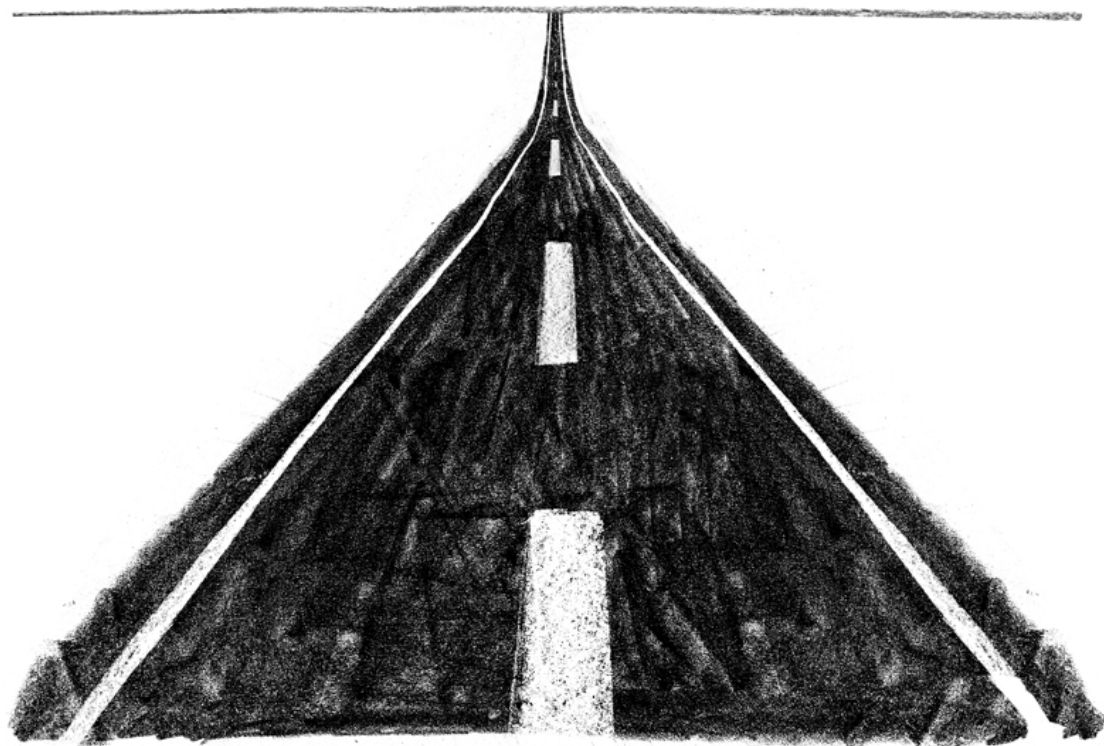


# First-time adoption of IFRS

Example Consolidated Financial  
Statements 2009

31 December 2009





# Introduction

## **First-time adoption of IFRS - Example Consolidated Financial Statements 2009**

IFRSs are increasingly becoming a truly global accounting framework with many countries committed to adopting them in the next few years. For companies, the process of converting to IFRS and preparing their first IFRS financial statements will be challenging. In November 2008, the IASB issued a restructured version of IFRS 1 *First-time Adoption of International Financial Reporting Standards* (IFRS 1). The objective of this Standard is to ensure that first-time IFRS financial statements contain high quality information that can be prepared at a cost not exceeding the benefits. IFRS 1 also specifies a number of additional disclosures for first-time adopters that must be addressed in addition to the normal IFRS presentation and disclosure requirements.

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 first-time application of IFRS. Grant Thornton International, through its IFRS team, develops general guidance that supports its member firms' commitment to high quality and consistent application of IFRS and is therefore pleased to share these insights by publishing *'First-time adoption of IFRS - Example Consolidated Financial Statements 2009'* (the Publication).

This Publication reflects the collective experience of Grant Thornton International's IFRS team and member firm IFRS experts, and is intended to illustrate the 'look and feel' of first IFRS financial statements and to provide a realistic example of their presentation.

The Publication is based on the activities and results of 'First International plc' and its subsidiaries (the Group) - a fictional manufacturing and retailing entity that prepares its first IFRS financial statements for the year ending 31 December 2009. The entity's date of transition is 1 January 2008.

## **Using this publication**

The form and content of IFRS financial statements will of course depend on the activities and transactions of the reporting entity in concern. Our objective in preparing the Publication 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 cannot cover every possible type of transaction or implementation choice in IFRS 1 and cannot therefore be regarded as comprehensive. Management is responsible for the fair presentation of financial statements and therefore may find other approaches to be more appropriate in their specific circumstances.

The Publication illustrates First International plc's adoption of new standards and amendments to the standards that are effective for the year ending 31 December 2009, as follows:

- IAS 1 *Presentation of Financial Statements* (as revised in 2007)
- IFRS 8 *Operating Segments*
- IAS 23 *Borrowing Costs* (as revised in 2007)
- IFRS 7 *Financial Instruments: Disclosures* - improving disclosures about financial instruments
- IFRIC 13 *Customer Loyalty Programmes*

The publication reflects IFRSs that are effective for the year ending **31 December 2009**, however, no account has been taken of any new developments published after **18 November 2009**.

IFRS 1 provides first-time adopters with the choice of a number of possible exemptions from the normal requirements of IFRS. Only one possible combination of the choices available to a first-time adopter has been illustrated. Therefore, the publication does **not** show all the requirements in IFRS 1.

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

This Publication does not address any jurisdictional or regulatory requirements relating to areas such as management discussion and analysis, 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 in IFRS financial statements.

Grant Thornton International Ltd

December 2009

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### Comments: Statement of financial position

The statement of financial position complies with IAS 1 *Presentation of Financial Statements* (Revised 2007) which is effective for annual periods beginning on or after 1 January 2009. IFRS 1 requires the presentation of at least three statements of financial position in the first IFRS financial statements (IFRS 1.21) including related notes. In effect, the statement of financial position at 31 December 2007 in these financial statements is the opening statement of financial position (the date of transition is 1 January 2008). In future periods, the first-time adopter applies the requirements in IAS 1 (Revised 2007) for comparative information

The *Example Consolidated Financial Statements 2009* use the terminology in IAS 1 (Revised). However an entity may use other titles (eg balance sheet) for the primary financial statements (IAS 1.10).

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).

## Statement of financial position

IAS 1.51(c)		Notes	2009	2008	2007
IAS 1.51(d-e)	<b>Assets</b>		<b>CU000</b>	<b>CU000</b>	<b>CU000</b>
IAS 1.60,					
IAS 1.66	<b>Non-current</b>				
IAS 1.57	Goodwill	8	5,041	3,537	1,234
IAS 1.54(c)	Other intangible assets	9	14,196	13,763	10,664
IAS 1.54(a)	Property, plant and equipment	10	25,417	23,625	21,006
IAS 1.54(e),	Investments accounted for using the equity				
IAS 28.38	method	6	430	23	11
IAS 1.54(b)	Investment property	12	12,662	12,277	12,102
IAS 1.54(d)	Other long-term financial assets	13	3,765	3,880	4,327
IAS 1.54(o),					
IAS 1.56	Deferred tax assets	14	-	225	520
IAS 1.60	Non-current assets		<u>61,511</u>	<u>57,330</u>	<u>49,864</u>
IAS 1.60,					
IAS 1.66	<b>Current</b>				
IAS 1.54(g)	Inventories	15	19,739	18,567	18,671
IAS 1.54(h)	Trade and other receivables	16	33,629	25,628	20,719
IAS 1.55	Derivative financial instruments	13	582	212	490
IAS 1.54(d)	Other short-term financial assets	13	655	649	631
IAS 1.54(n)	Current tax assets		-	561	-
IAS 1.54(i)	Cash and cash equivalents	17	33,909	10,448	10,007
IAS 1.60	Current assets		<u>88,514</u>	<u>56,065</u>	<u>50,518</u>
IAS 1.55	<b>Total assets</b>		<u><u>150,025</u></u>	<u><u>113,395</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	2009	2008	2007
IAS 1.51(d-e)			CU000	CU000	CU000
	<b>Equity</b>				
	Equity attributable to owners of the parent:				
IAS 1.54(r)	Share capital	18	13,770	12,000	12,000
IAS 1.55	Share premium	18	19,645	3,050	3,050
IAS 1.55	Other components of equity		937	521	1,204
IAS 1.54(r)	Retained earnings		50,818	38,016	24,479
			<u>85,170</u>	<u>53,587</u>	<u>40,733</u>
IAS 1.54(q)	Minority interest		713	592	476
IAS 1.55	<b>Total equity</b>		<u>85,883</u>	<u>54,179</u>	<u>41,209</u>
	<b>Liabilities</b>				
IAS 1.60, IAS 1.69	<b>Non-current</b>				
IAS 1.55	Pension and other employee obligations	19	9,168	8,756	8,186
IAS 1.54(m)	Borrowings	13	21,000	21,265	21,405
IAS 1.54(k)	Trade and other payables	21	4,096	4,608	5,002
IAS 1.55	Other liabilities	22	1,400	1,500	1,600
IAS 1.54(o), 1.56	Deferred tax liabilities	14	5,324	3,701	2,664
IAS 1.55	Non-current liabilities		<u>40,988</u>	<u>39,830</u>	<u>38,857</u>
IAS 1.60, IAS 1.69	<b>Current</b>				
IAS 1.54(l)	Provisions	20	1,460	3,590	4,400
IAS 1.55	Pension and other employee obligations	19	1,467	1,496	1,336
IAS 1.54(k)	Trade and other payables	21	9,249	7,286	7,702
IAS 1.54(m)	Borrowings	13	4,815	3,379	3,818
IAS 1.54(n)	Current tax liabilities		3,405	-	228
IAS 1.54(m)	Derivative financial instruments	13	-	160	-
IAS 1.55	Other liabilities	22	2,758	3,475	2,832
IAS 1.55	Current liabilities		<u>23,154</u>	<u>19,386</u>	<u>20,316</u>
IAS 1.55	<b>Total liabilities</b>		<u>64,142</u>	<u>59,216</u>	<u>59,173</u>
IAS 1.55	<b>Total equity and liabilities</b>		<u>150,025</u>	<u>113,395</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), introducing the concept of a statement of comprehensive income. The statement of comprehensive income may be presented either as 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. The alternative single statement format is shown in Appendix B.

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

## Income statement

IAS 1.51(c)		Notes	2009	2008
IAS 1.51(d-e)			CU000	CU000
IAS 1.82(a)	Revenue	7	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	19	(114,190)	(108,673)
IAS 1.85	Change in fair value of investment property	12	310	175
IAS 1.85	Depreciation, amortisation and impairment of non-financial assets		(7,942)	(6,826)
IAS 1.85	Other expenses		(12,499)	(12,285)
	<b>Operating profit</b>		<u>21,842</u>	<u>18,386</u>
IAS 1.82(c)	Share of profit from equity accounted investments	6	60	12
IAS 1.82(b)	Finance costs	23	(3,453)	(3,672)
IAS 1.85	Finance income	23	994	793
IAS 1.85	Other financial items	24	<u>3,388</u>	<u>3,599</u>
	<b>Profit before tax</b>		<u>22,831</u>	<u>19,118</u>
IAS 1.82(d)	Income tax expense	25	<u>(7,206)</u>	<u>(5,931)</u>
IAS 1.82(f)	<b>Profit for the year</b>		<u><u>15,625</u></u>	<u><u>13,187</u></u>
	<b>Profit for the year attributable to:</b>			
IAS 1.83(a)(i)	Minority interest		121	116
IAS 1.83(a)(ii)	Owners of the parent		<u>15,504</u>	<u>13,071</u>
			<u><u>15,625</u></u>	<u><u>13,187</u></u>
	<b>Earnings per share</b>	26	<b>CU</b>	<b>CU</b>
IAS 33.67A	Basic earnings per share			
IAS 33.66	Profit from continuing operations		1.24	1.09
IAS 33.68	Loss from discontinued operations		-	-
IAS 33.66	Total		<u>1.24</u>	<u>1.09</u>
IAS 33.68A	Diluted earnings per share			
IAS 33.66	Profit from continuing operations		1.24	1.09
IAS 33.68	Loss from discontinued operations		-	-
IAS 33.66	Total		<u>1.24</u>	<u>1.09</u>

*See comments on page 10.*

### Comments: Statement of comprehensive income

In respect of other comprehensive income the entity shall according to IAS 1 (Revised 2007) 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 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 14).

## Statement of comprehensive income

IAS 1.51(c) IAS 1.51(d-e)	Notes	2009 CU000	2008 CU000
IAS 1.81(b) <b>Profit for the year</b>		15,625	13,187
IAS 1.82(g) <b>Other comprehensive income:</b>			
IAS 16.77(f) Revaluation of land	10	303	-
Cash flow hedging	13		
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	13		
IFRS 7.20(a)(ii) - current year gains (losses)		113	35
IAS 1.92 - reclassification to profit or loss		(50)	-
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)	-
Income tax relating to components of other comprehensive income			
IAS 1.90	14	85	95
<b>Other comprehensive income for the year, net of tax</b>		<u>416</u>	<u>(683)</u>
IAS 1.82(i) <b>Total comprehensive income for the year</b>		<u>16,041</u>	<u>12,504</u>
<b>Total comprehensive income for the year attributable to:</b>			
IAS 1.83(b)(i) Minority interest		121	116
IAS 1.83(b)(ii) Owners of the parent		<u>15,920</u>	<u>12,388</u>
		<u>16,041</u>	<u>12,504</u>

*See comments on pages 10 and 12.*

## 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	Minority interest CU000	Total equity CU000
IAS 1.51(d-e)										
IAS 1.106(d)	<b>Balance at 1 January 2009</b>									
	12,000	3,050	(246)	689	238	(160)	38,016	53,587	592	54,179
	-	-	-	-	-	-	(3,000)	(3,000)	-	(3,000)
	270	1,415	-	-	-	-	-	1,685	-	1,685
	-	-	-	-	-	-	298	298	-	298
	1,500	15,180	-	-	-	-	-	16,680	-	16,680
IAS 1.106(d)(iii)	1,770	16,595	-	-	-	-	(2,702)	15,663	-	15,663
IAS 1.106(d)(i)	-	-	-	-	-	-	15,504	15,504	121	15,625
IAS 1.106(d)(ii)	<b>Other comprehensive income:</b>									
	Cash flow hedges									
IFRS 7.23(c)	-	-	-	-	-	367	-	367	-	367
IFRS 7.23(d)	-	-	-	-	-	260	-	260	-	260
IFRS 7.20(a)(ii)	Available-for-sale financial assets									
	-	-	-	-	113	-	-	113	-	113
	-	-	-	-	(50)	-	-	(50)	-	(50)
IAS 16.77(f)	-	-	-	303	-	-	-	303	-	303
IAS 21.52(b)	-	-	(664)	-	-	-	-	(664)	-	(664)
IAS 1.82(h)	-	-	-	-	-	5	-	5	-	5
IAS 1.82(h)	-	-	-	-	-	(3)	-	(3)	-	(3)
IAS 12.81(a), IAS 1.90	-	-	176	(91)	-	-	-	85	-	85
IAS 1.106(a)	-	-	(488)	212	63	629	15,504	15,920	121	16,041
IAS 1.106(d)	13,770	19,645	(734)	901	301	469	50,818	85,170	713	85,883

## 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	Minority interest CU000	Total equity CU000
IAS 1.51(d-e)											
IAS 1.106(d)	<b>Balance at 1 January 2008</b>	12,000	3,050	-	689	203	312	24,479	40,733	476	41,209
	Employee share options	-	-	-	-	-	-	466	466	-	466
IAS 1.106(d)(iii)	Transactions with owners	-	-	-	-	-	-	466	466	-	466
IAS 1.106(d)(i)	Profit for the year	-	-	-	-	-	-	13,071	13,071	116	13,187
IAS 1.106(d)(ii)	<b>Other comprehensive income:</b>										
	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)	13,071	12,388	116	12,504
IAS 1.106(d)	<b>Balance at 31 December 2008</b>	12,000	3,050	(246)	689	238	(160)	38,016	53,587	592	54,179

