



New on the Horizon: Financial statement presentation

International Financial Reporting Standards
August 2010

Foreword

In July 2010 the IASB and the FASB (together the Boards) published a staff draft of exposure draft *Financial Statement Presentation* (the staff draft). This is part of Phase B of the joint project on financial statement presentation and includes proposals that could radically change the way financial statements are presented.

The staff draft proposes two core financial statement presentation principles: cohesiveness and disaggregation.

Under the cohesiveness principle a common structure would be required whereby the statements of financial position, comprehensive income and cash flows would display related information in the same sections, categories and subcategory in each statement. Assets and liabilities would be classified on the basis of how these items relate to the major activities or functions of the entity.

Under the disaggregation principle more detailed information would be required to explain the components of financial position and performance. Assets and liabilities would be disaggregated by nature and/or measurement basis and an analysis of changes between opening and closing balances of asset and liability line items would be presented in the notes. Generally income and expenses would be disaggregated by function and further disaggregation of those amounts by nature would be presented in the statement of comprehensive income or in the notes. The notes would also disclose, in a single note, remeasurement amounts recognised in the statement of comprehensive income.

It is evident from the above that the proposals will result in the financial statements being presented very differently to the many alternative types of presentation permitted by the existing requirements. It is also evident that much more disaggregated information will be required than is currently the case. Whilst users of financial statements may find that the enhanced cohesiveness and disaggregation may permit improved analysis, of and insight into, an entity's financial position and performance, preparers may encounter costs and systems challenges in presenting financial statements on the proposed basis and may be concerned that excessive disclosure may obscure important information. As the classification to sections and categories is mainly dependent on the individual activities of the entity, there may be some sacrifice of comparability between entities.

Although the staff draft has been published to facilitate the Boards' outreach activities and formal comments are not invited, it includes significant proposals that stakeholders should consider sooner rather than later. This publication will help you obtain a better understanding of these proposals. We encourage you to engage with the Boards during their outreach activities in order to influence their tentative decisions prior to the publication of the exposure draft early next year.

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About this publication

This publication has been produced by the KPMG International Standards Group (part of KPMG IFRG Limited).

We would like to acknowledge the efforts of the principal authors of this publication. The principal authors include Steve McGregor, Masashi Oki, Jeremy Sage and David Ward of the KPMG International Standards Group.

Content

Our *New on the Horizon* publications are prepared generally upon the release of a new proposed IFRS or proposed amendment(s) to the requirements of existing IFRSs. They include a discussion of the key elements of the new proposals and highlight areas that may result in a change of practice.

This edition of *New on the Horizon* considers the proposed requirements of the staff draft of exposure draft *Financial Statement Presentation* (the staff draft). It also refers briefly to the other two areas of this phase of the financial statement presentation project being ED/2010/5 *Presentation of Items of Other Comprehensive Income – Proposed amendments to IAS 1* and the staff draft of an exposure draft *Discontinued Operations (Re-exposure of proposed amendments to IFRS 5)*.

The text of this publication is referenced to the staff draft and to selected other current IFRSs in issue at 1 August 2010. References in the left-hand margin identify the relevant paragraphs.

Further analysis and interpretation will be needed in order for an entity to consider the potential impact of the proposals in light of the entity's own facts, circumstances and individual transactions. The information contained in this publication is based on initial observations developed by the KPMG International Standards Group, and these observations may change.

Other ways KPMG member firms' professionals can help

A more detailed discussion of the general accounting issues that arise from the application of IFRSs can be found in our publication *Insights into IFRS*.

In addition to *Insights into IFRS*, we have a range of publications that can assist you further, including:

- IFRS compared to US GAAP
- Illustrative financial statements for interim and annual periods
- IFRS Handbooks, which include extensive interpretative guidance and illustrative examples to elaborate or clarify the practical application of a standard
- New on the Horizon publications, which discuss consultation papers
- Newsletters, which highlight recent developments
- IFRS Practice Issue publications, which discuss specific requirements of pronouncements
- First Impressions publications, which discuss new pronouncements
- Disclosure checklist.

IFRS-related technical information also is available at www.kpmg.com/ifrs.

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1. Executive summary

- The staff draft of exposure draft *Financial Statement Presentation* (the staff draft) was published on the IASB¹ website on 1 July 2010 for information of constituents and to form a basis for the IASB's and FASB's² (together the Boards) outreach activities. Although the Boards are not inviting formal comments on the staff draft, they welcome input from interested parties and will consider whether to change any of their tentative decisions in response to the input received.
- The Boards plan to complete the additional outreach activities towards the end of 2010. They plan to review the tentative decisions reached to date in light of the feedback received with the view to publishing an exposure draft; currently expected in early 2011.
- If issued as an IFRS, it would supersede both IAS 1 *Presentation of Financial Statements* and IAS 7 *Statement of Cash Flows*.
- The staff draft proposes two core financial statement presentation principles: cohesiveness and disaggregation. The Boards believe that these principles work together to enhance the understandability of an entity's financial statement information.
- A common structure would be required for the statements of financial position, comprehensive income and cash flows in the form of required sections, categories or subcategory and related subtotals. The financial statements would display related information in the same sections, categories and subcategory in each statement so that the information is more easily associated.
- An entity would classify its assets and liabilities into the sections, categories and subcategory on the basis of how those items relate to its major activities or functions. Therefore, not all assets would be presented together and not all liabilities would be presented together. In addition, assets and liabilities also would be disaggregated by nature and/or measurement basis.
- Within each section, category and subcategory, an entity would continue to have a choice between presenting short-term assets and liabilities separately from long-term assets and liabilities, or presenting assets and liabilities in order of liquidity.
- Classification as short-term or long-term (which replaces current or non-current) would not take account of the entity's normal operating cycle.
- Deferred tax assets and liabilities would be classified as short-term or long-term according to the classification of the related asset or liability.
- If it is useful in understanding an entity's activities and the amounts, timing and uncertainty of future cash flows, an entity would disaggregate its income and expenses by function (i.e. the entity's primary activities, such as selling goods, manufacturing, advertising or administration) in the statement of comprehensive income.

1 International Accounting Standards Board

2 US Financial Accounting Standards Board

- An entity would disaggregate further those amounts by nature (e.g. materials, depreciation, employee benefits) and present that information in the statement of comprehensive income or in the notes to financial statements.
- An entity would present separately a material event or transaction that is unusual or occurs infrequently. An unusual or infrequently occurring event or transaction would be presented separately in the appropriate section, category or subcategory in the statement of comprehensive income.
- Consistent with the proposal in a separate joint IASB and FASB project on presentation of other comprehensive income, the statement of comprehensive income would be segregated into two parts: profit or loss (net income) and other comprehensive income. Items of other comprehensive income would be grouped into those that, in accordance with other IFRSs, would be reclassified subsequently to profit or loss when specific conditions are met and those that would not be reclassified subsequently to profit or loss.
- An entity would use the direct method to present cash flows in each of its sections and categories, i.e. gross cash receipts and gross cash payments.
- An entity would also be required to reconcile operating income to operating cash flows as an integral part of the statement of cash flows.
- An entity would be required to provide an analysis of the changes between the opening balance and the closing balance of asset and liability line items that are important for understanding the current period change in the entity's financial position. The analysis would distinguish between changes related to cash transactions, non-cash transactions, accounting allocations (e.g. depreciation), write-downs or impairment losses, and remeasurements.
- An entity would be required to present, in a single note, an analysis of changes in cash, short-term investments, finance leases and each line item in the debt category.
- The notes to the financial statements also would include a note that discloses the remeasurement amounts recognised in the statement of comprehensive income and a narrative description as necessary to place the remeasurement information in context.
- The staff draft does not contain a proposed effective date but the Boards have indicated that the effective date will be no earlier than 1 January 2013. The Boards plan to issue a separate consultation paper about the effective dates for all proposed new standards and amendments to standards.
- The proposals would require information to be presented which may not be obtainable from an entity's current accounting systems without undue cost or effort. As a result major accounting system changes may be required in order to comply with the proposed requirements in areas such as the direct method cash flow statement presentation and details about remeasurements. There may be time lags in such system changes becoming operational.

2. Introduction and background

2.1 Background

The IASB and the FASB initiated the joint project on financial statement presentation to address the Boards' understanding of users' concerns that existing requirements permit too many alternative forms of presentation and that information in financial statements is highly aggregated and inconsistently presented, making it difficult to fully understand the relationship between the financial statements and the financial results of an entity.

