Deloitte.

IFRS Survey 2011
Focus on financial reporting in Switzerland

September 2011

Audit. Tax. Consulting. Corporate Finance

Contents

1. Executive summary

We are pleased to present our second survey of the application of IFRS accounting standards by Swiss quoted groups. Our survey was based on 2010 annual reports published by 30 corporate groups with a total market valuation of CHF 582 billion or 62% of the total market capitalisation of the Swiss stock exchange.

Since we launched our first survey last year, we have had many discussions with CFOs, Group Controllers and preparers of financial statements on the difficulties of keeping track of the increasing volume of disclosure requirements. Certainly financial statements are not getting any shorter with companies in our sample now presenting financial statements that range between 42 to 119 pages in length, compared to a range of 41 to 112 pages in the prior year.

We noted, however, that discussion has not just been about the standards themselves but also about how the requirements are applied in practice. Indeed, there are known areas of complexity and judgment such as pensions, deferred taxes and financial instruments. These topics have been selected as areas of special focus in this year's survey. In Chapter 11, we looked in more details at risk management strategies and financing arrangements entered into by the companies in our sample.

Financial communication: measuring financial performance

In an environment driven by the strengthening of the Swiss Franc and an increasing volatility in foreign exchange rates, financial communication is more important than ever. 63% of the companies surveyed have reported in the first instance the constant currency growth in sales in the executive summary of their annual report. In addition, performance indicators such as EBITDA or operating profit excluding "non-recurring" items such as restructuring costs, impairment charges or amortisation charges are used by 40% of the companies. These entities considered these measures – not defined by IFRS – to be more relevant to understanding their performance. We expect this trend to continue with non-IFRS and "constant currency" measures being disclosed in 2011 annual reports.

Keeping track of disclosure requirements

There is much talk on the disclosure burden imposed by accounting requirements. Financial reporting requirements continue to grow in number and complexity with currently over 3,000 disclosures requirements under IFRS. The purpose of this survey is not to debate the merits of particular disclosures; it is to report on current reporting practices among corporates.

We noted that disclosures relating to critical judgments, estimation uncertainties, certain accounting policies and taxes could be further improved. With ever changing and increasing disclosure requirements, it is tempting to use standardised 'boiler-plate' wording. However, this does not always help the users to understand the financial performance and position of the business. A review of the disclosures against the principle of "telling the story to users" would assist the preparers to decide the level of detail to be included or excluded from the financial statements. Now is a good time for action so that everyone is not drowned by numbers when the next wave of new standards hits!

Looking ahead

On the horizon are a suite of new standards on key topics such as revenue, leasing, pension, financial instruments, consolidation and joint arrangements. These standards are expected to have a significant impact in Switzerland as further detailed in our survey. For instance, on adoption of the new requirements for employee benefits, one third of the companies previously applying the "corridor method" will see their reported equity decrease by more than 5%. Furthermore calculation of the pension cost will change and we estimate that pension cost may increase by 34% on average, with certain companies seeing their pension cost more than double. In a different area, change in accounting for joint ventures will impact 36% of the companies surveyed that currently apply the proportionate consolidation method to joint controlled entities. Transition from proportionate consolidation to the equity method will affect all of an entity's financial statement line items, in particular, decreasing revenue, gross assets and liabilities.

The relevance and importance of these changes will vary on a company by company basis depending on their activities and nature of transactions entered into. However, we strongly advise preparers to begin evaluating their impact on performance measures and financial position sooner rather than later.

Our specialists would be pleased to respond to your questions on any of the matters raised in this report.

Fabien Bryois
Swiss certified accountant

Joelle Herbette
Swiss certified accountant

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Swiss certified accountant

2. Survey objectives

The main objectives of the survey were to discover:

- the level of variety in presentation of the primary statements in listed companies' financial statements;
- how compliance with disclosure requirements and the accounting policy choices made under IFRS varied;
- the quality and relevance of information disclosed in relation to complex areas such as pension, taxes and financial instruments;
- the impact of changes to accounting standards effective for the first time in 2010; and
- the foreseeable impact of future changes in the areas of pension and lease accounting.

Our special focus in this year's survey on pension, tax and financial instruments was driven by the fact that these disclosures are complex. With regards to financial instruments, there was an interest to better understand the financial communication of large international groups in an environment driven by the strengthening of the Swiss Franc and an increasing volatility in foreign exchange rates and commodity prices.

The annual reports of 30 listed companies were surveyed to determine current practice. The sample of companies represents some of the largest by market capitalisation, with the exception of financial institutions and those companies reporting under US GAAP. We then included a selection of medium sized listed entities. Please, refer to Appendix 1 for the list of the companies surveyed. The only change in the sample compared to last year is the inclusion of Georg Fischer instead of Bobst.

Our sample was selected in May 2011, at which time 10 of the 30 companies were included in the SMI index. The sample represented a market value of CHF 582 billion as at 30 June 2011 (CHF 572 billion in 2010), or 62% (62% in 2010) of the total market capitalisation of the Swiss exchange.

The annual reports used were those most recently available and published in the period from 1 May 2010 to 30 April 2011.

This publication is structured in a similar way to that of most financial statements, starting with an analysis of the primary statements, followed by the accounting policies and then the notes.

The sample represented a market value of CHF 582 billion as at 30 June 2011 (CHF 572 billion in 2010), or 62% (62% in 2010) of the total market capitalisation of the Swiss exchange.

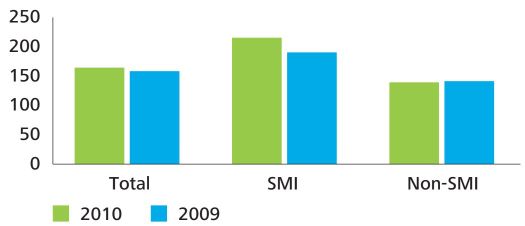
3. Overview of the financial statements

- Annual reports range from 90 to 305 pages.
- The average number of working days following the year-end when results are released to the market is 37 days.
- Only one company had a modified audit report on its consolidated financial statements. The audit report contained an emphasis of matter.

The average length of annual reports has increased, from 163 pages in 2009 to 169 in 2010. This is mainly due to an increase in the information disclosed in areas other than financial statements such as business review and corporate governance.

Figure 1. What it the overall length of the annual report?

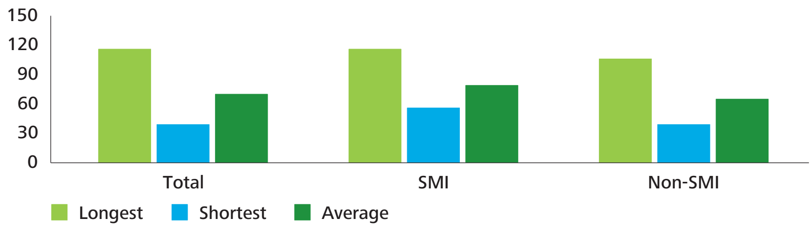
Average number of pages



Annual reports ranged from 90 to 305 pages (from 99 to 274 pages in 2009) with the financial statements covering from 42 to 119 pages (from 41 to 112 pages in 2009). As a percentage of the annual report as a whole, the financial statements varied from 29% to 62% (from 25% to 66% in 2009). The SMI companies in our sample dedicated more pages to narrative reporting with an average of 38% (42% in 2009) of the report being financial statements, compared to an average of 44% across the sample. Overall length of financial statements is relatively stable between 2009 and 2010, which was expected as there were limited changes and new standards effective for the first time in 2010.

Figure 2. What is the length of the financial statements?

Number of pages



Speed of reporting

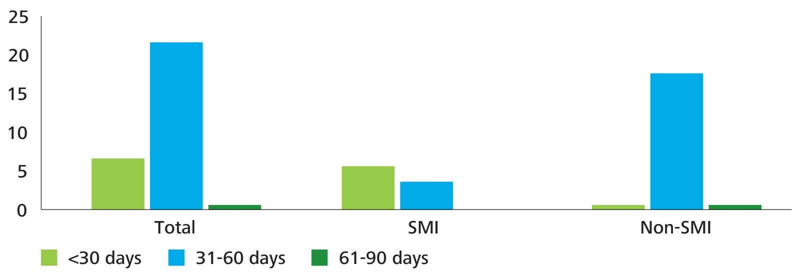
The SIX Exchange Regulation requires listed companies to report within 4 months of the year-end.

All of the companies in our sample issued a press release containing the results for the year to market within 90 days of year-end. In 2010, the average number of working days between the financial year-end and the release of results to the market was 37. There has been an increase in the speed of reporting since the publication of financial information in 2009, when the average period was 39 days.

As expected, the SMI companies sampled were amongst the quickest, and included the fastest reporter at 11 working days (10 working days in 2009).

Figure 3: How many working days after year-end was financial information reported to the market?

Number of companies



In terms of the approval of the financial statements, the average number of days after year-end was 52 days in 2011 (53 days in 2010). Again the SMI companies approve their financial statements more quickly than non-SMI companies, the average being 44 days and 56 days respectively in 2011 (42 days and 60 days in 2010).

Audit reports

In the sample of companies selected, only one audit report was modified. The audit report contained an emphasis of matter. In this particular instance, the company had to reissue its consolidated financial statements following a restatement made in the cash flow statement where a transaction was reclassified from investing activities to financing activities. A new audit report was signed for the reissued financial statements with an emphasis of matter highlighting the restatement made in the cash flow statement.

Reporting frameworks

In the sample of companies none of them were adopting IFRS for the first time.

IFRS insight

Overall, we do not expect many changes to the structure or length of the financial statements before 2013, when many new IFRS become applicable for the first time. Until then, we anticipate most companies will be looking for stability in their financial statements and propose only limited changes. These forthcoming changes are further explained in the next chapters.

4. Statement of financial performance

- All but one company presented the income statement and comprehensive income in two separate statements.
- All companies presented on a voluntary basis a measure of operating profit.
- 40% of companies presented additional non-GAAP performance measures on the face of the income statement.

Application of IAS 1 *Presentation of Financial Statements* (revised 2007)

The revised standard, which is applicable since 2009, gives an additional choice with regard to the presentation of statements of financial performance, principally whether to present a single statement of comprehensive income or a separate income statement followed by a statement of comprehensive income.

Only one of the companies surveyed elected to present comprehensive income in a single statement. None of the companies selected changed their presentation this year. The amendments of IAS 1 published in June 2011 reaffirm existing requirements that items in other comprehensive income and profit or loss should be presented as either a single statement or two consecutive statements.

