise prices are as follows for the reporting periods presented:

IFRS 2.45(b)

	Star Programme		Stay Programme	
	Number of shares	Weighted average exercise price (CU)	Number of shares	Weighted average exercise price (CU)
Outstanding at 1 January 2009	300,000	6.24	95,250	5.81
Granted	-	-	-	-
Forfeited	(513)	6.24	(1,012)	5.81
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding at 31 December 2009	299,487	6.24	94,238	5.81
Granted	100,000	7.81	-	-
Forfeited	(312)	6.24	(3,489)	5.81
Exercised	(270,000)	6.24	-	-
Expired	-	-	-	-
Outstanding at 31 December 2010	129,175	7.45	90,749	5.81
Exercisable at 31 December 2009	-	-	-	-
Exercisable at 31 December 2010	29,175	6.24	-	-

IFRS 2.45(c) The weighted average share price at the date of exercise was CU 11.19 (no exercises in 2009).

IFRS 2.47(a)(i) The fair values of options granted were determined using a variation of the binomial option pricing model that takes into account factors specific to the share incentive plans, such as the vesting period. The total shareholder return performance condition related to the Star Programme, being a market condition, has been incorporated into the measurement by means of actuarial modelling. The following principal assumptions were used in the valuation:

IFRS 2.47		The Star Programme		The Stay Programme
		1 Jan 2007	1 Feb 2010	5 Jan 2006
	Grant date	1 Jan 2007	1 Feb 2010	5 Jan 2006
	Vesting period ends	31 Dec 2009	31 Jan 2013	31 Jan 2011
	Share price at date of grant	8.00	10.01	7.00
	Volatility	50%	50%	50%
	Option life	5 years	5 years	7 years
	Dividend yield	1%	1%	1%
	Risk-free investment rate	4%	4%	4%
	Fair value at grant date	4.00	6.70	5.30
	Exercise price at date of grant	6.08	7.61	5.81
	Exercisable from / to	1 Jan 2010 / 31 Dec 2011	1 Feb 2013 / 31 Dec 2015	1 Feb 2011 / 4 Jan 2013
	Weighted average remaining contractual life	1.0 years	4.1 years	2.0 years

- IFRS 2.47(a)(ii) The underlying expected volatility was determined by reference to historical data of the Company's shares over a period of time since its flotation on the Greatstocks Stock Exchange. No special features inherent to the options granted were incorporated into measurement of fair value.
- IFRS 2.47(a)(iii)
- IFRS 2.51 In total, CU 298,000 of employee remuneration expense (all of which related to equity-settled share-based payment transactions) has been included in profit or loss for 2010 (2009: CU 466,000) and credited to retained earnings.¹²

21.3 Pensions and other employee obligations

The liabilities recognised for pensions and other employee remuneration in the statement of financial position consist of the following amounts¹³:

	2010 CU000	2009 CU000	2008 CU000
Non-current:			
Defined benefit plans	11,224	10,812	10,242
Current:			
Defined benefit plans	1,246	1,193	1,056
Other short term employee obligations	221	303	280
Current pension and other employee obligations	1,467	1,496	1,336

- IAS 1.69 The current portion of these liabilities represents the Group's obligations to its current and former employees that are expected to be settled during 2011. Other short-term employee obligations arise mainly from accrued holiday entitlement at the reporting date and various pension payments. As none of the employees are eligible for early settlement of pension arrangements, the remaining part of pension obligations for defined benefit plans is considered non-current.
- IAS 19.120A(b) The Group has set up a partly funded pension scheme for mid- to senior management that was available to certain senior workers after completing five years' service. According to the plan, a certain percentage of the current salary is converted into a pension component each year. Pensions under this scheme are paid out when a beneficiary has reached the age of 65.

¹² See note 4.25 for a discussion of the credit entry to an equity-settled share-based payment transaction.

¹³ In the statement of financial position, the current and non-current portion of the defined benefit obligation are presented separately to comply with IAS 1.60. However, paragraph 118 of IAS 19 *Employee Benefits* does not specify whether this disaggregation is needed. Therefore, an entity is also allowed to present the obligation as non-current in its entirety.

The defined benefit obligation for the reporting periods under review are as follows:

		2010	2009
		CU000	CU000
IAS 19.120A(c)	Defined benefit obligation 1 January	47,410	38,889
IAS 19.120A(c)(i)	Current service cost	1,308	1,530
IAS 19.120A(c)(ii)	Interest cost	2,488	2,267
IAS 19.120A(c)(iii)	Contributions by plan participants	658	650
IAS 19.120A(c)(iv)	Actuarial (gains) / losses	3,261	3,761
IAS 19.120A(c)(vi)	Benefits paid	(1,251)	(1,187)
IAS 19.120A(c)(vii)	Past service costs	-	1,500
	Defined benefit obligation 31 December	<u>53,874</u>	<u>47,410</u>
IAS 19.120A(d)	Thereof		
	Unfunded	-	-
	Partly or wholly funded	53,874	47,410

For determination of the pension obligation, the following actuarial assumptions were used:

		2010	2009	2008
IAS 19.120A(n)(i)	Discount rate	5.3%	5.5%	5.4%
IAS 19.120A(n)(ii)	Expected rate of return on plan assets	7.2%	7.4%	7.3%
IAS 19.120A(n)(iv)	Expected rate of salary increases	4.3%	4.2%	4.3%
IAS 19.120A(n)(v)	Medical cost trend rates	4.4%	4.0%	4.2%
IAS 19.120A(n)(vi)	Average life expectancies:			
	Male, 65 years of age at reporting date	82.5	82.5	82.5
	Female, 65 years of age at reporting date	84.5	84.5	84.5
	Male, 45 years of age at reporting date	84.5	84.5	84.5
	Female, 45 years of age at reporting date	87.5	87.5	87.5

IAS 1.125(a) These assumptions were developed by management under consideration of
IAS 1.125(b) expert advice provided by independent actuarial appraisers. These assumptions have led to the amounts determined as the Group's defined benefit obligations for the reporting periods under review and should be regarded as management's best estimate. However, the actual outcome may vary. Estimation uncertainties exist especially in regards to medical cost trends, which may vary significantly in future appraisals of the Group's defined benefit obligations.