The overall objective of the financial statement presentation project is to establish a global standard that prescribes the basis for presentation of financial statements of an entity that are consistent over time, and that promote comparability between entities. It also aims to assist management to better communicate the entity's financial information to the users of its financial statements and to help users in their decision-making.

The financial statement presentation project is conducted in three phases:

- Phase A was completed in September 2007 with the release of a revised IAS 1 *Financial Statement Presentation*.
- Phase B is in progress and addresses the more fundamental issues relating to financial statement presentation. In October 2008, the Boards published a discussion paper *Preliminary Views on Financial Statement Presentation* (the discussion paper). In May 2010, the Boards also published separately the proposed amendments to improve the presentation of items of other comprehensive income (OCI). The staff draft is the next step in the Boards' work plan with regards to this part of the project.
- Phase C has not been initiated, but is expected to address issues related to interim financial statements.

The Boards also recently decided that a project on discontinued operations should form part of the financial statement presentation project and published a staff draft of its proposed exposure draft as discussed in section 5.

The staff drafts have been made available publicly for information of constituents and to form a basis for the Boards' outreach activities. Although the Boards are not inviting formal comments on the staff drafts, they welcome input from interested parties and will consider whether to change any of their tentative decisions in response to the input received.

The purpose of this publication is to summarise the key features of the proposals in the financial statement presentation staff draft in respect of the significant changes from current IFRSs, and to highlight potential impacts and conceptual and application issues identified to date so as to facilitate informed debate and input on the proposals.

2.2 Additional outreach

The Boards decided to engage in additional outreach activities before finalising and publishing an exposure draft. These activities will focus on the perceived benefits and costs of the proposals and, in particular, the impact of the proposals on financial services entities. The Boards aim:

- to understand how the proposed changes to the organisation of, and information presented in, financial statements would benefit users in their analysis and resource allocation decisions;
- to obtain additional information to evaluate the effort and cost involved in adopting these proposed changes; and

- to perform additional field testing and/or experimental research.

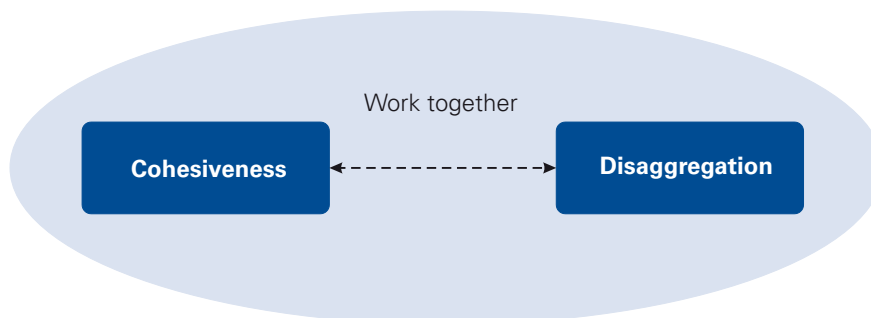
The Boards plan to complete the additional outreach activities towards the end of 2010. They plan to review the tentative decisions reached to date in light of the feedback received with the view to publishing an exposure draft; currently expected in early 2011.

3. Principle proposals

3.1 Core principles

SD 44, 45

The staff draft proposes two core financial statement presentation principles: cohesiveness and disaggregation. The Boards believe that these principles work together to enhance the understandability of an entity's financial statement information.



3.1.1

Cohesiveness

SD 57, 58

Cohesiveness means that the relationship between items in the financial statements is clear and that an entity's financial statements complement each other as much as possible. To present a cohesive set of financial statements, an entity would present disaggregated information in the statements of financial position, comprehensive income and cash flows in a manner that is consistent across those three statements.

Observations

The IASB conducted separate analyst field tests and preparers field tests of the proposals in the discussion paper. We note opposing responses from analysts and preparers from the summary of the field tests presented to the IASB at its July and September 2009 meetings.

Two-thirds of the analyst participants indicated that their understanding of the relationships among line items is enhanced by cohesiveness. In particular, cohesiveness enhanced the usefulness of the income statement and the cash flow statement the most. Conversely, the majority of preparer participants believed the new format of financial statements proposed in the discussion paper communicated their company's financial results the same way or worse than the existing format of the financial statements.

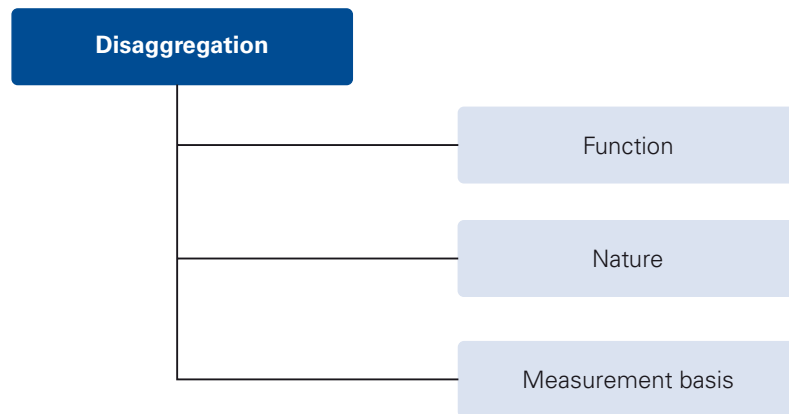
Some may argue that one of the core principles of financial statement presentation, cohesiveness, may not support the principle of comparability required by the *Framework for the Preparation and Presentation of Financial Statements* since the classification is mainly dependent on the individual activities of the entity.

3.1.2 Disaggregation

SD 46-56

Disaggregation means separating resources by the activity in which they are used and by their economic characteristics. The entity would consider the following in determining the items to disaggregate and present in the financial statements:

- the function, i.e. the primary activities in which an entity is engaged;
- the nature, i.e. the economic characteristics or attributes that distinguish assets, liabilities and items of income, expense and cash flow that do not respond similarly to similar economic events;
- the measurement basis, i.e. the method or basis used to measure an asset or a liability; and
- the materiality of the items given the need to disaggregate items of dissimilar nature, function or measurement unless they are immaterial.



SD BC69-BC71 Users of financial statements noted that enhanced disaggregation could provide them with additional information that would permit improved analysis of and insight into an entity's financial position and performance. However, some noted that the level of disaggregation proposed in the discussion paper had the potential to distract users from an overall view of an entity's financial position and financial performance. The staff draft proposes to permit much of the disaggregated information that respondents were concerned about (e.g. disaggregation by nature of income and expense items) to be presented in the notes to the financial statements.

Observations

The staff draft proposes disaggregation on a line-by-line basis for the function, nature and measurement basis of the items. This may result in many more line items being disclosed on the face of the financial statements. In addition, there appears to be no limit on the requirements for disaggregation, resulting in possibly excessive information on the face of the financial statements.

Some may be concerned about the consistency of the disaggregation of items between similar entities, and whether these will be comparable.

3.2 Classification and format

3.2.1 Structure of the financial statements

SD 62-70

The staff draft proposes that a common structure would be required for the statements of financial position, comprehensive income and cash flows in the form of required sections, categories or subcategory and related subtotals. The financial statements would display related information in the same sections, categories and subcategory in each statement so that the information is more easily associated.

3.2.2 Classification into sections, categories and a subcategory

SD 62-70 The following table illustrates the sections, categories and subcategory in each financial statement:

Statement of financial position	Statement of comprehensive income	Statement of cash flows
Business section	Business section	Business section
Operating category	Operating category	Operating category
Operating finance subcategory	Operating finance subcategory	
Investing category	Investing category	Investing category
Financing section	Financing section	Financing section
Debt category	Debt category	
Equity category		
	Multi-category transaction section	Multi-category transaction section
Income tax section	Income tax section	Income tax section
Discontinued operation section	Discontinued operation section, net of tax	Discontinued operation section
	Other comprehensive income, net of tax	

SD BC85-BC87

In their responses to the discussion paper, preparers of financial statements supported the management approach to classification. However, users of financial statements that responded to the discussion paper and analysts who took part in the field test expressed concern about the subjective nature of the management approach. The Boards observed that there is tension between the principle underpinning a management approach to classification and respondents' requests for robust section and category definitions. The staff draft proposes a more robust definition of the financing section and the investing category in an attempt to address this tension.

Observations

SD 8

It is claimed that the new format of presentation will be useful for assessing how well management has discharged its responsibilities to make efficient and effective use of the entity's resources. However, some could argue that it is not always clear how this purpose is achieved.

SD 64

The staff draft gives the freedom to present sections and categories in any order but a prescribed order of presentation of sections etc. may make it somewhat easier to compare financial statements of different entities.

