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IFRS presentation and disclosure survey.

December 2007



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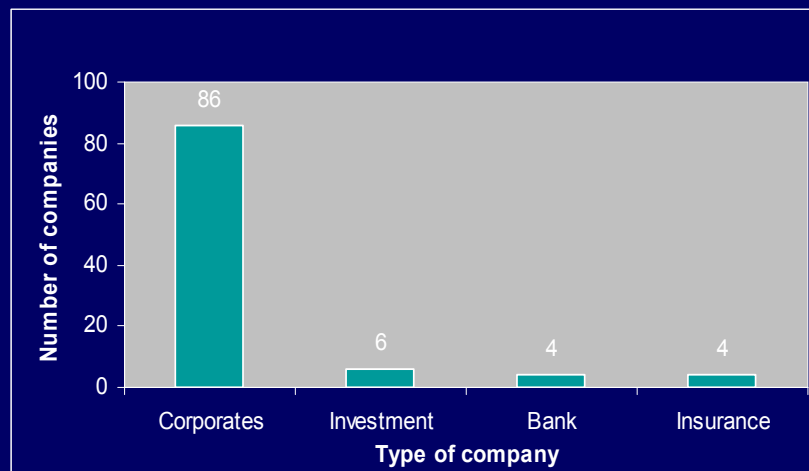
IFRS presentation and disclosure survey

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Background and survey objectives

- Review of financial statements of same 100 listed companies surveyed in 'Written to Order'
- Replacements selected for those companies reporting under UK GAAP
- Main objectives were to determine:
 - how the disclosure requirements of IFRS are interpreted in practice
 - the underlying trends in the presentation of IFRS financial statements
 - the extent to which the format is still influenced by UK GAAP reporting requirements

Analysis of sample

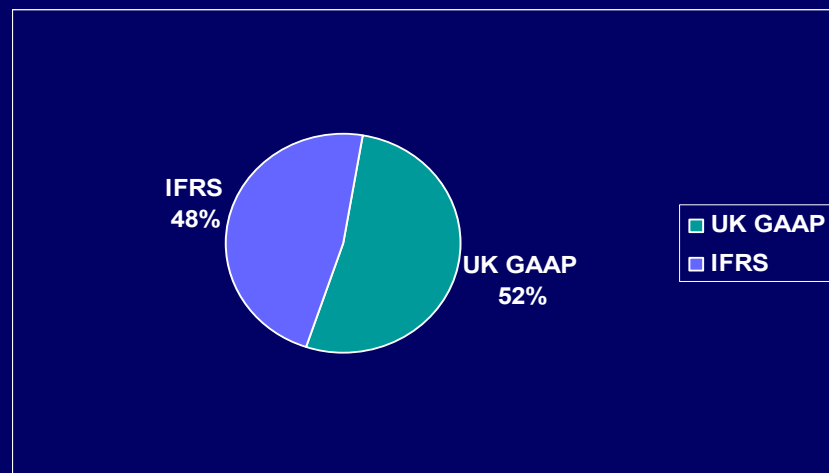


- Results of survey based on the 86 non-specialised companies
- Brief summary of results for specialised industries

Sample

- The sample was selected from three categories being those within the top 350 companies by market capitalisation at June 2007, those in the smallest 350 by market capitalisation, and the middle group between the two former ones
- A number of listed companies were not parents and chose to continue to report under UK GAAP. Replacements for these were selected evenly and at random from the three categories
- The annual reports used were those most recently available and published in the period from 1 August 2006 to 31 July 2007