The assets held for the Group's defined benefit obligations can be reconciled from the opening balance to the reporting date as follows:

		2010	2009
		CU000	CU000
IAS 19.120A(e)	Fair value of plan assets 1 January	32,575	29,901
IAS 19.120A(e)(i)	Expected returns on plan assets	2,445	2,417
IAS 19.120A(e)(ii)	Actuarial gains / (losses)	6,629	(479)
IAS 19.120A(e)(iii)	Foreign currency exchange rate changes	-	-
IAS 19.120A(e)(iv)	Contributions by the Group	1,186	1,273
IAS 19.120A(e)(v)	Contributions by beneficiaries	658	650
IAS 19.120A(e)(vi)	Benefits paid	(1,251)	(1,187)
	Fair value of plan assets 31 December	42,242	32,575

IAS 19.120A(k) Plan assets do not comprise any of the Group's own financial instruments or any assets used by Group companies. Plan assets can be broken down into the following major categories of investments:

		Total plan assets		
		2010	2009	2008
IAS 19.120A(j)	Real estate funds	27%	27%	26%
	Equity investment funds	50%	51%	54%
	Money market funds	1%	1%	1%
	Other debt instruments	17%	18%	16%
	Liquid funds	5%	3%	3%
		100%	100%	100%

The Group's defined benefit obligations and plan assets may be reconciled to the amounts presented on the face of the statement of financial position for each of the reporting periods under review as follows:

		2010	2009	2008
		CU000	CU000	CU000
IAS 19.120A(f)	Defined benefit obligation	53,874	47,410	38,889
	Fair value of plan assets	(42,242)	(32,575)	(29,901)
IAS 19.120A(f)(i)	Net actuarial gain (loss) not recognised	1,438	(1,930)	2,310
IAS 19.120A(f)(ii)	Past service cost not yet recognised	(600)	(900)	-
	Defined benefit plans	12,470	12,005	11,298
	Classified as:			
	Non-current liability	11,224	10,812	10,242
	Current liability	1,246	1,193	1,056

Total expenses resulting from the Group's defined benefit plans can be analysed as follows:

		2010 CU000	2009 CU000
	Employee benefits expense:		
IAS 19.120A(g)(i)	Current service cost	1,308	1,530
IAS 19.120A(g)(vi)	Past service costs	300	600
	Employee benefits expense	<u>1,608</u>	<u>2,130</u>
IAS 19.120A(g)(ii)	Interest costs	2,488	2,267
IAS 19.120A(g)(iii)	Expected returns on plan assets	(2,445)	(2,417)
IAS 19.120A(g)(v)	Actuarial (gains) losses recognised during the period	-	-
	Total expenses recognised in profit or loss	<u>1,651</u>	<u>1,980</u>

IAS 19.120A(g) Interest costs have been included in 'finance costs' (see note 25). Return on plan assets is included in 'other financial items' (see note 26). All other expenses summarised above were included within 'employee benefits expense'. The Group recognises all actuarial gains and losses in accordance with the corridor approach (see note 4.24). Actuarial gains and losses arising in the year were within the corridor and have therefore not been recognised in profit or loss.

IAS 19.120A(l) Expected returns on plan assets are based on a weighted average of expected also (m) returns of the various assets in the plan, and include an analysis of historical returns and predictions about future returns. Expected returns on plan assets are estimated by independent pension scheme appraisals undertaken by external valuers in close co-ordination with each fund's treasury board. In 2010, the actual return on plan assets was CU 2,900,000 (2009: CU 1,900,000).

IAS 19.120A(o) If the medical cost rate assumed in the actuarial valuation of defined benefit obligations had been varied by +/- 1 percent, this would have altered the Group's defined benefit schemes at follows:

	2010 CU000		2009 CU000		2008 CU000	
	+1%	-1%	+1%	-1%	+1%	-1%
Aggregate of current service and interest cost	684	(627)	746	(681)	709	(647)
Defined benefit obligation for medical costs	9,697	(8,797)	8,534	(7,734)	8,107	(7,347)

IAS 19.120A(q) Based on historical data, the Group expects contributions in the range of CU 2,200,000 to CU 2,500,000 to be paid for 2011.

The development of the Group's defined benefit plans may also be summarised as follows:

		2010	2009	2008	2007	2006
		CU000	CU000	CU000	CU000	CU000
IAS 19.120A(p)(i)	Defined benefit obligation	53,874	47,410	38,889	34,778	30,105
IAS 19.120A(p)(i)	Fair value of plan assets	42,242	32,575	29,901	25,159	23,908
IAS 19.120A(p)(i)	Plan surplus / (deficit)	(11,632)	(14,835)	(8,988)	(9,619)	(6,197)
	Experience adjustments:					
IAS 19.120A(p)(ii)	Plan assets	1,733	226	219	213	212
IAS 19.120A(p)(ii)	Plan liabilities	1,860	915	109	104	105

22 Provisions

IAS 1.69 All provisions are considered current. The carrying amounts may be analysed as follows:

		Restructuring	Other	Total
		CU000	CU000	CU000
IAS 37.84(a)	Carrying amount 1 January 2010	2,110	1,235	3,345
IAS 37.84(b)	Additional provisions	-	1,570	1,570
IAS 37.84(c)	Amount utilised	(876)	(2,211)	(3,087)
IAS 37.84(d)	Reversals	(510)	(103)	(613)
IAS 37.84(a)	Carrying amount 31 December 2010	724	491	1,215

Provisions recognised at acquisition date in a business combination are included in 'additions' (see note 5.1). Provisions classified as 'held for sale' are included within 'amount utilised' (see note 19).

IAS 37.85(a) The provision for restructuring relates to the 'Phoenix programme', which was
IAS 37.85(b) initiated in late 2008 and carried out predominantly in 2009 and 2010. The
IAS 37.85(c) Group's management expects to settle the remaining termination remuneration
IAS 1.60 for former employees and legal fees relating to the restructuring programme in
2011. The Group is not eligible for any reimbursement by third parties in this
regard.

IAS 1.125(a) The restructuring provision as at 31 December 2010 was reduced due to the
IAS 1.125(b) outcome of several lawsuits brought against the Group during 2010 by former
employees. Out of court settlements based on the outcome of earlier
settlements are expected for most of the remaining claims.

IAS 37.85(a) Other provisions relate to various legal and other claims by customers, such as
IAS 37.85(b) for example warranties for which customers are covered for the cost of repairs.
IAS 37.85(c) The Group is not eligible for any reimbursement by third parties in this regard.

- IAS 1.61 Usually, these claims are settled between three and 18 months from initiation, depending on the procedures used for negotiating the claims. As the timing of settlement of these claims is to a large extent dependent on the pace of negotiation with various counterparties and legal authorities, the Group cannot reliably estimate the amounts that will eventually be paid in settlement after more than 12 months from the reporting date. Therefore, the amount is classified as current.
- IAS 1.125 The majority of the other provisions recognised at 31 December 2009 related to
IAS 37.92 claims initiated in 2009 that were settled during 2010. Management, on the advice of counsel, does not expect the outcome of any of the remaining cases will give rise to any significant loss beyond the amounts recognised at 31 December 2010. None of the provisions will be discussed here in further detail so as to not seriously prejudice the Group's position in the related disputes.
- IAS 37.92 On the acquisition of Good Buy in 2009 (see note 5.3), a contingent liability for remaining potential lawsuits from former employees and customers was recognised. This contingent liability is not described in detail so as to not seriously prejudice the Group's position in the related disputes.