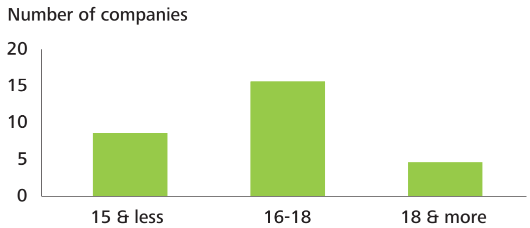
Income statement

IFRS requires, as a minimum, separate disclosure on the face of the income statement: revenue, finance costs, tax expense and profit or loss.

All companies sampled complied with the presentation requirements of IAS 1.

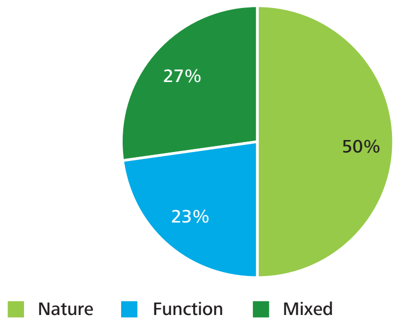
The length of the income statement, measured as the number of lines from the top to profit after tax, ranged from 12 to 25 lines (12 to 23 in 2009).

Figure 4. How many lines, from the top to profit after tax, are in the income statement?



There is no specific requirement regarding the classification of operating expenditures on the face of the income statement. IAS 1 recognises that showing expenses by either function or nature has benefits for different companies. Figure 5 below shows how operating expenses are presented on the face of the income statement.

Figure 5. How are expenses presented on the face of the income statement?



Half of the companies sampled chose to present their expenses by nature and the other half by function or a mix between function and nature. This proportion is unchanged from last year.

Mixed presentation consists of situations where entities classified expenses on a functional basis but exclude certain 'unusual' expenses from the functional classification to which they relate and present these items separately by nature. Examples are restructuring expenses, impairment charges and amortisation of intangible assets.

IFRS insight

Best practice would suggest avoiding the mixing of the two methods of analysis even in the absence of a formal IFRS requirement.

There is considerable variety in presentation of the income statements which allows companies to present their results in a manner that is most appropriate to their business.

Operating profit

An operating profit line was given by all of the companies sampled, although this is not a requirement of IAS 1, and there is variety in the items included in this measure. If such a line is shown, IAS 1 states that it would be misleading to exclude items of an operating nature such as inventory write downs, restructuring and relocation expenses. The measure must be presented consistently year on year and the company should have disclosed a policy making clear what line items the measure includes and excludes.

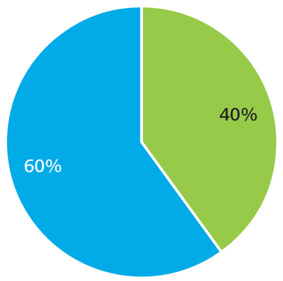
The terminology commonly used is operating profit, operating income or Earnings Before Interest and Taxes (EBIT).

Additional non-GAAP measures

There is considerable variety in presentation of the income statements which allows companies to present their results in a manner that is most appropriate to their business. However, this variety may not help the users of the accounts to compare one company to another.

We noted that 12 out of the 30 companies (or 40%) went beyond the IAS 1 requirements and presented additional non-GAAP performance measures on the face of the income statement. Non-GAAP performance indicators are measures not explicitly defined by IFRS such as EBITDA or EBIT or include other subtotal. This proportion is unchanged from previous year.

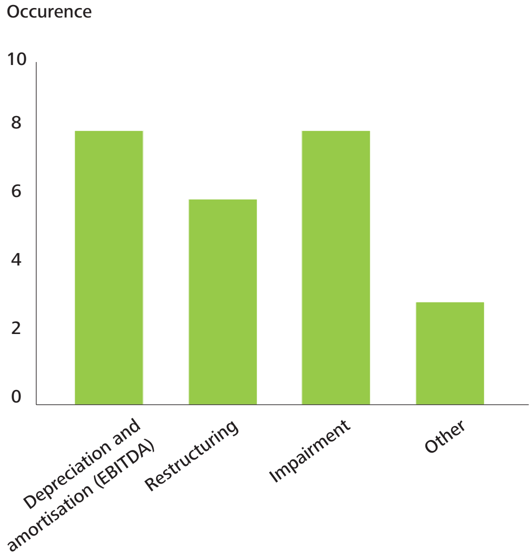
Figure 6. What percentage of companies are presenting additional non-GAAP measures?



The use of additional measures is permitted under IAS 1 which encourages such items to be presented when this is relevant to the understanding of a company's financial performance.

The items most commonly excluded from non-GAAP performance measures are detailed in figure 7 below.

Figure 7. What items do the non-GAAP measures exclude?



Amortisation and depreciation were excluded by 8 of the companies' surveyed (6 in 2009); this resulted in the presentation of an EBITDA in addition to the operating profit.

Following the economic crisis and difficult market environment, impairment charges and restructuring costs were still incurred in the current year. Those costs were excluded from performance measures by respectively eight and six companies.

When using non-GAAP performance measures, most of the companies from the sample are presenting additional line items on the face of the income statement.

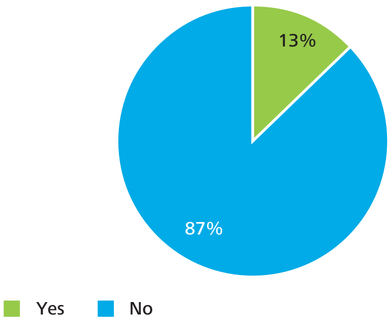
It is interesting to note that in other countries it is also common practice to present these non-GAAP measures in a variety of ways including a columnar approach or removable box approach.

The Annual Report of SGS shows an example of the removable box approach, with the presentation of an "adjusted operating income".

Discontinued operations

The overall objective of IFRS *5 Non-current assets held for sale and discontinued operations* is to enable users to evaluate the financial effects of discontinued operations from other operations.

Figure 8. Have there been discontinued operations in the current year?



Four of the companies surveyed had discontinued operations in the current year (three in 2009) and all relevant companies correctly presented the results from the discontinued operations as a single amount on the face of the income statement. This is consistent with the minimum requirements under IAS 1 which requires the post-tax profit or loss of discontinued operations to be presented as a single amount.

One of the companies, Nestlé, goes further than this minimum requirement and took a columnar approach to presenting the impact of their discontinued operations in more detail on the face of the income statement.

This annual report presented:

- a complete income statement for their continuing operations;
- a middle column containing the income statement for their discontinuing operations; and
- a column showing the total income statement.

CONSOLIDATED INCOME STATEMENT

FOR THE YEARS ENDED 31 DECEMBER

(CHF million)	NOTES	2010	2009[1]
REVENUE		**4 757**	**4 712**
Salaries and wages		(2 228)	(2 229)
Subcontractors' expenses		(313)	(319)
Depreciation, amortisation and impairment	10 & 12	(225)	(228)
Other operating expenses	5	(1 155)	(1 142)
OPERATING INCOME (EBIT)		**836**	**794**
Analysis of operating income			
Adjusted operating income		848	822
Amortisation of acquisition intangibles		(8)	(8)
Restructuring costs		-	(20)
Transaction-related costs		(4)	-
Operating income		**836**	**794**
Financial income	6	8	12
Financial expenses	7	(15)	(15)
PROFIT BEFORE TAXES		**829**	**791**
Taxes	8	(215)	(200)
PROFIT FOR THE YEAR		**614**	**591**
Profit attributable to:			
Equity holders of SGS SA		588	566
Non-controlling interests		26	25
BASIC EARNINGS PER SHARE (IN CHF)	9	**77.64**	**75.48**
DILUTED EARNINGS PER SHARE (IN CHF)	9	**77.22**	**75.17**
DIVIDENDS PER SHARE (IN CHF)		**65.00**[2]	**60.00**

1. Amended 2009 data following changes in presentation of results.
2. As proposed by the Board of Directors.

SGS, Annual Report 2010

Consolidated income statement for the year ended 31 December 2010

In millions of CHF	Notes	2010 Continuing operations	2010 Discontinued operations (a)	2010 Total	2009 Continuing operations	2009 Discontinued operations (a)	2009 Total
Sales	3	104 613	5 109	109 722	100 579	7 039	107 618
Cost of goods sold		(44 775)	(1 074)	(45 849)	(43 467)	(1 741)	(45 208)
Distribution expenses		(8 385)	(125)	(8 510)	(8 237)	(183)	(8 420)
Marketing and administration expenses		(36 012)	(1 276)	(37 288)	(34 296)	(1 974)	(36 270)
Research and development costs		(1 403)	(478)	(1 881)	(1 357)	(664)	(2 021)
EBIT Earnings Before Interest, Taxes, restructuring and impairments	3	14 038	2 156	16 194	13 222	2 477	15 699
Other income	4	206	24 535	24 741	466	43	509
Other expenses	4	(2 101)	(14)	(2 115)	(1 196)	(42)	(1 238)
Profit before interest and taxes		12 143	26 677	38 820	12 492	2 478	14 970
Financial income	13	72	22	94	123	56	179
Financial expense	13	(834)	(13)	(847)	(777)	(17)	(794)
Profit before taxes and associates		11 381	26 686	38 067	11 838	2 517	14 355
Taxes	14	(3 343)	(350)	(3 693)	(3 087)	(275)	(3 362)
Share of results of associates	15	1 010	–	1 010	800	–	800
Profit for the year		9 048	26 336	35 384	9 551	2 242	11 793
of which attributable to non-controlling interests		271	880	1 151	291	1 074	1 365
of which attributable to shareholders of the parent (Net profit)		8 777	25 456	34 233	9 260	1 168	10 428
As percentages of sales							
EBIT Earnings Before Interest, Taxes, restructuring and impairments		13.4%	42.2%	14.8%	13.1%	35.2%	14.6%
Profit for the year attributable to shareholders of the parent (Net profit)				31.2%			9.7%
Earnings per share (in CHF)							
Basic earnings per share	16	2.60	7.56	10.16	2.59	0.33	2.92
Fully diluted earnings per share	16	2.60	7.52	10.12	2.58	0.33	2.91

(a) Detailed information related to Alcon discontinued operations is disclosed in Note 2.

Nestlé, Annual Report 2010

As seen from the extract of the Annual Report of Nestlé, this columnar approach enables a more comprehensive presentation of the impact of its discontinued operations.

Looking forward: new reporting requirements

In June 2011, the IASB and the US FASB decided to improve and align the presentation of items of other comprehensive income (OCI) in financial statements prepared in accordance with IFRS and those prepared under US GAAP.

The amendments require companies to group together items within OCI that may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements.

