

# Notes to the Consolidated Financial Statements\*

## Significant Accounting Policies note 1

### General

#### Reporting entity

Wolters Kluwer nv ('the Company') with its subsidiaries (together 'the Group') is a leading global information services and publishing company. The Group's core markets are spread across the health, corporate services, financial services, tax, accounting, law, and regulation sectors. The Group maintains operations across Europe, North America, Asia Pacific, and Latin America. The Company is headquartered in Amsterdam, the Netherlands. The Company's ordinary shares are quoted on the Euronext Amsterdam (WKL) and are included in the AEX and Euronext 100 indices. These financial statements were authorized for issue by the Executive Board and Supervisory Board on February 24, 2009.

The consolidated financial statements of the Company at and for the year ended December 31, 2008, comprise the Group and the Group's interest in associates and jointly controlled entities. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied by the Group entities to the financial information relating to 2008 and 2007, as presented in these consolidated financial statements.

#### Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations including International Accounting Standards (IAS) prevailing per December 31, 2008, as adopted by the International Accounting Standards Board (IASB) and as endorsed for use in the European Union by the Euro-

pean Commission. If non-IFRS compliant terminology is used in these financial statements, reference is made to → [Glossary](#).

The first time application of the amendments and interpretations that became effective for the year ended December 31, 2008 as listed below did not result in substantial changes to the Group's accounting policies:

- IFRIC 12 Service Concession Arrangements (effective January 1, 2008);
- IFRIC 13 Customer Loyalty Programmes (effective January 1, 2009, for the Company);
- IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective January 1, 2008).

### Basis of Preparation

The consolidated financial statements are presented in millions of euros. They have been prepared under the historical cost convention except for financial assets and financial liabilities (including derivative financial instruments) that are recognized at their fair value. The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect the application of policies and reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Judgments made by management in the application of IFRS that have significant effect on the financial

\* Unless otherwise indicated, the figures in these financial statements are in millions of euros.

statements and estimates with a significant risk of material adjustment in the next year are discussed in → [note 29 of the Consolidated Financial Statements](#).

### Business combinations

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Initially the fair values are determined provisionally and will be subject to change based on the outcome of the purchase price allocation, which takes place within 12 months of the acquisition date. When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events (earn-outs or deferred acquisition payments), the Group includes the amount of that adjustment in the cost of the combination at the acquisition date if the adjustment is probable and can be measured reliably.

### Discontinued operations

IFRS 5 (Non-current assets held for sale and discontinued operations) defines a component of an entity as a part of the entity that comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. The Company has determined that a component is usually one level below the division level. A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale and represents a major line of business or geography. Non-current assets held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Any gain or loss from disposal of discontinued operations, together with the results of these operations until the date of disposal, is reported separately as discontinued operations. The financial information of discontinued operations is excluded from the respective captions in the consolidated income and cash flow statements and the related notes and is reported separately.

### Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

### Comparatives

Where necessary, certain reclassifications have been made to the prior year financial statements (or comparatives) to conform to the current year presentation.

## Basis of Consolidation

### Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

### Associates

Associates are all entities over which the Group has significant influence but not control over the financial and operating policies, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. Associates are recognized from the date on which the Group has significant influence and recognition ceases from the date the Group has no significant influence over an associate.

The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

*Joint ventures*

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. Joint ventures are recognized using proportionate consolidation from the date that joint control commences until the date that joint control ceases.

*Transactions eliminated on consolidation*

Intragroup balances, transactions, income and expenses, and unrealized gains on transactions between Group companies are eliminated in preparing the consolidated financial statements. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Unrealized gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associates and joint ventures.

**Foreign currency***Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in euros, which is the Group's presentation currency.

*Foreign currency transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Non-monetary assets and liabilities in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the transaction date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at foreign exchange rates prevailing at the dates the fair value was determined.

*Financial statements of Group companies*

The assets and liabilities of Group companies, including goodwill and fair value adjustments arising on consolidation, are translated to euro at foreign exchange rates prevailing at the balance sheet date. Income and expenses of Group companies

are translated to euro at exchange rates at the dates of the transactions. All resulting exchange differences are recognized in the currency translation reserve as a separate component of equity.

When a foreign Group company is disposed of, exchange differences that were recorded in equity prior to the sale are recycled through the income statement as part of the gain or loss on disposal.