23 Trade and other payables

Trade and other payables recognised in the statement of financial position can be analysed as follows:

	2010	2009	2008
	CU000	CU000	CU000
Current			
Trade payables	7,893	6,512	6,981
Short-term bank overdrafts	654	78	123
Finance lease liabilities	512	506	598
	<u>9,059</u>	<u>7,096</u>	<u>7,702</u>
Non-current			
Finance lease liabilities	4,096	4,608	5,002
Total trade and other payables	<u>13,155</u>	<u>11,704</u>	<u>12,704</u>

- IFRS 7.25 With the exception of the non-current part of finance lease liabilities, all
IFRS 7.27(a) amounts are short-term. The carrying values of trade payables and short-term
IFRS 7.27(b) bank overdrafts are considered to be a reasonable approximation of fair value.
IFRS 7.29

The fair value of the Group's finance lease liabilities has been estimated at CU 4,608,000 (2009: CU 5,114,000; 2008: CU 5,600,000). This amount reflects present value and takes into account interest rates available on secured bank borrowings on similar terms. See note 12.1 for further information.

24 Other liabilities

Other liabilities can be summarised as follows:

	2010 CU000	2009 CU000	2008 CU000
Due to customers for construction contract work	288	207	-
Advances received for construction contract work	225	220	220
Deferred service income	2,123	2,291	2,512
Other	22	657	-
Deferred gain	100	100	100
Other liabilities - current	<u>2,758</u>	<u>3,475</u>	<u>2,832</u>
Contingent consideration for the acquisition of Goodtech	620	-	-
Deferred gain	<u>1,400</u>	<u>1,500</u>	<u>1,600</u>
Other liabilities - non-current	<u>2,020</u>	<u>1,500</u>	<u>1,600</u>

The amount presented as deferred gain relates to an office and production building, which was subject to a sale and lease back transaction in 2002, with a sales price above fair value. The excess of proceeds received over fair value was deferred and is being amortised over the lease term of 15 years. In 2010, deferred income of CU 100,000 (2009: CU 100,000) was recognised in profit or loss relating to this transaction. The subsequent leasing agreement is treated as an operating lease (see note 12.2). The non-current part of the deferred gain will be amortised between 2012 and the end of the lease term.

IAS 1.69 All amounts recognised relating to deferred service income are considered
IAS 1.61 current as the timing of service commitments is not at the discretion of the Group. Assuming an average remaining term of service on service contracts at 31 December 2010 of 32 months (2009: 38 months, 2008: 39 months) and constant service activity over the remaining term, the Group expects to amortise CU 796,000 of deferred service income during 2011 (2010: CU 723,000; 2009: CU 772,000), and CU1,327,000 after that time (2010: CU1,568,000; 2009: CU1,781,000).

The amounts recognised in respect of construction contracts will generally be utilised within the next reporting period (see also note 17.1).

25 Finance income and finance costs

Finance costs may be analysed as follows for the reporting periods presented:

		2010 CU000	2009 CU000
	Interest expenses for finance lease arrangements	220	230
	Borrowings at amortised cost:		
	Subordinated shareholder loan	200	200
	Other borrowings at amortised cost	595	555
IFRS 7.20(b)	Interest expenses for borrowings at amortised cost	795	755
	Total interest expenses for financial liabilities not at fair value through profit or loss	1,015	985
IAS 23.26(a)	Less: interest expenses capitalised into intangible assets	(80)	(78)
		935	907
IAS 19.120A(g)(ii)	Defined benefit obligation interest expenses	2,488	2,267
	Unwinding of discount relating to contingent consideration liability	20	-
IFRS 7.20(a)(i)	Loss on foreign currency financial liabilities designated at fair value through profit or loss	30	70
IFRS 7.20(a)(i)	Fair value losses on forward exchange contracts held for trading	-	-
IFRS 7.20(a)(ii)	Losses on available-for-sale financial assets reclassified from other comprehensive income	-	-
IFRS 7.20(e)	Impairment of investment in XY Ltd (available-for-sale)	-	350
	Finance costs	3,473	3,594
IAS 23.26(b)	The borrowing costs have been capitalised at a rate of 4.4% per annum (2009: 4.5%).		
IFRS 7.B5(e)	The loss on foreign currency financial liabilities designated at fair value through profit or loss takes account of interest payments on these loans.		
IFRS 7.20(e)	An impairment loss was recognised in 2009 for the investment in XY Ltd, which is carried at cost less impairment charges as its fair value cannot be measured reliably (see note 14.2).		
IFRS 7.20(e)	Impairments of trade receivables of CU 72,000 (2009: CU 514,000) have been included within 'other expenses' in profit or loss. Impairments of financial assets are further analysed in note 17 and 32.4.		

Finance income may be analysed as follows for the reporting periods presented:

		2010 CU000	2009 CU000
	Interest income from cash and cash equivalents	583	266
IFRS 7.20(b)	Interest income on financial assets carried at amortised cost and available-for-sale financial assets	169	181
IFRS 7.20(b)	Total interest income for financial assets not at fair value through profit or loss	752	447
IAS 18.35(b)(v)	Dividend income from XY Ltd (available-for-sale)	40	-
IAS 18.35(b)(v)	Dividend income from available-for-sale listed securities	22	21
IFRS 7.20(a)(i)	Fair value gains on forward exchange contracts held for trading	130	325
IFRS 7.20(a)(ii)	Gains on available-for-sale financial assets reclassified from other comprehensive income	50	-
IFRS 7.20(a)(i)	Gain on foreign currency financial liabilities designated at fair value through profit or loss	-	-
IFRS 7.20(d)	Interest income on impaired financial assets	-	-
	Finance income	994	793

26 Other financial items

Other financial items consist of the following:

		2010 CU000	2009 CU000
IFRS 7.20(a)(i)	Gain/(loss) from financial assets at fair value through profit and loss – classified as held-for-trading	6	18
IAS 21.52(a), IFRS 7.20(a)(iv)	Gain/(loss) from exchange differences on loans and receivables	937	1,164
	Return on retirement benefit plan assets	2,445	2,417
	Other financial items	3,388	3,599

27 Income tax expense

The relationship between the expected tax expense based on the domestic effective tax rate of Illustrative Corporation at 30% (2009: 30%) and the reported tax expense in profit or loss can be reconciled as follows, also showing major components of tax expense¹⁴:

		2010	2009
		CU000	CU000
IAS 12.81(c)(i)	Profit before tax	22,588	19,961
IAS 12.85	Domestic tax rate for Illustrative Corporation	30%	30%
	Expected tax expense	6,776	5,988
IAS 12.84	Adjustment for tax-rate differences in foreign jurisdictions	16	18
IAS 12.84	Adjustment for tax-exempt income:		
	Relating to equity accounted investments	(18)	(4)
	Other tax-exempt income	(18)	(6)
IAS 12.84	Adjustment for non-deductible expenses:		
	Relating to goodwill impairment	240	57
	Other non-deductible expenses	136	131
	Actual tax expense (income)	7,132	6,184
IAS 12.79			
IAS 12.80	Tax expense comprises:		
IAS 12.80(a)	Current tax expense	5,832	5,192
	Deferred tax expense (income):		
IAS 12.80(c)	Origination and reversal of temporary differences	1,225	767
IAS 12.80	Utilisation of unused tax losses	75	225
	Tax expense	7,132	6,184
IAS 12.81(ab)	Deferred tax expense (income), recognised directly in other comprehensive income	(85)	(95)

Note 15 provides information on deferred tax assets and liabilities, including the amounts recognised directly in other comprehensive income.