These amendments maintain an appropriate separation between OCI and profit or loss while ensuring that the two can be easily read together and therefore make it easier to assess the impact of OCI items on the overall performance of an entity.

These amendments will not represent a significant change for preparers as it retained the option to present income statement and OCI in two separate statements.

These amendments are effective for annual periods beginning on or after 1 July 2012 with full retrospective application.

IFRS insight

The exposure draft that preceded the amendments to IAS 1 proposed the requirement to present OCI in a continuous statement of comprehensive income (so, eliminated to option of a separate income statement). The IASB decided to retain this option following negative responses to the proposal.

The amendments do introduce new terminology, referring to a 'statement of profit or loss and other comprehensive income' and 'statement of profit or loss', but it is clear that the use of these terms is not mandatory. More familiar titles can be retained.

The amendments do not address the conceptual issues of what should be recognised in OCI and whether and when reclassification of OCI items to profit or loss should be required, but focus on improving how components of OCI are presented. The IASB has acknowledged the need to develop a conceptual framework for OCI and may add this to its future agenda.

The amendments to IAS 1 maintain an appropriate separation between OCI and profit or loss while ensuring that the two can be easily read together and therefore make it easier to assess the impact of OCI items on the overall performance of an entity.

5. Statement of financial position

- A third balance sheet was presented by 5 companies.
- 77% of companies sampled complied with the minimum disclosure requirements on the face of the balance sheet.
- The length of balance sheets varied from 27 to 45 lines.

The third balance sheet

IAS 1 (2007) *Presentation of Financial Statements* which is effective since last year requires a minimum of two balance sheets to be presented. However, when an entity applies an accounting policy retrospectively or makes a retrospective restatement or reclassification of items in its financial statements, it shall present, as a minimum, three balance sheets and related notes.

Some interpretations of this revised standard result in the presentation of three balance sheets for any change in prior year comparatives, even where there is no impact on the balance sheet.

As already noted in our survey last year, application in Switzerland appeared to be less rigid. Of the 30 companies included in our sample, only 5 presented three balance sheets (7 in 2009).

Of the 5 companies presenting two comparative periods, 2 did so because of changes in accounting policies (namely IAS 19 *Employee Benefits* and IFRS 3 *Business Combinations*), 2 because of restatement due to reclassifications (including 1 with a correction of an error). The other company presented 2 comparatives periods on a voluntary basis.

The remaining companies in our sample were reviewed for evidence of restatements which did not result in presentation of the third balance sheet.

15 companies were identified which have disclosed a restatement of some kind in the financial statements. Of these, 2 had restated the prior year income statement and statement of comprehensive income, and 4 the balance sheet. Those restatements were due to change in accounting policies and reclassification of prior year balance sheet information.

IFRS insight

When is a third statement of financial position required?

An entity shall present three balance sheets when it applies an accounting policy retrospectively or makes a retrospective restatement or reclassification of items in its financial statements.

IAS 1 (2007) provides no further clarification as to when an entity is required to present an additional statement of financial position, it will often be necessary to exercise judgement in determining whether an additional statement of financial position at the beginning of the earliest comparative period is required, when applying judgement, it is necessary to consider whether the information set out in an additional statement of financial position would be material to users of the financial statements.

The logic seems to suggest that an additional statement of financial position may be required when it provides additional information that was not included in prior year financial statements. Conversely, if there would be no changes to the information that was included in prior year financial statements, this may suggest that the information set out in an additional statement of financial position would not be material to users of the financial statements.

Within its Exposure Draft on Improvements to IFRS issued in June 2011, the IASB proposed to amend IAS 1 in order to clarify the requirements for providing additional financial statement information.

As further new and revised standards and interpretations will be issued over the coming years, we expect the instances of companies presenting three balance sheets to increase. The question is whether the presentation of a third balance sheet will be the norm in the near future?

Consolidated balance sheet at December 31, 2010

Assets

in CHF 1,000	Note	Dec 31, 2010	in %	Dec 31, 2009 (restated)	in %	Jan 1, 2009 (restated)	in %
Current assets							
Cash and cash equivalents	29	61,142		62,416		100,469	
Trade accounts receivable	27	93,285		90,020		116,537	
Inventories	25	95,172		99,239		122,053	
Tax receivables	16	2,437		2,396		564	
Current financial assets	22	18		170		–	
Other accounts receivable and prepaid expense	28	15,350		28,440		42,903	
Total current assets		**267,404**	**54.4%**	**282,681**	**53.9%**	**382,526**	**62.5%**
Non-current assets							
Property, plant and equipment	18	94,853		103,265		100,386	
Goodwill	19	43,519		43,679		42,584	
Other intangible assets	20	43,851		47,338		49,548	
Investment property	21	4,674		4,902		4,890	
Non-current financial assets	22	4,481		3,471		2,388	
Pension plan assets	38	17,470		17,875		11,080	
Deferred tax assets	16	15,229		20,787		18,734	
Total non-current assets		**224,077**	**45.6%**	**241,317**	**46.1%**	**229,610**	**37.5%**
Total assets		**491,481**	**100.0%**	**523,998**	**100.0%**	**612,136**	**100.0%**

Equity and liabilities

in CHF 1,000	Note	Dec 31, 2010	in %	Dec 31, 2009 (restated)	in %	Jan 1, 2009 (restated)	in %
Liabilities							
Current liabilities							
Trade accounts payable	33	40,167		40,352		58,184	
Current tax payables	16	1,342		1,310		3,409	
Current financial liabilities	31	33,518		1,229		1,871	
Current provisions	32	5,215		3,890		1,176	
Other current liabilities and accruals	34	41,642		56,341		80,176	
Total current liabilities		**121,884**	**24.8%**	**103,122**	**19.7%**	**144,816**	**23.7%**
Non-current liabilities							
Non-current financial liabilities	31	1,095		87		613	
Post-employment benefit obligations	38	22,026		23,347		22,965	
Deferred tax liabilities	16	10,797		12,898		12,861	
Non-current provisions	32	13,150		11,849		12,191	
Total non-current liabilities		**47,068**	**9.6%**	**48,181**	**9.2%**	**48,630**	**7.9%**
Total liabilities		**168,952**	**34.4%**	**151,303**	**28.9%**	**193,446**	**31.6%**
Equity							
Share capital	30	18,479		18,479		18,479	
Group reserves		303,816		354,216		399,683	
Equity attributable to owners of the parent company		**322,295**	**65.6%**	**372,695**	**71.1%**	**418,162**	**68.3%**
Non-controlling interest		234	0.0%	–	0.0%	528	0.1%
Total equity		**322,529**	**65.6%**	**372,695**	**71.1%**	**418,690**	**68.4%**
Total equity and liabilities		**491,481**	**100.0%**	**523,998**	**100.0%**	**612,136**	**100.0%**

Von Roll, Annual Report 2010

In no cases did we identify evidence of a company which had restated prior year retained earnings, but which had not presented a third balance sheet.

In addition, 11 companies had made a restatement in their notes. The segment reporting information was the note most commonly impacted with 7 companies amending the presentation of their segmental information either due to the adoption of IFRS 8 *Operating Segments* or change in operating structure.

For the remaining 4 companies amendments were made in various notes such as other operating expenses, fixed assets and intangible assets.

We identified only one company which had restated prior year comparatives in the balance sheet to conform to current year presentation but had not presented the additional comparative disclosures. This company clearly disclosed that no additional comparatives (i.e., third balance sheet) were presented on the grounds of materiality.

In no cases did we identify evidence of a company which had restated prior year retained earnings, but which had not presented a third balance sheet.

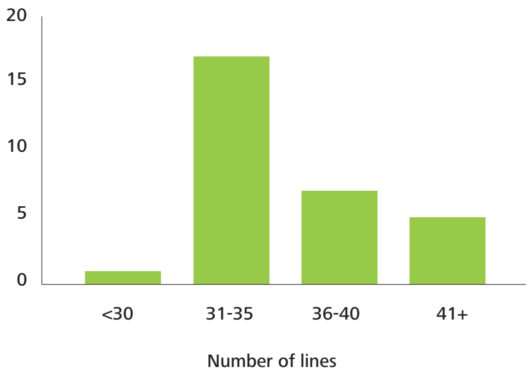
The presentation of two comparative years is illustrated on the left. We note that in this example, from the Annual Report of Von Roll, the current year's balances are clearly highlighted.

Balance sheet presentation

IAS 1 (2007) allows companies some flexibility in the presentation of the balance sheet. However there is less variety than with the income statement as discussed in section 4. 77% of companies complied with the minimum disclosure requirements of IAS 1 (2007). The instances of non-compliance were due mainly to companies presenting financial assets in other current assets.

Figure 9. How many lines are on the face of the balance sheet?

Number of companies



The average length of the consolidated balance sheet was 36 lines same as in 2009. The longest balance sheet contained 45 lines (48 last year) whereas the shortest had 27 lines (same as last year).

There was no significant difference in the length of balance sheet between companies in the SMI and those other companies in the sample.

IAS 1 (2007) allows entities to present their balance sheets in order of the ageing of the items (i.e. current/non-current) or in order of liquidity. All companies presented the balance sheet based on ageing, as expected given the absence of financial institutions from our sample.

In our sample, 4 companies chose to present the balance sheet across two pages of the published financial statements.

Taxation

16 companies (53%) showed all the required categories of tax on the face of their balance sheets (50% last year). Another 12 companies (43%) did not present current tax assets on the balance sheet however they do not seem to have any current tax assets. One company did not present deferred tax assets separately on the face of the balance sheet or in the notes, presumably, because it was not applicable or not material. The remaining company disclosed its current tax assets in the notes under other current assets but it was not disclosed separately on the face of the balance sheet. Therefore, most companies meet the requirements of IAS 1 (2007) regarding taxes. However, as explained in more detail in Chapter 13 Income Taxes, IAS 1 (2007) represents only part of the tax disclosures required by IFRS.

Statement title

In 2009, IAS 1 (2007) introduced revised terminology for the financial statements. The balance sheet is now referred to in the standard as the 'Statement of Financial Position'. Although there is no requirement for companies to adopt this new title, in 2010 as in 2009, only 5 out of the 30 companies in our sample chose to do so.

This result is perhaps not surprising given that investors and other users of financial information are more familiar with the term 'balance sheet'.

6. Statement of cash flows

- All companies used the indirect method to present the cash flow statement.
- Interest paid and received were classified as operating, investing and financing activities by different companies across the sample.
- All of companies with dividends paid classified them as financing cash flows.

IAS 7 *Statement of cash flows* requires that a cash flow statement is presented reporting the inflows and outflows of cash and cash equivalents during the period. Those cash flows must be analysed across three main headings (operating, investing and financing activities).