## Statement of cash flows<sup>1</sup>

IAS 1.51(c) IAS 1.51(d-e) IAS 7.10	<b>Operating activities</b>	Notes	2009 CU000	2008 CU000
	Profit before tax		22,831	19,118
	Adjustments	27	8,498	8,283
	Contributions to defined benefit plans		(1,186)	(1,273)
	Net changes in working capital	27	(2,153)	(1,092)
	Settling of derivative financial instruments		(33)	716
IAS 7.35	Taxes paid		<u>(1,695)</u>	<u>(5,588)</u>
	Cash flow from operating activities		<u>26,262</u>	<u>20,164</u>
IAS 7.10	<b>Investing activities</b>			
	Purchase of property, plant and equipment		(76)	(3,281)
	Proceeds from disposals of property, plant and equipment		86	-
	Purchase of other intangible assets		(596)	(3,235)
	Proceeds from disposals of other intangible assets		924	-
IAS 7.39	Acquisition of subsidiaries, net of cash	4	(16,091)	(12,076)
IAS 7.39	Sale of subsidiaries, net of cash		-	-
	Proceeds from disposals and redemptions of non-derivative financial assets		228	132
IAS 7.31	Interest received	23	752	447
IAS 7.31	Dividends received	23	62	21
IAS 7.35	Taxes paid		<u>(244)</u>	<u>(140)</u>
	Cash flow from investing activities		<u>(14,955)</u>	<u>(18,132)</u>
IAS 7.10	<b>Financing activities</b>			
	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	23	(935)	(985)
IAS 7.31	Dividends paid	26	(3,000)	-
IAS 7.35	Taxes paid		-	-
	Cash flow from financing activities		<u>12,093</u>	<u>(1,634)</u>
IAS 7.45	<b>Net change in cash and cash equivalents from continuing operations</b>		<u>23,400</u>	<u>398</u>
IFRS 5.33(c)	Net cash flows from discontinued operations		-	-
IAS 7.45	<b>Net change in cash and cash equivalents</b>		<u>23,400</u>	<u>398</u>
	Cash and cash equivalents, beginning of period		10,448	10,007
IAS 7.28	Exchange differences on cash and cash equivalents		<u>61</u>	<u>43</u>
	<b>Cash and cash equivalents, end of period</b>		<u>33,909</u>	<u>10,448</u>
	- included in disposal group		-	-
IAS 7.45	<b>Cash and cash equivalents, end of period</b>	17	<u>33,909</u>	<u>10,448</u>

<sup>1</sup> 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

## 1 Nature of operations

- IAS 1.51(a) First International plc 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 described in note 4 are in line with the Group's strategy to increase online sales capacity.

## 2 General information and statement of compliance with IFRS

- IAS 1.138(a) First International plc (First International) is the Group's ultimate parent  
IAS 1.138(c) company. The company is a limited liability company incorporated and domiciled in Euroland. The address of First International's registered office and its principal place of business is 149a Great Place, 40237 Greatville, Euroland. First International's shares are listed on the Greatstocks Stock Exchange.
- 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). These are the Group's first financial statements prepared in accordance with IFRS (see note 32 for explanation of the transition to IFRS).
- IAS 1.51(c) The consolidated financial statements for the year ended 31 December 2009  
IAS 10.17 (including comparatives) were approved and authorised for issue by the board of directors on 8 March 2010 (see note 34). Under the security regulations act of Euroland, amendments to the financial statements are not permitted after approval.

IAS 1.114(b) **3 Summary of accounting policies**

**3.1 Overall considerations and first-time adoption of IFRS**

IAS 1.117(a) The consolidated financial statements have been prepared using accounting policies specified by those IFRSs that are in effect at the end of the reporting period (31 December 2009), or which have been adopted early (see note 3.2).

IAS 1.117(b) The significant accounting policies that have been applied in the preparation of these consolidated financial statements are summarised below.<sup>2</sup>

These accounting policies have been used throughout all periods presented in the financial statements, except where the Group has applied certain accounting policies and exemptions upon transition to IFRS. The exemptions applied by the Group and the effects of transition to IFRS are presented in note 32.

**3.2 Early adoption of IFRSs**

IFRS 1.8 The Group has elected to adopt IFRS 1 *First-time adoption of International Financial Reporting Standards* (Revised 2008) that is not yet mandatory in its first IFRS financial statements.

IFRS 1 (Revised 2008) changes only the structure of the standard and its paragraph references. The revised version does not change any of the technical requirements of the standard, and therefore has no effect on first-time application of IFRS.

IFRS 1 was amended in July 2009 to introduce additional optional exemptions for first-time adopters, none of which are applicable to the Group.

Pronouncements that are not yet effective, and which have not been adopted early by the Group are presented in note 3.30.

**3.3 Presentation of financial statements in accordance with IAS 1(Revised 2007)**

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'.

IFRS 1.21 In accordance with IFRS 1, the Group presents three statements of financial position in its first IFRS financial statements. In future periods, the Group presents two comparative periods for the statement of financial position only when it: (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.

IAS 1.39

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<sup>2</sup> 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. 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.

### 3.4 Basis of consolidation

IAS 27.40(c)  
IAS 27.40(e) The Group financial statements consolidate those of the parent company and all of its subsidiary undertakings drawn up to 31 December 2009. Subsidiaries are all entities over which the Group has the power to control the financial and operating policies. First International obtains and exercises control through more than half of the voting rights for all its subsidiaries. All subsidiaries have a reporting date of 31 December.

IAS 1.117(a)  
IAS 1.117(b) Unrealised gains and losses on transactions between Group companies are eliminated. 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.

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.

Minority interests represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. If losses in a subsidiary applicable to a minority interest exceed the minority interest in the subsidiary's equity, the excess is allocated to the majority interest except to the extent that the minority has a binding obligation and is able to cover the losses.

### 3.5 Business combinations

IAS 1.117(a)  
IAS 1.117(b) Business combinations are accounted for using the purchase method. The purchase method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. On initial recognition, the assets and liabilities of the acquired subsidiary are included in the consolidated statement of financial position at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquiree at the date of acquisition. Any excess of identifiable net assets over acquisition cost is recognised in profit or loss immediately after acquisition.

### 3.6 Investments in associates and joint ventures

IAS 31.57  
IAS 1.117(a)  
IAS 1.117(b) Entities whose economic activities are controlled jointly by the Group and other venturers independent of the Group (joint ventures) are accounted for using the 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 interests in a joint venture. Investments in associates are initially recognised at cost and subsequently

accounted for using the equity method.

Acquired investments in associates are also subject to the purchase method as explained in note 3.5 above. However, any goodwill or fair value adjustment attributable to the Group's share in the associate is included in the amount recognised as investment in associates.

All subsequent changes to the Group's share of interest in the equity of the associate are recognised in the carrying amount of the investment. Changes resulting from the profit or loss generated by the associate are reported within 'Share of profit from equity accounted investments' in profit or loss. These changes include subsequent depreciation, amortisation or impairment of the fair value adjustments of assets and liabilities.

Changes resulting from other comprehensive income of the associate or items recognised directly in the associate's equity are recognised in other comprehensive income or equity of the Group, as applicable. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognising its share of those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognised.

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 losses from a group perspective.

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.

### **3.7 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

IAS 1.117(b) 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.

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.

IAS 21.54 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 rate<sup>3</sup> over the reporting period. Exchange differences are charged/credited to other comprehensive income and 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.

### 3.8 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 the operating segments is managed separately as each of these service lines requires different technologies and other resources as well as marketing approaches. All inter-segments 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; and
- 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 Research Lab in Greatville.

IFRS 8.27(e) Segment information is presented in accordance with IFRS 8 for all periods presented. IFRS 8 only requires disclosure of segment information. There was no effect on the recognition and measurement of financial statement items upon transition to IFRS. No asymmetrical allocations have been applied between segments.

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<sup>3</sup> Note that the use of average rates is appropriate only if rates do not fluctuate significantly (IAS 21.40).

### 3.9 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 7.

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 VAT, 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, it is probable that the economic benefits associated with the transaction will flow to the entity, the costs incurred or to be incurred can be measured reliably, and when the criteria for each of the Group's different activities has 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 require significant tailoring, modification or integration the revenue is recognised using the percentage of completion method as described below.

IAS 8.28(a) The Group follows the provisions of IFRIC 13 *Customer Loyalty Programmes*. This  
IAS 8.28(c) interpretation clarifies that when goods or services are sold together with a customer loyalty incentive (for example, loyalty points or the right to free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values.

IAS 8.28(f) The Group has few free-product award schemes, which are designed as short-term incentives to increase sales of certain product lines. At the current and two previous reporting dates, there were no eligible awards outstanding. Therefore, the financial effects of this interpretation are not significant for the current and prior reporting periods and did not have an effect on the Group's transition to IFRS.

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 7).

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* are 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)  
IAS 18.35(a) When the outcome can be assessed reliably, contract revenue and associated costs 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 contract costs incurred, to the extent that such contract costs 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)  
IAS 11.39(c)  
IAS 1.122 The stage of completion of any construction contract is assessed by management by taking into consideration all information available at the reporting date. The 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.

### **3.10 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.

### **3.11 Borrowing costs**

IAS 8.28(a) The Group follows the provisions of IAS 23 Borrowing Costs (Revised 2007)  
IAS 8.28(c) which became effective for periods beginning on or after 1 January 2009. The revised standard requires the capitalisation of borrowing costs, to the extent they are directly attributable to the acquisition, production or construction of qualifying assets that need a substantial period of time to get ready for their intended use or sale. In prior periods, the Group's policy was to immediately expense those borrowing costs. In accordance with the transitional provisions of the revised standard, the Group has capitalised borrowing costs relating to qualifying assets for which the commencement date for capitalisation was on or after 1 January 2009. No retrospective restatement has been made for borrowing costs that have been expensed for qualifying assets with a commencement date before the effective date. Thus, it did not have an effect on the transition to IFRS.

IAS 8.28(f) The revised standard has decreased the Group's reported interest expense and increased the capitalised cost of qualifying assets under construction in the current period. Borrowing costs of CU 80,000 have been capitalised. The capitalisation is related to some of the Group's internal software development projects included in 'other intangible assets'. Current tax expense has increased by CU 24,000. Basic and diluted earnings per share for the current period have increased by CU 0.01.

### **3.12 Profit or loss from discontinued operations**

IAS 1.117(b) A discontinued operation is a component of the entity that either has been  
IFRS 5.32 disposed of, or is classified as held for sale, and:

- 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 5.34 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 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 3.23).

In the reporting periods being presented, the Group has not classified any component of the Group as a discontinued operation.

### 3.13 Goodwill

IAS 1.117(a) Goodwill represents the excess of the acquisition cost in a business combination over the fair value of the Group's share of the identifiable net assets acquired (see note 3.5). Goodwill is carried at cost less accumulated impairment losses. Refer to note 3.17 for a description of impairment testing procedures.

### 3.14 Other intangible assets and research and development activities

IAS 38.118(a) Other intangible assets include acquired and internally developed software used  
IAS 38.118(b) 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 3.17.

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.

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. 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 3.17.

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'.

### **3.15 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  
IAS 16.73(c) not depreciated. Revalued amounts are fair market values determined in  
IAS 1.117(a) 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 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 3.17) 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 and IT equipment 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'.

### **3.16 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.

### **3.17 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.

### 3.18 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 financial position at their open market values. These are determined by external professional valuers with sufficient experience with respect to both the location and the nature of the investment property and supported by market evidence.
- IAS 40.75(d)
- IAS 40.75(e)
- 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 3.9 and 3.10.

### 3.19 Financial instruments

- IFRS 7.21 Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.
- IAS 1.117(b)
- 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 plus 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; and
- 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 available features of shared credit risk characteristics. The percentage of the write down is then based on recent historical counterparty default rates for each identified group. Impairment of trade receivables are presented within 'other expenses'.

- 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). Furthermore, the Group's money market funds are considered held for trading.
- 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  
IAS 1.117(b) 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 3.9).

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) The Group has designated some financial liabilities at fair value through profit  
IFRS 7.B5(a) or loss to reduce significantly 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 quarterly management review in comparison with 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 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.

### **3.20 Inventories**

- IAS 2.36(a)  
IAS 1.117(a) Inventories are stated at the lower of cost and net realisable value. Cost includes 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.

### **3.21 Income taxes**

- IAS 1.117(a)  
IAS 1.117(b) Tax expense recognised in profit or loss comprise the sum of deferred tax and 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 shares 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 3.28.

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.

### **3.22 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.

### **3.23 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. In the reporting periods under review, however, the Group has not classified assets as 'held for sale'.

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, continues 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 3.12.

### **3.24 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 comprise 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 3.7). Gains and losses on certain financial instruments are included in reserves for available-for-sale financial assets and cash-flow hedges respectively (see note 3.19).

Retained earnings include all current and prior period retained profits. It also includes charges related to share-based employee remuneration.<sup>4</sup>

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.

### **3.25 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 plans sponsored by the Group defines the

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<sup>4</sup> IFRS 2 does not stipulate where in equity the credit entry in a 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. The accounting upon exercise of the share options may also depend on applicable national law relating to share capital.

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.

### **3.26 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'.<sup>5</sup>

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.<sup>5</sup>

### **3.27 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.

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,

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<sup>5</sup> IFRS 2 does not stipulate where in equity the credit entry in a 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. The accounting upon exercise of the share options may also depend on applicable national law relating to share capital.

unless it was assumed in the course of a business combination (see note 3.5). In a business combination contingent liabilities are recognised in the course of the allocation of the purchase price to the assets and liabilities acquired in the business combination. They are subsequently measured at the higher amount of a comparable provision as described above and the amount initially recognised, 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. They are described along with the Group's contingent liabilities in note 29.

### **3.28 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 3.29.

#### **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 make significant judgement in determining when to recognise income from after-sales services. In particular, this requires knowledge of the customers and the markets in which the Group operates. The recognition is based on historical experience in the market, and management believes that after-sales-support gives rise to income recognition based on services actually performed. See note 3.29 for the estimation uncertainty in relation to after-sales-services.

#### **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 carries out significant judgements 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 3.9.

#### **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 is based on the same data.

The Group's 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

### **3.29 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 are likely to differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results.

Information about the significant judgements, estimates and assumptions that

have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed below.

### **Impairment**

An impairment loss is recognised for the amount by which an asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less cost to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each asset or cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows (see note 3.17). 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 total impairment charge to profit or loss amounts to CU 1,669,000 (2008: CU 190,000) comprising impairment of goodwill CU 799,000 (2008: CU 190,000) and impairment of intangible assets CU 870,000 (2008: CU Nil).

### **Impairment of other intangible assets**

One internally generated software product was subject to impairment testing in 2009 (see note 9). The carrying amount of the individual asset after impairment is CU 100,000 (2008: CU 100,000). The exposure to further write-downs is represented by this amount. The asset generated revenue from licences independently. The discounted cash flows model was affected significantly by a decline in expected future revenues, and therefore its value-in-use declined. The assumptions underlying the estimate is based on very low future profits from this asset, as management expects a shift in the market towards other software within the next two to three years. The carrying amount is therefore considered appropriate. The carrying amount would be reduced to CU Nil should the market shift to other software within one year, however, this is not considered to be a reasonable assumption.

### **Impairment of goodwill**

The Group has incurred an impairment loss of CU 799,000 on goodwill in 2009 for its Telco Consult unit (2008: CU 190,000) in order to reduce the carrying amount of goodwill to its recoverable amount, see note 8. 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. Further, if the profit margins were reduced by 2.1% a further impairment loss of CU 245,000 would have to be recognised which would be written off against goodwill.

The Group has not recognised impairment losses for goodwill in its Online Retail cash-generating units. Key assumptions for the value-in-use calculations

are described in note 8. As described, management is not currently aware of any reasonable possible changes in key assumptions that would cause the carrying amount of goodwill to exceed its recoverable amount. To illustrate this, goodwill would equal its recoverable amount if profit margins were to fall by 40% for Europe and 38% for USA, and if growth rates were to fall by 1.5% for both Europe and USA.

### **Business combinations**

On initial recognition, the assets and liabilities of the acquired business are included in the consolidated statement of financial position at their fair values. In measuring fair value management uses estimates about future cash flows and discount rates, however, the actual results may vary. Any measurement changes upon initial recognition would affect the measurement of goodwill. Details of the assets and liabilities acquired are given in note 4.