¹⁴ Examples of major components of tax expense are included in IAS 12.80.

28 Earnings per share and dividends

Earnings per share

IAS 33.70(a) Both the basic and diluted earnings per share have been calculated using the profit attributable to shareholders of the parent company (Illustrative Corporation) as the numerator, ie no adjustments to profit were necessary in 2009 or 2010.

IAS 33.70(b) The weighted average number of shares for the purposes of diluted earnings per share can be reconciled to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

<i>Amounts in thousand shares:</i>		2010	2009
IAS 33.70(b)	Weighted average number of shares used in basic earnings per share	12,520	12,000
	Shares deemed to be issued for no consideration in respect of share-based payments	17	21
	Weighted average number of shares used in diluted earnings per share	<u>12,537</u>	<u>12,021</u>

Dividends

During 2010, Illustrative Corporation paid dividends of CU 3,000,000 to its equity shareholders (2009: CU Nil). This represents a payment of CU 0.25 per share (2009: CU Nil per share).

IAS 1.137(a)
IAS 12.81(i) The directors propose the payment of a dividend of CU 6,885,000 (CU 0.50 per share). As the distribution of dividends by Illustrative Corporation requires approval at the shareholders' meeting, no liability in this respect is recognised in the 2010 consolidated financial statements. No income tax consequences are expected to arise as a result of this transaction at the level of Illustrative Corporation.

29 Cash flow adjustments and changes in working capital

IAS 7.20

The following non-cash flow adjustments and adjustments for changes in working capital have been made to profit before tax to arrive at operating cash flow:

	2010	2009
	CU000	CU000
Adjustments:		
Depreciation, amortisation and impairment of non-financial assets	7,942	6,061
Foreign exchange gains	(937)	(1,164)
Interest and dividend income	(814)	(468)
Fair value gains on financial assets recognised in profit or loss	(186)	(343)
Cash flow hedges reclassified from equity	260	(425)
Interest expenses	955	907
Impairment of financial assets	72	864
Fair value loss on financial liabilities recognised in profit or loss	30	70
Gain on disposal of non-financial assets	(115)	-
Share-based payment expenses	298	466
Defined benefit plans interest expense	2,488	2,267
Current and past service costs	1,608	2,130
Return on plan assets	(2,445)	(2,417)
Result from equity accounted investments	(60)	(12)
Change in fair value of investment property	(310)	(175)
Acquisition costs included in investing activities	223	-
Other	(268)	(321)
Total adjustments	<u>8,741</u>	<u>7,440</u>
	2010	2009
	CU000	CU000
Net changes in working capital:		
Change in inventories	7,823	5,573
Change in trade and other receivables	995	1,202
Change in trade and other payables	(4,178)	(5,749)
Change in other liabilities	(2,927)	-
Change in other employee obligations	(82)	23
Change in provisions	(3,450)	(2,044)
Change in construction contracts and related liabilities	(314)	(97)
Total changes in working capital	<u>(2,133)</u>	<u>(1,092)</u>

IAS 7.43

In 2010, the Group acquired Goodtech (see note 5.1). The consideration transferred included a contingent payment arrangement amounting to CU 600,000 as of the acquisition date. This is a non-cash transaction excluded from the statement of cash flows.

30 Related party transactions

The Group's related parties include its associates and joint venture, key management, post-employment benefit plans for the Group's employees and others as described below. In addition, Illustrative Corporation has a subordinated loan from its main shareholder, the LOM Investment Trust (see note 14.5 for information on terms and conditions), on which interest is paid.

IAS 24.17(b)(i) Unless otherwise stated, none of the transactions incorporate special terms and
IAS 24.17(b)(ii) conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

IAS 24.18(d) 30.1 Transactions with associates

IAS 24.17 In order to meet peak demands by its customers, the Group has some of its consulting services carried out by professionals of its associate, Equipe Consultants S.A.

IAS 24.17(a) During 2010, Equipe Consultants S.A. provided services valued at CU 568,000
IAS 24.17(b) (2009: CU 590,000). The outstanding balance of CU 20,000 (2009: CU 22,000; 2008: CU 18,000) due to Equipe Consultants S.A. is included in trade payables. In 2010, no transactions have been carried out with Shopmore GmbH. The Group did not receive dividends from associates in 2010 or 2009.

IAS 24.18(e) 30.2 Transactions with joint ventures

IAS 24.17(a) During 2010, Halftime Ltd provided services valued at CU 10,000
(2009: CU 3,000). For joint ventures the full amount of the transactions are shown. These amounts are recognised using the proportionate consolidation method.

There is no outstanding balance as at 31 December 2010 (2009 and 2008: Nil). The Group did not receive dividends from Halftime Ltd in 2010 or 2009.

IAS 24.18(f) **30.3 Transactions with key management personnel**

Key management of the Group are the executive members of Illustrative Corporation's board of directors and members of the executive council. Key management personnel remuneration includes the following expenses:

		2010	2009
		CU000	CU000
IAS 24.16(a)	Short-term employee benefits		
	Salaries including bonuses	2,420	2,210
	Social security costs	70	34
	Company car allowance	220	190
	Total short-term employee benefits	2,710	2,434
IAS 24.16(b)	Post-employment benefits		
	Defined benefit pension plans	312	299
	Defined contribution pension plans	25	12
	Total post-employment benefits	337	311
IAS 24.16(d)	Termination benefits	100	-
IAS 24.16(e)	Share-based payments	103	175
	Total remuneration	3,250	2,920

IAS 24.17 During 2010 key management exercised share options with total exercise price of CU 1,685,000 (2009: CU Nil) granted in The Group's *Star Programme*.

The Group allows its employees to take up limited short-term loans to fund merchandise and other purchases through the Group's business contacts. This facility is also available to the Group's key management personnel.

IAS 24.17(a) During 2010, the Group's key management received short term loans totalling
IAS 24.17(b) CU 40,000 (2009: CU 38,000). The outstanding balance of CU 1,000 (2009 and 2008: CU 1,000) has been included in 'trade and other receivables'.

The Group used the legal services of one director in the company and the law firm over which he exercises significant influence. The amounts billed were based on normal market rates and amounted to CU 21,000 (2009: Nil). There were no outstanding balances at the reporting dates under review.

30.4 Transactions with post-employment benefit plans

IAS 24.9(g) The defined benefit plan referred to in note 21.3 is a related party.

The pension scheme does not hold shares in Illustrative Corporation. The Group's transactions with the pension scheme include contributions paid to the plan, which are disclosed in note 21.3. The Group has no other transactions or balances with the pension scheme.

IAS 1.114(d)(i) **31 Contingent assets and contingent liabilities**

IAS 37.89 The Group has no contingent assets.