All of the companies sampled complied with the requirement to present a cash flow statement as a primary statement but there was great variety across the companies in the presentation of cash flow items.

The standard describes two methods of presenting the cash flow statement, the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed and the indirect method, whereby profit is adjusted for a variety of effects. All companies sampled chose to present their cash flow statement using the indirect method presumably because this method is believed to be easier. It is interesting to note that the current project on financial statement presentation proposes to remove the indirect method. If this proposition is ultimately adopted, the preparation of the cash flow statement using the direct method is likely to be a difficult exercise for all preparers.

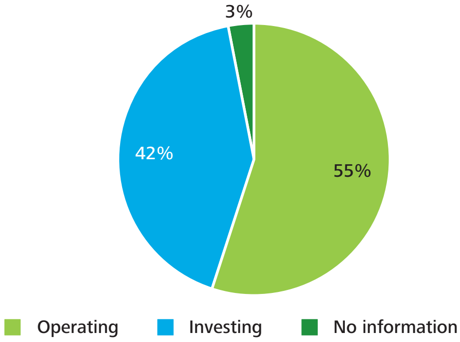
Interest

IAS 7 notes that interest received or paid may be classified as operating, investing or financing cash flows, provided the classification is applied consistently from period to period.

All companies sampled chose to present their cash flow statement using the indirect method, presumably because this method is believed to be easier.

Figure 10 below illustrates how cash flows from interest received were classified across the sample.

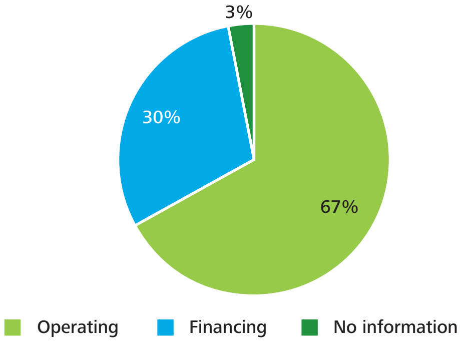
Figure 10. How are cash flows from interest received classified?



IAS 7 suggests that interest received be classified as either operating or investing activities. All of the companies in the sample recognised cash flows from interest received. Of these companies, there was a slight preference to present these cash flows as an operating activity, an approach adopted by 55% of companies, rather than as an investing activity, chosen by 42% of companies.

Figure 11 below shows how the companies surveyed presented their cash flows from interest paid.

Figure 11. How are cash flows from interest paid classified?



All of the companies in the sample recognised cash flows from interest paid. 67% of companies paying interest chose to present this as an operating activity and 30% of companies chose to present the interest payments as a financing activity.

One company in our sample disclosed the amount of interest received and paid in the notes to the financial statements, but did not disclose where these cash flows had been classified.

Dividends

93% of companies paid dividends on ordinary shares in the current period and all presented dividends paid as a financing activity.

18 companies received dividends during the period. Of these, 44% classified the cash flows as an investing activity and 56% classified them as an operating activity, in accordance with the guidance in IAS 7.

A good example of a cash flow statement, that of Novartis, is presented below right.

Discontinued operations

IFRS 5 requires that the net cash flows attributable to the activities of discontinued operations (operating, investing and financing) be presented either in the notes to the financial statements or on the face of the cash flow statement.

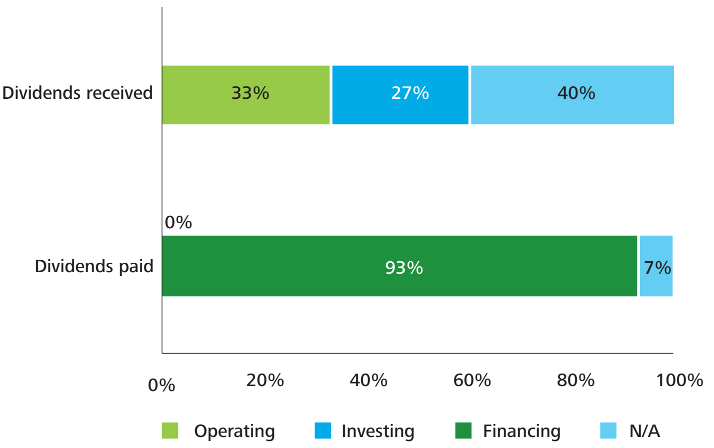
Four companies in our sample have discontinued operations, and all of these companies have elected to present this information in the notes.

IFRS insight

Classification of specific transactions in the cash flow statement can sometimes be a difficult exercise. Some ground rules are:

- respect the clear definition of cash and cash equivalents;
- seek guidance when applying factoring, sales and leaseback transactions; and
- seek guidance on how to present changes in ownership interests.

Figure 12. How are cash flows from dividends paid and dividends received classified?



CONSOLIDATED CASH FLOW STATEMENTS
(For the years ended December 31, 2010 and 2009)

	Note	2010 USD millions	2009 USD millions
Net income		**9 969**	**8 454**
Reversal of non-cash items	23.1	6 162	5 448
Dividends from associated companies		568	504
Dividends received from marketable securities		3	3
Interest received		170	106
Interest paid		– 525	– 268
Other financial payments		– 145	– 386
Taxes paid		– 2 616	– 1 623
Cash flows before working capital and provision changes		**13 586**	**12 238**
Restructuring payments and other cash payments from provisions		– 1 281	– 735
Change in net current assets and other operating cash flow items	23.2	1 762	688
Cash flows from operating activities		**14 067**	**12 191**
Purchase of property, plant & equipment		– 1 678	– 1 887
Proceeds from sales of property, plant & equipment		36	48
Purchase of intangible assets		– 554	– 846
Proceeds from sales of intangible assets		545	51
Purchase of financial assets		– 124	– 215
Proceeds from sales of financial assets		66	124
Purchase of non-current non-financial assets		– 15	– 23
Proceeds from sales of non-current non-financial assets		3	3
Acquisitions and divestments of businesses	23.3	– 26 666	– 925
Acquisition of non-controlling interests			– 81
Purchase of marketable securities		– 40 569	– 14 103
Proceeds from sales of marketable securities		53 200	3 635
Cash flows used in investing activities		**– 15 756**	**– 14 219**
Acquisition of treasury shares		– 311	– 461
Disposal of treasury shares		711	685
Increase in non-current financial debts		5 674	7 052
Repayment of non-current financial debts		– 5	– 22
Change in current financial debts		2 610	– 491
Proceeds from issuance of share capital to third parties by subsidiaries		19	39
Dividends paid to non-controlling interests and other financing cash flows		– 96	– 52
Dividends paid to shareholders of Novartis AG		– 4 486	– 3 941
Cash flows from financing activities		**4 116**	**2 809**
Net effect of currency translation on cash and cash equivalents		– 2	75
Net change in cash and cash equivalents		**2 425**	**856**
Cash and cash equivalents at January 1		2 894	2 038
Cash and cash equivalents at December 31		**5 319**	**2 894**

The accompanying notes form an integral part of the consolidated financial statements.

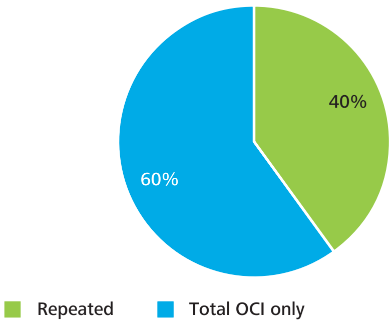
Novartis, Annual Report 2010

93% of companies paid dividends on ordinary shares in the current period and all presented dividends paid as a financing activity.

7. Reporting changes in equity

- The average number of reserves shown on the face of the Statement of Changes in Equity (SCE) was 6.
- 90% of companies presented a separate reserve for treasury shares.
- All but 1 company presented the share-based payment reserve as a separate line item on the face of the balance sheet or in the SCE.

Figure 13. Have movements in OCI been reproduced in the Statement of Change in Equity (SCE)?



In accordance with IAS 1 (2007) *Presentation of Financial Statements*, the financial statements must include a primary statement showing all changes in equity (i.e. the Statement of Changes in Equity). There is however diversity in practice regarding the level of detail presented in the SCE in relation with movements in OCI.

Figure 13 above clearly shows that the majority of companies have chosen to include only the total other comprehensive income in the SCE, rather than re-producing all of the movements. Although this is an IFRS requirement, companies may have chosen not to reproduce all details in the SCE in order to avoid redundancy. The annual improvements project 2010 (effective from 1 January 2011, early adoption permitted) clarified that companies may present the analysis of other comprehensive income by item either in the SCE or in the notes.

One company which provided the required detailed in the SCE is Sulzer.

Consolidated statement of changes in equity

January – December

	Attributable to shareholders of Sulzer Ltd								
millions of CHF	Share capital	Retained earnings	Treasury stock	Financial instruments	Currency translation adjustment	Net income	Total	Non-controlling interests	Total equity
Equity as of January 1, 2009	0.3	1 536.0	–123.8	–4.0	–193.1	322.9	1 538.3	8.0	1 546.3
Total comprehensive income for the year				26.5	28.6	270.4	325.5	6.3	331.8
Addition/deduction of non-controlling interests							–	0.3	0.3
Change in treasury shares		–21.0	25.1				4.1		4.1
Cost of share-based payments		5.5					5.5		5.5
Dividend						–95.9	–95.9	–3.2	–99.1
Allocation of net income		227.0				–227.0	–		–
Equity as of December 31, 2009	0.3	1 747.5	–98.7	22.5	–164.5	270.4	1 777.5	11.4	1 788.9
Total comprehensive income for the year				13.0	–116.5	300.4	196.9	3.5	**200.4**
Addition/deduction of non-controlling interests							–	–0.5	**–0.5**
Changes in ownership in subsidiaries without loss of control		–14.7					–14.7	–3.6	**–18.3**
Change in treasury shares		1.4	21.8				23.2		**23.2**
Cost of share-based payments		8.0					8.0		**8.0**
Dividend						–95.9	–95.9	–4.6	**–100.5**
Allocation of net income		174.5				–174.5	–		**–**
Equity as of December 31, 2010	0.3	1 916.7	–76.9	35.5	–281.0	300.4	1 895.0	6.2	**1 901.2**

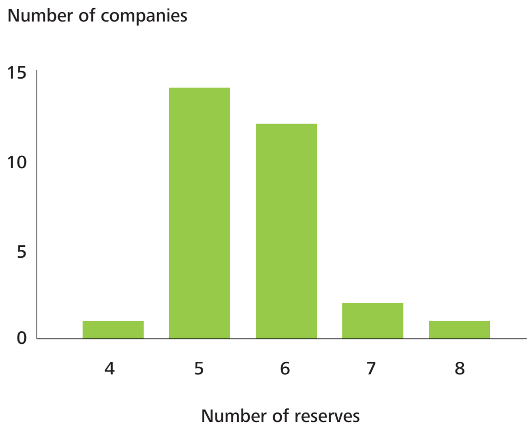
Sulzer, Annual Report 2010

Among the 18 companies that did not reproduce the movements of OCI in the SCE, only one company provided the required details in a separate note. The other companies partially commented the movements in OCI in different notes of the financial statements. The annual improvement effective for 2011 year-ends will therefore impact many companies.