### **Useful lives of depreciable assets**

Management reviews the useful lives of depreciable assets at each reporting date. At 31 December 2009, management assesses that the useful lives represent the expected utility of the assets to the Group. The carrying amounts are analysed in notes 9 and 10. Actual results, however, may vary due to technical obsolescence, particularly for software and IT equipment.

### **Construction contract revenue**

The carrying amount of construction contracts CU 1,374,000 (2008: CU 974,000; 2007: CU 670,000) and revenue recognised from construction contracts reflects management's best estimate about each contract's outcome and stage of completion. The Group's 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 CU 19,739,000 (2008: CU 18,567,000; 2007: CU 18,671,000) is affected by price changes in different market segments of computer hardware components.

### **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 estimate of its defined benefit liability CU 10,414,000 (2008: CU 9,949,000; 2007: CU 9,242,000) 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 19.3), 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 notes regarding financial assets and liabilities. 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 CU 2,123,000 (2008: CU 2,291,000; 2007: 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.

### **3.30 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group<sup>6</sup>**

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 pronouncements will be adopted in the Group's accounting policy 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.

#### **IFRS 3 *Business Combinations* (Revised 2009) (effective from 1 July 2009)**

The standard is applicable for business combinations occurring in reporting periods beginning on or after 1 July 2009 and will be applied prospectively. The new standard introduces changes to the accounting requirements for business combinations, but still requires use of purchase method, and will have a significant effect on business combinations occurring in future reporting periods.

#### **IAS 27 *Consolidated and Separate Financial Statements* (Revised 2009) (effective from 1 July 2009)**

The revised standard introduces changes to the accounting requirements for the loss of control of a subsidiary and for changes in the Group's interest in subsidiaries. These changes will be applied prospectively in accordance with the transitional provisions and so do not have an immediate effect on the Group's financial statements.

#### **Annual Improvements 2009 (effective from 1 July 2009 and later)**

The IASB has issued *Improvements for International Financial Reporting Standards 2009*. Most of these amendments become effective in annual periods beginning on or after 1 July 2009 or 1 January 2010. The Group expects the amendments to IAS 17 *Leases* to be relevant to the Group's accounting policies. Prior to the amendment IAS 17 generally required a lease of land to be classified as an operating lease. The amendment now requires that leases of land are classified as finance or operating applying the general principles of IAS 17. The Group will need to reassess 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. Any newly classified finance leases are recognised retrospectively. Preliminary assessments indicate that the effect on the Group's financial statements will not be significant.

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<sup>6</sup> These example financial statements were published in December 2009 and take into account new and amended standards and interpretations published and up to and including 18 November 2009. In practice, this note should reflect those new and amended standards and interpretations published up to the date of financial statements are authorised for issue.

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

The IASB aims to replace IAS 39 *Financial Instruments: Recognition and Measurement* in its entirety by the end of 2010, with the replacement standard to be effective for annual periods beginning 1 January 2013. IFRS 9 is the first part of Phase 1 of this project. The main phases are:

Phase 1: Classification and Measurement

Phase 2: Impairment methodology

Phase 3: Hedge accounting

In addition, a separate project is dealing with derecognition.

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 the IAS 39 replacement have been published and they can comprehensively assess the impact of all changes.

## **4 Acquisitions**

### **4.1 Acquisition of Goodtech GmbH in 2009**

IFRS 3.66 On 31 March 2009, the Group acquired 100% of the equity instruments of  
 IFRS 3.67(a) Goodtech GmbH, a Hamburg (Euroland) based business. The acquisition was  
 IFRS 3.67(b) made to enhance the Group's position in the retail market for computer and  
 IFRS 3.67(c) telecommunications hardware in Euroland. Goodtech GmbH is a significant  
 business in Euroland in the Group's targeted market.

IAS 7.40(a) The total cost of acquisition was CU 16,658,000 and includes the components  
 IAS 7.40(b) stated below:

IFRS 3.67(d)	<b>CU000</b>
Purchase price, settled in cash	16,435
Due diligence cost	198
Legal advisers	25
Total cost of acquisition	<u>16,658</u>

IFRS 3.67(f) The allocation of the purchase price to the assets and liabilities of Goodtech  
 IFRS 3.69 GmbH was completed in 2009. The amounts recognised for each class of the  
 IAS 7.40(d) acquiree's assets, liabilities and contingent liabilities recognised at the acquisition  
 date are as follows:

	Pre- acquisition carrying amount	Adjust- ment to fair value	Recog- nised at acquisition date
	CU000	CU000	CU000
Property, plant and equipment	4,512	110	4,622
Intangible assets	4,255	1,000	5,255
Investments accounted for using the equity method	345	-	345
Investment property	75	-	75
Total non-current assets	<u>9,187</u>	<u>1,110</u>	<u>10,297</u>
Inventories	9,045	(50)	8,995
Trade and other receivables	7,867	(75)	7,792
IAS 7.40(c) Cash and cash equivalents	567	-	567
Total current assets	<u>17,479</u>	<u>(125)</u>	<u>17,354</u>
Borrowings	(3,478)	-	(3,478)
Deferred tax liabilities	(299)	(333)	(632)
Total non-current liabilities	<u>(3,777)</u>	<u>(333)</u>	<u>(4,110)</u>
Provisions and contingent liabilities	(1,010)	(310)	(1,320)
Other liabilities	(2,312)	-	(2,312)
Trade and other payables	(5,689)	-	(5,689)
Total current liabilities	<u>(9,011)</u>	<u>(310)</u>	<u>(9,321)</u>
Net identifiable assets and liabilities	<u>13,878</u>	<u>342</u>	<u>14,220</u>
Goodwill on acquisition			<u>2,438</u>
Cost of acquisition, satisfied in cash			16,658
IAS 7.40(c) Cash and cash equivalents acquired			<u>(567)</u>
IAS 7.42 Net cash outflow on acquisition			<u>16,091</u>

IFRS 3.67(h) Goodwill of CU 2,438,000 is primarily related to growth expectations, expected  
 IAS 36.133 future profitability, the substantial skill and expertise of the company's staff and  
 expected cost synergies. Goodwill has been allocated to cash-generating units at  
 31 December 2009.

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

IFRS 3.67(i) Goodtech GmbH incurred a loss of CU 20,000 for the 9 months from 31 March  
 2009 to the reporting date, primarily due to integration costs.

IFRS 3.70(a) If Goodtech GmbH had been acquired on 1 January 2009, revenue of the Group  
 IFRS 3.70(b) for 2009 would have been CU 212 million, and profit for the year would have  
 increased by CU 350,000.

## 4.2 Acquisition of Good Buy Inc. in 2008

IFRS 3.66 On 30 June 2008, the Group acquired 100% of the equity instruments of Good  
 IFRS 3.67(a) Buy Inc., a Delaware (USA) based business. The acquisition of Good Buy Inc.  
 IFRS 3.67(b) was made to enhance the Group's position as a retailer for computer and  
 IFRS 3.67(c) telecommunications hardware in the US market.

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

IAS 7.40(b)

IFRS 3.67(d)

	<b>CU000</b>
Purchase price, settled in cash	12,345
Due diligence cost and valuers	55
Legal advisers	21
Total cost of acquisition	<u>12,421</u>

IFRS 3.67(f) The allocation of the purchase price to the assets and liabilities of Good Buy Inc. was completed in 2008. The amounts recognised at the acquisition date for each class of the acquiree's assets, liabilities and contingent liabilities are as follows:

	<b>Recognised at acquisition date (*)</b>
	<b>CU000</b>
IAS 7.40(d)	
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	(435)
Non-current liabilities	(435)
Provisions and contingent liabilities	(1,234)
Other liabilities	(657)
Trade and other payables	(4,989)
Total current liabilities	<u>(6,880)</u>
Net identifiable assets and liabilities	9,852
Goodwill on acquisition	2,569
Cost of acquisition, satisfied in cash	12,421
IAS 7.40(c)	
Cash and cash equivalents acquired	(345)
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 Inc. had not applied IFRS prior to its acquisition as at 30 June 2008. Therefore, essential data needed for pro-forma IFRS accounts of Good Buy Inc. 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 Inc. At the acquisition date however, no intangible asset qualified for separate recognition in this respect.

These circumstances contributed to the amount recognised as goodwill.

IAS 36.133 All goodwill arising on the business combination had been allocated to cash-generating units by 31 December 2008.

IFRS 3.67(i) Good Buy Inc. contributed CU 400,000 to the consolidated profit for the 6 months from 1 July 2008 to 31 December 2008.

IFRS 3.70(a) If Good Buy Inc. had been acquired on 1 January 2008, revenue of the Group  
 IFRS 3.70(b) for 2008 would have been CU 196 million. However, due to a lack of IFRS-specific data prior to the acquisition of Good Buy Inc., pro-forma profit or loss of the combined entity for the complete 2008 reporting period cannot be determined reliably.

## 5 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:

	2009	2008	2007
	CU000	CU000	CU000
Non-current assets	300	250	245
Current assets	310	190	189
Total assets	<u>610</u>	<u>440</u>	<u>434</u>
Non-current liabilities	(50)	(40)	(45)
Current liabilities	(150)	(125)	(129)
Total liabilities	<u>(200)</u>	<u>(165)</u>	<u>(174)</u>
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.

## 6 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 2009 the Group holds a 30% voting and equity interest in Shopmore GmbH, acquired through acquisition of Goodtech GmbH (see note 4.1). 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 the associates can be summarised as follows:

IAS 28.37(b)	2009	2008	2007
	CU000	CU000	CU000
Assets	4,698	470	408
Liabilities	(3,247)	(380)	(365)
Revenues	1,710	560	510
Profit	256	49	(10)
Profit attributable to the Group	60	12	(2)

IAS 28.37(f) All transfers of funds to the Group, ie distribution of cash dividends, are subject to the approval of at least 51% of all shareholders of the associates. During 2009 and 2008 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.

## 7 Segment reporting

Management currently identifies the Group's three service lines as operating segments as further described in note 3.8. 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 review<sup>7</sup>:

		Consul- ting	Service	Retail	Other	Total
		2009	2009	2009	2009	2009
		CU000	CU000	CU000	CU000	CU000
<b>Revenue</b>						
IFRS 8.23(a)	From external customers	110,810	18,140	72,098	4,079	205,127
	Discontinued operations	-	-	-	-	-
IFRS 8.23(b)	From other segments	231	-	-	-	231
	Segment revenues	111,041	18,140	72,098	4,079	205,358
	Changes in inventories	(4,694)	-	(3,129)	-	(7,823)
IFRS 8.23(f)	Costs of material	(17,468)	(5,442)	(18,500)	(1,397)	(42,807)
	Employee benefits expense	(54,224)	(10,863)	(40,259)	(2,447)	(107,793)
	Depreciation and amortisation of non-financial assets	(3,388)	(555)	(2,205)	(125)	(6,273)
IFRS 8.23(e)		(3,388)	(555)	(2,205)	(125)	(6,273)
IAS 36.129(a)	Impairment of non-financial assets	(1,669)	-	-	-	(1,669)
	Other expenses	(9,446)	(30)	(1,020)	(10)	(10,506)
IFRS 8.23	Segment operating profit	20,152	1,250	6,985	100	28,487
IFRS 8.23	Segment assets	68,084	11,146	44,298	2,506	126,034
		Consul- ting	Service	Retail	Other	Total
		2008	2008	2008	2008	2008
		CU000	CU000	CU000	CU000	CU000
<b>Revenue</b>						
IFRS 8.23(a)	From external customers	109,302	17,832	59,310	4,121	190,565
	Discontinued operations	-	-	-	-	-
IFRS 8.23(b)	From other segments	110	-	-	-	110
	Segment revenues	109,412	17,832	59,310	4,121	190,675
	Changes in inventories	(3,344)	-	(2,229)	-	(5,573)
IFRS 8.23(f)	Costs of material	(18,516)	(5,350)	(15,564)	(1,319)	(40,749)
	Employee benefits expense	(56,277)	(10,498)	(32,586)	(2,473)	(101,834)
	Depreciation and amortisation of non-financial assets	(3,585)	(587)	(2,332)	(132)	(6,636)
IFRS 8.23(e)		(3,585)	(587)	(2,332)	(132)	(6,636)
IAS 36.129(a)	Impairment of non-financial assets	(190)	-	-	-	(190)
	Other expenses	(9,203)	(100)	(1,661)	(20)	(10,984)
IFRS 8.23	Segment operating profit	18,297	1,297	4,938	177	24,709
IFRS 8.23	Segment assets 2008	51,455	8,423	33,479	1,894	95,251
IFRS 8.23	Segment assets 2007	45,550	7,457	29,637	1,677	84,321

<sup>7</sup> IFRS 8 requires the amount of each operating segment item reported 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 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.

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:

		2009		2008		2007	
		CU000		CU000		CU000	
		Non-current		Non-current		Non-current	
		Revenue	assets	Revenue	assets	Revenue	assets
IFRS 8.33(a)							
IFRS 8.33(b)	Euroland (domicile)	164,102	45,853	152,452	42,562	36,005	
	United Kingdom	20,513	5,732	19,057	5,320	4,501	
	USA	18,461	5,158	17,151	4,788	4,051	
	Other countries	2,051	573	1,905	532	449	
	Total	205,127	57,316	190,565	53,202	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 internal reporting systems, which is also used for VAT purposes.

IFRS 8.34 During 2009, CU 24,744,000 or 12% (2008: CU 21,076,000 or 11%) of the Group's revenues depended on a single customer in the consulting segment.

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

		2009	2008
		CU000	CU000
IFRS 8.28(a)	<b>Revenues</b>		
	Total segment revenues	205,358	190,675
	Rental income from investment property	1,066	1,028
	Discontinued operations	-	-
	Elimination of intersegment revenues	(231)	(110)
	Group revenues	206,193	191,593
IFRS 8.28(b)	<b>Profit or loss</b>		
	Segment operating profit	28,487	24,709
	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	-	-
	Elimination of intersegment profits	(58)	(27)
	Group operating profit	21,842	18,386
	Result from equity accounted investments	60	12
	Finance costs	(3,453)	(3,672)
	Finance income	994	793
	Other financial items	3,388	3,599
	Group profit before tax	22,831	19,118

Segment assets can be reconciled to Group assets as follows:

		<b>2009</b>	<b>2008</b>	<b>2007</b>
IFRS 8.28(c)	<b>Assets</b>	<b>CU000</b>	<b>CU000</b>	<b>CU000</b>
	Total segment assets	126,034	95,251	84,321
	Group headquarters	3,965	2,053	1,386
	Investment property	12,662	12,277	12,102
	Research Lab	5,098	2,640	1,782
	Other assets	3,399	1,760	1,188
	Consolidation	<u>(1,133)</u>	<u>(586)</u>	<u>(397)</u>
	Group assets	<u>150,025</u>	<u>113,395</u>	<u>100,382</u>

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, 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:

		<b>2009</b>	<b>2008</b>
IFRS 8.32		<b>CU000</b>	<b>CU000</b>
	Sale of hardware	47,585	39,145
	Sale of software	24,513	20,165
	Other	<u>4,079</u>	<u>4,121</u>
IAS 18.35(b)(i)	Sale of goods	<u>76,177</u>	<u>63,431</u>
	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	<u>1,066</u>	<u>1,028</u>
IAS 18.35(b)(ii)	Rendering of services	<u>130,016</u>	<u>128,162</u>
	Group revenue	<u>206,193</u>	<u>191,593</u>

## 8 Goodwill

IFRS 3.74 The main changes in the carrying amounts of goodwill result from the acquisition of Good Buy Inc. in 2008 and Goodtech GmbH in 2009. The net carrying amount of goodwill can be analysed as follows:

		2009	2008
		CU000	CU000
	<b>Gross carrying amount</b>		
IFRS 3.75(a)	Balance 1 January	3,727	1,234
IFRS 3.75(b)			
IAS 38.118(e)(i)	Acquired through business combination	2,438	2,569
IFRS 3.75(f)	Net exchange difference	(135)	(76)
IFRS 3.75(h)	Balance 31 December	<u>6,030</u>	<u>3,727</u>
	<b>Accumulated impairment</b>		
IFRS 3.75(a)	Balance 1 January	(190)	-
IFRS 3.75(e)	Impairment loss recognised	(799)	(190)
IFRS 3.75(f)	Net exchange difference	-	-
IFRS 3.75(h)	Balance 31 December	<u>(989)</u>	<u>(190)</u>
	<b>Carrying amount at 31 December</b>	<u>5,041</u>	<u>3,537</u>

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.