IAS 37.86 Various warranty and legal claims were brought against the Group during the year. Unless recognised as a provision (see note 22), management considers these claims to be unjustified and the probability that they will require settlement at the Group's expense to be remote. This evaluation is consistent with external independent legal advice.

IAS 37.92 Further information on these contingencies is omitted so as not to seriously prejudice the Group's position in the related disputes.

IAS 28.40 No contingent liabilities have been incurred by the Group in relation to
IAS 31.54 associates and joint ventures.

IAS 1.114(d)(ii) **32 Financial instrument risk**

IFRS 7.33 **Risk management objectives and policies**

The Group is exposed to various risks in relation to financial instruments. The Group's financial assets and liabilities by category are summarised in note 14.1. The main types of risks are market risk, credit risk and liquidity risk.

IFRS 7.IG15 The Group's risk management is coordinated at its headquarters, in close cooperation with the board of directors, and focuses on actively securing the Group's short to medium-term cash flows by minimising the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed are described below.

The Group is exposed to market risk through its use of financial instruments and specifically to currency risk, interest rate risk and certain other price risks, which result from both its operating and investing activities.

32.1 Foreign currency sensitivity

IFRS 7.33(a) Most of the Group's transactions are carried out in CU. Exposures to currency exchange rates arise from the Group's overseas sales and purchases, which are primarily denominated in US dollars (USD) and Pound Sterling (GBP). The Group also holds an investment in a USD bond. Further, the Group has a USD loan designated at fair value through profit or loss, which has been used to fund the purchase of investment property in the United States.

IFRS 7.33(b) To mitigate the Group's exposure to foreign currency risk, non-CU cash flows are monitored and forward exchange contracts are entered into in accordance with the Group's risk management policies. Generally, the Group's risk management procedures distinguish short-term foreign currency cash flows (due within 6 months) from longer-term cash flows (due after 6 months). Where the amounts to be paid and received in a specific currency are expected to largely offset one another, no further hedging activity is undertaken. Forward exchange contracts are mainly entered into for significant long-term foreign currency exposures that are not expected to be offset by other currency transactions.

IFRS 7.IG15

IFRS 7.33(c)

The Group does not enter into forward exchange contracts to mitigate the exposure to foreign currency risk on the Group's USD loan used to fund the purchase of US investment property. The loan is designated at fair value through profit and loss to significantly reduce measurement inconsistencies between investment properties and the related loan, ie a foreign currency loss on the investment property is offset by a gain on the related loan. Therefore, the loan is not included in management's assessment of foreign currency exposure.

Foreign currency denominated financial assets and liabilities which expose the Group to currency risk are disclosed below. The amounts shown are those reported to key management translated into CU at the closing rate:

IFRS 7.34(a)	Short-term exposure			Long-term exposure		
	USD	GBP	Other	USD	GBP	Other
IFRS 7.34(c)	CU000	CU000	CU000	CU000	CU000	CU000
31 December 2010						
Financial assets	4,518	3,629	308	1,363	-	-
Financial liabilities	710	1,658	-	-	-	-
Total exposure	3,808	1,971	308	1,363	-	-
31 December 2009						
Financial assets	2,920	1,840	233	1,442	-	-
Financial liabilities	586	1,368	-	-	-	-
Total exposure	2,334	472	233	1,442	-	-
31 December 2008						
Financial assets	2,503	1,488	188	1,499	-	-
Financial liabilities	628	1,466	-	-	-	-
Total exposure	1,875	22	188	1,499	-	-

IFRS 7.40(a) The following table illustrates the sensitivity of profit and equity in regards to the
IFRS 7.40(b) Group's financial assets and financial liabilities and the USD/CU exchange rate
IFRS 7.IG36 and GBP/CU exchange rate 'all other things being equal'. It assumes a +/- 10%
change of the CU/USD exchange rate for the year ended at 31 December 2010
(2009 and 2008: 10%). A +/- 5% change is considered for the CU/GBP
exchange rate (2009 and 2008: 5 %). Both of these percentages have been
determined based on the average market volatility in exchange rates in the
previous 12 months. The sensitivity analysis is based on the Group's foreign
currency financial instruments held at each reporting date and also takes into
account forward exchange contracts that offset effects from changes in currency
exchange rates.

If the CU had strengthened against the USD by 10% (2009 and 2008: 10%) and
GBP by 5% (2009 and 2008: 5%) respectively then this would have had the
following impact:

	Profit for the year			Equity		
	USD	GBP	Total	USD	GBP	Total
	CU000	CU000	CU000	CU000	CU000	CU000
31 December 2010	(97)	(99)	(197)	(47)	(99)	(147)
31 December 2009	(53)	(24)	(77)	(3)	(24)	(27)
31 December 2008	(67)	(1)	(68)	(27)	(1)	(28)

If the CU had weakened against the USD by 10% (2009 and 2008: 10%) and
GBP by 5% (2009 and 2008: 5%) respectively then this would have had the
following impact:

	Profit for the year			Equity		
	USD	GBP	Total	USD	GBP	Total
	CU000	CU000	CU000	CU000	CU000	CU000
31 December 2010	97	97	195	37	97	135
31 December 2009	53	20	73	13	20	33
31 December 2008	67	(2)	65	32	(2)	30

IFRS 7.42 Exposures to foreign exchange rates vary during the year depending on the
volume of overseas transactions. Nonetheless, the analysis above is considered
to be representative of the Group's exposure to currency risk.

32.2 Interest rate sensitivity

IFRS 7.33(a) The Group's policy is to minimise interest rate cash flow risk exposures on long-
IFRS 7.33(b) term financing. Longer-term borrowings are therefore usually at fixed rates. At
31 December 2010, the Group is exposed to changes in market interest rates
through bank borrowings at variable interest rates. Other borrowings are at
fixed interest rates. The Group's investments in bonds all pay fixed interest
rates. The exposure to interest rates for the Group's money market funds is
considered immaterial.

IFRS 7.40(b) The following table illustrates the sensitivity of profit and equity to a reasonably
IFRS 7.IG36 possible change in interest rates of +/- 1% (2009 and 2008: +/- 1%). These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each period, and the financial instruments held at each reporting date that are sensitive to changes in interest rates. All other variables are held constant.

		Profit for the year		Equity	
		CU000		CU000	
		+ 1%	- 1%	+ 1%	- 1%
IFRS 7.40(a)	31 December 2010	36	(36)	26	(16)
	31 December 2009	32	(32)	23	(14)
	31 December 2008	37	(37)	22	(12)

32.3 Other price risk sensitivity

IFRS 7.33(a) The Group is exposed to other price risk in respect of its listed equity securities, the investment in XY Ltd and debentures (see note 14.2).

IFRS 7.40(a) For the listed equity securities, an average volatility of 20% has been observed
IFRS 7.40(b) during 2010 (2009: 18%; 2008: 17%). This volatility figure is considered to be a suitable basis for estimating how profit or loss and equity would have been affected by changes in market risk that were reasonably possible at the reporting date. If the quoted stock price for these securities increased or decreased by that amount, other comprehensive income and equity would have changed by CU 85,000 (2009: CU 62,000; 2008: CU 57,000). The listed securities are classified as available-for-sale, therefore no effect on profit or loss would have occurred.