Reserves

The number of reserves that each company disclosed was reasonably consistent across the sample, as illustrated by figure 14 below.

Figure 14. How many reserves have been disclosed?



The average number of reserves disclosed across all companies was 6, unchanged from prior year.

The type of reserves presented in the primary statement varied across the sample. Of the total companies, 26 companies presented separate reserves for currency translation differences, 11 companies for movements in fair value (primarily of financial instruments), 11 companies for hedging reserves and 2 companies for movements related to defined benefit pension schemes.

Included in our sample were 27 companies which presented a separate treasury share reserve. Although this is not required by IAS 32 *Financial Instruments: Presentation*, it is common practice for such a reserve to be separately disclosed. All of these companies recorded treasury shares at cost in this reserve, with the exception of one company which records treasury shares at par value, with any excess paid taken directly to retained earnings. Although such a presentation is not prohibited by the standard, it is uncommon and would require detailed records to be kept by management in order to maintain visibility of the overall value of treasury shares acquired.

Capital contribution reserve

In the context of the Corporate Taxation Reform II in Switzerland, the capital contribution principle was implemented with effect from 1 January 2011. In brief, capital contributions made by shareholders can be distributed free of withholding tax if the following conditions are fulfilled:

- capital contributions have been made after 31 December 1996;
- they are presented in a separate equity account in the standalone financial statements; and
- the capital contributions have been approved by the Swiss Tax Authorities.

Companies have up to 30 days after the approval of 2011 financial statements to communicate their capital contribution to the Swiss Tax Authorities.

Out of the 30 entities surveyed, 7 (23%) have already presented a separate reserve for capital contributions in their standalone financial statements and an additional 3 (10%) have only disclosed the amount in the notes. Amongst these 10 entities, 2 are waiting for the approval of the Tax Authorities but have already disclosed the amount of capital contribution.

A vast majority (77%) of the companies have not yet adopted the presentation requirements to be eligible for the distribution of capital contributions free of withholding taxes. These companies should make sure all appropriate actions and presentation requirements are fulfilled next year if applicable.

A vast majority (77%) of companies have not yet adopted the presentation requirements to be eligible for the distribution of capital contributions free of withholding taxes.

Share-based payment charges

IFRS 2 *Share-Based Payments* require a company to disclose information that enables users of the financial statements to understand the effect of share-based payment transactions on its profit or loss for the period and on its financial position.

Of the 30 companies in our sample, 29 recorded a share based payments reserve in equity.

One company did not disclose any information in the annual report regarding share-based payments, therefore it is reasonable to conclude that no such transactions are entered into.

Finally one company was identified which disclosed share based payments, including options which had not yet completely vested at the balance sheet date, but for which the related charge in equity was not clearly presented. Best practice would be to present a separate share-based payments reserve or, at least, to record the IFRS 2 charge in a separate line in the Statement of Changes in Equity.

IFRS insight

Reserves

Even in the absence of specific IFRS guidance, best practice is to present separately a reserve for treasury shares and share based payments.

Capital contribution reserve

All companies with share premiums should seize the tax opportunity and make sure that all appropriate actions and presentation requirements are fulfilled prior to issuing 2011 financial statements.

8. Accounting policies

- Accounting policies were on average 10 pages long and made up 16% of the financial statements.
- 100% of the companies disclosed standards and interpretations issued but not yet effective, with none indicating that these might have a material impact.
- 97% of companies clearly disclosed the critical judgements and accounting estimates made in applying the accounting policies.
- The average number of judgements and estimates disclosed was 6, unchanged from previous year.

A summary of the significant accounting policies and other explanatory notes are required by IAS 1 (2007) *Presentation of Financial Statements* as a component of a complete set of IFRS financial statements. Additionally, the financial statements must include an explicit and unreserved statement in the notes to the financial statements that they comply with IFRS.

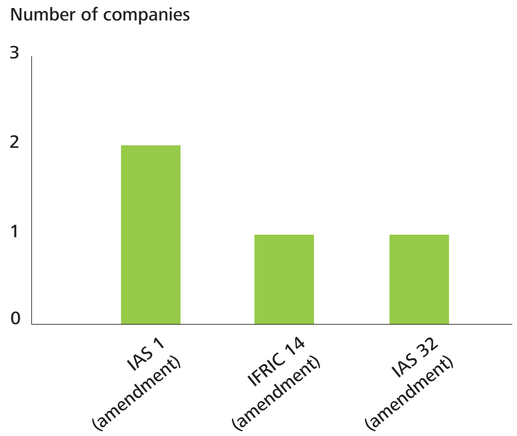
The length of the accounting policies notes (excluding disclosures on new standards, critical judgments and accounting estimates) ranged from 5 to 17 pages with an average of 10 pages, or 16% of the financial statements. These figures did not change significantly when SMI companies were compared with non-SMI companies.

Reporting standards

IAS 8 *Accounting policies, changes in accounting estimates and errors* requires a list of standards and interpretations issued but not yet effective to be disclosed along with the anticipated impact on the financial statements of each of these. None of the companies disclosed an anticipated material impact of applying a new standard or interpretation in the future (40% in 2009). 3 (7 in 2009) companies chose to adopt standards early.

Figure 15 below shows which standards they chose to adopt early.

Figure 15. Which standards has the company chosen to adopt early?



IAS 1 *Presentation of Financial Statements* contained in "*Improvements to IFRSs 2010*", clarifying that the analysis of OCI by items can be presented in the statement of changes in equity or in the notes, was adopted early by two companies.

IFRIC 14 (amendment) *IAS 19 – The limitation on a defined benefit asset, minimum funding requirements and their interaction* was adopted early by one company, which led to a restatement.

None of the companies in our sample elected to early adopt IFRS 9 *Financial Instruments: Recognition and Measurement*. This is not particularly surprising, as the standard was issued in November 2009 and represents only part of a larger project on financial instruments, therefore it is unlikely that a company would chose to early adopt this standard at this time.

Only 20% of the companies in our sample disclose critical judgements and estimation uncertainties separately.

Critical judgements and estimation uncertainties

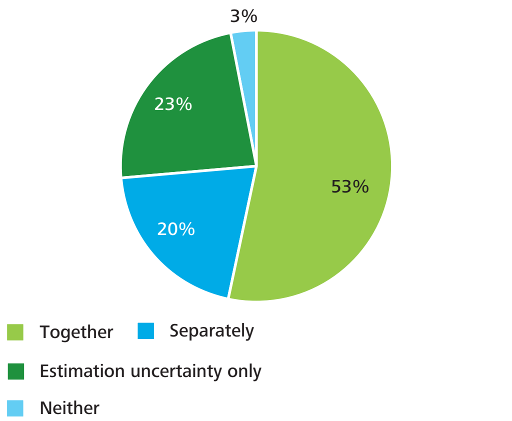
IAS 1 (2007) requires the disclosure of the critical judgements made by management in the process of applying the group's accounting policies. These are described as those judgements that have the most significant effect on the amounts recognised in the financial statements.

It also requires the disclosure of the key sources of estimation uncertainty, at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

All companies in our sample disclosed some information relating to key sources of estimation uncertainty and critical judgments. Despite the fact that this was a specific area of focus for the SIX Exchange Regulation in 2010, we noted that 57% of the companies surveyed did not change their disclosures in their annual reports. The remaining 43% improved the wording or clarified some topics related mainly to pension and tax accounting.

Only 20% of the companies in our sample disclose critical judgements and estimation uncertainties separately (30% in 2009), as illustrated below.

Figure 16. What percentage of companies disclose critical judgements and key sources of estimation uncertainty?



A good example of disclosures comes from Petroplus Group financial statements. These disclosures are specific to the company, and thus provide the investor with better information that the more standard 'boiler-plate' disclosures noted in some annual reports.

Summary of Significant Judgments and Estimates

Use of Estimates

The preparation of Financial Statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The Company makes estimates and assumptions concerning the future. The resulting accounting will not necessarily equal the actual results. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements are discussed below.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimates, which have the most significant impact on the amounts recognized in the consolidated financial information:

Finance Lease Commitments – The Company has a contract with a third party to provide hydrogen to its Cressier refinery; in the course of evaluating that contract under IFRIC 4 (International Financial Reporting Interpretations Committee) *Determining whether an arrangement contains a lease*, the Company has determined the contract to be a finance lease.

Forward Purchase and Sale Commitments – The Company enters into physical forward sales and purchase contracts for crude oil procurement to deliver refined products to distributors and end customers. The Company has determined that these contracts do not meet the criteria of a derivative financial instrument according to IAS 39 *Financial Instruments: Recognition and Measurement*. This is due to management's determination that the function of the activities is to supply crude oil to the refineries and to deliver refined products to distributors and end customers.

Impairment of Assets – In accordance with IAS 36 *Impairment of Assets*, at each Statement of Financial Position date, the Company performs an assessment to determine whether there are any indications of impairment. If indications of impairment exist, an impairment test is performed to assess the recoverable amount of the assets.

Deferred Tax Assets – Deferred tax assets are recognized to the extent that it is probable that there will be future taxable income against which the temporary differences can be utilized. The valuation of future taxable income depends on assumptions that can change through time, with the possibility of significant differences in management's final valuation of deferred income tax. Judgment is required when determining the key assumptions used in the assessment and changes to the assumptions can significantly affect the outcome of the assessment.

Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the Statement of Financial Position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below:

Useful Lives of Property, Plant and Equipment – PP&E is depreciated on a straight-line basis over the estimated useful lives of the assets. The useful lives are estimated by management at the time the assets are acquired and are reassessed annually, with the estimated useful lives being based on historical experience with similar assets, market conditions and future anticipated events. The actual useful life might be different from the estimated useful life. The related carrying amount as of December 31, 2010 is disclosed in Note 14 "Property, Plant & Equipment".