Reporting framework of parent company



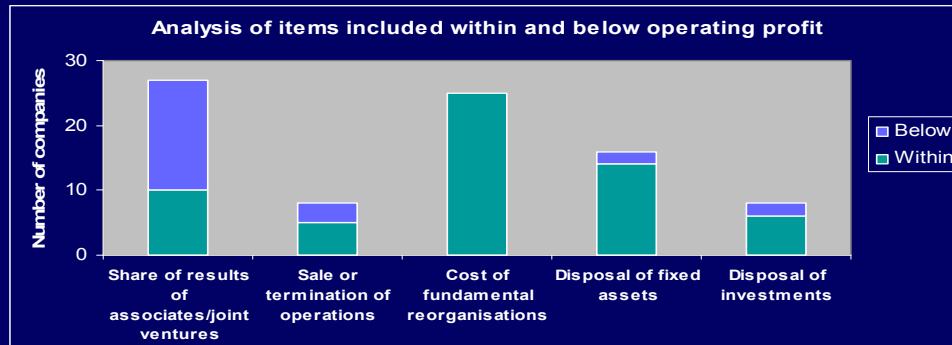
- Over half of the parent companies continued to produce financial statements under UK GAAP

Reporting framework

- Companies required by Article 4 of the IAS regulations to use IFRS for their consolidated financial statements still have a free choice of using IFRS or UK GAAP for their individual financial statements
- The Companies Act 1985 requires that the consolidated and individual financial statements are published together but does not specify the format
- 45 of 86 companies chose to use UK GAAP for their individual financial statements
- All 45 presented the consolidated and individual financial statements as separate sections of the annual report
- 32 of the 45 presented two audit reports, with the remainder producing a joint audit report for the consolidated and individual financial statements
- Of the 41 companies that chose to use IFRS for their individual financial statements, 36 combined them together with the consolidated financial statements into a single set of primary statements and notes
- 39 of the 41 presented a joint audit report and only 2 had separate audit reports for their consolidated and individual financial statements

Income statement – operating profit

- All companies continued to disclose operating profit on the face of the income statement



- Of 28 companies with associates/JVs, 17 (61%) disclosed their share of results below operating profit
- 57 (67%) companies split out UK GAAP exceptional items as a separate line but only 7 (8%) excluded them from operating profit

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Operating profit

- No definition of operating activities under IAS 1
- No requirement to disclose results of operating activities as a line item on face of income statement
- Presentation of operating profit was a UK GAAP (FRS 3) requirement
- Where such a line item is disclosed in IFRS financial statements, IAS 1 (BC13) states that it is 'inappropriate to exclude items clearly related to operations because they occur irregularly or infrequently or are unusual in amount'

Non-operating exceptional items

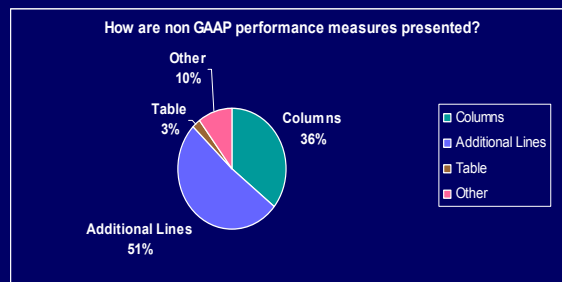
- Under FRS 3.20 the following exceptional items are required to be shown separately on the face of the profit and loss account after operating profit:
 - profits or losses on the sale or termination of an operation;
 - costs of a fundamental reorganisation or restructuring; and
 - profits or losses on the disposal of fixed assets
- In most cases it would be appropriate to present these items in operating profit under IFRS
- Two thirds of companies continued to disclose these items separately in their income statements but in most cases included them within operating profit

Equity accounted results of associates and joint ventures

- Under IAS 1 the investor's share of profit or loss of the investee should be presented by a one-line item on the face of the income statement
- The Standard does not prescribe where this item must appear, provided it is presented before 'profit for the period'
- Most companies chose to present this item below operating profit

Non GAAP performance measures

- 39 (45%) companies disclosed non GAAP performance measures on the face of the income statement
- Of these, 31 (79%) defined the non GAAP performance measure either within their accounting policies or notes
- The vast majority of these companies also disclosed non GAAP performance measures in their notes, in particular in the EPS and segmental disclosures