*Net investment in foreign operations*

Net investment in foreign operations includes equity financing and long-term inter-company loans for which settlement is neither planned nor likely to occur in the foreseeable future. Exchange rate differences arising from the translation of the net investment in foreign operations, and of related hedges, are taken to the currency translation reserve in shareholders' equity.

When a foreign operation is disposed of, exchange differences that were recorded in equity are recognized in the income statement as part of the gain or loss on disposal.

Main currency exchange rates to the euro	2008	2007
U.S. dollar (at December 31)	1.39	1.47
U.S. dollar (average)	1.47	1.37
G.B. pound (at December 31)	0.95	0.73
G.B. pound (average)	0.80	0.68

## Principles for the Determination of Results

**Revenue recognition**

Revenues represent the revenues billed to third parties net of value-added tax and discounts. Shipping and handling fees billed to customers are included in revenues. Subscription income received or receivable in advance of the delivery of services or publications is included in deferred income. If the Group acts as an agent, whereby the Group sells goods or services on behalf of a principal, the Group recognizes as revenues the amount of the commission.

*Goods*

Revenue from the sale of goods is recognized upon shipment and transfer of the significant risks and rewards of ownership to the customer, provided that the ultimate collectability and final acceptance by the customer is reasonably assured. Revenue from the sale of goods is recognized net of estimated returns for which the Group has recognized a liability based on previous experience and other relevant factors.

If returns on a product category exceed a threshold it is assumed that the transfer of the ownership of the product has only occurred upon receipt of the payment from the customer.

#### *Services*

Revenue from the sale of services is recognized on a straight-line basis over the specified period, unless there is evidence that some other method better represents the stage of completion of the service at the balance sheet date.

#### *Combination of goods and services*

Revenues of products that consist of a combination of goods and services are recognized based on the fair value and the recognition policy of the individual components.

#### **Cost of sales**

Cost of sales comprises the directly attributable costs of goods and services sold and delivered. These costs include items such as the costs of raw materials, subcontracted work, other external expenses, and salaries, wages, and social charges for personnel to the extent that these costs are directly related to the goods and services sold and delivered. Royalties owed to professional societies relating to contract publishing are included in cost of sales.

#### **General and administrative operating expense**

General and administrative operating expense includes costs which are neither directly attributable to cost of sales nor to sales and marketing activities. This includes costs such as product development, ICT, and general overhead.

#### **Share-based payments**

The Group's Long-Term Incentive Plan qualifies as an equity-settled share-based payments transaction. The fair value of shares awarded is recognized as an expense with a corresponding increase in equity. The fair value is measured at the grant date and spread over the period during which the employees become unconditionally entitled to the shares. The fair value of the shares is measured using a Monte Carlo simulation model, taking into account the terms and conditions upon which the shares were awarded. The amount recognized as an expense is adjusted to reflect the actual forfeitures due to participants' resignation before the vesting date.

#### **Finance income and costs**

Finance income and costs comprise interest payable on borrowing and interest receivable calculated using the effective interest rate method, interest receivable on funds invested, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognized in profit or loss.

## Principles of Valuation and Presentation of Assets and Liabilities

### **Intangible assets**

#### *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, associate, or joint venture at the date of acquisition. Goodwill recognized for acquisitions represents the consideration made by the Group in anticipation of the future economic benefits from assets that are not capable of being individually identified and separately recognized. These future economic benefits relate to, for example, opportunities with regard to cross-selling or cost efficiencies, such as sharing of infrastructure.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is carried at cost less any accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity that is sold.

Goodwill acquired in a business combination is not amortized. Instead, the goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

#### *Publishing rights and other intangible assets*

The Group recognizes intangible assets acquired through business combinations (publishing rights) as well as other intangible assets. Publishing rights acquired through business combinations consist of:

- Customer relationships: subscriber accounts, other customer relationships;
- Technology: databases, software, product technology;
- Trademarks and titles: trademarks, imprints, product titles, copyrights;
- Favorable purchase agreements; and
- Other: license agreements, non-compete covenants.

Favorable purchase agreements are those purchasing agreements of the acquiree that are priced at a level that is considered below fair value at the time of the acquisition. The amortization expenses therefore represent the difference between costs at fair value and the costs per the contract.