		2009	2008	2007*)
		CU000	CU000	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	<u>5,041</u>	<u>3,537</u>	<u>1,234</u>

\*) at the date of transition

IFRS 1.C4(g)  
 IFRS 1.IG40 At the date of transition the amount of goodwill (for the Telco Consult unit) was tested for impairment based on conditions at that date. The forecast at the transition date showed that no impairment was necessary. The impairment recognised in 2008 and 2009 is a result of later revisions to those estimates and accordingly this has been recognised in the periods which these revisions relate to.

IAS 36.134(c)  
 IAS 36.134(d) 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 (all publicly available). 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.

IAS 36.134(d)(iv) IAS 36.134(d)(v)	Growth rates			Discount rates		
	2009	2008	2007*)	2009	2008	2007*)
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%

\*) at the date of transition

#### Online Retailing (Europe and USA)

IAS 36.134(d)(i)  
 IAS 36.134(d)(ii) Management's key assumptions for the online retailing units 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. Cash flow projections reflect stable profit margins achieved immediately before the budget period. No expected efficiency improvements have been taken into account and prices and wages reflect publicly available forecasts of inflation for the industry.

IAS 36.134(f)  
 IAS 1.125 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 reasonable changes in key assumptions that would necessitate changes in its key estimates. A sensitivity analysis is given in note 3.29.

#### Telco Consult

IAS 36.130(a)  
 IAS 36.130(d) The forecast for the Telco Consult unit was adjusted in 2008 for the decline of consulting services related to conventional telecommunication solutions. This market shifted considerably towards inter- and intranet based solutions during 2008. This development continued in 2009. Impairment testing, taking into account these latest developments, resulted in the further reduction of goodwill in 2009 to the recoverable amount of the cash-generating unit. Key assumptions are budgeted profit margins based on the latest achieved results. Management has reduced those profit margins in 2009 and 2008, which contributed to the impairment loss.

IAS 36.126(a)  
 IAS 36.129(a)  
 IAS 36.130(b), and (d)(ii) The related goodwill impairment loss of CU 799,000 in 2009 (2008: CU 190,000) was included within 'depreciation, amortisation and impairment of non-financial assets' and allocated to the consulting segment (see note 7).

IAS 36.134(d)(i)  
 IAS 36.134(d)(ii) As a result of the developments in this unit during 2009 and 2008, management expects lower growth and moderately declining profit margins for this unit.

IAS 36.134(f)  
 IAS 1.125 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 reasonable changes that would necessitate changes in its key estimates. However, the estimate of recoverable amount for the Telco Consult unit is particularly sensitive to the discount rate and profit margins. The impact from a change is assessed in note 3.29 together with other estimation uncertainty.

## 9 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	Internally generated software	Brand names	Customer lists	Total
	CU000	CU000	CU000	CU000	CU000
IAS 38.118	<b>Gross carrying amount</b>				
	Balance at 1 January 2009				
	13,308	15,016	760	374	29,458
IAS 38.118(e)(i)	Addition, separately acquired				
	440	-	-	-	440
	Addition, internally developed				
	-	156	-	-	156
	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 2009				
	16,169	15,118	975	1,761	34,023
	<b>Amortisation and impairment</b>				
	Balance at 1 January 2009				
	(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 2009				
	(7,739)	(11,602)	(287)	(199)	(19,827)
	<b>Carrying amount 31 December 2009</b>				
	8,430	3,516	688	1,562	14,196
IAS 38.118	<b>Gross carrying amount</b>				
	Balance at 1 January 2008				
	8,672	14,600	-	-	23,272
IAS 38.118(e)(i)	Addition, separately acquired				
	2,797	-	-	-	2,797
	Addition, internally developed				
	-	438	-	-	438
	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 2008				
	13,308	15,016	760	374	29,458
	<b>Amortisation and impairment</b>				
	Balance at 1 January 2008				
	(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 2008				
	(6,063)	(9,381)	(162)	(89)	(15,695)
	<b>Carrying amount 31 December 2008</b>				
	7,245	5,635	598	285	13,763

IAS 38.126 Additions to research development costs in 2009 includes capitalised borrowing costs amounting to CU 80,000 (see also note 3.11). In addition to development costs capitalised, the Group expensed as 'other expenses' CU 1,690,000 (2008: CU 1,015,000) of research and development costs during the year.

IAS 23.26(a) During the year the Group entered into an agreement to acquire an 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 2010. No material contractual commitments were entered into during 2008 or 2007.

- IAS 36.130(a) One internally generated software product was subject to impairment testing during 2009 as the market in telecommunication consulting shifted considerably towards inter- and intranet based solutions. The impairment loss amounted to CU 870,000 (2008: Nil). The impaired asset was designed to support the implementation and customisation of installed telecommunication equipments and remote maintenance of these systems. The recoverable amount of the asset is its value-in-use and the discount rate used was 10.9% (previously none). This intangible asset has been allocated to the consulting segment (see note 7). Estimation uncertainty is described in note 3.29.
- 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 36.126(b)
- IAS 38.122(d)

### 10 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
<b>Gross carrying amount</b>					
IAS 16.73(d) Balance 1 January 2009	7,697	23,960	8,001	2,942	42,600
IAS 16.73(c)(i) Additions	-	76	-	-	76
IAS 16.73(c)(iii) Acquisition through business combination	730	1,221	2,306	365	4,622
IAS 16.73(c)(ii) Disposals	-	(401)	-	-	(401)
IAS 16.73(c)(iv) Revaluation increase	303	-	-	-	303
IAS 16.73(c)(viii) Net exchange differences	(21)	(81)	(79)	(54)	(235)
IAS 16.73(d) Balance 31 December 2009	8,709	24,775	10,228	3,253	46,965
<b>Depreciation and impairment</b>					
IAS 16.73(d) Balance 1 January 2009	-	(15,359)	(2,493)	(1,123)	(18,975)
IAS 16.73(c)(ii) Disposals	-	315	-	-	315
IAS 16.73(c)(viii) Net exchange differences	-	(54)	(53)	(36)	(143)
IAS 16.73(c)(vii) Depreciation	-	(1,315)	(890)	(540)	(2,745)
IAS 16.73(d) Balance 31 December 2009	-	(16,413)	(3,436)	(1,699)	(21,548)
<b>Carrying amount 31 December 2009</b>	<b>8,709</b>	<b>8,362</b>	<b>6,792</b>	<b>1,554</b>	<b>25,417</b>

		Land CU000	Buildings CU000	IT equip- ment CU000	Other equip- ment CU000	Total CU000
<b>Gross carrying amount</b>						
IAS 16.73(d)	Balance 1 January 2008	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	-	-	-	-	-
IAS 16.73(e)(viii)	Net exchange differences	-	(108)	(15)	(12)	(135)
IAS 16.73(d)	Balance 31 December 2008	7,697	23,960	8,001	2,942	42,600
<b>Depreciation and impairment</b>						
IAS 16.73(d)	Balance 1 January 2008	-	(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	-	-	-	-	-
IAS 16.73(e)(vii)	Depreciation	-	(2,343)	(678)	(564)	(3,585)
IAS 16.73(d)	Balance 31 December 2008	-	(15,359)	(2,493)	(1,123)	(18,975)
	<b>Carrying amount 31 December 2008</b>	7,697	8,601	5,508	1,819	23,625

IAS 16.77(a) The Group's land was valued at the date of transition by independent valuers. A  
 IAS 16.77(b) revaluation was undertaken on 23 November 2009, as the land is revalued every  
 IAS 16.77(c) two years (see note 3.15 for the Group's accounting policies). Fair values were  
 IAS 16.77(d) estimated based on recent market transactions, which were then adjusted for  
 specific conditions relating to the land.

The value of land recognised upon the acquisition of Goodtech GmbH (see note 4.1) 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 were immaterial.

IAS 16.77(e) If 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 GmbH, would be CU 7,421,000 (2008 and 2007: CU 6,712,000). The revalued amounts include a revaluation surplus of CU 1,288,000 before tax (2008 and 2007: CU 985,000), which is not available for distribution to the shareholders of First International.

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 13.5).

IAS 16.74(c) The Group has a contractual commitment to acquire IT equipment of CU 1,304,000 payable in 2010. In 2008 or 2007 there were no material contractual commitments.

## 11 Leases

### 11.1 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 (2008: CU 3,723,000; 2007: CU 4,151,000). The assets are included under 'buildings' which form an integral part of 'property, plant and equipment' (see note 10).

Finance lease liabilities (see note 21) are secured by the related assets held under finance leases.

Furthermore, the Group has leased IT equipment under finance lease arrangements. CU 231,000 (2008: CU 480,000; 2007: CU 590,000) of the net carrying amount recognised as 'IT equipment' (see note 10) relates to leased IT equipment.

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

		<b>Minimum lease payments due</b>			
		<b>within 1</b>	<b>1 to 5</b>	<b>after 5</b>	<b>Total</b>
		<b>year</b>	<b>years</b>	<b>years</b>	<b>CU000</b>
		<b>CU000</b>	<b>CU000</b>	<b>CU000</b>	<b>CU000</b>
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.

## 11.2 Operating leases as lessee

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

		<b>Minimum lease payments due</b>			
		<b>within 1</b>	<b>1 to 5</b>	<b>after 5</b>	<b>Total</b>
		<b>year</b>	<b>years</b>	<b>years</b>	<b>CU000</b>
		<b>CU000</b>	<b>CU000</b>	<b>CU000</b>	<b>CU000</b>
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				
IAS 17.35(b)	CU 3,568,000 (2008: 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(d)	The rental contract for the office and production building rented since 1 December 2001 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 2001. A related gain was included in 'other liabilities' and is being amortised over the remaining non-cancellable lease term (see also note 22).				
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.				

## 11.3 Operating leases as lessor

The Group leases out investment properties on operating leases. Details of the leases are given in note 12.

## 12 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) Current active market prices were available for the determination of fair value. Therefore no estimates regarding future yields were applied in measuring fair value.

Changes to the carrying amounts presented in the statement of financial position can be summarised as follows:

		<b>2009</b>	<b>2008</b>
		<b>CU000</b>	<b>CU000</b>
IAS 40.76	Carrying amount 1 January	12,277	12,102
	Additions:		
IAS 40.76(b)	Through business combinations	75	-
	Change in fair value:		
IAS 40.76(d)	Net gain (loss)	288	150
IAS 40.76(e)	Net exchange differences	22	25
IAS 40.76(d)	Total change in fair value	<u>310</u>	<u>175</u>
IAS 40.76	Carrying amount 31 December	<u>12,662</u>	<u>12,277</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 2009 amounts to CU 1,066,000 (2008: CU 1,028,000) included within 'revenue'. No contingent rents were recognised. Direct operating expenses for 2009 of CU 213,000 (2008: CU 206,000) was reported within 'other expenses', of which CU 18,000 (2008: CU 12,000) was incurred on vacant properties that did not generate rental income.

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 income are as follows:

		<b>Minimum lease income</b>			
		<b>within 1</b>	<b>1 to 5</b>	<b>after 5</b>	<b>Total</b>
		<b>year</b>	<b>years</b>	<b>years</b>	<b>CU000</b>
		<b>CU000</b>	<b>CU000</b>	<b>CU000</b>	<b>CU000</b>
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

### 13 Financial assets and liabilities

#### 13.1 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:

		2009	2008	2007
	Note	CU000	CU000	CU000
<b>Financial assets</b>				
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
IFRS 7.8(a)(ii)	Financial assets held for trading (carried at fair value through profit or loss)			
	Other short-term financial assets	655	649	631
	Derivative financial instruments	115	212	178
		770	861	809
IFRS 7.7	Derivatives designated as cash flow hedging instruments (carried at fair value)			
	Derivative financial instruments	467	-	312
IFRS 7.8(c)	Loans and receivables			
	Trade and other receivables	30,945	23,441	18,873
	Cash and cash equivalents	33,909	10,448	10,007
		64,854	33,889	28,880
<b>Financial liabilities</b>				
IFRS 7.8(e)(i)	Financial liabilities designated at fair value through profit or loss:			
	Non-current borrowings	7,700	7,965	8,105
	Current borrowings	250	255	275
		7,950	8,220	8,380
IFRS 7.8(f)	Financial liabilities measured at amortised cost:			
	Non-current:			
	Borrowings	13,300	13,300	13,300
	Current:			
	Borrowings	4,565	3,124	3,543
	Trade and other payables	8,737	6,780	7,104
		26,602	23,204	23,947
IFRS 7.7	Derivatives designated as cash flow hedging instruments (carried at fair value)			
	Derivative financial instruments	-	160	-

See note 3.19 for a description of the accounting policies for each category of financial instruments. The fair values are presented in the related notes. A description of the Group's risk management objectives and policies for financial instruments is given in note 30.

### 13.2 Other long-term financial assets

Other long-term financial assets include the following investments:

		2009 CU000	2008 CU000	2007 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	<u>3,765</u>	<u>3,880</u>	<u>4,327</u>

#### 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 2010 and 2011. The carrying amounts, measured at amortised cost, and fair values of these financial assets are as follows:

		2009 CU000	2008 CU000	2007 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	<u>2,814</u>	<u>2,992</u>	<u>3,124</u>
	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	<u>2,895</u>	<u>2,995</u>	<u>2,996</u>

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  
 31 December in the reporting period.

IFRS 7.36(a),(c) See note 30.4 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:

		2009 CU000	2008 CU000	2007 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	<u>951</u>	<u>888</u>	<u>1,203</u>

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

IFRS 7.27(a) All the listed equity securities and debentures are nominated 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.

IFRS 7.30(a)-(d) 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 charged for 2008 in 'finance cost'. The Group plans to continue to hold its 15% interest in XY Ltd while it secures other supply lines.

### 13.3 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.

The carrying amounts at the reporting dates under review, all measured at fair value, are CU 655,000 (2008: CU 649,000; 2007: CU 631,000).

IFRS 7.27(a) The fair value of the Group's investments in money market funds have 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'.

### 13.4 Derivative financial instruments

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

	2009	2008	2007
	CU000	CU000	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	<u>582</u>	<u>212</u>	<u>490</u>
US-dollar forward contracts - cash flow hedge	-	(160)	-
Derivative financial liabilities	<u>-</u>	<u>(160)</u>	<u>-</u>
Net fair value of derivatives	<u>582</u>	<u>52</u>	<u>490</u>

IFRS 7.27(a) All derivatives are measured at fair value. The fair values for these contracts have been estimated using relevant observable exchange and interest rates, as a listed market price is not available for these derivatives. The interest rates used is based on a risk-free interest rate (government bonds).

IFRS 7.23(a) The Group's US-dollar forward contracts relate to cash flows that have been forecasted for October - December 2010.

IFRS 7.23(c) During 2009, a gain of CU 367,000 (2008: a loss of CU 47,000) was recognised  
 IFRS 7.23(d) in other comprehensive income. At 31 December 2009, a cumulative gain of CU  
 IFRS 7.23(e) 469,000 (2008: cumulative loss of CU 160,000; 2007: cumulative gain of CU

312,000) has been recorded within equity in relation to these instruments. Total net losses of CU 260,000 (2008: net gain of CU 425,000) have been reclassified from other comprehensive income into profit or loss within 'revenue'.

- IFRS 7.24(b) The ineffectiveness of the cash flow hedge recognised in profit or loss for the year amounts to CU 12 (2008: CU (1)).
- IFRS 7.22(a) The Group uses forward foreign exchange contracts to mitigate exchange rate exposure arising from forecast sales in US dollars and other currencies. All US-dollar forward exchange contracts have been designated as hedging instruments in cash flow hedges in accordance with IAS 39.
- IFRS 7.22(b)
- IFRS 7.22(c)

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

### 13.5 Borrowings

Borrowings include the following financial liabilities:

	Current			Non-current		
	2009	2008	2007	2009	2008	2007
	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 7.31 Other than the US-dollar loans, all borrowings are denominated in CU. Their
- IFRS 7.25 estimated fair values are as follows:

	Fair value			Carrying amount		
	2009	2008	2007	2009	2008	2007
	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 3.19). The interest rate is fixed at 4%. US-dollar loans at fair value through profit or loss can be summarised as follows:

	2009	2008
	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	7,950	8,220

IFRS 7.10(a) The cumulative change since designation attributable to changes in credit risk are  
 IFRS 7.11(a) CU Nil (2008 and 2007: 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 (2008: CU 8,055,000; 2007: CU 8,285,000), equivalent to a difference between the carrying amount and the amount repayable of CU 195,000 (2008: CU 165,000; 2007: CU 95,000).