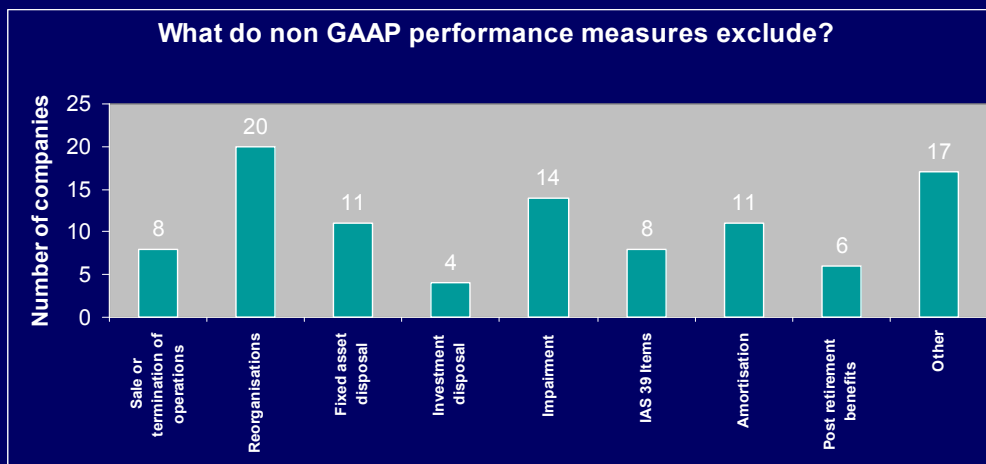


- The most popular presentation of non GAAP performance measures was additional lines/boxes on face of income statement (20 companies)
- 'Other' includes combinations of columns, lines and tables

Non GAAP performance measures

- IAS 1.86 requires that when items of income and expense are material, their nature and amount should be disclosed separately
- Presenting additional information on the face of the income statement is acceptable provided that the terms used are defined and the definition is consistent from one period to another
- In addition to operating profit, 39 companies disclosed a performance measure that excluded certain items of income and/or expense
- Although it is not an IFRS term, 18 of the 39 companies (46%) presented 'exceptional items' on the face of the income statement
- Other terms used included:
 - non-underlying items (6 companies/15%);
 - non-recurring items (3 companies/8%); and
 - non-trading items (1 company/3%)
- The remainder of companies which disclosed non GAAP performance measures used unambiguous descriptions, e.g. 'profit before amortisation of intangibles'
- In the financial statements of 8 of the 39 companies the terminology was ambiguous and no definitions were provided
- Of the 31 companies which defined their terms many referred to IAS 1.86 rather than providing a specific definition
- The majority of companies (34 out of 39 /87%) presented their non GAAP performance measures clearly using either additional lines or a columnar format
- 1 company presented its non GAAP performance measures in a table directly below the income statement
- A small minority of companies presented a combination of additional lines/columns/tables – this did not necessarily aid understanding the income statement

Non GAAP performance measures

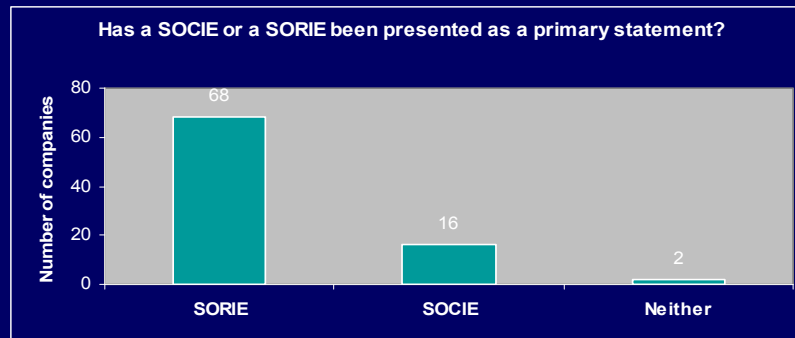


- A number of companies disclosed performance measures which excluded:
 - UK GAAP exceptional items; and/or
 - Items not found under UK GAAP

Non GAAP performance measures

- The chart above illustrates the items which companies chose to exclude from their non GAAP performance measures
- Many companies excluded those items that would have met the definition of non-operating exceptionals under FRS 3.20
- A number also excluded items not found or not common under UK GAAP for example IAS 39 items, share based payments expense, amortisation of intangibles and impairment of goodwill
- 'Other' includes onerous lease provisions, transaction, IPO and start-up costs