Valuation of Costs in Determining FIFO Inventory – In determining the costs of our crude oil and refined petroleum products in inventory, management must make certain assumptions and estimates in order to develop the production cost of our refined petroleum products. While crude and feedstock oil valuation is directly attributed to relevant purchase contracts and freight costs, the value of the refined products cost is built up by identifying the appropriate crude and feedstock cost. Additional factors considered include charge and yield of the refinery, average product prices to guide allocation of cost of crude and feedstock processed and the relevant operating and fixed overheads for the stated month of production. Whenever net realizable value ("NRV") is lower than FIFO cost, the NRV is considered for valuation purposes. Management periodically reassesses its assumptions and estimates, and judgment is required when determining the assumptions. Changes to these assumptions and estimates can significantly affect the outcome of the value of the oil products. The related carrying amount as of December 31, 2010 is disclosed in Note 11 "Inventories".

Environmental Costs – We provide for costs associated with environmental remediation obligations when the Company has a present obligation and the provision can be reasonably estimated. Such provisions are adjusted as further information develops or circumstances change. The related carrying amount as of December 31, 2010 is disclosed in Note 19 "Provisions".

Petroplus, Annual Report 2010

The number of critical judgements and accounting estimates (taken together) disclosed by companies varied from 1 to 11, with an average of 6, unchanged from previous year. As shown in figure 17 right, the most common judgements made were around goodwill and intangibles (valuation and impairment), pensions (typically the actuarial assumptions), tax related items, provisions and contingent liabilities.

The results show that many companies face the same issues when it comes to making judgements that affect the financial statements. Consideration of impairment, whether it is on goodwill, intangible assets or any other assets held on the balance sheet is clearly an issue for companies.

Pensions and taxes (both current and deferred) are cited by 27 and 26 companies respectively each as examples of critical judgements or accounting estimates. Given the issues involved in these areas and the complexity of the related accounting standards, it is not surprising that so many companies have chosen to include these areas in their disclosures. We however identified 3 companies from those which complied with this disclosure requirement that do not consider these areas to involve critical judgements or estimates.

Revenue recognition

Revenue recognition is often a "hot topic" for regulators, who tend to focus on whether the accounting policy for revenue recognition contains sufficient specific details to enable users of the financial statements to understand the basis on which each significant category of revenue is recognised. In 2010, it was an area of focus of the SIX Exchange Regulation.

Figure 18. How long is the revenue recognition policy?

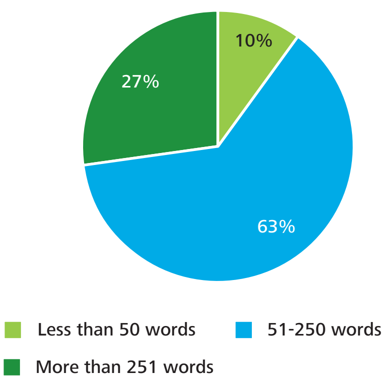
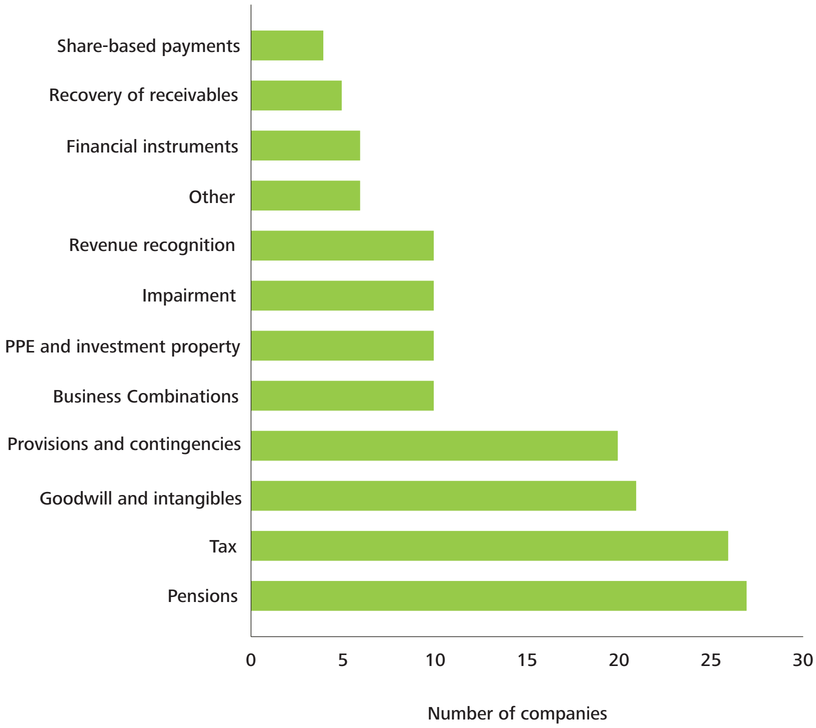


Figure 17. What are the critical judgements being made?



As shown in figure 18 below, most companies (63%) had revenue recognition policies that contained between 51 and 250 words. Three companies had revenue recognition policies containing fewer than 50 words. It is perhaps surprising that these companies, none of which are included within the SMI, are able to communicate the policy for revenue recognition so succinctly. Eight companies had revenue recognition policies containing more than 250 words of which 3 were from the SMI.

IFRS insight

Tailored and specific description of accounting policies, critical judgments and estimation uncertainty improve the relevance and usefulness of the financial statements.

'Boiler-plate' disclosures may give rise to questions and challenges by the regulator and investors.

9. Segmental analysis

- 70% of surveyed companies identified business segments as their reporting format.
- Most companies disclosed 3 to 4 reportable segments.
- 3 companies revised their segment presentation in the current year to reflect changes in their operational structure and activities.
- 4 companies applied IFRS 8 *Operating Segments* for the first time.

IFRS 8 *Operating Segments*

This standard became effective for periods beginning on or after 1 January 2009 and therefore it is the second year of application for the vast majority (87%) of companies in our sample.

IFRS 8 aims to be more flexible than the previous standard, using a 'through the eyes of management' approach, with the information reported being that which the Chief Operating Decision Maker (CODM) uses when making decisions even if this is not prepared on an IFRS basis.

Last year, the SIX Exchange Regulation had indicated that it was taking an interest in IFRS 8 disclosures made by companies amid concerns that some companies could try to avoid disclosing internal information as they fear this could be commercially sensitive.

We noted no significant change in segment presentation in the current year and therefore concluded that IFRS 8 was carefully applied on first time adoption. Furthermore, in the current year, three companies revised their segment presentation to reflect changes in their operational structure and activities.

4 companies adopted IFRS 8 in the current year. For 3 of them the number of segments disclosed was reduced as a result of further aggregation. For the remaining company, following the acquisition of an entity, entered into a new business area and therefore switched from a primary geographical segmentation to a business segmentation under IFRS 8.

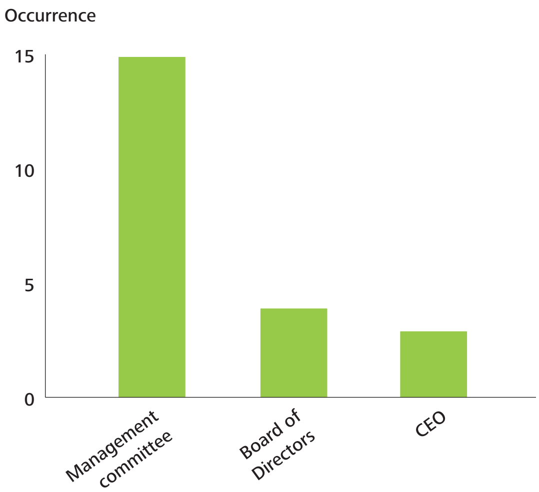
How is the CODM defined?

The management approach relies on the structure of the organisation and the internal operating reports typically used by the Chief Operating Decision Maker (CODM), who determines the allocation of resources and assess the performance of the operating segments.

The CODM of an entity may be its CEO or COO but, for example, it may also be a group of executive directors and others.

Most companies (68%) reported the management committee or executive committee as the CODM as illustrated in figure 19 below. Eight companies in the sample did not specifically disclose how the CODM was defined; this information is however not required by the standard.

Figure 19. Who is the Chief Operating Decision Maker (CODM)?



We noted no significant change in segment presentation in the current year and therefore concluded that IFRS 8 was carefully applied on first time adoption.

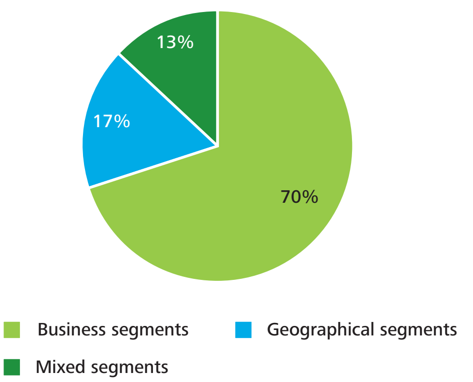
We noted that 20% of companies disclosed non-GAAP measures such as segment results and that 80% used net income or operating profit as the measure of segment profit.

Segment presentation

As would be expected from information which is used for internal purposes, there is a great deal of variety amongst the companies surveyed.

Figure 20 below shows the reporting format used.

Figure 20. What reporting format has been used?

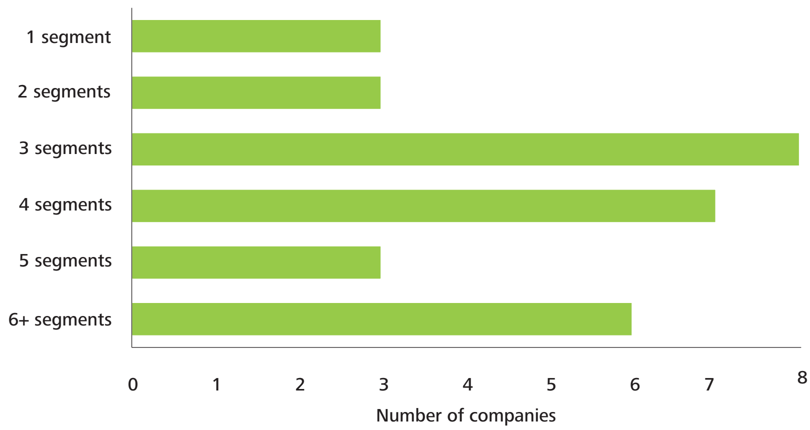


The majority (21) of companies reported their segments on the basis of business segments. Five companies used geographical segments and the remaining four companies reported a mixture of geographical and business segments, which is allowed under IFRS 8 provided this is the information reported to the CODM.

How many segments?