IFRS 7.27 The fair value of the loan is measured as described in note 13.6.

**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 10). Current interest rates are variable and average 4.0 % (2008: 4.1%; 2007: 4.2%).

IFRS 7.31 The Group's non-convertible bond with a fixed interest rate of 5.0% matures on 20 May 2012 and is therefore classified as non-current.

IAS 24.17 The subordinated shareholder loan was provided by First International'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 First International.

**13.6 Financial instruments measured at fair value**

IFRS 7.27A The Group adopted the amendments to IFRS 7 *Improving Disclosures about Financial Instruments* effective from 1 January 2009. These amendments require the Group to present certain information about financial instruments measured at fair value in the statement of financial position. In the first year of application comparative information need not be presented for the disclosures required by the amendment. Accordingly, the disclosure for the fair value hierarchy is only presented for the 31 December 2009 year end.

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); and
- 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 2009	Note	Level 1 CU000	Level 2 CU000	Level 3 CU000	Total CU000
	<b>Assets</b>					
	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
	<b>Total</b>		<b>1,173</b>	<b>561</b>	<b>21</b>	<b>1,755</b>
	<b>Liabilities</b>					
	US-dollar loans	d)	-	(7,950)	-	(7,950)
	<b>Total</b>		<b>-</b>	<b>(7,950)</b>	<b>-</b>	<b>(7,950)</b>
	<b>Net fair value</b>		<b>1,173</b>	<b>(7,389)</b>	<b>21</b>	<b>(6,195)</b>

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 publicly traded in Euroland. Fair values have been determined by reference to IFRS 7.27(b) 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 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:

		<b><u>Financial assets or liabilities at fair value through profit or loss</u></b>
IFRS 7.27B(c)	<b>31 December 2009</b>	Other forward contracts <b>CU000</b>
IFRS 7.27B(c)	Opening balance	28
	Gains or losses recognised	
IFRS 7.27B(c)(i)	Profit or loss (a)	23
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	<u>(30)</u>
IFRS 7.27B(c)	Closing balance	<u>21</u>
IFRS 7.27B(c)(i)	<i>(a) Gains and losses on other forward contracts are presented in 'finance income'</i>	
IFRS 7.27B(d)	Gains or losses recognised in profit or loss for the period are presented in 'finance income' and can be attributed to assets held at the end of the reporting period as follows:	
	Assets held at the end of the reporting period	21
	Assets not held at the end of the reporting period	<u>2</u>
	Total gains or losses	<u>23</u>
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.	

#### 14 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	Recognised	Recognised	31
		2009	in other	in business	nised in	December
		CU000	compre- hensive income	combi- nation	profit and loss	2009
			CU000	CU000	CU000	CU000
	Non-current assets					
	Other intangible assets	847	(63)	444	31	1,259
	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	(1,077)	-	-	639	(438)
	Unused tax losses	(75)	-	-	75	-
		<u>3,476</u>	<u>(85)</u>	<u>632</u>	<u>1,301</u>	<u>5,324</u>
	Recognised as:					
	Deferred tax asset	(225)				-
	Deferred tax liability	<u>3,701</u>				<u>5,324</u>

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

IAS 12.81(g)	Deferred tax liabilities(assets)	1 January	Recognised	Recognised	Recognised	31
		2008	in other	in business	nised in	December
		CU000	compre- hensive income	combi- nation	profit and loss	2008
			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)	-	-	243	(1,077)
	Unused tax losses	(300)	-	-	225	(75)
		<u>2,144</u>	<u>(95)</u>	<u>435</u>	<u>992</u>	<u>3,476</u>
	Recognised as:					
	Deferred tax asset	(520)				(225)
	Deferred tax liability	<u>2,664</u>				<u>3,701</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 (2008 and 2007: 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 (2008 and 2007: 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:

	2009			2008		
	Before tax	Tax benefit (expense)	Net of tax	Before tax	Tax benefit (expense)	Net of tax
IAS 1.90 IAS 1.91	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)

## 15 Inventories

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

	2009	2008	2007	
	CU000	CU000	CU000	
IAS 1.77 IAS 1.78(c) IAS 2.36(b)	Raw materials and consumables	7,737	7,907	7,710
IAS 2.36(b)	Merchandise	12,002	10,660	10,961
	Inventories	19,739	18,567	18,671

IAS 2.36(d)  
IAS 2.36(e) In 2009, a total of CU 35,265,000 of inventories was included in profit and loss as an expense (2008: CU 32,907,000). This includes an amount of CU 361,000 resulting from write down of inventories (2008: CU 389,000).

IAS 2.36(f)  
IAS 2.36(g)  
IAS 2.36(h) No reversal of previous write-downs was recognised as a reduction of expense in 2008 or 2009. None of the inventories are pledged as securities for liabilities.

## 16 Trade and other receivables

IAS 1.77	2009	2008	2007
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	<u>30,833</u>	<u>23,329</u>	<u>18,761</u>
Receivable due from ABC associates	112	112	112
Financial assets	<u>30,945</u>	<u>23,441</u>	<u>18,873</u>
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	<u>2,684</u>	<u>2,187</u>	<u>1,846</u>
Trade and other receivables	<u>33,629</u>	<u>25,628</u>	<u>20,719</u>

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 2007. 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 (2008: CU 514,000) has been recorded accordingly within other expenses (see also note 23). 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:

	2009	2008
	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	<u>432</u>	<u>560</u>

An analysis of unimpaired trade receivables that are past due is given in note 30.4.

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 (2008 and 2007: CU Nil).

### 16.1 Construction contracts

IAS 11.39(a) Revenue of CU 50,973,000 (2008: 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 is analysed as follows:

	2009	2008	2007
	CU000	CU000	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)
	1,086	767	670
Recognised as:			
IAS 11.42(a) Due from customers for construction contract work, recognised in trade and other receivables	1,374	974	670
IAS 11.42(b) Due to customers for construction contract work, recognised in other liabilities	288	207	-

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 22). For 2009, this amounts to CU 225,000 (2008: CU 220,000; 2007: CU 220,000).

IAS 11.40(c) Retentions on construction contracts amounts to CU 10,000 (2008 and 2007: CU Nil) included within 'trade and other receivables'. Retentions will be received upon acceptance by the customer of the work performed.

### 17 Cash and cash equivalents

IAS 7.45 Cash and cash equivalents include the following components:

	2009	2008	2007
	CU000	CU000	CU000
Cash at bank and in hand:			
- CU	23,736	7,313	7,026
- GBP	2,035	627	550
- USD	1,356	418	430
Short-term deposits (CU)	6,782	2,090	2,001
Cash and cash equivalents	33,909	10,448	10,007

IAS 7.48 Following the acquisition of Goodtech GmbH, some bank deposits of the  
 IAS 10.19 acquiree were temporarily not available for general use by the parent and other subsidiaries in the Group because of legal restrictions. The amount of cash and cash equivalents inaccessible to the Group as at 31 December 2009 amounts to CU 500,000 (2008 and 2007: CU Nil). All the restrictions on bank deposits were removed by approval of the consolidated financial statements on 8 March 2010.

## 18 Equity

### 18.1 Share capital

IAS 1.79(a)(iii) The share capital of First International consists only of fully paid ordinary 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 First International.

	2009	2008
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	<u>1,500,000</u>	<u>-</u>
IAS 1.79(a)(ii) Shares issued and fully paid	13,770,000	12,000,000
Shares authorised for share based payments	<u>600,000</u>	<u>600,000</u>
IAS 1.79(a)(i) Total shares authorised at 31 December	<u>14,370,000</u>	<u>12,600,000</u>

Additional shares were issued during 2009 relating to share-based payments (see note 19.2 for details on the Group's share-based employee remuneration schemes).

The Group issued 1,500,000 shares on 30 October 2009, 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 First International.

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 19.2).

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

### 18.2 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 (2008: CU Nil).

Share premium has also been recorded in respect of the issue of share capital related to employee share-based payment (see note 19.2).

IAS 12.81(a) A current tax benefit of CU Nil (2008: CU Nil) has been credited to share premium in connection with shares issued.

## 19 Employee remuneration

### 19.1 Employee benefits expense

Expenses recognised for employee benefits are analysed below:

		2009	2008
		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	114,190	108,673

### 19.2 Share-based employee remuneration

As at 31 December 2009, the Group maintained two equity settled share-based payment schemes for employee remuneration, the *Star Programme* and the *Stay Programme*.

IFRS 1.D2 All of the Group's share-based payment programmes vests after the date of transition. Therefore, the Group applies IFRS 2 to all share-based payment programmes.

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 [name] 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 2010. 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 2008	300,000	6.24	95,250	5.81
Granted	-	-	-	-
Forfeited	(513)	6.24	(1,012)	5.81
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding at 31 December 2008	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 2009	129,175	7.45	90,749	5.81
Exercisable at 31 December 2008	-	-	-	-
Exercisable at 31 December 2009	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 2008).

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
Grant date	1 Jan 2006	1 Feb 2009	5 Jan 2005
Vesting period ends	31 Dec 2008	31 Jan 2012	31 Jan 2010
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
		1 Feb 2012	
Exercisable from / to	1 Jan 2009 / 31 Dec 2010	/ 31 Dec 2014	1 Feb 2010 / 4 Jan 2012
Weighted average remaining contractual life	2.1 years	5.3 years	3.0 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 2.51 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 2009 (2008: CU 466,000) and credited to retained earnings.<sup>8</sup>

### 19.3 Pensions and other employee obligations

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

	2009 CU000	2008 CU000	2007 CU000
Non-current:			
Defined benefit plans	9,168	8,756	8,186
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 2010. 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.

<sup>8</sup> See note 3.26 for a discussion of the credit entry to an equity-settled share-based payment transaction.

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

		<b>2009</b>	<b>2008</b>
		<b>CU000</b>	<b>CU000</b>
IAS 19.120A(c)	Defined benefit obligation 1 January	43,434	37,913
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	1,261	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>47,898</u>	<u>43,434</u>
IAS 19.120A(d)	Thereof		
	Unfunded	-	-
	Partly or wholly funded	47,898	43,434

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

		<b>2009</b>	<b>2008</b>
IAS 19.120A(n)(i)	Discount rate	5.3%	5.5%
IAS 19.120A(n)(ii)	Expected rate of return on plan assets	7.2%	7.4%
IAS 19.120A(n)(iv)	Expected rate of salary increases	3.3%	3.2%
IAS 19.120A(n)(v)	Medical cost trend rates	4.4%	4.0%
IAS 19.120A(n)(vi)	Average life expectancies:		
	Male, 65 years of age at reporting date	82.5	82.5
	Female, 65 years of age at reporting date	84.5	84.5
	Male, 45 years of age at reporting date	84.5	84.5
	Female, 45 years of age at reporting date	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:

		<b>2009</b>	<b>2008</b>
		<b>CU000</b>	<b>CU000</b>
IAS 19.120A(e)	Fair value of plan assets 1 January	31,345	28,671
IAS 19.120A(e)(i)	Expected returns on plan assets	2,445	2,417
IAS 19.120A(e)(ii)	Actuarial gains / (losses)	1,629	(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	<u>36,012</u>	<u>31,345</u>

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:

		<b>Total plan assets</b>	
		<b>2009</b>	<b>2008</b>
IAS 19.120A(j)	Real estate funds	27%	27%
	Equity investment funds	50%	51%
	Money market fund	1%	1%
	Other debt instruments	17%	18%
	Liquid funds	5%	3%
		<b>100%</b>	<b>100%</b>

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:

		<b>2009</b>	<b>2008</b>	<b>2007</b>
		<b>CU000</b>	<b>CU000</b>	<b>CU000</b>
IAS 19.120A(f)	Defined benefit obligation	47,898	43,434	37,913
	Fair value of plan assets	(36,012)	(31,345)	(28,671)
IAS 19.120A(f)(i)	Net actuarial gain (loss) not recognised	(872)	(1,240)	-
IAS 19.120A(f)(ii)	Past service cost not yet recognised	(600)	(900)	-
	Defined benefit plans	<b>10,414</b>	<b>9,949</b>	<b>9,242</b>
Classified as:				
	Non-current liability	9,168	8,756	8,186
	Current liability	1,246	1,193	1,056

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

		<b>2009</b>	<b>2008</b>
		<b>CU000</b>	<b>CU000</b>
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	<b>1,608</b>	<b>2,130</b>
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	<b>1,651</b>	<b>1,980</b>

IAS 19.120A(g) Interest costs have been included in 'finance costs' (see note 23). Return on plan assets is included in 'other financial items' (see note 24). 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 3.25). 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 is based on a weighted average of expected 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 2009, the actual return on plan assets was CU 2,900,000 (2008: 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:

	2009		2008		2007*)	
	CU000		CU000		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	8,622	(7,722)	7,818	(7,018)	7,427	(6,667)

\*) At date of transition

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 2010.

The development of the Group's defined benefit plans may also be summarised as follows (amounts before the date of transition are not shown as the Group applies the exemption in IFRS 1.D11, see note 32.1f):

	2009	2008	2007*)
	CU000	CU000	CU000
IAS 19.120A(p)(i) Defined benefit obligation	47,898	43,434	37,913
IAS 19.120A(p)(i) Fair value of plan assets	36,012	31,345	28,671
IAS 19.120A(p)(i) Plan surplus / (deficit)	(11,886)	(12,089)	(9,242)
Experience adjustments:			
IAS 19.120A(p)(ii) Plan assets	1,733	226	
IAS 19.120A(p)(ii) Plan liabilities	1,860	915	

\*) At date of transition

## 20 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 2009	2,110	1,480	3,590
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 2009	724	736	1,460

	Provisions recognised at acquisition date in a business combination are included in 'additional provisions' (see note 4.1).
IAS 37.85(a) IAS 37.85(b) IAS 37.85(c) IAS 1.60	The provision for restructuring relates to the 'Phoenix programme', which was initiated in late 2007 and carried out predominantly in 2008 and 2009. First International's management expects to settle the remaining termination remuneration for former employees and legal fees relating to the restructuring programme in 2010. The Group is not eligible for any reimbursement by third parties in this regard.
IAS 1.125(a) IAS 1.125(b)	The estimate of the restructuring provision as at 31 December 2009 was reduced due to the outcome of several lawsuits brought against the Group during 2009 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) IAS 37.85(b) IAS 37.85(c)	The amounts recognised in 2008 and 2009 for other provisions are provided against various legal and other claims by customers, such as for example warranties for which customers are covered for the cost of repairs. 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 was classified as current.
IAS 1.125 IAS 37.92	The majority of the other provisions recognised at 31 December 2008 related to claims initiated in 2008 that were settled during 2009. 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 2009. 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	In the course of the business combination with Good Buy Inc. in 2008 (see note 4.2), 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.

## 21 Trade and other payables

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

	2009 CU000	2008 CU000	2007 CU000
Current			
Trade payables	8,083	6,702	6,981
Short-term bank overdrafts	654	78	123
Finance lease liabilities	512	506	598
	<u>9,249</u>	<u>7,286</u>	<u>7,702</u>
Non-current			
Finance lease liabilities	4,096	4,608	5,002
Total trade and other payables	<u>13,345</u>	<u>11,894</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 (2008: CU 5,114,000; 2007: 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 11.1 for further information.

## 22 Other liabilities

Other liabilities can be summarised as follows:

	2009 CU000	2008 CU000	2007 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>
Other liabilities - non-current:			
Deferred gain	<u>1,400</u>	<u>1,500</u>	<u>1,600</u>

The amount presented as deferred gain relates to a building at the headquarters, which was subject to a sale and lease back transaction in 2001, with a sales price above fair value. The excess of proceeds received over fair value was deferred and is being amortised over the remaining lease term of 15 years. In 2009, deferred income of CU 100,000 (2008: 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 11.2). The non-current part of the deferred gain will be amortised after 12 months.