IFRS 7.40(b) The Group's sensitivity to price risk in regards to its investment in XY Ltd cannot be reliably determined due to numerous uncertainties regarding the future development of this company (see note 14.2 for further information).

IFRS 7.33(b) The investments in listed equity securities and in XY Ltd are considered long-term, strategic investments. In accordance with the Group's policies, no specific hedging activities are undertaken in relation to these investments. The investments are continuously monitored and voting rights arising from these equity instruments are utilised in the Group's favour.

IFRS 7.40(a) The average volatility of the listed debentures was 15% in 2010 (2009: 13%;
IFRS 7.40(b) 2008: 9%). If the market price had increased or decreased by this amount, other comprehensive income and equity would have increased/decreased by CU 15,000 (2009: CU 15,000; 2008: CU 9,000). As none of the debentures classified as available-for-sale were sold during any of the periods under review, no effect on profit or loss would have occurred (unless any decline in fair value to below cost is considered to result from impairment of the asset).

32.4 Credit risk analysis

IFRS 7.33(a) Credit risk is the risk that a counterparty fails to discharge an obligation to the
IFRS 7.36(a) Group. The Group is exposed to this risk for various financial instruments, for example by granting loans and receivables to customers, placing deposits, investment in bonds etc. The Group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, as summarised below:

IFRS 7.34(a)	2010 CU000	2009 CU000	2008 CU000
Classes of financial assets - carrying amounts:			
Bonds	2,814	2,992	3,124
Listed debentures	97	112	90
Money market funds	655	649	631
Derivative financial instruments	582	212	490
Cash and cash equivalents	34,789	11,237	10,007
Trade and other receivables	30,945	23,441	18,873
Carrying amount	69,882	38,643	33,215

IFRS 7.33(b) The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties.

IFRS 7.36(c) The Group's management considers that all the above financial assets that are not impaired or past due for each of the reporting dates under review are of good credit quality.

IFRS 7.36(b) None of the Group's financial assets are secured by collateral or other credit
IFRS 7.15 enhancements.

IFRS 7.37(a) Some of the unimpaired trade receivables are past due as at the reporting date.
IFRS 7.IG28 Financial assets past due but not impaired can be shown as follows:

	2010 CU000	2009 CU000	2008 CU000
Not more than 3 months	671	602	367
More than 3 months but not more than 6 months	90	88	41
More than 6 months but not more than 1 year	55	15	2
More than one year	2	1	1
Total	818	706	411

- IFRS 7.36(c) In respect of trade and other receivables, the Group is not exposed to any
IFRS 7.IG23 significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Trade receivables consist of a large number of customers in various industries and geographical areas. Based on historical information about customer default rates management consider the credit quality of trade receivables that are not past due or impaired to be good.
- IFRS 7.36(d) The carrying amount of financial assets whose terms have been renegotiated, that would otherwise be past due or impaired is CU Nil (2009 and 2008: CU Nil).
- IFRS 7.36(c) The credit risk for cash and cash equivalents, money market funds, debentures and derivate financial instruments is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.
- IFRS 7.36(a) No impairment loss has been recorded in relation to the bonds (held-to-maturity
IFRS 7.36(c) investments, see note 14.2) which have been graded AA by Standard & Poors.
IFRS 7.IG23(a) No amounts in relation to the bonds are past due. The carrying amounts
IFRS 7.20(e) disclosed above are the Group's maximum possible credit risk exposure in relation to these instruments.

32.5 Liquidity risk analysis

- IFRS 7.33(a) Liquidity risk is that the Group might be unable to meet its obligations. The
IFRS 7.33(b) Group manages its liquidity needs by monitoring scheduled debt servicing
IFRS 7.39(c) payments for long-term financial liabilities as well as forecast cash inflows and outflows due in day-to-day business. The data used for analysing these cash flows is consistent with that used in the contractual maturity analysis below. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and a 360-day lookout period are identified monthly. Net cash requirements are compared to available borrowing facilities in order to determine headroom or any shortfalls. This analysis shows that available borrowing facilities are expected to be sufficient over the lookout period.
- IFRS 7.39(c) The Group's objective is to maintain cash and marketable securities to meet its
IFRS 7.B11F liquidity requirements for 30-day periods at a minimum. This objective was met
IFRS 7.IG31(c) for the reporting periods. Funding for long-term liquidity needs is additionally
IFRS 7.IG31(d) secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

IFRS 7.B11E

The Group considers expected cash flows from financial assets in assessing and managing liquidity risk, in particular its cash resources and trade receivables. The Group's existing cash resources and trade receivables (see note 14) significantly exceed the current cash outflow requirements. Cash flows from trade and other receivables are all contractually due within six months.

As at 31 December 2010, the Group's non-derivative financial liabilities have contractual maturities (including interest payments where applicable) as summarised below:

IFRS 7.39(a)
IFRS 7.B11

	Current		Non-current	
	within 6	6 to 12		later than
	months	months	1 to 5 years	5 years
31 December 2010	CU000	CU000	CU000	CU000
US-dollar loans	280	280	1,761	8,215
Other bank borrowings	4,565	-	-	-
Non-convertible bond	208	208	8,888	-
Finance lease obligations	364	364	1,415	3,539
Trade and other payables	8,547	-	-	-
Total	13,964	852	12,064	11,754

This compares to the maturity of the Group's non-derivative financial liabilities in the previous reporting periods as follows:

IFRS 7.39(a)
IFRS 7.B11

	Current		Non-current	
	within 6	6 to 12		later than
	months	months	1 to 5 years	5 years
31 December 2009	CU000	CU000	CU000	CU000
US-dollar loans	289	289	1,781	8,508
Other bank borrowings	3,124	-	-	-
Non-convertible bond	208	208	9,303	-
Finance lease obligations	363	363	1,432	4,072
Trade and other payables	6,590	-	-	-
Total	10,574	860	12,516	12,580

IFRS 7.39(a)
IFRS 7.B11

31 December 2008				
US-dollar loans	304	304	1,861	8,638
Other bank borrowings	3,543	-	-	-
Non-convertible bond	208	208	9,718	-
Finance lease obligations	414	414	1,429	4,531
Trade and other payables	7,104	-	-	-
Total	11,573	926	13,008	13,169

The above amounts reflect the contractual undiscounted cash flows, which may differ to the carrying values of the liabilities at the reporting date. The subordinated shareholder loan amounting to CU 5,000,000 throughout all reporting periods is not included as this is only repayable upon liquidation of Illustrative Corporation. Annual interest payments amount to CU 200,000.