Statement of changes in equity

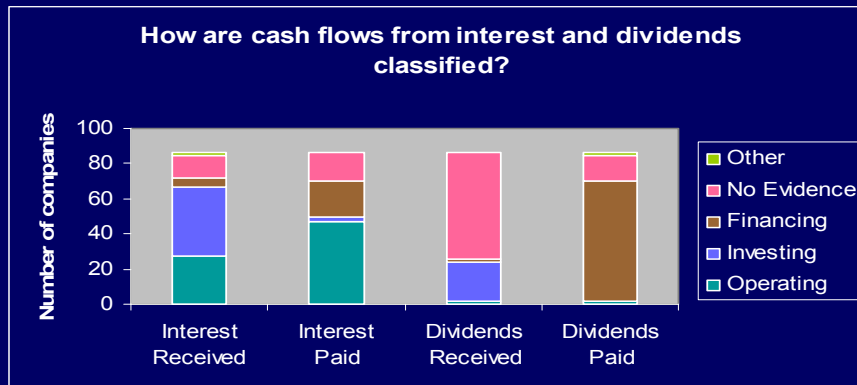


- 68 (79%) companies presented a SORIE as their primary statement
- The 2 companies that presented neither statement disclosed that 'there was no recognised income or expense other than that in the income statement'
- Of the 16 (19%) companies who presented a SOCIE, only 1 had a defined benefit pension scheme

Statement of changes in equity

- IAS 1 requires financial statements to include a statement showing either all changes in equity (IAS 1.96 & 97) or changes in equity other than transactions with equity holders acting in their capacity as equity holders (IAS 1.96)
- Where an entity has taken the option in IAS 19 to recognise actuarial gains and losses immediately outside profit or loss, it must use the second option (i.e. the SORIE)
- Laura Ashley Holdings PLC was the only company with a defined benefit pension scheme that presented a SOCIE. This was acceptable because the company had chosen the 'corridor' option for recognition of actuarial gains and losses
- Where a SORIE is presented as the primary statement, the items required under IAS 1.97 do not have to be disclosed as a single note. Separate notes that reconcile the movement on each reserve or component of equity would meet the requirement of the standard. However an overall reconciliation may be more helpful to the users of the financial statements

Cash flow statement

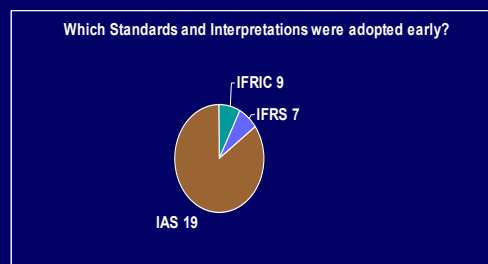
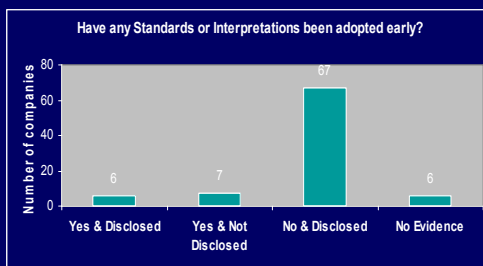


- IAS 7 permits a choice of classification provided that it is applied consistently from period to period
- Broadly the classifications by the companies followed the suggestions in paragraphs 33/34 of IAS 7 (see below)

Cash flow statement

- IAS 7.31 states that the cash flows from interest and dividends paid and received:
 - should each be disclosed separately; and
 - should be classified in a consistent manner from period to period as either operating, investing or financing activities
- The Standard suggests that dividends paid should be reported as either financing or operating activities. The argument for financing is that the dividends represent a cost of obtaining financial resources. The argument for operating is that it will assist users to determine the ability of an entity to pay dividends out of operating cash flows (IAS 7.34)
- Interest paid and interest and dividends received may be classified as operating cash flows because they enter into the determination of profit or loss. Alternatively, they may be classified as financing cash flows and investing cash flows respectively because they are costs of obtaining financial resources or returns on investments (IAS 7.33)