The number of segments reported ranged from 1 to 10 segments with an average of 4 being reported, unchanged from prior year. Of the companies surveyed, 90% identified two or more segments. Half of the companies reported the performance of their business using 3 or 4 segments as illustrated in figure 21 below. This measure excludes unallocated or central corporate segments.

Figure 21. How many segments were identified?



Measure of segment result

In contrast to the former standard, IFRS 8 allows the reporting of any measure of segment profit and loss as long as that measure is reviewed by the CODM. As a consequence, entities have more discretion in determining what is included in segment profit or loss under IFRS 8, limited only by their internal reporting practices.

We noted that 20% of companies disclosed non-GAAP measures such as segment results and that 80% used net income or operating profit as the measure of segment profit.

These non-GAAP measures typically included operating profit before non recurring items or EBITDA; in which case, reconciliation between the information disclosed for reportable segments and the aggregated information in the consolidated financial statements was provided.

The flexibility offered by IFRS 8 in terms of measurement of segment result is illustrated in the Annual Report of Nobel Biocare which discloses *business contribution* as the measure of segment performance with reconciliation to both *operating profit* and *net profit before tax*. *Business contribution* excludes amongst others functional costs, depreciation, amortisation and impairment losses as well as share-based payment expenses.

in EUR '000	Europe, Middle East and Africa		North America		Asia/Pacific		Latin America/ Rest of the world		Group total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
External sales	248'330	259'952	193'695	193'254	125'584	114'587	8'974	13'648	576'583	581'441
Proportion of total revenue	*43%*	*45%*	*33%*	*33%*	*22%*	*20%*	*2%*	*2%*	*100%*	*100%*
Business expenses	–143'369	–131'769	–105'284	–95'472	–63'666	–57'633	–6'847	–10'443	–319'166	–295'317
Business contribution	**104'961**	**128'183**	**88'411**	**97'782**	**61'918**	**56'954**	**2'127**	**3'205**	**257'417**	**286'124**

*Certain prior year figures are reclassified to reflect minor changes in the management structure.

Reconciliation

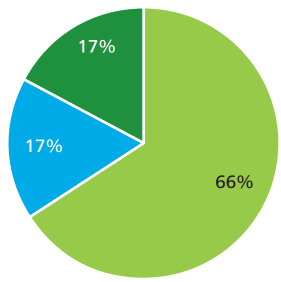
in EUR '000	**2010**	2009
Business contribution	257'417	286'124
Unallocated business expenses	–10'974	–17'896
Functional costs	–128'048	–105'361
Depreciation, amortization and impairment losses	–29'583	–27'757
Share-based payment expenses	–3'895	–6'602
Reconciling and other items	–8	85
Operating profit (EBIT)	**84'909**	**128'593**
Net financial result	15'488	8'664
Profit before tax	**100'397**	**137'257**

Nobel Biocare, Annual Report 2010

Entity-wide disclosures

IFRS 8 requires additional information such as geographical information, information about products and services and major customers to be disclosed in the segment note. One specific requirement is to disclose the revenues attributable to the entity's country of domicile. 28 companies (93%) provided this information and 27 (90%) of them also present material sales by country as required by the standard. Furthermore, information about dependence upon external customers should be as well indicated. In situations where revenues from a single external customer amount to 10% or more of the entity's total revenues, the company is required to disclose this fact, the total amount for each such customer and the identity of the segment or segments reporting the revenues. In our sample 20 companies (66%) indicated that they do not have any major external customers as illustrated in the figures on the right.

Figure 22. Has the Company a single customer representing more than 10% of total revenues?



No

Yes

Not disclosed

5 companies indicated that an external customer represents more than 10% of their sales. For 4 of them, the major customer represents between 10% and 15% of their total sales. For the remaining one, the major customer represents more than 20% of their sales. A good example of geographical and major customer information can be seen in the Petroplus report.

Geographical Information

(in millions of USD)	External revenue [1] 2010	External revenue [1] 2009	Non-current assets [1] 2010	Non-current assets [1] 2009
United Kingdom	7,207.5	4,342.0	1,393.8	1,506.4
France	4,709.3	3,492.4	466.7	445.7
Switzerland	3,768.6	2,502.1	329.6	335.4
Germany	2,594.9	2,656.6	674.1	695.2
Belgium	770.9	585.3	632.6	639.7
The Netherlands	523.7	302.0	–	–
Rest of the world	1,160.1	917.4	–	–
Total	**20,735.0**	**14,797.8**	**3,496.8**	**3,622.4**

[1] Excludes external revenue relating to the Antwerp Processing facility and the Teesside refining operations and non-current assets relating to the Antwerp Processing facility.

Major Customers

(in millions of USD)	2010 Sales	2010 in % of total sales	2009 Sales	2009 in % of total sales
Customer 1	4,972.6	24.0%	4,213.3	28.5%
Customer 2	1,415.4	6.8%	1,216.3	8.2%
Total	**6,388.0**	**30.8%**	**5,429.6**	**36.7%**

Petroplus, Annual Report 2010

IFRS insight

Segment reporting is based on internal reports used by the CODM so that the users of the financial statements can obtain a better perspective on how the business is run. Consequently, linking the narrative reporting to the financial statements is paramount.

Indeed, the results should be consistently analysed in both their narrative reporting (e.g. business review) and financial statements. A single story should be told to the users of the financial statements throughout the annual report.

10. Goodwill and intangibles

- 93% of companies had goodwill.
- 71% of relevant companies disclosed an allocation by cash generating unit but among them only 61% clearly gave the allocation by segment.
- 93% of companies with goodwill apply value in use to calculate its recoverable amount and the same proportion revised their discount rate in the current year.
- 75% provided sensitivity disclosures.
- Only 5 companies recorded goodwill impairment in the current year.

IFRS 3 *Business Combinations* includes a general objective to disclose information that enables users of the financial statements to evaluate changes in the carrying amount of goodwill during the period. Further information about the recoverable amount and impairment of goodwill must also be disclosed in accordance with IAS 36 *Impairment of assets*.

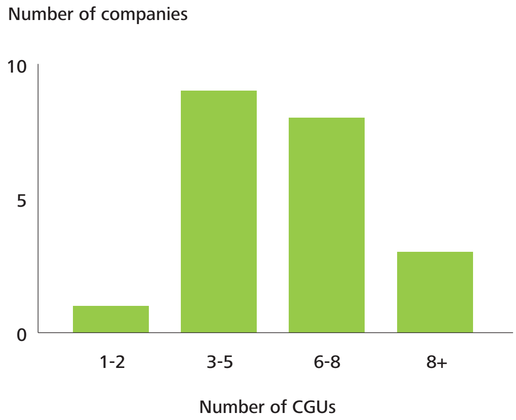
Over the course of the last two years, it could be expected that economic conditions would have had an impact on company results and the need for transparent goodwill impairment disclosure has increased accordingly.

Goodwill – allocation

93% of the companies surveyed had goodwill on their balance sheets. Of these companies, 71% disclosed the allocation of goodwill across cash generating units (CGUs), although 2 companies did so only for the largest balances, while further companies grouped small amounts of goodwill into 'other'. We noted that 1 company did not provide this information, which is a requirement of IFRS.

Figure 23 below shows the variety in the number of CGUs disclosed. The greatest number disclosed was 50. This company disclosed details of the three most significant goodwill items, making up over 50% of the balance. No further disclosures for the remaining balance were made. A second company disclosed that goodwill was allocated to more than 40 CGUs, but presented details of only the largest items (making up 34% of the goodwill balance) which had been allocated to 5 separate CGUs.

Figure 23. How many CGUs has goodwill been allocated to?



The average number of CGUs disclosed, excluding those with goodwill who did not disclose any information regarding the CGUs, was 9. If the two companies with the large number of CGUs disclosed as above are excluded, the average number of CGUs falls to 5.

17 companies (61% of relevant companies) provided additional information on the allocation of goodwill to segments, although in many cases CGUs and segments were identical.

Goodwill – impairment review

Disclosure of the basis used to measure recoverable amounts of CGUs containing goodwill is a requirement of IAS 36. The recoverable amount for an asset or a CGU is the higher of its fair value less costs to sell and its value in use. Entities are required to disclose which method has been used to determine the recoverable amount.

By far the most common basis on which a CGU's recoverable amount had been determined was value in use, with 93% of all companies with goodwill following this approach. One company stated that it first used fair value less costs to sell to determine the recoverable amount, with value in use calculated only if this test indicated impairment; however the detailed disclosures presented by this company regarding the application of fair value less costs to sell indicated in our view that it was actually using value in use. One company used value in use for the majority of the goodwill and fair value less costs to sell for one specific goodwill.

All companies with goodwill disclosed the key assumptions (other than discount rate) on which management based its cash flow projections. The quality and quantity of these disclosures varied significantly, with some companies providing only narrative assumptions with others providing also quantitative data. Five companies were identified which did not provide details of the long-term growth rate, despite the fact that this is a requirement of IFRS.

Compliance with the requirement of IAS 36 to disclose the period over which the cash flows have been projected was met by all of the companies with goodwill in our sample except one.

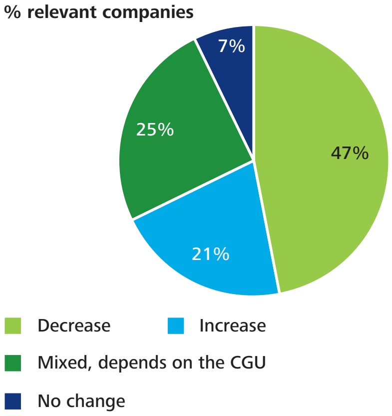
Five companies (17%) assessed its recoverable amount using cash flow projections over a period of greater than five years. Four of them met the requirement to provide an explanation of why the company is using a period greater than five years.

All relevant companies disclosed the discount rate they used in their value in use calculations. Five companies appear to use the same discount rate for all cash generating units, which is appropriate only if the CGUs were faced with the same risk profile.

Discount rate assumptions were changed by 93% of the companies. The figure below discloses the change in discount rate.

Figure 24. How did the discount rate change in 2010 compared to last year?

% relevant companies



IAS 36 contains further sensitivity disclosure requirements where a reasonably possible change of key assumptions would cause the unit's carrying amount to exceed its recoverable amount.

Of the 28 companies with goodwill, 21 companies (75%) included such sensitivity disclosures. Of these companies making these disclosures this year, 20 reported that reasonably possible changes of key assumptions would not cause the unit's carrying amount to exceed its recoverable amount.

Five companies were identified which did not provide details of the long-term growth rate, despite the fact that this is a requirement of IFRS.