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 2009 of 32 months (2008: 38 months, 2007: 39 months) and constant service activity over the remaining term, the Group expects to amortise CU 796,000 of deferred service income during 2009 (2008: CU 723,000; 2007: CU 731,000) and CU 1,237,000 after 12 months (2008: CU 1,568,000 and 2007: CU 1,781,000).

The amounts recognised in respect of construction contracts will generally be utilised within the next reporting period (see also note 16.1).

### 23 Finance income and finance costs

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

		2009	2008
		CU000	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		
IFRS 7.20(b)	through profit or loss	1,015	985
IAS 23.26(a)	Less: interest expense capitalised into intangible assets	(80)	-
		935	985
IAS 19.120A (g)(ii)	Defined benefit obligation interest expenses	2,488	2,267
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 recycled from other comprehensive income	-	-
IFRS 7.20(e)	Impairment of investment in XY Ltd (available-for-sale)	-	350
	Finance costs	3,453	3,672
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 has been recognised in 2008 for the investment in XY Ltd, which is carried at cost less impairment charges as its fair value cannot be measured reliably (see note 13.2).		
IFRS 7.20(e)	Impairment of trade receivables CU 72,000 (2008: CU 514,000) has been included within other expenses in profit or loss. Impairment of financial assets are further analysed in notes 16 and 30.4.		

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

		<b>2009</b>	<b>2008</b>
		<b>CU000</b>	<b>CU000</b>
	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	<u>752</u>	<u>447</u>
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 recycled 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	<u>994</u>	<u>793</u>

#### **24 Other financial items**

Other financial items includes the following:

		<b>2009</b>	<b>2008</b>
		<b>CU000</b>	<b>CU000</b>
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	<u>3,388</u>	<u>3,599</u>

## 25 Income tax expense

The relationship between the expected tax expense based on the domestic effective tax rate of First International at 30% (2008: 30%) and the reported tax expense in profit or loss can be reconciled as follows, also showing major components of tax expense.<sup>9</sup>

		2009	2008
		CU000	CU000
IAS 12.81(c)(i)	Profit before tax	22,831	19,118
IAS 12.85	Domestic tax rate for First International	30%	30%
	Expected tax expense	<u>6,849</u>	<u>5,735</u>
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	137	131
	Actual tax expense (income)	<u>7,206</u>	<u>5,931</u>
IAS 12.79			
IAS 12.80	Tax expense comprises:		
IAS 12.80(a)	Current tax expense	5,905	4,939
	Deferred tax expense (income):		
IAS 12.80(c)	Origination and reversal of temporary differences	1,226	767
IAS 12.80	Utilisation of unused tax losses	75	225
	Tax expense	<u>7,206</u>	<u>5,931</u>
IAS 12.81(ab)	Deferred tax expense (income), recognised directly in other comprehensive income	(85)	(95)

Note 14 provides information on the entity's deferred tax assets and liabilities, including the amounts recognised directly in other comprehensive income.

## 26 Earnings per share and dividends

- 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 (First International) as the numerator, ie no adjustments to profit were necessary in 2009 or 2008.
- IAS 33.70(b) The weighted average number of outstanding shares used for basic earnings per share amounted to 12,520 thousand shares (2008: 12,000 thousand shares).
- 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:

<sup>9</sup> Examples of major components of tax expense are included in IAS 12.80.

### Dividends

During 2009, First International paid dividends of CU 3,000,000 to its equity shareholders (2008: CU Nil). This represents a payment of CU 0.25 per share (2008: CU Nil per share).

IAS 1.137(a) The directors propose the payment of a dividend of CU 6,885,000 (CU 0.50 per  
 IAS 12.81(i) share). As the distribution of dividends by First International requires approval at the shareholders' meeting, no liability in this respect is recognised in the 2009 consolidated financial statements. No income tax consequences are expected to arise as a result of this transaction at the level of First International.

### 27 Cash flow adjustments and changes in working capital

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:

	2009	2008
	CU000	CU000
<b>Adjustments:</b>		
Depreciation, amortisation and impairment of non-financial assets	7,942	6,826
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 recycled from equity	260	(425)
Interest expenses	935	985
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)
Other	(268)	(321)
Total adjustments	<u>8,498</u>	<u>8,283</u>
	<b>2009</b>	<b>2008</b>
	<b>CU000</b>	<b>CU000</b>
<b>Net changes in working capital:</b>		
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	(2,947)	-
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>(2,153)</u>	<u>(1,092)</u>

## 28 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, First International has taken out a subordinated loan from its main shareholder, the LOM Investment Trust (see note 13.5 for information on terms and conditions), on which interest of CU 200,000 is paid (2008:CU 200,000).

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) **28.1 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 2009, Equipe Consultants S.A. provided services valued at CU 568,000  
IAS 24.17(b) (2008: CU 590,000). The outstanding balance of CU 20,000 (2008: CU 22,000; 2007: CU 18,000) due to Equipe Consultants S.A. is included in trade payables.

In 2009, no transactions have been carried out with Shopmore GmbH. The Group has not received dividends from associates in 2009 or 2008.

### IAS 24.18(e) **28.2 Transactions with joint ventures**

IAS 24.17(a) During 2009, Halftime Ltd provided services valued at CU 10,000  
(2008: 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 2009 (2008 and 2007: Nil). The Group did not receive dividends from Halftime Ltd. in 2009 or 2008.

IAS 24.18(f) **28.3 Transactions with key management personnel**

Key management of the Group are members of the board of directors, as well as members of the 'executive council board' in First International (the parent company). Key management personnel remuneration includes the following expenses:

	2009	2008
	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 2009 key management exercised share options with total exercise price of CU 1,685,000 (2008: 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 2009, the Group's key management took out short term loans totalling  
 IAS 24.17(b) CU 40,000 (2008: CU 38,000). The outstanding balance of CU 1,000 (2008 and 2007: 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 (2008: Nil). There were no outstanding balances at the reporting dates under review.

**28.4 Transactions with post-employment benefit plans**

IAS 24.9(g) The defined benefit plan referred to in note 19.3 is a related party to the Group.

The assets in the pension scheme do not include shares in First International. The Group's transactions with the pension scheme include contributions paid to the plan, which are disclosed in note 19.3. The Group has not entered into other transactions with the pension scheme, neither has it any outstanding balances at the reporting dates under review.

IAS 1.114(d)(i) **29 Contingent assets and contingent liabilities**

IAS 37.89 The Group currently applies for various government grants to fund research and development activities which, if successful, could result in grants being recognised in the region of CU 150,000 - 200,000 in future reporting periods. Management currently consider it probable that the application will be successful, however, at the reporting date applications from other companies are being considered by the authorities and the grants therefore do not qualify for recognition.

IAS 37.86 Various warranty and legal claims were brought against the Group during the year. Unless recognised as a provision (see note 20), 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) **30 Financial instrument risks**

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 13.1. 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 co-operation 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.

**30.1 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.

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) IAS 1.51	<b>Short-term exposure</b>			<b>Long-term exposure</b>		
	<b>USD</b>	<b>GBP</b>	<b>Other</b>	<b>USD</b>	<b>GBP</b>	<b>Other</b>
	<b>CU000</b>	<b>CU000</b>	<b>CU000</b>	<b>CU000</b>	<b>CU000</b>	<b>CU000</b>
31 December 2009						
Financial assets	4,482	3,577	308	1,363	-	-
Financial liabilities	727	1,697	-	-	-	-
Total exposure	<u>3,755</u>	<u>1,880</u>	<u>308</u>	<u>1,363</u>	<u>-</u>	<u>-</u>
31 December 2008						
Financial assets	2,889	1,793	233	1,442	-	-
Financial liabilities	603	1,407	-	-	-	-
Total exposure	<u>2,286</u>	<u>386</u>	<u>233</u>	<u>1,442</u>	<u>-</u>	<u>-</u>
31 December 2007						
Financial assets	2,503	1,488	188	1,499	-	-
Financial liabilities	628	1,466	-	-	-	-
Total exposure	<u>1,875</u>	<u>22</u>	<u>188</u>	<u>1,499</u>	<u>-</u>	<u>-</u>

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 (shown above) and the USD/CU  
 IFRS 7.IG36 exchange rate 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 2009 (2008: 10%). A +/- 5% change is considered for the CU/GBP exchange rate (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% (2008: 10%) and GBP by 5% (2008: 5%) respectively then this would have had the following impact:

IAS 1.51(d) IAS 1.51(e)	Profit for the year			Equity		
	USD	GBP	Total	USD	GBP	Total
	CU000	CU000	CU000	CU000	CU000	CU000
31 December 2009	(92)	(94)	(186)	(42)	(94)	(136)
31 December 2008	(49)	(19)	(68)	1	(19)	(18)

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

IAS 1.51(d) IAS 1.51(e)	Profit for the year			Equity		
	USD	GBP	Total	USD	GBP	Total
	CU000	CU000	CU000	CU000	CU000	CU000
31 December 2009	92	92	184	32	92	124
31 December 2008	49	15	64	9	15	24

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.

### 30.2 Interest rate sensitivity

IFRS 7.33(a) The Group's policy is to minimise interest rate cash flow risk exposures on long-term financing. Longer-term borrowings are therefore usually at fixed rates. At IFRS 7.33(b) 31 December 2009, 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 are 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% (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.

IAS 1.51(d) IAS 1.51(e)	Profit for the year		Equity	
	CU000		CU000	
	+ 1%	- 1%	+ 1%	- 1%
IFRS 7.40(a) 31 December 2009	39	(39)	29	(19)
31 December 2008	32	(32)	23	(14)

### 30.3 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 13.2).

IFRS 7.40(a) For the listed equity securities, an average volatility of 20% has been observed IFRS 7.40(b) during 2009 (2008: 18%). 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 (2008: CU 62,000). 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 investments in XY Ltd cannot be reliably determined due to numerous uncertainties regarding the future development of this company (see note 13.2 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 2009 (2008: 13%). If  
 IFRS 7.40(b) the market price had increased or decreased by this amount, other comprehensive income and equity would have increased/decreased by CU 15,000 (2008: CU 15,000). 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).

### 30.4 Credit risk analysis

IFRS 7.33(a) The Group's maximum exposure to credit risk is limited to the carrying amount  
 IFRS 7.36(a) of financial assets recognised at the reporting date, as summarised below:

	2009	2008	2007
	CU000	CU000	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	33,909	10,448	10,007
Trade and other receivables	30,945	23,441	18,873
Carrying amount	<u>69,002</u>	<u>37,854</u>	<u>33,215</u>

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 Trade receivables past due but not impaired can be shown as follows:

	2009	2008	2007
	CU000	CU000	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	<u>818</u>	<u>706</u>	<u>411</u>

IFRS 7.36(c) In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Trade receivables consists 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.IG23

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 (2008 and 2007: 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 investments, see note 13.2) which have been graded AA by Standard & Poors.  
 IFRS 7.36(c)  
 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.

### 30.5 Liquidity risk analysis

IFRS 7.33(a) Liquidity risk is the risk arising from the Group not being able to meet its  
 IFRS 7.33(b) obligation. The Group manages its liquidity needs by carefully monitoring  
 IFRS 7.39(b) scheduled debt servicing 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 requirement are compared to available borrowing facilities in order to determine headroom or any shortfalls. This analysis shows if available borrowing facilities are expected to be sufficient over the lookout period.

IFRS 7.39(c) The Group maintains cash and marketable securities to meet its liquidity  
 IFRS 7.B11F requirements for 30-day periods at a minimum. Funding for long-term liquidity  
 IFRS 7.IG31(c) needs is additionally secured by an adequate amount of committed credit  
 IFRS 7.IG31(d) facilities and the ability to sell long-term financial assets.

IFRS 7.34(a) As at 31 December 2009, 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 months	6 to 12 months	1 to 5 years	later than 5 years
31 December 2009	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	8,737	-	-	-
Total	14,154	852	12,064	11,754

IFRS 7.34(a) 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 months	6 to 12 months	1 to 5 years	later than 5 years
31 December 2008	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	6,780	-	-	-
Total	10,764	860	12,516	12,580

IFRS 7.39(a) IFRS 7.B11	Current		Non-current	
	within 6 months	6 to 12 months	1 to 5 years	later than 5 years
31 December 2007	CU000	CU000	CU000	CU000
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 First International. Annual interest payments amounts to CU 200,000.

IFRS 7.34(a) As at 31 December 2009, the Group's derivative financial liabilities for which contractual maturities are essential for the understanding of cash flows have contractual maturities 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	(212)	(6,978)	-	-
Cash inflow	300	7,509	-	-
Total	88	531	-	-

IFRS 7.34(a) This compares to the maturity of the Group's derivative financial 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 2008	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 2007	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.

### Financial assets used for managing liquidity risk

IFRS 7.B11E The Group considers expect cash flows from financial assets in assessing and managing liquidity risk, in particular its cash resource and trade receivables. The Group's existing cash resources and trade receivables (see note 13) significantly exceed the current cash outflow requirements. Cash flows from trade and other receivables are contractually due within six months.

IAS 1.134 **31 Capital management policies and procedures**

The Group's capital management objectives are:

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

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 equity.

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 2006.

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)	2009	2008	2007
	CU000	CU000	CU000
Total equity	85,883	54,179	41,209
Subordinated loan	5,000	5,000	5,000
Cash flow hedges	(469)	160	(312)
Cash and cash equivalents	(33,909)	(10,448)	(10,007)
Capital	<u>56,505</u>	<u>48,891</u>	<u>35,890</u>
Total equity	85,883	54,179	41,209
Borrowings	25,815	24,644	25,223
Overall financing	<u>111,698</u>	<u>78,823</u>	<u>66,432</u>
Capital-to-overall financing ratio	<u>0.51</u>	<u>0.62</u>	<u>0.54</u>

IAS 1.135(d) The Group has honoured its covenant obligations, including maintaining capital ratios, since the subordinated loan was taken out in 2006. The ratio-reduction during 2009 is primarily a result of financing the acquisition of Goodtech GmbH (see note 4.1).

IAS 1.114(b) **32 First-time adoption of IFRS**

*[A discussion of IFRS 1's disclosure requirements and exemptions is provided in Appendix C]*

These are the Group's first consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS). The date of transition to IFRS is 1 January 2008.

The Group's IFRS accounting policies presented in note 3 have been applied in preparing the financial statements for the year ended December 31, 2009, the comparative information and the opening statement of financial position at the date of transition.

The Group has applied IFRS 1 *First-time Adoption of International Financial Reporting Standards* (as revised in 2008) in preparing these first IFRS consolidated financial statements. The effects of the transition to IFRS on equity, total comprehensive income and reported cash flows are presented in this section and are further explained in the notes that accompany the tables.

**32.1 First-time adoption exemptions applied**

IFRS 1.18 Upon transition, IFRS 1 permits certain exemptions from full retrospective application. The Group has applied the mandatory exceptions and certain optional exemptions. The exemptions adopted by the Group are set out below.

**Mandatory exceptions adopted by the Group:**

- IFRS 1.B1(a) a. Financial assets and liabilities that had been de-recognised before 1 January 2005 under previous GAAP have not been recognised under IFRS.
- IFRS 1.B1(b) b. The Group has only applied hedge accounting in the opening statement of financial position where all the requirements in IAS 39 were met at the date of transition.
- IFRS 1.14 c. The Group has used estimates under IFRS that are consistent with those applied under previous GAAP (with adjustment for accounting policy differences) unless there is objective evidence those estimates were in error.