In assessing and managing liquidity risks of its derivative financial instruments, the Group considers both contractual inflows and outflows. As at 31 December 2010, the contractual cash flows of the Group's derivative financial assets and liabilities are as follows:

IFRS 7.39(b) IFRS 7.B11	Current		Non-current	
	within 6 months	6 to 12 months	1 to 5 years	later than 5 years
31 December 2010	CU000	CU000	CU000	CU000
Gross-settled forward contracts				
Cash outflow	(212)	(6,978)	-	-
Cash inflow	300	7,509	-	-
Total	88	531	-	-

IFRS 7.34(a) This compares to the contractual cash flows of the Group's derivative financial assets and liabilities in the previous reporting periods as follows:

IFRS 7.39(b) IFRS 7.B11	Current		Non-current	
	within 6 months	6 to 12 months	1 to 5 years	later than 5 years
31 December 2009	CU000	CU000	CU000	CU000
Gross-settled forward contracts				
Cash outflow	(190)	(7,100)	-	-
Cash inflow	203	7,050	-	-
Total	13	(50)	-	-

IFRS 7.39(b) IFRS 7.B11	Current		Non-current	
	within 6 months	6 to 12 months	1 to 5 years	later than 5 years
31 December 2008	CU000	CU000	CU000	CU000
Gross-settled forward contracts				
Cash outflow	(201)	(6,540)	-	-
Cash inflow	202	7,060	-	-
Total	1	520	-	-

Derivative financial instruments reflect forward exchange contracts (see note 14.4) that will be settled on a gross basis.

IAS 1.134 **33 Capital management policies and procedures**

The Group's capital management objectives are:

- to ensure the Group's ability to continue as a going concern
- to provide an adequate return to shareholders

by pricing products and services commensurately with the level of risk.

IAS 1.135(a)(i) The Group monitors capital on the basis of the carrying amount of equity plus its subordinated loan, less cash and cash equivalents as presented on the face of the statement of financial position and cash flow hedges recognised in other comprehensive income.

IAS 1.135(a)(ii) The Group's goal in capital management is to maintain a capital-to-overall financing ratio of 1:6 to 1:4. This is in line with the Group's covenants resulting from the subordinated loan it has taken out from its main shareholder in 2007.

IAS 1.135(a)(iii) The Group sets the amount of capital in proportion to its overall financing structure, ie equity and financial liabilities other than its subordinated loan. The Group 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 for the reporting periods under review is summarised as follows:

IAS 1.135(b)	2010	2009	2008
	CU000	CU000	CU000
Total equity	83,914	52,388	39,153
Subordinated loan	5,000	5,000	5,000
Cash flow hedges	(469)	160	(312)
Cash and cash equivalents	(34,789)	(11,237)	(10,007)
Capital	53,656	46,311	33,834
<hr/>			
Total equity	83,914	52,388	39,153
Borrowings	25,815	24,644	25,223
Overall financing	109,729	77,032	64,376
<hr/>			
Capital-to-overall financing ratio	0.49	0.60	0.53

IAS 1.135(d) The Group has honoured its covenant obligations, including maintaining capital ratios, since the subordinated loan was taken out in 2007. The ratio-reduction during 2010 is primarily a result of financing the acquisition of Goodtech (see note 5.1).

34 Post-reporting date events

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorisation.

35 Authorisation of financial statements

IAS 10.17 The consolidated financial statements for the year ended 31 December 2010 (including comparatives) were approved by the board of directors on 8 March 2011.

C Executive

(Board member 1)

C Finance

(Board member 2)

Appendix A: Organising the income statement by function of expenses

IAS 1.99 IAS 1.99 allows an 'income statement' format analysing expenses using a classification based on either the nature of expenses (NOE) or based on the function of expenses (FOE) within the entity. This depends on management's assessment of which format provides information that is reliable and more relevant.

The NOE format is illustrated in the main body of the example financial statements. The FOE format is illustrated in this appendix. The example shows the 'income statement' separately, ie other comprehensive income shall be shown in addition to the income statement in a statement of comprehensive income (see the main body of the example financial statements).

If the entity shows the statement of comprehensive income in one statement (see the example in Appendix B), the FOE format included in this appendix may replace the NOE-format that is part of the statement of comprehensive income in Appendix B.

The FOE or NOE formats do not affect the presentation requirements for other comprehensive income. Only the 'income statement' is affected.

IAS 1.104 When classifying expenses by function, further information on the nature of the expenses is required. For example, expenses relating to employee benefits need to be disclosed separately, as presented in note 21.1 in the main body of the example financial statements. These changes are highlighted and explained in note 1 that follows the 'income statement' format on the next page.

Income statement

IAS 1.51				
IAS 1.51(c)		Notes	2010	2009
IAS 1.51(d-e)			CU000	CU000
IAS 1.82(a)	Revenue	8	206,193	191,593
IAS 1.85	Costs of sales		(111,523)	(103,606)
IAS 1.85	Gross profit		94,670	87,987
IAS 1.85	Other income		427	641
IAS 1.85	Distribution costs		(12,213)	(11,473)
IAS 1.85	Administrative expenses		(48,853)	(45,894)
IAS 1.85	Research and development costs		(1,690)	(1,015)
IAS 1.85	Change in fair value of investments property	13	310	175
IAS 1.85	Other expenses		(11,032)	(11,270)
	Operating profit		21,619	19,151
IAS 1.82(c)	Share of profit from equity accounted investments	7	60	12
IAS 1.82(b)	Finance costs	25	(3,473)	(3,594)
IAS 1.85	Finance income	25	994	793
IAS 1.85	Other financial items	26	3,388	3,599
	Profit before tax		22,588	19,961
IAS 1.82(d)	Tax expense	27	(7,132)	(6,184)
	Profit for the year from continuing operations		15,456	13,777
IAS 1.82(e)	Loss for the year from discontinued operations	19	(9)	(325)
IAS 1.82(f)	Profit for the year		15,447	13,452
	Profit for the year attributable to:			
IAS 1.83(a)(i)	Non-controlling interest		121	116
IAS 1.83(a)(ii)	Owners of the parent		15,326	13,336
			15,447	13,452
	Earnings per share	28	CU	CU
IAS 33.67A	Basic earnings per share			
IAS 33.66	Earnings from continuing operations		1.22	1.14
IAS 33.68	Loss from discontinued operations		(0.00)	(0.03)
IAS 33.66	Total		1.22	1.11
IAS 33.68A	Diluted earnings per share			
IAS 33.66	Earnings from continuing operations		1.22	1.14
IAS 33.68	Loss from discontinued operations		(0.00)	(0.03)
IAS 33.66	Total		1.22	1.11

1 Function of expense format - consequential changes

Applying the function of expense format (FOE) requires consequential changes to the main body of the financial statements. These example consolidated financial statements have been prepared on the nature of expense format. Care should be taken to ensure that all references and explanations are consistent with the policy applied. We have given **some** examples of consequential changes in this appendix.

1.1 Goodwill

In note 9 on page 55, replace the grey-shaded paragraph with the paragraphs below:

NOE The related goodwill impairment loss of CU 799,000 in 2010 (2009: CU 190,000) was included within 'depreciation, amortisation and impairment of non-financial assets' and is allocated to the consulting segment (see note 8).