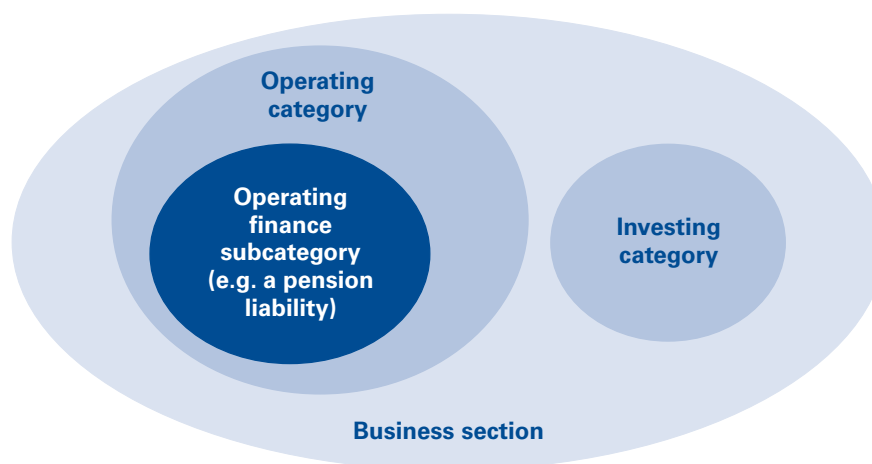
SD 65-67

There is no clear definition of activities, therefore the allocations to sections and categories may be inconsistent between similar entities.

3.2.3 Business section

SD 71, BC99 The business section would include assets and liabilities that relate to an entity's income generating activities. The Boards propose that an entity would segregate its business activities into those that generate revenue through a process that includes the interrelated use of its resources and those that generate a return from individual assets. These different business activities would be presented in two categories: the operating category and the investing category.

SD 74-80 The operating category would include an operating finance subcategory, which would consist of liabilities related directly to operating activities and which some users view as an alternative source of financing (e.g. a pension obligation, a lease obligation and a decommissioning liability).



A liability would be presented separately in the operating finance subcategory if it meets all of the following criteria:

- (a) the liability is incurred in exchange for a service, a right of use or a good, or is incurred directly as a result of an operating activity;
- (b) the liability is initially long-term; and
- (c) the liability has a time value of money component that is evidenced by either interest or an accretion of the liability attributable to the passage of time.

SD BC104 In discussing which liabilities should be included in the financing section, the Boards noted that some liabilities (e.g. a net post-employment benefit liability and a decommissioning liability) are viewed by many users of financial statements as an alternative source of financing; however, those liabilities are not part of an entity's capital-raising transactions. Although those liabilities can be viewed as having a financing component, the Boards concluded that they should not be classified in the debt category or the financing section. That is because those liabilities are entered into in exchange for a service, a right of use or a good, or are incurred directly as a result of an operating activity.

SD BC106 Consistent with the cohesiveness principle, all related effects from those liabilities would be classified in a similar subcategory in the statement of comprehensive income. However, related cash flows would be presented in the operating category in the statement of cash flows which does not include an operating finance subcategory.

SD 81, 82 The investing category would include assets or liabilities that an entity uses to generate a return and any change in those assets or liabilities. No significant synergies are created for the entity by combining an asset or a liability classified in the investing category with other resources of the entity. An asset or a liability classified in the investing category may yield a return for the entity in the form of, for example, interest, dividends, royalties, equity income, gains or losses.

Observations

SD IG28

It is not necessarily clear from the requirements of the staff draft where goodwill should be presented. By reference to example 10 in the implementation guidance, it seems that goodwill should be classified in the operating category of the business section; however some may argue that it should be classified in the investing category of that section.

It could be appropriate to include goodwill in the operating category in the statement of financial position, considering the consistency with the treatment to include property, plant and equipment and other intangible assets in the operating category, as acquisition of a business and purchase of an asset group are economically the same in many cases. In addition, an impairment of goodwill is normally derived from a change in the estimated future cash flows, which is a result of the operating activities, and therefore included in the operating category in the statement of comprehensive income.

SD 75, 89

Without the examples in the staff draft, the criteria for presentation in the operating finance subcategory would be difficult to interpret. The definitions determining classification between operating and operating finance may be difficult to practically apply, and may result in similar items being classified differently by different entities.

SD BC107

There is in addition a disconnect in relation to the operating finance subcategory in that it appears in both the statement of financial position and the statement of comprehensive income but not in the statement of cash flows.

SD 76(b)

Some question if finance leases will always be classified as operating finance liabilities. For example, if an entity enters into a sale and finance leaseback transaction as a means of raising funds or for tax planning purposes and such property is not used in the day-to-day business, would the finance lease liability still be classified in the operating finance sub-category?

SD 82(f)

Investments in associates or joint ventures would be classified in the investing category. Some wonder if the changes in the equity carrying value should be classified in the investing category, and not in the operating category, even if the main activity of the entity is to partake in joint ventures, share joint control, and in this manner generate a return for its shareholders. A similar issue would arise with certain investment holding entities: they may routinely acquire associate holdings (i.e. over 20 percent holdings) in other investments, with the intent of developing them over a 5 – 10-year period to maximise shareholder returns, and resell them at a gain. When this is the primary strategy and activity of such entities, will these investments nevertheless need to be classified as an investing activity instead of an operating activity?

3.2.4 Financing section

SD 83-85

The financing section would include items that are part of an entity's activities to obtain or to repay capital. It would be segregated into two categories: debt and equity.

SD 86, 93

The debt category would include:

SD 93

- (a) borrowing arrangements entered into for the purpose of obtaining or repaying capital and the related income effects; and
- (b) transactions involving an entity's own equity, including the assets, liabilities and related income effects that arise from these transactions.

Transactions involving an entity's own equity would be presented separately from the borrowing arrangements within the debt category.

SD 95 In respect of equity items an entity would present all:

- (a) equity items (as determined by IFRSs) in the equity category of the statement of financial position;
- (b) changes in equity in the statement of changes in equity; and
- (c) cash flows related to equity transactions in the financing section of the statement of cash flows.

Observations

SD 93 Assets and liabilities and the related income effects that arise from transactions involving an entity's own equity would be classified in the debt category. It is not clear if these transactions include transactions under IFRS 2 *Share-based Payment*. One could understand that cash settled share-based payments should be shown in the debt category whereas it is not clear in which category expenses resulting from equity settled share-based payments should be shown. Further, these transactions may not always be debt, and may instead meet the definition of equity in IAS 32 *Financial Instruments: Presentation* and IFRS 2 for example, by delivering a fixed number of shares which are equity-settled share-based payments.

SD 86 The requirement to categorise certain items into the debt category may result in these items being disclosed in different categories in relation to current IFRS. For example a dividend payable which is currently a current liability would be reclassified as a borrowing.

3.2.5 Multi-category section

SD 100-102 The multi-category transaction section would include the net effects on comprehensive income and cash flows of transactions that result in the recognition or derecognition of assets and liabilities in more than one section or category in the statement of financial position.

Observations

It is interesting to note that the Boards have decided to maintain the current treatment for discontinued operations. By the very nature of discontinued operations, they would appear to meet the definition being proposed for the multi-category section.

It would be useful if the illustrative examples could be expanded to cover more issues, in particular in respect of items and transactions presented in the multi-category transaction section.

3.2.6 Statement of changes in equity

The statement of changes in equity would not include the sections and categories used in the other statements because that statement presents information solely about changes in items classified in the equity category in the statement of financial position.

3.3 Statement of financial position

3.3.1 Presentation of statement of financial position

SD 114, 119 The staff draft proposes that an entity would classify its assets and liabilities into the sections, categories and subcategory on the basis of how those items relate to its major activities or functions. Therefore, not all assets would be presented together and not all liabilities would be presented together. In addition, assets and liabilities also would be disaggregated by nature and/or measurement basis.

SD BC119 Because the statement of financial position would no longer be classified on the basis of elements (assets, liabilities and equity), the proposed format would challenge the way many have traditionally viewed the statement of financial position.

SD 117 Cash would be classified in the operating category in the statement of financial position. However, if overdrawn, the balance is presented in the debt category as a short-term borrowing.

Observation

SD BC126 Although it is clear from the basis for conclusions that cash and cash equivalents are no longer grouped together, this distinction is not made within the standard itself. It is assumed that cash equivalents would also be disclosed under the operating category as a separate line item, similarly to cash. However no guidance is provided in the standard.

3.3.2 Short-term and long-term presentation

SD 115 Within each section, category and subcategory, an entity would continue to have a choice between presenting short-term assets and liabilities separately from long-term assets and liabilities, or presenting assets and liabilities in order of liquidity.