Accounting policies

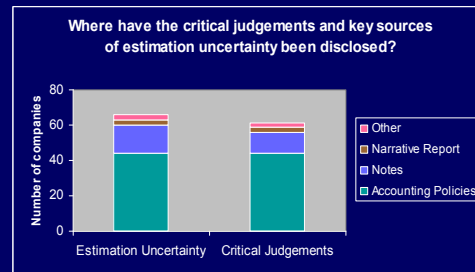
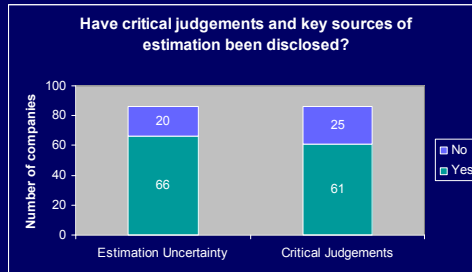


- 69 (80%) companies listed those Standards and Interpretations which had been issued but were not yet effective
- 4 (5%) companies listed only Standards
- 13 (15%) omitted this disclosure altogether
- The amendments to IAS 19 (11 companies), IFRS 7 (1 company) and IFRIC 9 (1 company) were adopted early

Accounting policies

- Where an entity has not applied a new Standard or Interpretation that has been issued but is not yet effective, the entity shall disclose:
 - this fact; and
 - known or reasonably estimable information relevant to assessing the possible impact that application of the new Standard or Interpretation will have on the financial statements in the period of initial application (IAS 8.30)
- This requirement applies to all Standards or Interpretations issued before the date of issue of the financial statements (rather than before the balance sheet date)
- The majority of companies complied with this requirement
- Some companies disclosed a complete list of every Standard or Interpretation
- Others provided briefer disclosure of relevant Standards and Interpretations combined with a statement that 'the impact of all other Standards and Interpretations not yet adopted is not expected to be material'
- Where a company early adopts a new Standard or Interpretation the disclosure requirements of IAS 8.28 apply
- 13 (15%) companies adopted early a Standard or Interpretation
- 7 of the 11 companies which adopted early the amendments to IAS 19 did not disclose the fact that they had done so

Critical judgements and key sources of estimation uncertainty



- The number of critical judgements/key sources of estimation uncertainty disclosed ranged from 0 to 10
- The average number disclosed was 3
- The level of narrative disclosure varied significantly across the sample

Critical judgements and key sources of estimation uncertainty

- Companies are required to disclose, in the summary of accounting policies or other notes, the judgements, apart from those involving estimation, that management has made in the process of applying the company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements (IAS 1.113)
- Disclosure is also required of the key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing material adjustment to the carrying values of assets and liabilities within the next financial year (IAS 1.116)
- There was no equivalent requirement for these disclosures under UK GAAP
- The majority of companies complied with these requirements by including disclosure within their accounting policies note
- The quantity and quality of these disclosures varied significantly
- In some cases it was not clear whether the company had complied with both requirements
- The following extract from Savills plc provides an example of succinct but clear disclosure

3. Financial risk management continued

Foreign exchange risk The Group operates internationally and is exposed to foreign exchange risks primarily with respect to the Euro and Hong Kong dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group occasionally finances overseas investments through the use of foreign currency borrowings. The Group does not actively seek to hedge risks arising from foreign currency transactions due to their non cash nature and the high costs associated with such hedging.

Price risk The Group is exposed to equity securities price risk because investments are held and classified on the consolidated balance sheet as available-for-sale and measured at fair value. The Group is not exposed to commodity price risk.

Interest rate risk The Group has both interest bearing assets and liabilities. The Group finances its operations through a mixture of retained profits and bank borrowings, at both fixed and floating interest rates. Occasionally, the Group enters into interest rate swaps to hedge the fair value interest rate risk on borrowings.

Credit risk The Group has no significant concentrations of credit risk. The Group has policies that require appropriate credit checks on potential customers before business commences.

Liquidity risk The Group maintains short-term committed facilities to ensure the Group has sufficient funds available for operations and expansions. The Group prepares an annual funding plan approved by the Board which sets out the Group's expected financing requirements for the next 12 months.