FOE The complete goodwill impairment loss in 2010 and 2009 has been included in 'administrative expenses'. The impairment loss has been attributed to the consulting segment (see note 8).

1.2 Other intangible assets

In note 10 on page 56, delete the last sentence of the following paragraph:

NOE Additions to research and development costs include capitalised borrowing costs of CU 80,000 (2009: CU 78,000). In addition to development costs capitalised, the Group expensed as 'other expenses' CU 1,690,000 of research and development costs during the year (2009: CU 1,015,000).

In the last paragraph of note 10 on page 57, replace the grey-shaded sentence with the sentence below:

NOE All amortisation and impairment charges (or reversals if any) are included within 'depreciation, amortisation and impairment of non-financial assets'

FOE All amortisation and impairment charges (or reversals if any) are included within 'cost of sales'.

1.3 Pensions and other employee obligations

In note 21.3, replace the grey-shaded sentence with the paragraph below:

NOE Interest costs have been included in 'finance costs' (see note 25). Return on plan assets is included in 'other financial items' (see note 26). All other expenses summarised above were included within 'employee benefits expense'

FOE Interest costs have been included in 'finance costs' (see note 25). Return on plan assets is included in 'other financial items' (see note 26). All other expenses summarised above were included within the line items of the income statement that they directly relate to, ie cost of sales, distribution costs, administrative expenses and research and development costs. Note 21.1 provides a summary of employee benefits expense included in profit or loss.

1.4 Discontinued operations

IFRS 5.33(b) requires entities to further analyse the single line item included in the income statement for profit of a discontinued operation either on the face of the income statement or in the notes. This includes the disclosure of revenue and expenses of the discontinued operation. Note 19 represents an example thereof.

If an entity uses a different income statement format, it may facilitate a better understanding of the financial effects of discontinued operation if the analysis of profit from discontinued operations is presented using a format similar to the entity's income statement.

Appendix B: Statement of comprehensive income presented in single statement

As permitted by IAS 1 (Revised 2007) paragraph 81 the 'statement of comprehensive income' may be presented in either **two** statements, the 'income statement' and a 'statement of comprehensive income', or in a **single** 'statement of comprehensive income'.

The main body in these example consolidated financial statements presents the statement of comprehensive income in **two** statements.

In this appendix, the alternative of presenting a **single** 'statement of comprehensive income' is presented (based on the nature of expense method).

Disclosure requirements, however, remain unchanged. For example, the entity is required to disclose reclassification adjustments (IAS 1.92) and related tax effects (IAS 1.90) relating to each item of other comprehensive income either on the face of the statement or in the notes. In this example the entity presents reclassification adjustments and current year gains and losses relating to other comprehensive income on the face of the statement.

Items of comprehensive income is presented before tax, with one amount shown for the aggregate amount of income tax relating to all components of comprehensive income. The tax amount is broken down in the notes (see note 15).

The accounting policies will need to disclose that the single statement of comprehensive income has been adopted (see note 4.2). In general, the accounting policies will need to be tailored so that they refer to the 'statement of comprehensive income' and not the 'income statement', where appropriate. For example tailoring is necessary to reflect that discontinued operations are shown as a separate line item in the 'statement of comprehensive income' (see note 4.11). However, it should be noted that the term 'profit or loss' continues to apply.

The illustrative **single** statement of comprehensive income is shown on the next page.

Statement of comprehensive income

IAS 1.51(c)		Notes	2010	2009
IAS 1.51(d-e)			CU000	CU000
IAS 1.82(a)	Revenue	8	206,193	191,593
IAS 1.85	Other income		427	641
IAS 1.85	Changes in inventories		(7,823)	(5,573)
IAS 1.85	Costs of material		(42,634)	(40,666)
IAS 1.85	Employee benefits expense	21	(114,190)	(108,673)
IAS 1.85	Change in fair value of investment property	13	310	175
IAS 1.85	Depreciation, amortisation and impairment of non-financial assets		(7,942)	(6,061)
IAS 1.85	Other expenses		(12,722)	(12,285)
	Operating profit		<u>21,619</u>	<u>19,151</u>
IAS 1.82(c)	Share of profit from equity accounted investments	7	60	12
IAS 1.82(b)	Finance costs	25	(3,473)	(3,594)
IAS 1.85	Finance income	25	994	793
IAS 1.85	Other financial items	26	<u>3,388</u>	<u>3,599</u>
	Profit before tax		<u>22,588</u>	<u>19,961</u>
IAS 1.82(d)	Tax expense	27	<u>(7,132)</u>	<u>(6,184)</u>
	Profit for the year from continuing operations		<u>15,456</u>	<u>13,777</u>
IAS 1.82(e)	Loss for the year from discontinued operations	19	<u>(9)</u>	<u>(325)</u>
IAS 1.82(f)	Profit for the year		<u><u>15,447</u></u>	<u><u>13,452</u></u>
IAS 1.82(g)	Other comprehensive income:			
IAS 16.77(f)	Revaluation of land	11	303	-
	Cash flow hedging	14		
IFRS 7.23(c-d)	- current year gains (losses)		367	(47)
IAS 1.92	- reclassification to profit or loss		260	(425)
	Available-for-sale financial assets	14		
IFRS 7.20(a)(ii)	- current year gains (losses)		113	35
IAS 1.92	- reclassification to profit or loss		(50)	-
IAS 21.52(b)	Exchange differences on translating foreign operations		(664)	(341)
	Share of other comprehensive income of equity accounted investments		5	-
IAS 1.92	- reclassification to profit or loss		(3)	-
IAS 1.90	Income tax relating to components of other comprehensive income	15	<u>85</u>	<u>95</u>
	Other comprehensive income for the period, net of tax		<u>416</u>	<u>(683)</u>
IAS 1.82(i)	Total comprehensive income for the period		<u><u>15,863</u></u>	<u><u>12,769</u></u>
	Profit for the year attributable to:			
IAS 1.83(a)(i)	Non-controlling interest		121	116
IAS 1.83(a)(ii)	Owners of the parent		<u>15,326</u>	<u>13,336</u>
			<u>15,447</u>	<u>13,452</u>
	Total comprehensive income attributable to:			
IAS 1.83(b)(i)	Non-controlling interest		121	116
IAS 1.83(b)(ii)	Owners of the parent		<u>15,742</u>	<u>12,653</u>
			<u>15,863</u>	<u>12,769</u>
	Earnings per share	28	CU	CU
IAS 33.67A	Basic earnings per share			
IAS 33.66	Earnings from continuing operations		1.22	1.14
IAS 33.68	Loss from discontinued operations		<u>(0.00)</u>	<u>(0.03)</u>
IAS 33.66	Total		<u>1.22</u>	<u>1.11</u>
IAS 33.68A	Diluted earnings per share			
IAS 33.66	Earnings from continuing operations		1.22	1.14
IAS 33.68	Loss from discontinued operations		<u>(0.00)</u>	<u>(0.03)</u>
IAS 33.66	Total		<u>1.22</u>	<u>1.11</u>



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