

OA O TMK

Notes to the Consolidated Financial Statements (continued)

(All amounts are in thousands of US dollars, unless specified otherwise)

Significant Accounting Policies (continued)

E) Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and costs necessary to make the sale. The cost of inventories is determined on the weighted average basis.

The costs of inventories are comprised of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present condition and location. The value of work in progress and finished goods includes costs of raw materials, direct labor, direct production costs and indirect production overheads including depreciation. Financing costs are not included in stock valuation.

The Group periodically analyses inventories to determine whether they are damaged, obsolete or slow-moving or if their net realisable value has declined, and makes allowance for such inventories.

F) Property, Plant and Equipment

Property, plant and equipment, except for the items acquired prior to January 1, 2003, are stated at historical cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any impairment in value.

The items of property, plant and equipment acquired prior to January 1, 2003, the date of transition to IFRS, were accounted for at deemed cost being their fair value as at January 1, 2003.

Depreciation is calculated on a straight-line basis. Average depreciation periods, which represent estimated useful economic lives of respective assets, are as follows:

Land	Not depreciated
Buildings	8-100 years
Machinery and equipment	5-30 years
Other	2-15 years

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment and can be measured reliably. All other expenditures are recognised in the profit or loss as an expense when incurred.

G) Intangible Assets (Other than Goodwill)

Intangible assets (other than goodwill) are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

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Notes to the Consolidated Financial Statements (continued)

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Significant Accounting Policies (continued)

G) Intangible Assets (Other than Goodwill) (continued)

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that intangible asset may be impaired. Amortisation period and amortisation method for an intangible asset with a finite life are reviewed at least at each year end. Changes in expected useful life or expected pattern of consumption of future economic benefits embodied in the asset are treated as changes in accounting estimates. Amortisation expense of intangible assets is recognised in the income statement in the expense category consistent with the function of an intangible asset.

Intangible assets with indefinite useful lives are not amortised, they are tested for impairment annually either individually or at the cash-generating unit level.

Research and Development

Costs incurred on development (relating to design and testing of new or improved products) are recognised as intangible assets only when the Group can demonstrate technical feasibility of completing intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, availability of resources to complete and ability to measure reliably the expenditure during the development. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from commencement of commercial production of the product on a straight-line basis over the period of its expected benefit. The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indication of impairment arises during the reporting year.

H) Impairment of Non-Financial Assets (Other than Goodwill)

An assessment is made at each reporting date to determine whether there is an objective evidence that an asset or a group of assets may be impaired. When there is an indication that an asset may be impaired, the recoverable amount is assessed and, when impaired, the asset is written down to its recoverable amount, which is the higher of the fair value less costs to sell and the value in use.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an orderly transaction between market participants, after deducting any direct incremental disposal costs. Value in use is the present value of estimated future cash flows expected to arise from continuing use of an asset and from its disposal at the end of its useful life.

In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, recoverable amount is determined for the cash-generating unit to which the asset belongs.

9. CONSOLIDATED FINANCIAL STATEMENTS

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Notes to the Consolidated Financial Statements (continued)

(All amounts are in thousands of US dollars, unless specified otherwise)

Significant Accounting Policies (continued)

H) Impairment of Non-Financial Assets (Other than Goodwill) (continued)

Impairment loss is recognised for the difference between estimated recoverable amount and carrying value. Carrying amount of an asset is reduced to its estimated recoverable amount and the amount of loss is included in the income statement for the period.

Impairment loss is reversed if there is an indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may be decreased and if subsequent increase in recoverable amount can be related objectively to event occurring after the impairment loss was recognised. Impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

Intangible assets not yet available for use are tested for impairment annually.

I) Borrowings

Borrowings are initially recognised at fair value less directly attributable transaction costs. In subsequent periods, borrowings are measured at amortised cost using the effective interest method. Any difference between the initial fair value less transaction costs and the redemption amount is recognised within finance costs over the period of the borrowings.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of cost of respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

J) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to finance costs in the income statement.

The depreciation policy for depreciable leased assets is consistent with that for depreciable assets which are owned. If there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

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Notes to the Consolidated Financial Statements (continued)

(All amounts are in thousands of US dollars, unless specified otherwise)

Significant Accounting Policies (continued)

K) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that outflow of resources will be required to settle obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

If the effect of time value of money is material, provisions are determined by discounting expected future cash flows at a pre-tax rate that reflects current market assessments of time value of money and where appropriate, risks specific to the liability. Where discounting is used, increase in provision due to the passage of time is recognised as a finance cost.

L) Employee Benefits Liability

Short-Term Employee Benefits

Short-term employee benefits paid by the Group include wages, salaries, social security contributions, paid annual leave and paid sick leave, bonuses and non-monetary benefits (such as medical care). Such employee benefits are accrued in the year in which the associated services are rendered by employees of the Group.

Defined Benefit Obligations

The Group companies provide a number of post-employment and other long-term benefits to their employees (pensions, lump-sum post-employment payments, financial support to pensioners, jubilee payments, etc.).

All post-employment benefit plans are unfunded. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age, the completion of a minimum service period and the amount of the benefits stipulated in the collective bargaining agreements. The liability recognised in the statement of financial position in respect of post-employment and other long-term employee benefits is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated by external consultants using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using yields on high-quality corporate bonds or, in countries where there is no deep market in such bonds, yields on government 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 obligation.

Net benefit expense charged to the income statement consists of current service cost, interest expense, past service cost, gains and losses from settlement. Past service costs are recognised in profit or loss on the earlier of: the date of the plan amendment or curtailment, and the date when the Group recognises restructuring-related costs. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are reflected in other comprehensive income/loss in the period in which they arise.