4. Critical accounting estimates and management judgements

Critical accounting estimates and assumptions The preparation of the consolidated financial statements in conformity with International Financial Reporting Standards (IFRS) requires management to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Changes in accounting estimates may be necessary if there are changes in circumstances on which the estimate was based, or as a result of new information or more experience. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Pension benefits The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions including discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. The Group determines the appropriate discount rate at the end of each year. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 9.

Income taxes The Group is subject to income taxes in numerous jurisdictions. Judgement is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Fair value of options granted to employees The Group uses the Binomial Model in determining the fair value of options granted to employees under the Group's various schemes as detailed in the Remuneration Report. Information on such assumptions is contained in Note 27. The alteration of these assumptions may impact charges to the income statement over the vesting period of the award.

Estimated impairment of goodwill The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. The use of this method requires the estimate of future cash flows expected to arise from the continuing operation of the cash generating unit and the choice of a suitable discount rate in order to calculate the present value. Actual outcomes could vary significantly from these estimates. The estimates used in these financial statements are contained in Note 14.

Fair value of derivatives and other financial instruments The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. The Group has used discounted cash flow analysis for various available-for-sale financial assets that were not traded in active markets.

Provisions The Group and its subsidiaries are party to various legal claims. Provisions made within these financial statements are contained in Note 25(a). Additional claims could be made which might not be covered by existing provisions or by insurance.

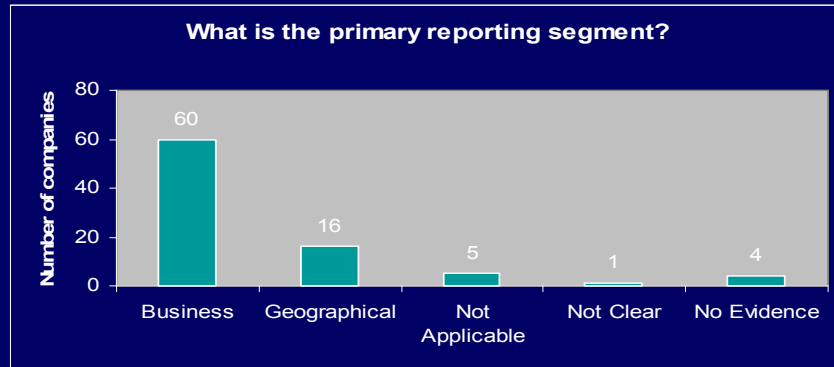
Critical judgements in applying the entity's accounting policies

The application of the Group's accounting policies may require management to make judgements, apart from those involving estimates, that can affect the amounts recognised in the consolidated financial statements. Such judgements include the following areas:

Award of options and deferred shares to employees The Group applies judgement in deciding the proportion of the available bonus pool to be awarded to employees under its long-term share based incentive scheme. The Group's current policy is to deduct from the bonus pool an amount equal to the market value of the share price on the date of award. Under IFRS, the value of award is spread over the vesting period and charged to the income statement. The charge to the income statement is currently lower than the market value of shares to be awarded.

Valuation of intangible assets and useful life The Group has made assumptions in relation to the potential future cash flows to be determined from separable intangible assets acquired as part of business combinations. This assessment involves assumptions relating to potential future revenues, appropriate discount rates and the useful life of such assets. These assumptions impact the income statement over the useful life of the intangible asset.

Segmental reporting

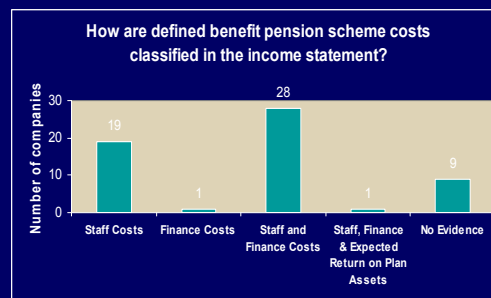
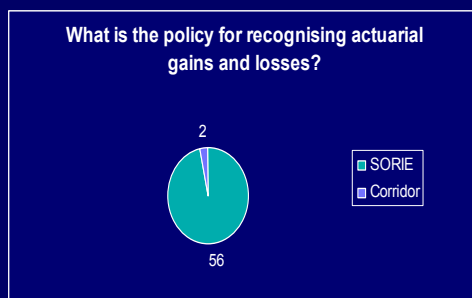