The fair value of the intangible assets is computed at the time of the acquisition applying one of the following methods:

- Relief from royalty approach: This approach assumes that if the publishing right was not owned, it would be acquired through a royalty agreement. The value of actually owning the asset equals the benefits from not having to pay royalty fees;
- Multi-period excess earnings method: Under this approach, cash flows associated with the specific publishing right are determined. Contributory charges of other assets that are being used to generate the cash flows are deducted from these cash flows. The net cash flows are discounted to arrive at the value of the asset; or
- Cost method: The cost method reflects the accumulated costs that would currently be required to replace the asset.

Publishing rights are stated at cost less accumulated amortization and any impairment losses and are amortized over their estimated useful economic life, generally applying the straight-line method. The useful life of the publishing rights is deemed finite, reflecting management's assessment of the life of the assets, usually supported by outside valuation experts, and taking into account the impact of technological change and changes in the marketplace. If and to the extent that publishing rights are considered to be impaired in value, this is immediately charged to the income statement as impairment.

Other intangible assets mainly relate to computer software that is valued at cost less accumulated amortization and any impairment losses. Capitalized software is amortized using the straight-line method over the economic life of the software. If and to the extent that other intangible assets are considered to be impaired in value, this is immediately charged to the income statement as impairment.

No intangible asset arising from research or the research phase of an internal project is recognized. Expenditure on research or the research phase of an internal project is recognized as an expense when it is incurred. An intangible asset arising from development or the development phase of an internal project is recognized if, and only if, the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale and comply with the following other requirements: the intention to complete the development project; the ability to sell or use the product; demonstration of how the product will yield probable future economic benefits; the availability of adequate technical, financial, and other resources to complete the project; and, the ability to reliably measure the expenditure attributable to the project.

Subsequent expenditure on capitalized intangible assets is capitalized only when it increases the future economic

benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

The estimated useful life for publishing rights is 5 to 20 years and for other intangible assets 3 to 10 years.

#### **Property, plant, and equipment**

Property, plant, and equipment, consisting of land and buildings, machinery and equipment, and other assets such as office equipment and vehicles, is valued at cost less accumulated depreciation and any impairment losses. Depreciation is charged to the income statement on a straight-line basis over the estimated useful life of each part of an item of property, plant, and equipment. Land is not depreciated.

The estimated useful life for buildings is 20 to 30 years, for machinery and equipment 5 to 10 years, and for other assets 3 to 10 years.

#### **Impairment**

The carrying amounts of the Group's non-current assets are reviewed at each reporting sheet date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is estimated. Irrespective of whether there is any indication of impairment, the Group also (1) tests an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount; and (2) tests goodwill acquired in a business combination for impairment annually.

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statement immediately. The recoverable amount of an asset or its cash-generating unit is the higher of its fair value less costs to sell and its value in use.

An impairment loss for a cash-generating unit shall be allocated in the following order:

- First to reduce the carrying amount of any goodwill allocated to the cash-generating unit; and
- Then to the other assets of the cash-generating unit pro rata on the basis of the carrying amount of each asset in the cash-generating unit.

The Group assesses at each reporting date whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the Group shall estimate the recoverable amount of that asset and shall recognize this in the income statement immediately.

### Leases

Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the Group's benefit.

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Finance leases are initially recognized as assets and liabilities in the balance sheet at the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Subsequently, a finance lease gives rise to depreciation expense for depreciable assets and any impairment losses, as well as finance expense for each accounting period. The depreciation policy for these depreciable leased assets is consistent with that for depreciable assets that are owned.

### Financial assets

Financial assets include investments, receivables, and derivative financial instruments. Financial assets are recorded initially at fair value. Subsequent measurement depends on the designation of the financial assets.

#### *Investments*

All equity investments that are not subsidiaries, joint ventures, or associates are classified as investments. Investments available-for-sale are valued at their fair value. When the fair value cannot be reliably determined, the investment is carried at cost. A gain or loss arising from a change in the fair value of the investment available-for-sale shall be recognized directly in equity, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in equity shall be recognized in profit or loss. If the investments are valued at cost, income from investments is based on the dividend received from the investments.

#### *Receivables*

Loans to third parties are measured at amortized cost. Subsidies are recognized at fair value.

#### *Derivative financial instruments*

Derivative financial instruments are recognized at fair value in the balance sheet as a financial asset if the remaining maturity is more than 12 months after the balance sheet date. The accounting policy for changes in fair value is set out in → [Derivative financial instruments and hedging activities](#).