SD 122 An asset or a liability would be classified as short-term if either its contractual maturity or its expected date of realisation or settlement is within one year of the reporting date; if not, the asset or liability is classified as long-term unless specified otherwise in other IFRSs or in special guidance for deferred tax and financial liabilities (see 3.3.3 and 3.3.4).

SD BC130, BC132 Classification as short-term or long-term (which replaces current or non-current) would no longer take account of the entity's normal operating cycle. The Boards reasoned that a one-year distinction is simpler and easier to understand than a distinction based on an entity's operating cycle. The staff draft proposes that classification of an asset or a liability as short-term would be based solely on a one-year period.

3.3.3 Deferred tax assets and liabilities

SD 123 Deferred tax assets and liabilities would be classified as short-term or long-term according to the classification of the related asset or liability.

SD BC134 The proposed classification, which is consistent with US GAAP, would be a change in practice for an entity that applies IFRSs because IAS 1 prohibits classifying a deferred tax asset or liability as current. The IASB concluded that this change in practice is consistent with the Boards' goal of aligning not only their presentation standards, but also their income tax standards.

Observation

Some may be concerned that the classification as current or non-current may not reflect the actual utilisation or settlement of the deferred tax.

3.3.4 Classification of financial liabilities

SD BC135

IAS 1 and US GAAP include different guidance for the classification of financial liabilities as current or non-current. The Boards will consider addressing those differences in a separate project. Consequently, the staff draft retains the guidance in IAS 1 on classification of financial liabilities. The requirements for the classification of financial instruments under IFRS is mostly contained within IAS 32.

3.4 Statement of comprehensive income

3.4.1 Disaggregation by function and nature

SD 140

Unless it is not useful in understanding the entity's activities and the amounts, timing and uncertainty of future cash flows, an entity would disaggregate its income and expenses by function (i.e. the entity's primary activities, such as selling goods, manufacturing, advertising or administration) in the statement of comprehensive income.

SD 142

An entity would further disaggregate those amounts by nature (e.g. materials, depreciation or employee benefits) and present that information in the statement of comprehensive income or in the notes to the financial statements.

SD 148

An entity that does not present its income and expenses disaggregated by function would disaggregate and present its income and expenses by nature in the statement of comprehensive income.

SD BC148

The discussion paper originally proposed requiring disaggregation of information by function and by nature in the statement of comprehensive income. However, respondents to the discussion paper and the Boards' field test participants were concerned that the requirement would result in so many line items in the statement of comprehensive income that it would adversely affect the usefulness of that statement. Accordingly, the staff draft proposes that the by-nature information may be presented in the statement of comprehensive income or in the notes to the financial statements.

Observation

SD 150(b)

Since the classification of income and expenses is driven by the classification of assets and liabilities in the statement of financial position, the profit subtotals may differ from the amounts presented under the existing IAS 1. For example, interest may be classified in three different categories, whereas previously it would have been disclosed as a single line item. This would result in operating profit being calculated differently to its previous method.

3.4.2 Categories within other comprehensive income

SD 139

An entity would indicate for each item of other comprehensive income, except for a foreign currency translation adjustment of a consolidated subsidiary or a proportionately consolidated joint venture, whether the item relates to an operating activity, investing activity, financing activity or a discontinued operation.

SD BC162

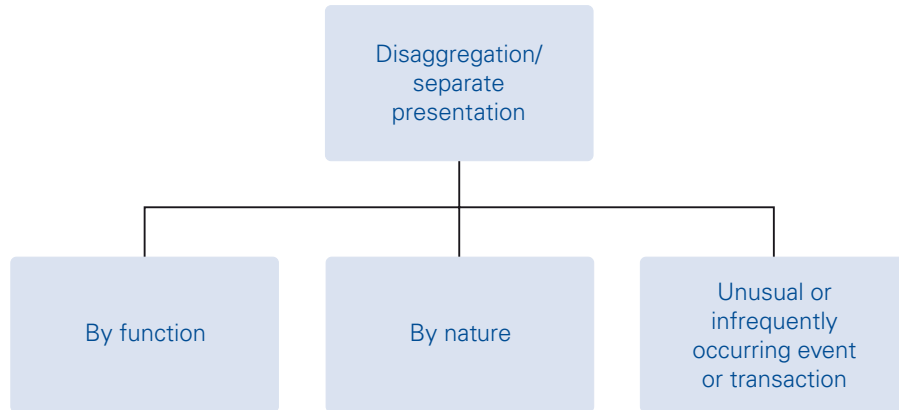
The foreign currency translation adjustment would not need to be identified with a section, category or subcategory because the translation adjustment may relate to more than one category of assets and liabilities in the statement of financial position.

3.4.3 Unusual or infrequently occurring items

SD 155

An entity would present separately a material event or transaction that is unusual or occurs infrequently. An unusual or infrequently occurring event or transaction would be presented separately in the appropriate section, category or subcategory in the statement of comprehensive income. A description of each unusual or infrequently occurring event or transaction and its financial effects would be disclosed in the statement of comprehensive income or in the notes to the financial statements.

SD Appendix A A transaction is *infrequently occurring* when it is not reasonably expected to recur in the foreseeable future given the environment in which an entity operates. An item is *unusual* if it is highly abnormal and only incidentally related to the ordinary and typical activities of an entity, given the environment in which the entity operates.



SD BC169,
Appendix A

Observations

Existing US GAAP requires separate presentation of a material event or transaction that is unusual or occurs infrequently. However, existing IFRSs (IAS 1) does not require such separate presentation for the same class of items; its current disclosure requirement applies to material income and expenses.

There could be diversity in the interpretation of *unusual*, *infrequent* and *material*. This may lead to inconsistent application between periods and between similar entities. To avoid divergence in practice, it may be useful to have more detailed guidance.

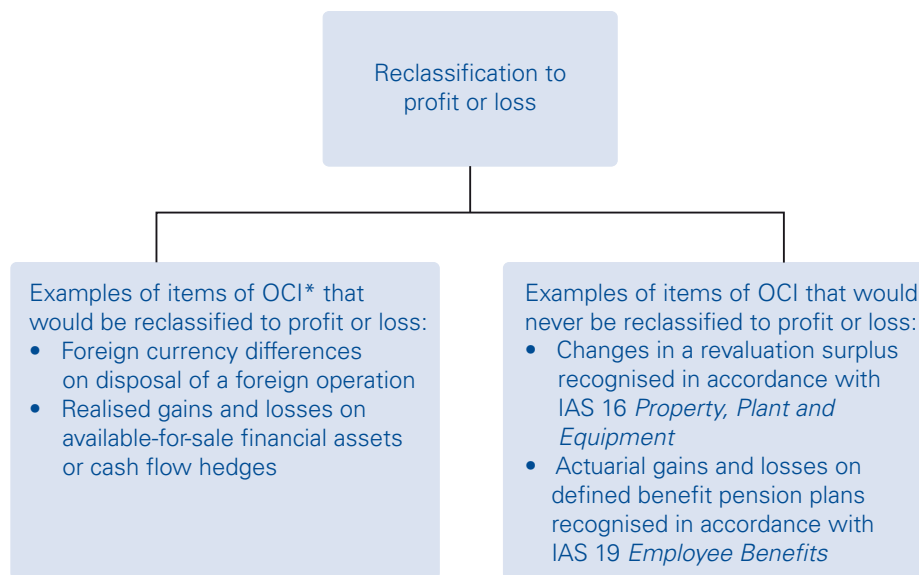
One may ask:

- Is disclosure as a separate line item necessary in terms of the requirements for disaggregation, and would these items not be separately disclosed already?
- If an item is unusual, infrequent or material in the current year, but a similar item is not assessed as unusual, infrequent or material in the following year how would this be disclosed?

3.4.4 Separate project on presentation of other comprehensive income

SD 150, 151

Consistent with the proposal in a separate joint project on presentation of other comprehensive income (ED/2010/5), the statement of comprehensive income would be segregated into two parts: profit or loss (net income) and other comprehensive income. Items of other comprehensive income would be grouped into those that in accordance with other IFRSs would be reclassified subsequently to profit or loss when specific conditions are met and those that would not be reclassified subsequently to profit or loss.



* other comprehensive income

Observations

The term comprehensive income (or total comprehensive income) is not defined here; although the FASB already has its own definition in its existing standards. One could ask: What does this final figure represent; net earnings or the change in equity for the period excluding transactions with owners? The Boards' suggestion to rename the statement of comprehensive income as a statement of profit and loss and other comprehensive income (see ED/2010/5) seems to indicate that there is still no clear idea of what this statement is designed to present. A clear statement of what comprehensive income represents would help to better explain the purpose of the statement, its relationship with the other financial statements and why cohesiveness is improved.