- The number of primary segments disclosed ranged from 1 to 9
- The average number disclosed was 3
- 5 companies had 1 business and 1 geographical segment and therefore did not provide segmental analysis
- 4 companies did not provide segmental analysis and did not disclose the reason for this

Segmental reporting

- All entities whose equity or debt securities are publicly traded are required to comply with IAS 14
- A small minority of companies did not provide any disclosure under this Standard and did not provide any explanation for the omission
- 70% of companies determined that their primary reporting format was by business segments
- 1 company provided disclosure by both business and geographical segments where it was not clear which was the primary reporting format
- IFRS 8 'Operating Segments' was endorsed by the EU on 22 November 2007
- This Standard supersedes IAS 14 and is effective for periods beginning on or after 1 January 2009 with earlier application permitted

Defined benefit pension schemes

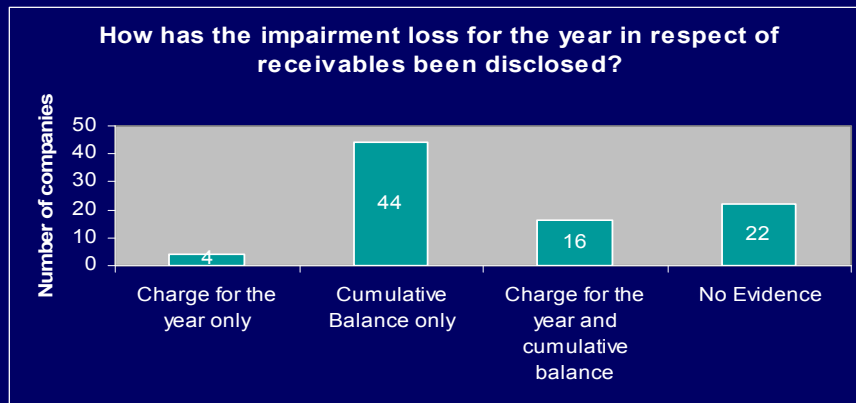


- 58 (67%) companies had a defined benefit pension scheme
- The vast majority recognised actuarial gains and losses in equity via the SORIE - the option most similar to UK GAAP
- Most companies classified pensions costs in the income statement either split between staff and finance costs (48%) or solely in staff costs (33%)

Actuarial gains and losses

- The minimum requirement of IAS 19 is that, to the extent that unrecognised gains and losses exceed a 'corridor' of 10 per cent, then that excess is recognised in the income statement over a specified time span
- Immediate recognition is also permitted
- In December 2004 the Standard was amended to allow full recognition of actuarial gains and losses immediately but outside the income statement
- 56 of 58 companies chose the latter option which is equivalent to the requirement in FRS 17 to take such gains and losses to the Statement of Total Recognised Gains and Losses
- IAS 19 does not specify whether an entity should present current service cost, interest cost and the expected return on plan assets as components of a single item of income or expense on the face of the income statement (IAS 19.119)
- The decision whether to present the different components of income and expense separately, as under FRS 17, or as a single net figure would be an accounting policy choice and should therefore be applied consistently for all plans
- Almost half of the companies with defined benefit plans split these items between staff and finance costs (28 companies out of 58)
- The second most popular option was to combine them as a single net figure in staff costs (19 companies)

Impairment

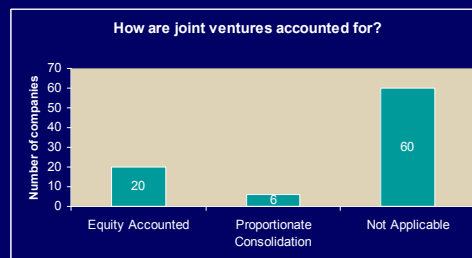
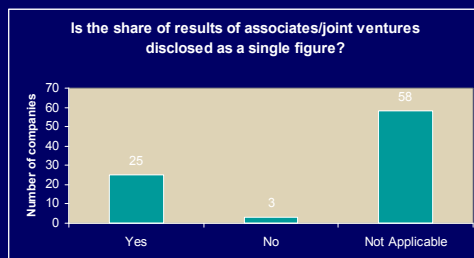