**Optional exemptions applied by the Group:**

- IFRS 1.App. C a. The Group has elected not to apply IFRS 3 *Business Combinations* retrospectively to business combinations that occurred before the date of transition (1 January 2008). See note 32.5a for an explanation of the effect of the exemption.
- IFRS 1.D5 b. The Group has elected to use fair value as deemed cost at the date of transition for some items of property, plant and equipment (see note 32.5c).
- IFRS 1.D13 c. The Group has deemed the cumulative translation differences for foreign operations at the date of transition to be zero. Adjustments to give effect to this are recorded against opening equity. After the date of transition, translation differences arising on translation of foreign operations are recognised in other comprehensive income and included in a separate 'translation reserve' within equity.
- IFRS 1.D9  
IFRS 1.D9A d. The Group has elected to use facts and circumstances existing at the date of transition to determine whether an arrangement contains a lease. No such assessment was done under previous GAAP.
- IFRS 1.D19(a) e. The Group has elected to designate some financial assets as available-for sale

- IFRS 1.D19(b) financial assets at the date of transition. The Group has also taken the exemption to designate some financial instruments at fair value through profit or loss.
- IFRS 1.D10 f. The Group has elected to recognise all cumulative actuarial gains and losses for its defined benefit plans at the date of transition. From the date of transition, the Group's accounting policy is to use the 'corridor' approach and split actuarial gains and losses into an unrecognised and a recognized portion. Further, the Group has elected to use the exemption not to disclose defined benefit plan surplus/deficit and experience adjustments before the date of transition (see note 19.3).
- IFRS 1.D11

### 32.2 Reconciliation of equity

IFRS 1.24(a) Equity at the date of transition and at 31 December 2008 can be reconciled to the amounts reported under previous GAAP as follows:

	Note	1 January 2008			31 December 2008		
		Previous GAAP	Effect of transition to IFRS	IFRSs	Previous GAAP	Effect of transition to IFRS	IFRSs
		CU000	CU000	CU000	CU000	CU000	CU000
<b>Assets</b>							
<b>Non-current</b>							
Goodwill	a	1,234	-	1,234	3,187	350	3,537
Other intangible assets	b	9,164	1,500	10,664	12,563	1,200	13,763
Property, plant and equipment	c, d	18,381	2,625	21,006	21,210	2,415	23,625
Investments accounted for using the equity method	f	-	11	11	-	23	23
Investment property	e	11,000	1,102	12,102	11,000	1,277	12,277
Other long term financial assets	f	4,135	192	4,327	3,665	215	3,880
Deferred tax assets		520	-	520	225	-	225
<b>Non-current assets</b>		<b>44,434</b>	<b>5,430</b>	<b>49,864</b>	<b>51,850</b>	<b>5,480</b>	<b>57,330</b>
<b>Current</b>							
Inventories	g	18,471	200	18,671	18,267	300	18,567
Trade and other receivables		20,719	-	20,719	25,628	-	25,628
Derivative financial instruments		490	-	490	212	-	212
Other short term financial assets	h	560	71	631	560	89	649
Current tax assets		-	-	-	561	-	561
Cash and cash equivalents		10,007	-	10,007	10,448	-	10,448
<b>Current assets</b>		<b>50,247</b>	<b>271</b>	<b>50,518</b>	<b>55,676</b>	<b>389</b>	<b>56,065</b>
<b>Total assets</b>		<b>94,681</b>	<b>5,701</b>	<b>100,382</b>	<b>107,526</b>	<b>5,869</b>	<b>113,395</b>
<b>Equity</b>							
Share capital		12,000	-	12,000	12,000	-	12,000
Share premium		3,050	-	3,050	3,050	-	3,050
Other components of equity	m	312	892	1,204	(406)	927	521
Retained earnings		22,689	1,790	24,479	36,129	1,887	38,016
		38,051	2,682	40,733	50,773	2,814	53,587
Minority interest		476	-	476	592	-	592
<b>Total equity</b>		<b>38,527</b>	<b>2,682</b>	<b>41,209</b>	<b>51,365</b>	<b>2,814</b>	<b>54,179</b>

	Note	Previous GAAP CU000	Effect of transition to IFRS CU000	IFRSs CU000	Previous GAAP CU000	Effect of transition to IFRS CU000	IFRSs CU000
<b>Liabilities</b>							
<b>Non-current</b>							
Pension and other employee obligations	i	7,186	1,000	8,186	7,656	1,100	8,756
Borrowings	k	21,355	50	21,405	21,295	(30)	21,265
Trade and other payables	d	4,492	510	5,002	4,190	418	4,608
Other liabilities	n	1,600	-	1,600	1,500	-	1,500
Deferred tax liabilities	o	1,005	1,659	2,664	2,234	1,467	3,701
<b>Non-current liabilities</b>		<b>35,638</b>	<b>3,219</b>	<b>38,857</b>	<b>36,875</b>	<b>2,955</b>	<b>39,830</b>
<b>Current</b>							
Provisions	j	4,700	(300)	4,400	3,590	-	3,590
Pension and other employee obligations		1,336	-	1,336	1,496	-	1,496
Trade and other payables	d, n	10,434	(2,732)	7,702	10,661	(3,375)	7,286
Borrowings		3,818	-	3,818	3,379	-	3,379
Current tax liabilities		228	-	228	-	-	-
Derivative financial instruments		-	-	-	160	-	160
Other liabilities	n	-	2,832	2,832	-	3,475	3,475
<b>Current liabilities</b>		<b>20,516</b>	<b>(200)</b>	<b>20,316</b>	<b>19,286</b>	<b>100</b>	<b>19,386</b>
<b>Total liabilities</b>		<b>56,154</b>	<b>3,019</b>	<b>59,173</b>	<b>56,161</b>	<b>3,055</b>	<b>59,216</b>
<b>Total equity and liabilities</b>		<b>94,681</b>	<b>5,701</b>	<b>100,382</b>	<b>107,526</b>	<b>5,869</b>	<b>113,395</b>

The total effect on retained earnings is further analysed as follows:

	Note	1 January 2008 CU000	31 Decem- ber 2008 CU000
Capitalisation of other intangible assets	b	1,500	1,800
Amortisation of other intangible assets	b	-	(600)
Depreciation of property, plant and equipment	c	250	250
Capitalisation of finance leases	d	590	480
Recognition of finance lease liabilities	d	(610)	(518)
Fair value as deemed cost	c	800	700
Inventories	g	200	300
Deferred tax liabilities	o	(1,659)	(1,467)
Deferred tax recognised in revaluation reserve	c	296	296
Restructuring provision	j	300	-
Investment property	e	1,102	1,277
Defined benefit plans	i	(1,000)	(1,100)
Borrowings at fair value through profit or loss	k	(50)	30
Amortisation of goodwill	a	-	350
Short term financial assets	h	71	89
<b>Effect of transition to IFRS</b>		<b>1,790</b>	<b>1,887</b>

### 32.3 Reconciliation of total comprehensive income

IFRS 1.24(b) Total comprehensive income for the reporting period ended 31 December 2008 can be reconciled to the amounts reported under previous GAAP as follows:

		Effect of		
		Previous GAAP	transition to IFRS	IFRSs
	Note	CU000	CU000	CU000
Revenue		191,593	-	191,593
Other income		641	-	641
Changes in inventories	g	(5,673)	100	(5,573)
Costs of material	b	(40,816)	150	(40,666)
Employee benefits expense	b, i, j	(108,423)	(250)	(108,673)
Change in fair value of investment property	e	-	175	175
Depreciation, amortisation and impairment of non-financial assets	l	(6,366)	(460)	(6,826)
Other expenses	d	(12,389)	104	(12,285)
<b>Operating profit</b>		<b>18,567</b>	<b>(181)</b>	<b>18,386</b>
Share of profit from equity accounted investments		12	-	12
Finance costs	d, k	(3,740)	68	(3,672)
Finance income		793	-	793
Other financial items	h	3,581	18	3,599
<b>Profit before tax</b>		<b>19,213</b>	<b>(95)</b>	<b>19,118</b>
Tax expense, net	o	(6,123)	192	(5,931)
<b>Profit for the year</b>		<b>13,090</b>	<b>97</b>	<b>13,187</b>
<b>Other comprehensive income:</b>				
Items recognised in other comprehensive income under IFRS, net of tax				
		-	(683)	(683)
<b>Total comprehensive income</b>		<b>13,090</b>	<b>(586)</b>	<b>12,504</b>
<b>Profit for the year attributable to:</b>				
Minority interest		116		116
Owners of the parent		12,974		13,071
		<u>13,090</u>		<u>13,187</u>

Under previous GAAP the Group did not report total comprehensive income. Exchange differences on translation of foreign operations and gains and losses on cash flow hedges were recognised directly in equity under previous GAAP. Other items recognised in other comprehensive income under IFRS (revaluation of land, available-for-sale financial assets and share of other comprehensive income of associates) did not arise under previous GAAP.

Total basic and diluted earnings per share in 2008 are the same under IFRS as reported under previous GAAP. See note 26 for further information on earnings per share.

### 32.4 Presentation differences

IFRS 1.24(a)  
IFRS 1.25 Certain presentation differences between previous GAAP and IFRS have no impact on reported profit or total equity.

Some assets and liabilities have been reclassified into another line item under IFRS at the date of transition. A reclassification has been recorded for 'other liabilities' (see note 32.5n) and for investments in associates (see note 32.5f), which is shown in the reconciliations.

Some line items are described differently (renamed) under IFRS compared to previous GAAP, although the assets and liabilities included in these line items are unaffected. These line items are as follows (with previous GAAP descriptions in brackets):

- Property, plant and equipment ('Tangible Assets')
- Other long-term financial assets ('Investments')
- Other liabilities, non-current ('Deferred gain')
- Share premium ('Additional paid-in capital').

IFRS 1.BC92  
IG Example 11 **32.5 Notes to the reconciliations**

IFRS 1.C4(g)  
IFRS 1.IG40 **a. Goodwill and business combinations**

The Group has elected to not restate business combinations that occurred before the date of transition to IFRS. The carrying amount of goodwill has not been adjusted for intangible assets subsumed within goodwill or for intangible assets that do not qualify for recognition under IFRS. The amount of goodwill at the date of transition relates to the Telco Consult cash-generating unit. At the date of transition this goodwill was tested for impairment based on cash flow forecasts made at that date. No impairment was identified (see note 8 for further explanation). The amount of goodwill recognised upon transition to IFRS is therefore the carrying amount under previous GAAP at 1 January 2008.

In a past business combination a restructuring provision was recognised under previous GAAP that would not have qualified for recognition under IFRS 3. Accordingly, the provision is eliminated at the date of transition with a corresponding adjustment to retained earnings (see note 32.5j).

There are only minor differences between the accounting for business combinations under previous GAAP and IFRS. No difference has been recorded for the acquisition of Goodbuy Inc in 2008 (see note 4.2), ie there is no adjustment to the acquired identifiable assets and liabilities apart from the subsequent amortisation of goodwill as described below.

Goodwill is not amortised under IFRS. As a result, the amortisation of goodwill recorded under previous GAAP (CU 350,000) was reversed in the reconciliation to IFRS with a corresponding reduction of 'depreciation, amortisation and impairment of non-financial assets'.

### **b. Other intangible assets**

The increase in other intangible assets as at 1 January 2008 and 31 December 2008 is a result of the recognition of internally developed software used in production or administration, which was not capitalised under previous GAAP.

Previous GAAP does not permit recognition of internally generated intangible assets to the same extent as under IFRS. This resulted in the further capitalisation of internally developed software of CU 1,500,000 at the date of transition.

In 2008 a further CU 300,000 was capitalised under IFRS. Amortisation under IFRS in 2008 amounts to CU 600,000. The total effect on intangible assets at 31 December 2008 is CU 1,200,000.

The net reduction in profit for 2008 is CU 300,000, comprising a decrease in 'costs of material' and 'employee benefits expenses' of CU 150,000 respectively and an increase in 'depreciation, amortisation and impairment of non-financial assets' of CU 600,000.

### **c. Property, plant and equipment**

IFRS 1.IG10

Land was measured at cost under previous GAAP. Under IFRS, the land is measured using the revaluation model in IAS 16. At the date of transition a valuation was carried out by independent valuers. The effect is to increase the carrying amount of property, plant and equipment by CU 985,000 and to increase the revaluation reserve within equity by CU 689,000 net of tax effects. Deferred tax is increased by CU 296,000. The effect at 31 December 2008 is the same, as revaluations are performed every two years.

Depreciation was based on tax amortisation periods under previous GAAP, but under IFRSs reflect the useful life of the asset and its residual value. The cumulative adjustment at the date of transition is to increase the carrying amount of property, plant and equipment by CU 250,000 (31 December 2008: CU 250,000).

At the date of transition the Group elected to measure some buildings within property, plant and equipment at fair value as deemed cost. The effect is to increase the carrying amount of property, plant and equipment by CU 800,000 at the date of transition (31 December 2008: CU 700,000). Depreciation under IFRS is based on the revalued amount, increasing the depreciation expense by CU 100,000 in 2008. The carrying amount of property, plant and equipment has also been increased at the date of transition by CU 590,000 (31 December 2008: CU 480,000) as a result of finance leases (see note d below).

### **d. Finance leases**

Under previous GAAP certain leases of IT equipment were classified as operating leases. These leases are finance leases under IFRS. The effect is to increase property, plant and equipment at the date of transition by CU 590,000 and by CU 480,000 at 31 December 2008, and to increase trade and other payables by CU 610,000 (of which CU 100,000 is current) at the date of transition. At 31 December 2008 trade and other payables is increased by CU 518,000 (of which CU 100,000 is current).

The effect on profit or loss for 2008 is to increase 'depreciation, amortisation and impairment of non-financial assets' by CU 110,000, increase 'finance costs' by CU 12,000 and reduce 'other expenses' by CU 104,000.

**e. Investment property**

Under previous GAAP investment property was measured at cost. Under IFRS the Group has elected to measure investment property at fair value. The effect is to increase the carrying amount by CU 1,102,000 at the date of transition (31 December 2008: CU 1,277,000). The effect on profit or loss for 2008 is to increase 'change in fair value of investment property' by CU 175,000 under IFRS.

**f. Other long-term financial assets**

The Group has elected to designate securities, debentures and the unquoted investment in XY Ltd as available-for-sale financial assets under IFRS at the date of transition (see note 13.2). These financial assets are now measured at fair value, with the exception of the investment in XY Ltd which is measured at cost, as the fair value cannot be reliably measured. Under previous GAAP these financial assets were carried at cost less impairment charges.

The effect of the designation is to increase 'other long-term financial assets' by CU 203,000 at the date of transition and by CU 238,000 at 31 December 2008. The gains have been included in the available-for-sale financial assets reserve within equity.

Further, investments in associates were presented within 'other long-term financial assets' under previous GAAP. Under IFRS these are presented within a separate line item in the statement of financial position. Previous GAAP also required use of the equity method for these investments.

**g. Inventories**

Inventories include certain fixed production costs under IFRS that were expensed immediately under previous GAAP. The effect is to increase the carrying amount of inventories by CU 200,000 at the date of transition and by CU 300,000 at 31 December 2008. The effect on profit or loss for the period ended 31 December 2008 is to reduce 'changes in inventories' by CU 100,000.

**h. Other short-term financial assets**

Money market funds are considered held for trading under IFRS and carried at fair value through profit or loss. Under previous GAAP these financial assets were carried at cost less impairment charges. The effect is to increase the carrying amount by CU 71,000 at the date of transition and by CU 89,000 at 31 December 2008. The effect on profit or loss is to increase 'other financial items' by CU 18,000 for the period ended 31 December 2008.

**i. Pension and other employee obligations**

The Group uses the corridor approach under IFRS. At the date of transition the Group has elected to apply the exemption in IFRS 1, and recognise all actuarial gains and losses in the statement of financial position, ie the full net pension liability is recognised at 1 January 2008. The effect is to increase pension and other employee obligations at the date of transition by CU 500,000.

Under previous GAAP some of the Group's benefit plans were accounted for on a cash basis. Certain of these plans that meet the IFRS definition of defined benefit plans have been restated accordingly. The effect is to recognise a pension

liability of CU 500,000 for these defined benefit plans at the date of transition (31 December 2008: CU 600,000). The effect on profit or loss for the period ended 31 December 2008 is to increase 'employee benefits expenses' by CU 100,000.

**j. Provisions**

A restructuring provision was recognised under previous GAAP at the acquisition date in a past business combination. This would not have qualified as an identifiable liability at the acquisition date under IFRS 3. Consequently, 'provisions' is reduced at the date of transition by CU 300,000. The related expenditure was incurred during 2008. This increases 'employee benefits expenses' by CU 300,000 for 2008.