3.5 Statement of cash flows

3.5.1 Direct method

SD 168

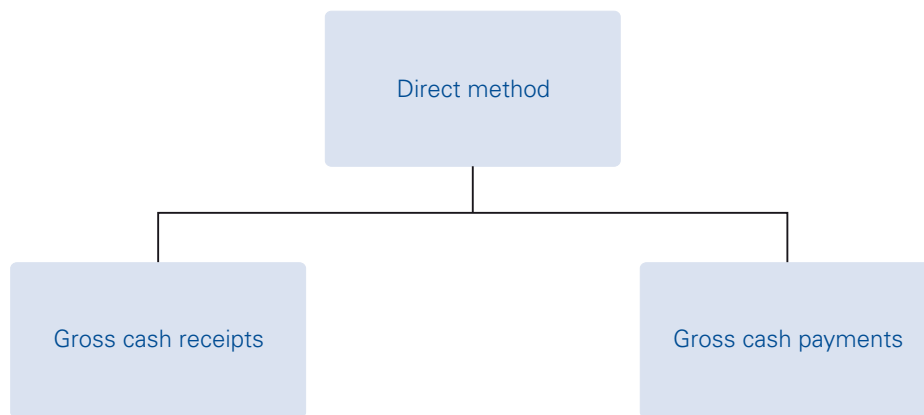
Information about the change in cash during the reporting period would be presented in a manner that relates the cash receipts and cash payments to information presented in the other statements.

SD 169

The total amount of cash at the beginning and end of the period in the statement of cash flows is the same amount shown in the cash line in the statement of financial position. Hence bank overdrafts can no longer be offset.

SD 170

An entity would use the direct method to present cash flows in each of its sections and categories, i.e. gross cash receipts and gross cash payments.



SD BC173,
BC175

Most of the analysts who took part in the discussion paper field test found a direct method statement of cash flows more useful than an indirect method statement of cash flows. In contrast, preparer respondents to the discussion paper generally opposed the proposal to require all cash flows to be presented using a direct method in the statement of cash flows. In their view, the benefits provided by the direct method statement of cash flows do not outweigh the costs to prepare that type of statement, in particular, the one-off costs for systems modification or replacements.

Observation

We observe that very few entities currently use the direct method for cash flow statements. In order to prepare the statement on this basis, an entity would be required to obtain information on a transaction by transaction basis, which may result in a degree of difficulty in implementing the requirements. Major accounting system changes may be required in order to comply with the proposals.

3.5.2 Reconciliation between operating income and operating cash flows

SD 172

An entity would also be required to reconcile operating income to operating cash flows as an integral part of the statement of cash flows.

SD BC185

Users of financial statements observed that having this information as part of the statement it supplements is most useful because an analysis of the statement of cash flows would be incomplete without it.

SD 172

Observation

A reconciliation of profit or loss from operating activities to net cash flows from operating activities would be presented as an integral part of the statement of cash flows. From the wording and the illustration in paragraph IG28 of the staff draft, it appears that this reconciliation should be presented on the face of the cash flow statement. One may argue that this information does not increase the clarity and readability of the cash flow statement and accordingly a presentation in the notes would be sufficient.

3.5.3

Non-cash transactions

SD 174

An entity also would be required to present details about transactions that do not require the use of cash as a supplement to the statement of cash flows.

Observation

It is not clear from the illustration in paragraph IG28 of the staff draft precisely how this supplement to the statement of cash flows is to be presented. In addition it is not clear why the Boards considered this item to be of such importance that it needs to be a supplement to the statement of cash flows rather than being presented in the notes to the financial statements.

3.5.4

Disaggregation of non-recurring cash flows

SD 183

An entity also would be required to disaggregate cash flows that are not expected to occur every reporting period.

Observation

It is not clear from the illustration in paragraph IG28 of the staff draft precisely how this disaggregated cash flow information is to be presented. In addition the interrelationship of this requirement with other parts of the statement of cash flows is not clear.

3.5.5

Financial services entity

SD 188

An entity which is a financial services entity is allowed to present specified items net in its statement of cash flows.

Observation

At present a financial services entity is not defined in the staff draft. Hence it is not clear whether all those who undertake the specified transactions in paragraph 188 of the staff draft would be allowed to present those transactions net if they deem they are not a financial services entity.

3.6 Notes to the financial statements

SD 207

The staff draft proposes that the notes to the financial statements should:

- (a) present information about the basis of preparation of the financial statements and the specific accounting policies used;
- (b) disclose the information required by IFRSs that is not presented elsewhere in the financial statements; and
- (c) provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.

Much of this section of the staff draft is similar to the existing IAS 1 requirements subject to minor refinements such as paragraph 209 of the staff draft which proposes an order be followed in presenting the notes to the financial statements.

However, there are four new requirements being:

SD 233-242

(a) information about remeasurements;

SD 243-254

(b) analyses of changes in assets and liabilities;

SD 255

(c) "net debt" analysis; and

SD 256

(d) description of an entity's operating cycle.

3.6.1 Information about remeasurements

SD 233

The staff draft proposes that an entity would disclose information about remeasurements in a note, separately presenting the remeasurement component of items of income and expense included in the statement of comprehensive income.

In addition it proposes that the section, category and subcategory headings and line item descriptions as used in the statement of comprehensive income would be used when presenting the remeasurement information. No subtotals or totals are required to be presented in the note.

SD 234

A remeasurement is an amount recognised in comprehensive income, which either increases or decreases the net carrying amount of an asset or a liability and which is the result of:

- (a) changes in or realisation of a current price or value;
- (b) changes in an estimate of a current price or value; or
- (c) changes in any estimate or method used to measure the carrying amount of an asset or a liability.

SD 238

The staff draft includes the following examples of remeasurements:

- (a) changes in fair value;
- (b) asset impairments which would include inventory impairments; and
- (c) the realised gain or loss on a sale of property, plant and equipment.

SD 239

Although the staff draft does not limit the examples of remeasurements, it clarifies that remeasurements do not include items such as:

- (a) changes in the carrying amount of an asset or a liability due to the passage of time, for example the accretion of interest on a liability; and
- (b) routine accounting allocations, for example depreciation and amortisation.

SD BC219

The Boards decided to define a remeasurement solely in terms of those changes that affect comprehensive income in the period of remeasurement. The stated purpose of presenting

information about remeasurements is to help users of financial statements in assessing the extent to which the various components of comprehensive income for a period will recur in the future.

SD BC225 The Boards decided that this remeasurements note would aid users of the financial statements to understand the remeasurements in the context of an entity's financial performance, not just in the context of a specific account.

SD BC226 The Boards believe that remeasurement information will assist users of financial statements in identifying components of comprehensive income that are not persistent (i.e. not indicative of future amounts of income). This information should help users of financial statements to assess the degree to which an entity's earnings are likely to recur and the amount, timing and uncertainty of future cash flows.

SD BC229 The Boards decided not to require an entity to segregate remeasurements directly in the statement of comprehensive income because they were concerned that the extra information might complicate that statement and that the remeasurement amounts would not be readily understood without accompanying explanation. Consequently, they decided that an entity should disclose details about all remeasurements in a single note.

Observations

This proposed disclosure may have more than financial statement disclosure implications for entities. For instance, there may need to be a change in accounting systems to capture this information, as information on a transaction-by-transaction basis is required to properly track these remeasurements for disclosure purposes.

SD BC213 In addition, whilst the Boards have included guidance on what is and what is not a remeasurement, it may not always be easy in practice to distinguish a remeasurement from a transaction which is not a remeasurement. For example, would a credit note for a price adjustment be regarded as a remeasurement if it corrected an error? Also, are the retranslations of assets or liabilities denominated in a foreign currency at subsequent reporting dates, remeasurements?

SD BC201 The staff draft specifically mentions that the gain or loss on the sale of property, plant and equipment is an example of a remeasurement. However, it is unclear how this meets the definition of a remeasurement in paragraph 234 of the staff draft given it does not change the carrying amount of the asset itself.

3.6.2 Changes in assets and liabilities

SD 243 The staff draft proposes that an entity would disclose analyses of changes between the opening and closing balances for those asset or liability line items, or groups of such items, that management considers are important to the understanding of the changes in the entity's financial position during the current period.