- There is ambiguity under IAS 32.94(i) as to whether the charge for the year or the cumulative amount is required to be disclosed
- Under IFRS 7.16 disclosure of a reconciliation of changes in the allowance account will be required

Impairment

- Under IAS 32.94(i) there is a requirement to disclose 'the nature and amount of any impairment loss recognised in profit or loss for a financial asset, separately for each significant class of financial asset'
- 51% of companies interpreted this as meaning the cumulative amount
- For periods beginning on or after 1 January 2007 this requirement is replaced by those in IFRS 7
- Under IFRS 7.16 a reconciliation of changes in the allowance account during the period for each class of financial asset is required
- Listed companies will therefore be required to disclose both the cumulative amount and the charge for the year from next year

Associates and joint ventures



- In the 3 cases where the share of results was not disclosed as a single figure, the following items were split out:
 - tax
 - exceptional items
 - results of joint ventures shown separately from results of associates
- 2 companies disclosed the share of joint venture revenue in addition to the share of results

Associates and joint ventures

- The majority of the companies with associates and/or joint ventures complied with the IAS 1 requirement to present the investor's share of profit or loss of the investee as a one line item on the face of the income statement (89%)
- When accounting for a jointly controlled entity companies have a choice between proportionate consolidation and equity accounting under IAS 31
- Under UK GAAP companies are not permitted by FRS 9 to use proportionate consolidation for joint ventures
- The majority of the companies with joint ventures chose to equity account for these under IFRS (77%)
- In September 2007 the IASB released Exposure Draft 9 Joint Arrangements
- This ED proposes to eliminate the proportionate consolidation option as part of the convergence with US GAAP

Banks

- All parent companies reported under IFRS
- No non GAAP performance measures presented
- All companies adopted a liquidity rather than current/non-current presentation of the balance sheet
- All companies disclosed both the impairment loss for the year and the cumulative allowance
- 2 of 4 presented an operating profit line (HSBC & Lloyds)
- Only 1 presented a SOCIE (Lloyds)
- 2 of 4 adopted the corridor approach for recognising actuarial gains and losses (Barclays & Lloyds)
- 1 company early adopted IFRS 7 (HSBC)

Investment and insurance companies

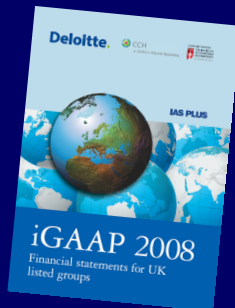
Investment companies

- 5 parent companies reported under IFRS, 1 company was not a parent
- 4 of 6 followed the guidance of the Association of Investment Companies and split the income statement into revenue and capital items
- 3 of 6 presented an operating profit line
- 5 of 6 prepared a SOCIE
- 2 provided segmental analysis, 2 stated that not applicable and 2 provided no disclosure and no explanation as to the omission

Insurance companies

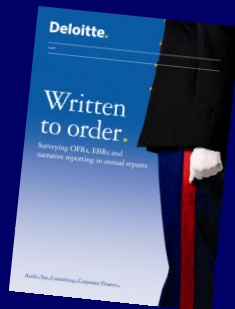
- 3 of 4 parent companies reported under UK GAAP
- 2 of 4 presented an operating profit line
- 3 of 4 prepared a SOCIE
- 2 of 4 had a defined benefit pension scheme
- 1 recognised actuarial gains and losses in the income statement and 1 in the SORIE
- All 4 determined the primary segmental reporting format was business

Useful publications



iGAAP 2008: Financial statements for UK listed groups

- Model financial statements, narrative reports, and commentary



Written to order: Surveying OFRs, EBRs and narrative reporting in annual reports

- Deloitte survey of 100 listed companies (including 100 doing EBR)
- Detailed review of narrative reporting practices

Further information

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- A separate review of Life Insurance companies has been performed by Investment Management
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