**k. Borrowings**

The Group has elected to designate a loan at fair value through profit or loss under IFRS at the date of transition (see note 3.19). Under previous GAAP this loan was measured at amortised cost. The effect is to increase non-current 'borrowings' at the date of transition by CU 50,000 (31 December 2008: reduce the carrying amount by CU 30,000). The effect on profit or loss for 2008 is to eliminate interest expenses on the loan (CU 150,000) and recognise the fair value loss (CU 70,000) in 'finance costs'.

**l. Depreciation and amortisation**

The net increase of CU 460,000 consists of increased amortisation of intangible assets of CU 600,000; reduced amortisation of goodwill of CU 350,000 and increased depreciation of property, plant and equipment of CU 210,000 (finance leases and deemed cost).

**m. Other components of equity**

The adjustment to 'other components of equity' relates to available-for-sale financial assets (CU 203,000; 31 December 2008: CU 238,000) and revaluation reserve for land (CU 689,000 after tax; 31 December 2008: CU 689,000).

**n. Other liabilities**

Under previous GAAP the Group did not present the line-item 'other liabilities'. The short-term part was included within 'trade and other payables'. Consequently, other liabilities is increased by the amount included under 'other liabilities' under IFRS. The non-current part of 'other liabilities' was presented as 'deferred gain' under previous GAAP. No adjustments to the carrying amounts were required on transition.

**o. Deferred tax**

The following table shows the effect of transition adjustments on deferred tax liabilities and the movement in deferred tax recognised in profit or loss:

	<b>1 January 2008 CU000</b>	<b>31 December 2008 CU000</b>
Other intangible assets	450	360
Property, plant and equipment	788	724
Investment property	331	383
Provisions	90	-
Effect on deferred tax liabilities	<u>1,659</u>	<u>1,467</u>
Movement in deferred tax recognised in profit or loss in 2008		<u>(192)</u>

**32.6 Statement of cash flows**

IFRS 1.25

Under previous GAAP taxes paid were classified as operating cash flows. Under IFRS tax payments are allocated to investing and financing activities where they can be identified with transactions within those categories. There are no other material adjustments to the cash flow statement. The components of cash and cash equivalents under previous GAAP are similar to those presented under IFRS.

**32.7 Use of fair value as deemed cost**

At the date of transition fair value as deemed cost was used for some items. The aggregate of those fair values and the adjustments to state these items at fair value are as follows:

	<b>Fair value CU000</b>	<b>Adjust- ment to carrying amount CU000</b>
Property, plant and equipment	<u>3,000</u>	<u>800</u>
Total	<u>3,000</u>	<u>800</u>

### 32.8 Designation of financial instruments

The Group has elected to designate certain financial assets and financial liabilities at fair value through profit or loss or available-for-sale at the date of transition as permitted by IFRS 1. The following tables show the fair values at the date of designation and their classification and measurement under previous GAAP.

	Fair value 1 January 2008 <hr/> CU000	Carrying amount under previous GAAP <hr/> CU000
<b>Financial assets designated as available-for-sale</b>		
<i>Cost less impairment under previous GAAP</i>		
Securities and debentures	420	217
Other investments (*)	-	783
<b>Financial liabilities designated at fair value through profit or loss</b>		
<i>Amortised cost under previous GAAP</i>		
Borrowings	8,380	8,330

(\*) The fair value cannot be reliably measured (see note 13.2)

The Group has not designated any financial assets at fair value through profit or loss at the date of transition (money market funds are considered held for trading).

IFRS 1.24(c)

### 32.9 Impairment losses recognised at the date of transition

The Group has applied IAS 36 in determining whether any impairment losses arose at the date of transition to IFRS. No impairment losses (or reversals) were identified.

The estimates used for this analysis were consistent with the estimates used under previous GAAP at the same date, adjusted for accounting policy differences where necessary.

### 33 Post-reporting date events

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

### 34 Authorisation of financial statements

IAS 10.17

The consolidated financial statements for the year ended 31 December 2009 (including comparatives) were approved by the board of directors on 8 March 2010.

G Thornton  
 (Board member 1)

T Grant  
 (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 show the statement of comprehensive income in one statement (see the example in Appendix C), the FOE format included in this appendix may replace the NOE-format that is part of the statement of comprehensive income in Appendix C.

The FOE or NOE formats does 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 19.1 in the main body of the example financial statements. These changes are highlighted and explained in note 35 that follows the 'income statement' format on the next page.

## Income statement

IAS 1.51				
IAS 1.51(c)		Notes	2009	2008
IAS 1.51(d-e)			CU000	CU000
IAS 1.82(a)	<b>Revenue</b>	7	206,193	191,593
IAS 1.85	Costs of sales		<u>(111,523)</u>	<u>(103,989)</u>
IAS 1.85	<b>Gross profit</b>		94,670	87,605
IAS 1.85	Other income		427	641
IAS 1.85	Distribution costs		(12,213)	(11,550)
IAS 1.85	Administrative expenses		(48,853)	(46,200)
IAS 1.85	Research and development costs		(1,690)	(1,015)
IAS 1.85	Change in fair value of investments property	12	310	175
IAS 1.85	Other expenses		<u>(10,809)</u>	<u>(11,270)</u>
	<b>Operating profit</b>		21,842	18,386
IAS 1.82(c)	Share of profit from equity accounted investments	6	60	12
IAS 1.82(b)	Finance costs	23	(3,453)	(3,672)
IAS 1.85	Finance income	23	994	793
IAS 1.85	Other financial items	24	<u>3,388</u>	<u>3,599</u>
	<b>Profit before tax</b>		22,831	19,118
IAS 1.82(d)	Tax expense	25	<u>(7,206)</u>	<u>(5,931)</u>
IAS 1.82(f)	<b>Profit for the year</b>		<u><u>15,625</u></u>	<u><u>13,187</u></u>
	<b>Profit for the year attributable to:</b>			
IAS 1.83(a)(i)	Minority interest		121	116
IAS 1.83(a)(ii)	Owners of the parent		<u>15,504</u>	<u>13,071</u>
			<u><u>15,625</u></u>	<u><u>13,187</u></u>
	<b>Earnings per share</b>	26	CU	CU
IAS 33.67A	Basic earnings per share			
IAS 33.66	Profit from continuing operations		1.24	1.09
IAS 33.68	Loss from discontinued operations		-	-
IAS 33.66	Total		<u>1.24</u>	<u>1.09</u>
IAS 33.68A	Diluted earnings per share			
IAS 33.66	Profit from continuing operations		1.24	1.09
IAS 33.68	Loss from discontinued operations		-	-
IAS 33.66	Total		<u>1.24</u>	<u>1.09</u>

### 35 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 2009 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.

#### 35.1 Goodwill

In note 8 on page 52, replace the grey-shaded paragraph with the paragraphs below:

NOE                    The related goodwill impairment loss of CU 799,000 in 2009 (2008: CU 190,000) was included within 'depreciation, amortisation and impairment of non-financial assets' and allocated to the consulting segment (see note 7).

FOE                    The total goodwill impairment loss in 2009 and 2008 as well as all of the amortisation expense has been included in 'administrative expenses'. The impairment loss has been attributed to the consulting segment (see note 7).

#### 35.2 Other intangible assets

In note 9 on page 53, delete the last sentence of the following paragraph:

NOE                    Additions to research development costs in 2009 includes capitalised borrowing costs amounting to CU 80,000 (see also note 3.11). In addition to development costs capitalised, the Group expensed as 'other expenses' CU 1,690,000 (2008: CU 1,015,000) of research and development costs during the year.

In the last paragraph of note 9 on page 54, replace the grey-shaded sentence with the paragraph 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'.

#### 35.3 Pensions and other employee obligations

In note 19.3, replace the grey-shaded sentence with the paragraph below:

NOE                    Interest costs have been included in 'finance costs' (see note 23). Return on plan assets is included in 'other financial items' (see note 24). All other expenses summarised above were included within 'employee benefits expense'.

FOE Interest costs have been included in 'finance costs' (see note 23). Return on plan assets is included in 'other financial items' (see note 24). 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 19.1 provides a summary of employee benefits expense included in profit or loss.

## Appendix B: Statement of comprehensive income presented in single statement

IAS 1.81 As permitted by IAS 1 (Revised) 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 2009 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 14).

The accounting policies will need to disclose that the single statement of comprehensive income has been adopted (see note 3.3). 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. 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) IAS 1.51(d-e)	Notes	2009 CU000	2008 CU000
IAS 1.82(a) Revenue	7	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	19	(114,190)	(108,673)
IAS 1.85 Change in fair value of investment property	12	310	175
IAS 1.85 Depreciation, amortisation and impairment of non-financial assets		(7,942)	(6,826)
IAS 1.85 Other expenses		(12,499)	(12,285)
<b>Operating profit</b>		<u>21,842</u>	<u>18,386</u>
IAS 1.82(c) Share of profit from equity accounted investments	6	60	12
IAS 1.82(b) Finance costs	23	(3,453)	(3,672)
IAS 1.85 Finance income	23	994	793
IAS 1.85 Other financial items	24	3,388	3,599
<b>Profit before tax</b>		<u>22,831</u>	<u>19,118</u>
IAS 1.82(d) Tax expense	25	(7,206)	(5,931)
IAS 1.82(f) <b>Profit for the year</b>		<u><u>15,625</u></u>	<u><u>13,187</u></u>
IAS 1.82(g) <b>Other comprehensive income:</b>			
IAS 16.77(f) Revaluation of land	10	303	-
Cash flow hedging	13		
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	13		
IFRS 7.20(a)(ii) - current year gains (losses)		113	35
IAS 1.92 - reclassification to profit or loss		(50)	-
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)	-
Income tax relating to components of other comprehensive income	14	85	95
<b>Other comprehensive income for the period, net of tax</b>		<u>416</u>	<u>(683)</u>
IAS 1.82(i) <b>Total comprehensive income for the period</b>		<u><u>16,041</u></u>	<u><u>12,504</u></u>
<b>Profit for the year attributable to:</b>			
IAS 1.83(a)(i) Minority interest		121	116
IAS 1.83(a)(ii) Owners of the parent		<u>15,504</u>	<u>13,071</u>
		<u>15,625</u>	<u>13,187</u>
<b>Total comprehensive income attributable to:</b>			
IAS 1.83(b)(i) Minority interest		121	116
IAS 1.83(b)(ii) Owners of the parent		<u>15,920</u>	<u>12,388</u>
		<u>16,041</u>	<u>12,504</u>
<b>Earnings per share</b>	26	<b>CU</b>	<b>CU</b>
IAS 33.67A Basic earnings per share			
IAS 33.66 Profit from continuing operations		1.24	1.09
IAS 33.68 Loss from discontinued operations		-	-
IAS 33.66 Total		<u>1.24</u>	<u>1.09</u>
IAS 33.68A Diluted earnings per share			
IAS 33.66 Profit from continuing operations		1.24	1.09
IAS 33.68 Loss from discontinued operations		-	-
IAS 33.66 Total		<u>1.24</u>	<u>1.09</u>

## Appendix C: Explanatory notes to first-time adoption

This Appendix provides selected discussion of some of the disclosures in note 32, which are required by IFRS 1. The discussion only covers some of the requirements in IFRS 1, and therefore cannot be considered comprehensive.

### **i. IFRS 1 exemptions applied by the Group (note 32.1)**

It is appropriate to disclose the IFRS 1 exemptions that have been applied by the Group on its transition to IFRS. The precise format and extent of these disclosures is not prescribed in IFRS 1, although that Standard does require that the entity explains how the transition from previous GAAP to IFRSs affected its reported results, financial position and cash flows. The general requirements of IAS 1 on disclosure of accounting policies are therefore equally applicable to the disclosure of first-time adoption exemptions. This publication includes these disclosures in a separate note that also includes the various disclosures prescribed by IFRS 1. Some entities may consider that it is more relevant to explain the exemptions alongside the related IFRS accounting policies. We believe it is appropriate to consider disclosing both the mandatory and optional IFRS 1 exemptions where applicable.

IFRS 1 sets out several optional and mandatory exemptions from retrospective application. This publication illustrates one possible combination of the exemptions available to a first-time adopter. Other combinations will apply in other circumstances.

### **ii. Explanation of transition to IFRS (note 32)**

A first-time adopter is required to explain how the transition to IFRS from previous GAAP affected its financial position, financial performance and cash flows (IFRS 1.23). These disclosures are described below. The information must give sufficient detail to enable users to understand the adjustments that have been made (IFRS 1.25). In practice, this will often require extensive note disclosures, including quantified reconciliations and narrative descriptions. If an entity becomes aware of errors made under previous GAAP, the reconciliations must distinguish the correction of those errors from changes in accounting policies (IFRS 1.26).

### **iii. Reconciliation of equity (note 32.2)**

A first-time adopter must present a reconciliation of its equity at the date of transition and also at the end of the latest period presented in the most recent annual financial statements under previous GAAP. Further illustrative guidance is included in IFRS 1.IG63 and IG Example 11 of IFRS 1.

The standard does not specify the form and content of the reconciliation, and is silent on what constitutes "sufficient detail" in relation to the reconciliation. Judgement will therefore need to be applied. The implementation guidance in IFRS 1 includes an example of a reconciliation (IG Example 11), which is often referred to in practice. The reconciliation presented in note 32.2 is based on IG Example 11 and presents the movements in each line item within the statement of financial position from previous GAAP to IFRS, with accompanying narrative explanations. There are of course alternative ways of satisfying IFRS 1's requirements.

### **iv. Reconciliation of total comprehensive income (note 32.3)**

A first-time adopter must present a reconciliation to total comprehensive income under IFRSs for the latest period in the entity's most recent annual financial statements under previous GAAP. The concept of total comprehensive income was introduced in IAS 1 (Revised 2007). In the previous version of IFRS 1 entities were required to present a reconciliation of profit or loss. IFRS 1 acknowledges that previous GAAP might not include a concept such as total comprehensive income, and therefore allows profit or loss to be used as a starting point. The Standard explains that it is helpful for users to have information about all items of income and expense, not only those recognised in profit or loss (IFRS 1.BC92B and BC92C). The starting point therefore depends on previous GAAP such that profit or loss cannot be used as the starting point if a statement corresponding to total comprehensive income was presented under previous GAAP.

This publication includes a reconciliation based on profit or loss. The example in note 32.3 is based on the guidance in IG Example 11. This is however only one way of satisfying the requirements. In our view the effect on earnings per share should be presented.

### **v. Non-current assets held for sale and discontinued operations**

Where the first-time adopter presents non-current assets held-for-sale or discontinued operations, then this should be explained if such a classification was not included in previous GAAP.

### **vi. Presentation differences (note 32.4)**

Certain presentation differences between previous GAAP and IFRS have no impact on reported profit or total equity. For example, the first-time adopter may have been required to present certain line items in its primary financial statements that are different to those required by IFRS. The explanation of transition to IFRS should include sufficient detail for users to understand the presentation differences to previous GAAP. Therefore, the first-time adopter should provide information on reclassifications or changes in line items where material. In our view, line-items that have been renamed may be shown narratively.

### **vii. Material adjustments to the statement of cash flows (note 32.6)**

According to IFRS 1.25, an entity shall explain the material adjustments to the statement of cash flows, if an entity presented a statement of cash flows under its previous GAAP. The standard is silent as to which periods the reconciliation is required for. Often, entities will only present one comparative year for cash flow statements. In this case, a reconciliation should be presented for the latest period in the entity's most recent annual financial statements. If the entity presents two or more comparative periods, first-time adopters may present a reconciliation for all comparative

periods. In the implementation guidance to IFRS 1 (IG Example 11), the Standard provides one example of the disclosure requirements.

**viii. Impairment losses (note 32.9)**

IFRS 1.24(c) includes requirements for note disclosures for a first-time adopter, if it recognises an impairment loss (or reversal) in its opening statement of financial position. The Standard clarifies that the note disclosures in IAS 36 Impairment of Assets for impairment losses shall be included in the first IFRS financial statements for impairments (or reversals) made to the opening statement of financial position. This disclosure provides transparency about the impairment losses recognised at the date of transition (IFRS 1.BC94), that could otherwise be subsumed within reconciliation differences. In our view, this disclosure may be required in any case, because of the requirements in IAS 1 (Revised 2007) for two comparative statements of financial position and related notes. The standard require related notes for the statement of financial position, which in our view implies presenting the note disclosures in IAS 36.





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