SD 244 Management would consider the following factors in making judgements about the relative importance of items:

- (a) the opening and closing balances of the line item as compared to the total assets or total liabilities;
- (b) the change in the balance of the line item as compared to revenues, expenses and cash flows;
- (c) the activity flowing through the line item and its effect on revenues, expenses and cash flows;

- (d) whether assumptions or judgements are applied in measuring the asset or liability and the degree of uncertainty in such measurements;
- (e) the variability in the measurements arising from exposure to risk and the nature of that exposure; and
- (f) whether there is any other economic event or transaction that could affect the decisions that are made by a user of the financial statements.

SD 246

Each analysis would identify and present separately the following elements, if applicable:

- (a) changes which result from cash inflows and cash outflows;
- (b) changes which result from recurring and routine non-cash transactions, for example credit sales and interest expense;
- (c) changes which result from either non-recurring or non-routine non-cash transactions, for example a business combination;
- (d) changes which result from accounting allocations, for example, depreciation expense;
- (e) changes which result from write-downs or impairment losses; and
- (f) other changes which result from remeasurements, for example, fair value changes and foreign currency translations.

Observations

As management exercise judgement over which asset or liability line items (or group of line items) they regard as important even when applying the above criteria, it is likely that entities will apply the above requirements with differing degrees and hence introduce inconsistencies between entities.

As acknowledged in the staff draft there are currently disclosure requirements to reconcile in the notes some asset and liability line items in the statement of financial position and these are to remain. Having a mixed regime of required disclosures in some cases and “voluntary”, i.e. only if management regards this as important for understanding the current period change in the entity’s financial position in other cases will not result in uniformity of application by different entities.

As explained in the staff draft, the Boards decided not to require this change to be given for all lines in the statement of financial position. Only if they had taken such an approach or specified a list of items for which the disclosures should be given in all cases (plus for others where management consider it should be given) would there have been a minimum level of disclosures existing in all cases. Hence inconsistencies between entities on disclosures in this area are inevitable.

Again this proposed disclosure may have more than disclosure implications for entities in their financial statements. For instance, there may need to be a change in their accounting systems to capture this information, as information on a transaction-by-transaction basis is required to properly track these for disclosure purposes.

3.6.3

Net debt analysis

SD 255

The staff draft proposes that an entity would provide an analysis of changes for the following line items in a single note and include a total for these items:

- (a) cash;
- (b) short-term investments;
- (c) finance leases; and

(d) each line item in the debt category.

SB BC214 A number of European users of financial statements who responded to the discussion paper asked the Boards to include a reconciliation or an analysis of net debt as part of the financial statement presentation project on the basis that they think that disclosure of net debt information will provide a broader measure of a business's liquidity, solvency and financial flexibility than that provided solely by the changes in cash balances in the statement of cash flows.

SD BC215 The IASB decided that it would be arbitrary and subjective to define net debt explicitly and, therefore, decided not to require a net debt reconciliation or a statement of net debt. However, the IASB thought that information about net debt should be apparent in the financial statements. Therefore the IASB proposes that an entity would analyse in a single note the changes for cash, short-term investments, finance leases and in line items in the debt category.

Observation

To many it might appear that the IASB is now proposing to require some form of net debt analysis without formally naming it as such. In addition by not defining net debt explicitly there remains the risk that entities will present net debt analyses differently as some entities will disclose, in addition to the required information, the changes in the other components of net debt as defined by the entity.

Given the structure of the section contained within paragraphs 243 to 255 of the staff draft, doubts may exist about whether the requirement in paragraph 255 of the staff draft is a disclosure that must be given in all cases or whether it is within management's judgement and discretion as discussed in paragraph 243 of the staff draft. We would assume that it is a requirement in all cases.

3.6.4 Description of operating cycle or cycles

SD 256 The staff draft proposes that an entity describe its operating cycle or cycles in the notes.

Observation

SD BC132 The new proposed disclosure of the operating cycle is to help those with longer than one year operating cycles to disclose that fact when the classified presentation of the statement of financial position is no longer related to their operating cycle. The inclusion of this new requirement might appear somewhat strange given the changes proposed as compared to the current IAS 1 requirement. Currently the classified presentation of the statement of financial position is linked to the operating cycle of an entity and no disclosure is required under IAS 1 about what constitutes the operating cycle. To introduce a requirement now to describe the operating cycle seems strange when it is proposed elsewhere in the staff draft that the classified presentation of the statement of financial position will no longer be linked to the operating cycle of an entity but instead be based merely on a strict one-year time frame.

4. Key differences in the proposals of the IASB and the FASB

Because this is a joint project, there would be few differences in how financial information is presented in the financial statements of entities applying IFRSs or US GAAP. The proposals in the staff drafts of the Boards differ in the following ways:

- SD BC145, BC146, Appendix C*
 - The IASB proposes to retain the minimum line item requirements for the statement of financial position but those requirements are no longer in IAS 1 but instead would be included in individual other standards. The FASB does not propose including these requirements.
- SD BC149, BC150*
 - The FASB proposes that an entity with more than one reportable segment would be required to present by-nature income and expense information in its segment note. In contrast the IASB proposes that by-nature income and expense information on an entity basis (not by reportable segment) would be disclosed either in the statement of comprehensive income or in a separate note.
- SD 142, BC151*
 - The IASB proposes that information about the changes in asset and liability line items that normally constitute net debt would be disclosed together as a single note. The FASB does not propose a similar disclosure.
- SD BC217*
 - The IASB proposes that information about the changes in asset and liability line items that normally constitute net debt would be disclosed together as a single note. The FASB does not propose a similar disclosure.

There will remain other differences in presentation due to the differing requirements in other standards which impact presentation.

5. Related matter – Staff draft of exposure draft *Discontinued Operations (Re-exposure of proposed amendments to IFRS 5)*

5.1 Background

In early July 2010 the IASB published on its website a staff draft of an exposure draft *Discontinued Operations (Re-exposure of proposed amendments to IFRS 5)* (the IFRS 5 staff draft). In the same way as for the staff draft on *Financial Statement Presentation*, the IASB is not formally inviting comments on the IFRS 5 staff draft and expect to publish an exposure draft for public comment in early 2011.

The IFRS 5 staff draft relates to a joint IASB and FASB project to establish a common definition of discontinued operations and to require common disclosures about components of an entity that have been (or will be) disposed of.

The IASB originally published an exposure draft *Discontinued Operations – Proposed amendments to IFRS 5* (the 2008 ED) in September 2008. At the same time, the FASB published a proposed FASB Staff Position FAS 144-d, *Amending the Criteria for Reporting Discontinued Operations*. With these two documents, the Boards intended to achieve convergence in reporting discontinued operations. The comment period for the 2008 ED ended on 23 January 2009.

The tentative decisions made by the Boards based on comments received have resulted in significant changes to the proposals in the 2008 ED. The IFRS 5 staff draft reflects the cumulative tentative decisions made by the Boards concluding with their joint meeting in January 2010. The IFRS 5 staff draft has been made publicly available only for information as a basis of outreach activities before finalising and publishing an exposure draft.

As a result of this joint project, the IASB would expect to amend IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Similarly, the FASB would expect to amend Subtopic 205-20 *Presentation of Financial Statements – Discontinued Operations* of the *FASB Accounting Standards Codification*.

5.2 Summary of key proposals

The key proposals in the staff draft in terms of IFRSs include that:

- SD 32* ● the definition of a discontinued operation will remain substantially unchanged from the definition in IFRS 5;
- SD 33C-D* ● for discontinued operations, additional disclosure is required of any continuing involvement after disposal (for example a supply and distribution agreement); and
- SD 41A* ● additional disclosures are required for material components that have been (or will be) disposed of that do not meet the definition of a discontinued operation.

The IASB has not reconsidered other aspects of IFRS 5.

6. Illustrative examples

Please refer to KPMG's *Illustrative financial statements August 2010* for illustrative financial statements presented in accordance with the requirements of current IAS 1. We have provided illustrative examples of consolidated statements of financial position, comprehensive income and cash flows as well as footnote reconciliations (in addition to those required by current IAS 1 and presented in KPMG's *Illustrative financial statements August 2010*) of changes in property, plant and equipment, trade payables, net debt analysis, presentation of remeasurements and disaggregation of income and expense by nature under the staff draft's proposals using the amounts in KPMG's *Illustrative financial statements August 2010*.

These illustrations are based on initial observations developed by the KPMG International Standards Group, and these observations may change.