### Derivative financial instruments and hedging activities

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method

of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognized assets or liabilities or firm commitments (fair value hedge); (2) hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge); or (3) hedges of a net investment in a foreign operation (net investment hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The ineffective part is recognized immediately in the income statement. If a hedging relationship is terminated and the derivative financial instrument is not sold, future changes in its fair value are recognized in the income statement.

The fair value of derivative financial instruments is classified as a non-current asset or liability if the remaining maturity of the derivative financial instrument is more than 12 months and as a current asset or liability if the remaining maturity of the derivative financial instrument is less than 12 months after the balance sheet date.

#### *Fair value hedge*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset, liability, or unrecognized firm commitment that are attributable to the hedged risk. The gain or loss relating to the ineffective part of the hedging instrument is recognized in the income statement within finance income or costs. Changes in the fair value of the risk being hedged of the hedged item are also recognized in the income statement within finance income or costs. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to profit or loss over the original hedge period.

#### *Cash flow hedge*

The effective part of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in equity. The gain or loss relating to the ineffective part is recognized immediately in the income statement within finance income or costs. Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss. The gain or loss

relating to the effective part of derivative financial instruments is recognized in the income statement within the line where the result from the hedged transaction is recognized.

When a hedging instrument matures or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the hedged transaction is ultimately recognized in the income statement. When a hedged transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

#### *Net investment hedge*

Fair value changes of derivative financial instruments that are used to hedge the net investment in foreign operations, which are determined to be an effective hedge, are recognized directly in shareholders' equity in the translation reserve. The ineffective part is recognized immediately in the income statement within finance income or costs. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

#### *Derivatives that do not qualify for hedge accounting*

Certain derivatives do not qualify for hedge accounting. Changes in the fair value of any derivative financial instruments that do not qualify for hedge accounting are recognized immediately in the income statement within finance income or costs.

#### **Inventories**

Inventories are valued at the lower of cost and net realizable value. The cost of inventories comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Cost is determined using the first-in-first-out principle. The cost price of internally produced goods comprises the manufacturing and publishing cost. Trade goods purchased from third parties are valued at the purchase price.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to complete the sale.

#### **Trade and other receivables**

Trade and other receivables are initially carried at their fair value and subsequently measured at cost less any impairment.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts are shown within borrowings and bank overdrafts in current liabilities.

#### **Deferred income**

Deferred income represents the part of the amount invoiced to customers that has not yet met the criteria for revenue recognition and thus still has to be earned as revenues by means of the delivery of goods and services in the future. Deferred income is recognized at its nominal value.

#### **Trade and other payables**

Trade and other payables are stated at cost.

#### **Interest-bearing debt**

Financial liabilities, such as bond loans and other loans from credit institutions, are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition interest-bearing debt is stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis.

#### **Taxation**

Income tax on the result for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized outside profit or loss, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date and any adjustment to tax payable in respect of previous years.

The Group recognizes deferred tax liabilities for all taxable temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base, except to the extent that the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction, which is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit.

A deferred tax asset is recognized for a temporary difference and for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which these can be utilized. Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. The effect of changes in tax rates on the deferred taxation is taken to the income statement if and to the extent that this provision was originally formed as a charge to the income statement.

### Shareholders' equity

When share capital recognized as equity is repurchased (treasury shares), the amount of the consideration paid, including directly attributable costs, is recognized as a change in equity. Dividends are recognized as a liability upon being declared.

### Minority interests

Minority interests are the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the Group.

### Employee benefits

The Group has arranged pension schemes in various countries for most of its employees in accordance with the legal requirements, customs, and the local situation of the countries involved. These pension schemes are partly managed by the Group itself and partly entrusted to external entities, such as industry pension funds, company pension funds, and insurance companies. In addition, the Group also provides certain employees with other benefits upon retirement. These benefits include contributions towards medical health plans in the United States, where the employer refunds part of the insurance premium for retirees, or, in the case of uninsured schemes, bears the medical expenses while deducting the participants' contributions.

#### *Defined contribution plans*

The pension contribution of defined contribution plans is recognized as an expense in the income statement as it is incurred.