Consolidated statement of financial position

<i>In thousands of euro</i>	31 December 2010	31 December 2009
Business		
Operating		
Cash	1,505	1,850
Short-term portion of trade and other receivables	19,561	17,999
Inventories	9,967	12,119
Prepayments for short-term assets	330	1,200
Short-term portion of biological assets	245	140
Derivative assets	535	595
Total short-term operating assets	32,143	33,903
Property, plant and equipment	16,936	31,049
Goodwill	3,432	3,407
Other intangible assets	2,394	1,254
Long-term portion of trade and other receivables	213	-
Long-term portion of biological assets	7,014	8,716
Investment property ³	2,070	1,050
Total long-term operating assets	32,059	45,476
Trade payables	(19,731)	(24,363)
Other payables	(270)	-
Short-term portion of share-based compensation liability	(240)	(80)
Short-term portion of derivative liabilities	(8)	(7)
Short-term portion of deferred income/revenue	(178)	(168)
Short-term provisions	(660)	(1,200)
Total short-term operating liabilities	(21,087)	(25,818)
Long-term portion of share-based compensation liability	(200)	(300)
Long-term portion of derivatives	(20)	(5)
Long-term portion of deferred income/revenue	(1,424)	(1,462)
Long-term provisions	(810)	(400)
Total long-term operating liabilities	(2,454)	(2,167)
Net operating assets before net operating finance liabilities	40,661	51,394

³ Investment properties have been included as operating assets. Depending upon the facts and circumstances and the nature of the entity's business they could alternatively be part of investing.

Consolidated statement of financial position (continued)

<i>In thousands of euro</i>	31 December 2010	31 December 2009
Operating finance		
Employee benefit plans with net assets	635	731
Total long-term operating finance assets	635	731
Short-term portion of finance lease liability	(315)	(269)
Total short-term operating finance liabilities	(315)	(269)
Employee benefit plans with net liabilities	(542)	(461)
Long-term portion of finance lease liability	(1,613)	(1,913)
Total long-term operating finance liabilities	(2,155)	(2,374)
Net operating finance liabilities	(1,835)	(1,912)
Net operating assets	38,826	49,482
Investing		
Financial assets at fair value through profit and loss	494	822
Investments in common stock	377	511
Total short-term investing assets	871	1,333
Interest bearing financial assets	2,887	2,629
Investments in equity accounted investees	2,025	1,558
Total long-term investing assets	4,912	4,187
Total investing assets	5,783	5,520
Net business assets	44,609	55,002
Discontinued operations		
Assets classified as held for sale	14,410	-
Liabilities classified as held for sale	(4,410)	-
Net assets of discontinued operations	10,000	-
Income tax		
Current tax assets	-	228
Short-term portion of deferred tax assets	-	569
Current tax liabilities	(762)	-
Short-term portion of deferred tax liabilities	(167)	(122)
Total short-term income tax	(929)	675
Long-term portion of deferred tax assets	-	807
Long-term portion of deferred tax liabilities	(2,072)	(1,445)
Total long-term income tax	(2,072)	(638)
Net income tax (liability) asset	(3,001)	37

Consolidated statement of financial position (continued)

In thousands of euro

	31 December 2010	31 December 2009
Financing		
Debt		
Bank overdraft	(334)	(282)
Short-term portion of loans and borrowings	(4,075)	(4,117)
Total short-term debt	<u>(4,409)</u>	<u>(4,399)</u>
Long-term portion of loans and borrowings	(16,265)	(17,293)
Total long-term debt	<u>(16,265)</u>	<u>(17,293)</u>
Total debt	<u>(20,674)</u>	<u>(21,692)</u>
Equity		
Share capital	(14,979)	(14,550)
Share premium	(4,875)	(3,500)
Accumulated other comprehensive income	(1,077)	(449)
Retained earnings	(8,421)	(14,006)
Total equity attributable to equity holders of the Company	<u>(29,352)</u>	<u>(32,505)</u>
Non-controlling interest	(1,582)	(842)
Total equity	<u>(30,934)</u>	<u>(33,347)</u>
Total financing	<u>(51,608)</u>	<u>(55,039)</u>
Total short-term assets	47,424	36,033
Total long-term assets	37,606	51,201
Total assets	<u>85,030</u>	<u>87,234</u>
Total short-term liabilities	(31,150)	(30,608)
Total long-term liabilities	(22,946)	(23,279)
Total liabilities	<u>(54,096)</u>	<u>(53,887)</u>

Consolidated statement of comprehensive income

For the year ended 31 December*In thousands of euro***Business****Operating**

	2010	2009
Revenue	100,160	96,636
Cost of sales	(55,805)	(56,186)
Gross profit	44,355	40,450
Other operating income	1,095	315
Distribution expenses	(17,984)	(18,012)
Administrative expenses	(17,142)	(15,269)
Research and development expenses	(1,109)	(697)
Other operating expenses	(860)	(30)
Operating income before operating finance activities	8,355	6,757
Operating finance costs	(197)	(347)
Total operating income	8,158	6,410

Investing

Share of profit of equity accounted investees	467	587
Remeasurement to fair value of existing interest in acquiree	250	-
Fair value changes of financial assets	348	11
Dividend and interest income	563	469
Total investing income	1,628	1,067
Total business income	9,786	7,477

Financing**Debt**

Interest expense	(1,413)	(1,299)
Total financing expense	(1,413)	(1,299)
Income from continuing operations before taxes	8,373	6,178

Multi-category transaction

Gain on distribution to owners	2,556	-
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Income tax

Income tax expense	(3,371)	(1,800)
Income from continuing operations	7,558	4,378

Discontinued operation

Profit (loss) from discontinued operation	684	(466)
Tax (expense) benefit	(305)	44
Net profit (loss) from discontinued operations	379	(422)

Net profit

	7,937	3,956
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Consolidated statement of comprehensive income (continued)

For the year ended 31 December

In thousands of euro

	2010	2009
Other comprehensive income		
Items that are never reclassified to profit or loss		
Defined benefit plan actuarial gains (losses)	72	(15)
Revaluation of property, plant and equipment	200	-
Income tax on items that are never reclassified in profit or loss	(90)	5
Net comprehensive income from items that are never reclassified to profit or loss	182	(10)
Items that will be reclassified to profit or loss		
Foreign currency translation differences – foreign operations	480	330
Foreign currency translation differences – equity accounted investees	21	-
Net loss on hedge of net investment in foreign operation	(3)	(8)
Effective portion of changes in fair value of cash flow hedging instruments	(62)	77
Net change in fair value of cash flow hedging instruments reclassified to profit or loss	(31)	(11)
Net change in fair value of available-for-sale financial assets	199	94
Net change in fair value of available-for-sale financial assets reclassified to profit or loss	(64)	-
Income tax on items that will be reclassified to profit or loss	(14)	(53)
Net comprehensive income from items that will be reclassified to profit or loss	526	429
Total other comprehensive income	708	419
Total comprehensive income	8,645	4,375
Net profit attributable to:		
Owners of the Company	7,413	3,737
Non-controlling interest	524	219
Net profit for the period	7,937	3,956
Total comprehensive income attributed to:		
Owners of the Company	8,094	4,134
Non-controlling interest	551	241
Total comprehensive income for the period	8,645	4,375
Earnings per share		
Basic earnings per share (euro)	2.26	1.08
Diluted earnings per share (euro)	2.14	1.07
Continuing operations		
Basic earnings per share (euro)	2.14	1.22
Diluted earnings per share (euro)	2.03	1.21

Consolidated statement of cash flows

For the year ended 31 December

In thousands of euro

	2010	2009
Cash flows from operating activities		
Cash receipts from customers	96,049	97,976
Cash paid for labour	(22,155)	(19,643)
Cash paid for materials	(63,177)	(62,633)
Cash contributed to pension plan	(299)	(379)
Other business related cash outflows	(2,983)	(3,512)
Acquisition of property, plant and equipment	(15,657)	(2,228)
Acquisition of investment property ⁴	(300)	(20)
Plantations and acquisitions of long-term biological assets	(305)	(437)
Development expenditure	(1,235)	(503)
Proceeds from sale of property, plant and equipment	1,177	481
Payment of finance lease liabilities	(454)	(394)
Interest received	25	29
Proceeds from settlement of derivatives	5	11
Net cash from operating activities	(9,309)	8,748
Cash flows from investing activities		
Interest received	186	126
Dividends received from equity investments	369	330
Dividends received from equity accounted investee	21	-
Proceeds from sale of investments	987	849
Acquisition of equity accounted investees	(600)	-
Acquisition of other investments	(319)	(2,411)
Net cash used in investing activities	644	(1,106)
Cash flows from financing activities		
Issue of share capital	1,550	-
Issue of convertible notes	5,000	-
Issue of redeemable preference shares	2,000	-
Proceeds from sale of own shares	30	-
Proceeds from exercise of share options	50	-
Payment of transaction costs related to loans and borrowings	(311)	-
Acquisition of non-controlling interests	(200)	-
Repurchase of own shares	-	(280)
Repayment of borrowings	(5,132)	(4,445)
Interest paid	(1,604)	(1,521)
Dividends paid	(1,243)	(571)
Net payment into (from) bank overdraft	52	(21)
Net cash from (used in) financing activities	192	(6,838)
Net cash flows from continuing operations before taxes	(8,473)	804
Cash flows from multi-category transaction		
Acquisition of subsidiary, net of cash acquired	(2,125)	-
Income tax		
Income tax paid	(400)	(1,400)
Change in cash before discontinued operations and foreign exchange	(10,998)	(596)

4 Classification will depend upon how investment properties are classified in the statement of financial position,

Consolidated statement of cash flows (continued)

For the year ended 31 December

In thousands of euro

	2010	2009
Net cash flows from (used in) discontinued operation	10,665	(58)
Effect of exchange rate fluctuations on cash held	(12)	(25)
Net decrease in cash	(345)	(679)
Cash at 1 January	1,850	2,529
Cash at 31 December	1,505	1,850
Reconciliation of total operating income to net cash from operating activities		
Total operating income	8,158	6,410
Adjustments for non-cash operating income items:		
Depreciation	5,001	5,122
Amortisation of intangible assets	785	795
(Reversal of) impairment losses on property, plant and equipment	(393)	1,123
Impairment losses on intangible assets	116	285
Reversal of impairment losses on intangible assets	(100)	-
Impairment losses on assets classified as held for sale	25	-
Change in fair value of biological assets	(650)	(50)
Net change in biological assets due to (births) deaths	(11)	(15)
Change in fair value of investment property	(20)	(80)
Impairment loss on trade receivables	150	30
Gain on sale of property, plant and equipment	(26)	(100)
Gain on curtailment	(100)	-
Equity-settled share-based payment transactions	755	250
Net changes in operating asset and liability accounts:		
Inventories	(352)	2,305
Current biological assets due to sales	127	63
Intangible assets – service concession arrangement	(95)	-
Trade and other receivables	(12,545)	(1,318)
Prepayments	870	(800)
Trade and other payables	5,519	(2,531)
Provisions and employee benefits – excluding gain on curtailment	249	320
Deferred income, including government grant	(28)	-
Cash inflows and outflows from other operating activities:		
Acquisition of property, plant and equipment	(15,657)	(2,228)
Acquisition of investment properties	(300)	(20)
Plantations and acquisitions on long-term biological assets	(305)	(437)
Development expenditure	(1,235)	(503)
Proceeds from sale of property, plant and equipment	1,177	481
Payment of finance lease liabilities	(454)	(394)
Interest received	25	29
Proceeds from settlement of derivatives	5	11
Net cash from operating activities	(9,309)	8,748

Reference Notes to the consolidated financial statements

16. Property, plant and equipment (extract)

SD 243 The following table provides an analysis in the changes of the balance of property, plant and equipment:

In thousands of euro

Balance at 1 January 2009	34,937
Capital expenditures	2,408
Cash received from sale of assets	(481)
Depreciation	(5,122)
Remeasurement – gain of sale of assets	100
Remeasurement – impairment loss	(1,123)
Foreign exchange adjustment	330
Balance at 31 December 2009	31,049
Capital expenditures	16,051
Acquisitions through business combinations	1,955
Cash received from sale of discontinued operations	(7,986)
Cash received from sale of assets	(1,177)
Transfer to investment property	(800)
Depreciation	(5,001)
Remeasurement – gain of sale of assets	26
Remeasurement – reversal of impairment loss	393
Remeasurement – building transferred to investment property	200
Distributed to owners	(9,650)
Reclassify as held for sale	(8,164)
Foreign exchange adjustment	40
Balance at 31 December 2010	16,936

Reference Notes to the consolidated financial statements

33. Trade payables (extract)

SD 243

The following table provides an analysis in the changes of the balance of trade payables:

In thousands of euro

Balance at 1 January 2009	30,618
Cash settlement of trade payables	(63,244)
Accrual – purchases on account	56,989
Balance at 31 December 2009	24,363
Cash settlement of trade payables	(55,513)
Accrual – purchases on account	58,901
Distributed to owners	(3,750)
Reclassify as held for sale	(4,270)
Balance at 31 December 2010	19,731

Reference Notes to the consolidated financial statements

X. Analysis of net debt (extract)

<i>In thousands of euro</i>	At 1 January 2010	Net cash flows	Non-cash changes that are not recurring or routine – acquisitions and disposals (net of cash)	Non-cash changes that are recurring and routine – other non-cash changes	Remeasure- ments – foreign exchange	Other remeasure- ments	At 31 December 2010
Cash	1,850	(333)	-	-	(12)	-	1,505
Bank overdrafts	(282)	(52)	-	-	-	-	(334)
	1,568	(385)	-	-	(12)	-	1,171
Short term investments	1,333	(461)	-	-	(1)	-	871
Finance leases	(2,182)	454	-	(200)	-	-	(1,928)
Short-term loans and borrowings	(4,117)	[X]	[X]	[X]	[X]	-	(4,075)
Long-term loans and borrowings	(17,293)	[X]	[X]	[X]	[X]	-	(16,265)
	(21,410)	(1,557)	2,564	(3)	66	-	(20,340)
Total	(20,691)	(1,949)	2,564	(203)	53	-	(20,226)

[Similar table for 2009 would also be required to be presented.]

Reference

Notes to the consolidated financial statements

X. Remeasurements*In thousands of euro*

	2010	2009
Operating		
Gain on disposal of property, plant and equipment	26	100
Revaluation of property, plant and equipment	200	-
Change in fair value of biological assets	650	50
Change in fair value of investment property	20	80
Impairment loss on remeasurement of disposal group	25	-
Impairment loss on trade receivables	150	30
Impairment of property, plant and equipment	(393)	1,123
Impairment of goodwill	116	285
Change in cash settled share-based payments	440	350
Net write downs on inventories	328	125
Net change in impairment for loans and receivables	150	30
Net change in provisions	1,190	[X]
Defined benefit plan actuarial gains (losses)	72	(15)
Investing		
Gain on distribution to owners	2,556	-
Remeasurement to fair value of existing interest in acquiree	250	-
Fair value changes of financial assets	348	11
Net change in fair value of cash flow hedging instruments reclassified to profit or loss	(31)	(11)
Net change in fair value of available-for-sale financial assets	199	94
Net change in fair value of available-for-sale financial assets reclassified to profit or loss	(64)	-
Others		
Foreign currency translation differences – foreign operations	480	330
Foreign currency translation differences – equity accounted investees	21	-
Net loss on hedge of net investment in foreign operation	(3)	(8)
Effective portion of changes in fair value of cash flow hedging instruments	-	62

Reference Notes to the consolidated financial statements

X. Disaggregation of income and expense**For the year ended 31 December***In thousands of euro***Business****Operating**

	2010	2009
Sales of goods	84,770	80,690
Rendering of services	13,120	14,786
Commissions	451	307
Investment property rental	810	212
Construction contract revenue	659	641
Service concession revenue	350	-
Total revenue	100,160	96,636
Materials	(41,698)	(44,273)
Labour costs	x	x
Depreciation and amortisation	x	x
Loss on write down of stock	(328)	(125)
Other	x	x
Total cost of sales	(55,805)	(56,186)
Change in fair value of biological assets	650	50
Net increase in value of biological assets due to births (deaths)	11	15
Change in fair value of investment property	20	80
Government grants	238	-
Net gain on sale of property, plant and equipment	26	100
Rental income from property subleases	150	70
Total other operating income	1,095	315
Labour costs	x	x
Depreciation and amortisation	x	x
Other	x	x
Total distribution expenses	(17,984)	(18,012)
Labour costs	x	x
Depreciation and amortisation	x	x
Other	x	x
Total administrative expenses	(17,142)	(15,269)
Labour costs	x	x
Depreciation and amortisation	x	x
Other	x	x
Total research and development expenses	(1,109)	(697)
Impairment loss on remeasurement of disposal group	(25)	-
Impairment loss on trade receivables	(150)	(30)
Settlement of pre-existing relationship with acquiree	(326)	-
Earthquake related expenses	(359)	-
Total other operating expenses	(860)	(30)
[Details]	x	x
Total operating finance costs	(197)	(347)
Total operating income	8,158	6,410

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