#### *Defined benefit plans*

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value and the fair value of any plan assets is deducted. The discount rate is the yield rate at the balance sheet date on high-quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the calculation results in a benefit to the Group, the recognized asset is limited to the net total of any unrecognized past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

Past-service costs are recognized immediately in income 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 amortized on a straight-line basis over the vesting period. Actuarial gains and losses that arise in calculating the Group's obligation in respect of a defined benefit plan are recognized outside profit or loss immediately in the period in which they occur in equity.

Gains or losses on curtailment or settlement of a defined benefit plan are recognized when the curtailment or settlement occurs. The gain or loss comprises any resulting change in the present value of the defined benefit obligations and in the fair value of the plan assets, and any past service cost that had not previously been recognized. A curtailment occurs when the Group is demonstrably committed to make a material reduction in the number of employees covered by a plan either as a result of a disposal or restructuring or when the Group amends the terms of a defined benefit plan such that a material element of future service by current employees will no longer qualify for benefits, or will qualify only for reduced benefits.

#### *Long-term service benefits*

The Group's net obligation in respect of long-term service benefits, such as jubilee benefits, is the amount of future benefits that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value and the fair value of any related assets is deducted.

### Provisions

A provision is recognized when (1) the Group has a present legal or constructive obligation as a result of a past event, (2) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and (3) the amount of the obligation can be reliably estimated.

#### *Restructuring*

The provision for restructuring relates to provisions for integration of activities, including acquisitions, and other substantial changes of the organizational structure and onerous contracts. A provision for restructuring is recognized only when the aforementioned general recognition criteria are met. A constructive obligation to restructure arises only when the Group has a detailed formal plan for the restructuring and has raised a valid expectation to those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

The short-term commitments relating to expected spending due within one year are presented under current liabilities.

## Principles Underlying the Cash Flow Statement

### Cash flows from operating activities

Cash flows from operating activities are calculated by the indirect method, by adjusting the consolidated operating income for exceptional items and expenses that are not cash flows (such as amortization and depreciation), and for autonomous movements in consolidated working capital (excluding impact from acquisitions and foreign currency differences). Cash payments to employees and suppliers are all recognized as cash flow from operating activities. Operating cash flows also include the costs of financing of operating activities, income taxes paid on all activities, and spending on restructuring and acquisition integration provisions.

### Cash flows from investing activities

Cash flows from investing activities are those arising from net capital expenditure, from the acquisition and sale of subsidiaries and business activities. Cash and cash equivalents available at the time of acquisition or sale are deducted from the related payments or proceeds.

Cash receipts and payments from derivative financial instruments are classified in the same manner as the cash flows of the hedged items. The Group has primarily used derivatives for the purpose of hedging its net investments in the United States. As a result, cash receipts from derivatives are classified under cash flows from investing activities.

### Cash flows from financing activities

The cash flows from financing activities comprise the cash receipts and payments from issued and repurchased shares, dividend, and debt instruments. Cash flows from short-term financing are also included. Movements in share capital due to stock dividend are not classified as cash flows.

## New Standards and Interpretations not yet Adopted

A number of new standards, amendments to standards, and interpretations are not yet effective for the year ended December 31, 2008, because these are not yet EU endorsed, and have not been early adopted in preparing these consolidated financial statements:

- IFRS 8 Operating segments (effective January 1, 2009 – EU endorsed);
- Revised IAS 23 Borrowing costs (effective January 1, 2009);
- Revised IAS 1 Presentation of Financial Statements (effective January 1, 2009);
- IFRS 3 Business Combinations (Revised) (effective July 1, 2009);
- IAS 27 (Revised) Consolidated and Separate Financial Statements (effective January 1, 2009);
- IFRS 2 (Amendment) Share-based payments (effective January 1, 2009); and
- Amendments to IAS 32 financial instruments: presentation and IAS 1 Presentation of Financial Statements – Puttable financial instruments and obligations arising on liquidation (effective January 1, 2009).

These new standards and interpretations will become mandatory for the Group's 2009 or 2010 financial statements, if the standards are EU endorsed. The Group has not opted for earlier application.

Except for Revised IFRS 3, the impact on the Group's equity and result is not expected to be material.

The following key changes within IFRS 3 Business Combination (R) (not yet endorsed by the EU and applicable as of January 1, 2010 for the Company) could have a significant impact:

- Contingent purchase consideration initially measured at fair value, whereby any re-measurement is recognized in the income statement; and
- Acquisition-related costs are to be expensed.