Goodwill impairment testing disclosure requirements can be onerous. A good example of such disclosures is provided by Kühne + Nagel, as shown below.

Impairment testing of goodwill

The Group has performed impairment tests of goodwill at the end of the financial years 2010 and 2009. For the purpose of impairment testing, goodwill is allocated to cash generating units which are expected to benefit from the synergies of the corresponding business combination. The allocation of goodwill to reportable segments and geographical regions is illustrated in note 20.

For the goodwill allocated to the cash generating units, the impairment tests are based on calculations of value in use. Cash flow projections are based on actual operating results and three-year business plans. Cash flows beyond the three-year period are extrapolated using estimated long-term growth rates. The growth rates do not exceed the long-term average growth rate for the logistic industry in which the cash generating units operate. Future cash flows are discounted based on the weighted average cost of capital (WACC), taking into account risks that are specific to the cash generating units tested for impairment.

Key assumptions used for value-in-use calculations of goodwill:

Business acquired	USCO Group	ACR Group, Europe [1]	Alloin Group, France	Multiple units [2]	Total
Year of acquisition	2001	2006	2009	2004–2009	
Carrying amount of goodwill in CHF million	**84**	**297**	**91**	**118**	**590**
Cash-generating unit within segment	Contract Logistics	Contract Logistics	Road & Rail Logistics	All Segments	
Basis for recoverable amount	Value in use	Value in use	Value in use	Value in use	
Pre-tax discount rate in per cent 2010	13.3	12.0–14.6	12.3	11.2–12.7	
Pre-tax discount rate in per cent 2009	11.9	10.9–12.3	9.6	10.0–10.5	
Projection period	3 years	3 years	3 years	3 years	
Terminal growth rate in per cent	1.5	1.5	1.5	1.5	

1 ACR Group Europe goodwill relates to Great Britain (CHF 98 million), France (CHF 71 million), the Netherlands (CHF 59 million) and various other countries (CHF 69 million).

2 Including cash generating units without significant goodwill of Cordes & Simon Group, Germany (CHF 39 million), G.L. Kayser Group, Germany (CHF 37 million) and J. Martens Group, Norway (CHF 31 million).

Kühne + Nagel, Annual Report 2010

Impairment charge

Difficult economic environment experienced by many companies over the past few years could lead to an increase in the frequency of impairment charges recorded by these companies. Surprisingly, this didn't appear to be the case, with only 5 companies (4 companies last year) recording goodwill impairment charge during the period under review. These charges ranged from 0.4% to 7% of net book value. The largest impairment charge was recorded by a company which formed part of the SMI. It also represents the highest percentage of net book value.

In total, the companies in our sample presented goodwill with a carrying value of CHF 88 billion (before impairment) of which CHF 3 billion was impaired (3%) in the current year.

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Intangibles

All companies included in the sample recognised intangible assets, other than goodwill, on their statement of financial position. The number of classes of intangibles ranged from 1 to 8 with an average of 3 across all companies.

For each class of intangible assets, IAS 38 *Intangible assets* requires disclosure of whether the useful lives are indefinite or finite, the amortisation rates used where the useful lives are finite and the reasons supporting the assessment of indefinite useful life.

Research and development

83% of the sampled companies disclosed the aggregate amount of research and development (R&D) charged as an expense in the year. The remaining 17% were silent on the matter, it is therefore not possible to conclude whether any such expenditure was incurred.

IFRS highlights

Key accounting considerations in today's declining markets: impairment calculation and related cash flow projections

Non-financial entities are also affected by declining asset values of their investments and employee benefit plans. As many economies may enter again into a recession, impairment of goodwill and many other tangible and intangible assets will become more widespread.

Careful consideration of the cash flow projections, discount rates and 'current' sales prices used in value-in-use calculations will be critical in terms of their supportability and reasonableness given market conditions.

Key principles to bear in mind include:

- estimated cash flows and discount rates should be free from both bias and factors unrelated to the asset in question;

- estimated cash flows or discount rates should reflect a range of possible outcomes, rather than a single, most likely, minimum or maximum possible amount;

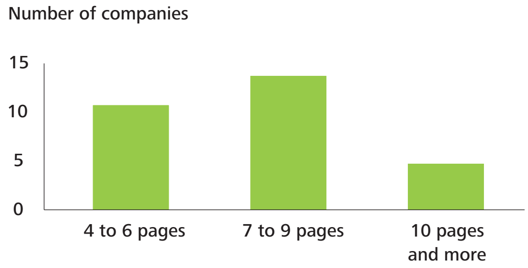
- cash flow projections should be based on most recent financial budget/forecasts approved by management, covering a maximum period of five years, unless a longer period can be justified.

11. Financial instruments and financial risk management

- The strengthening of the Swiss Franc impacted companies' revenues and related financial communication.
- Many companies benefited from low interest rates to extend their debt arrangements from short-term to long-term.
- Financial risk management disclosures were on average 8 pages long.
- 80% of companies elected to apply IAS 39 hedge accounting.

The number of pages in the notes to the financial statements relating to IFRS 7 disclosures is shown in figure 25 below.

Figure 25. How long are the identified notes on financial instruments?



IFRS requirements in a nutshell

IFRS 7 *Financial instruments: Disclosures* prescribes comprehensive disclosures for financial instruments.

IFRS 7 requires entities to provide disclosures that enable the users to evaluate the significance of financial instruments to their financial position and performance as well as the nature and extent of risks arising from financial instruments.

IAS 39 *Financial Instruments: Recognition and Measurement*, which establishes principles for recognising and measuring financial assets and liabilities, was applicable to all companies as none of them early adopted IFRS 9 *Financial Instruments: Classifications and Measurements* in the current year.

Financial risk management disclosures

The IFRS 7 standard does not stipulate that all of the disclosure requirements must be disclosed in one note. As a result, it is common for these disclosures to be disclosed across several notes.

These disclosures were on average 8 pages long, unchanged from the previous year. The number of pages ranged from 4 pages to 16 pages.

There was a clear link between the size of the companies and the length of their disclosures.

Fair value disclosures

Enhanced disclosures about fair value measurements in the wake of the 2008 financial crisis were introduced.

A three-level hierarchy for fair value measurement is now required:

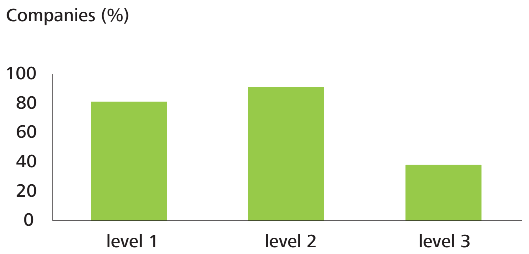
Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1, that are observable for asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

Most companies presented this information in a tabular format as suggested by the amendments, while other companies show this in a narrative format; in particular when the fair value levels applicable were limited (e.g. only level 1 and 2).

Figure 26. What fair value levels are applicable?



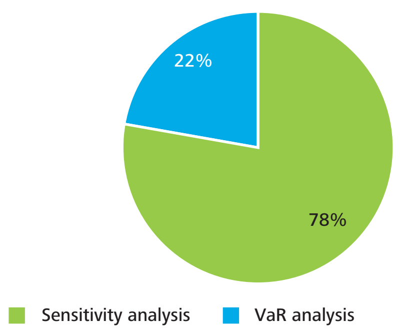
As illustrated in figure 26 above, 86% of companies disclosed fair value level 1, 93% also disclosed fair value level 2, whereas less than half of companies (40%) disclosed level 3 instruments. This is a relatively high proportion considering that the survey excludes financial institutions, which are more likely to hold these types of instruments. However, the fair value of the level 3 instruments as a proportion of the total fair value of the portfolio valuation was quite low.

Market risk measures

IFRS 7 requires a sensitivity analysis for each type of market risk to which the entity is exposed, showing how profit or loss and equity would have been affected by reasonably possible changes in the relevant risk variables at the end of the reporting period.

As an alternative to sensitivity analysis, disclosure may be provided in the form of a value-at-risk (VaR) analysis that reflects interdependencies between risk variables. A VaR analysis was used by 22% of the companies surveyed. These proportions are indicated in the figure 27 below.

Figure 27. How is exposure to market risk disclosed?



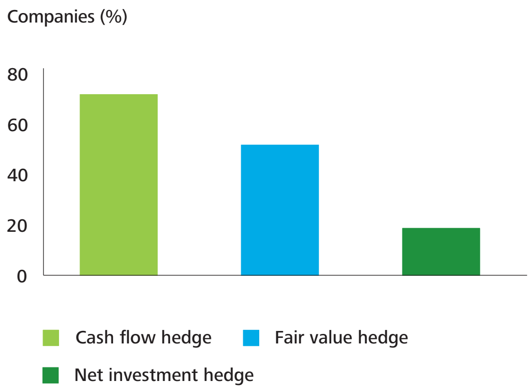
Hedge accounting

Hedge accounting was applied by 80% (or 24) of the companies surveyed, in line with 2009. Its application is voluntary and if an entity wishes to apply hedge accounting, it must formally document the intention to apply it prospectively. Additionally, hedge accounting must be consistent with the entity's established risk management strategy and appropriate hedge documentation and effectiveness testing must be in place.

As a consequence of these onerous requirements, derivative financial instruments were also commonly used to "economically" hedge exposure without applying hedge accounting. Consequently, these derivatives were re-measured at fair value with movements recorded directly in the profit or loss.

Figure 28 illustrates the types of IAS 39 hedge applied by the companies surveyed. Cash flow hedge accounting was the most commonly used in practice.

Figure 28. What type of IAS 39 hedge accounting is applied?



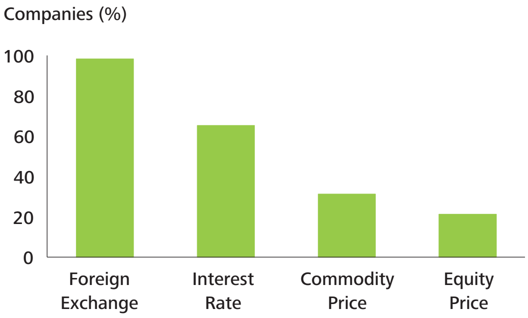
Financial risk management: nature and risks

IFRS 7 requires companies to provide information enabling users of the financial statements to evaluate the nature and extent of risks arising from financial instruments.

All companies in our sample managed their foreign exchange risk and 67% managed their interest rate risk. Those proportions fell to 33% for commodity price risk and to 23% for equity price risk as illustrated in figure 29 below.

For companies significantly impacted by market risk, the majority hedged their exposure using derivative financial instruments.

Figure 29. Nature of market risks hedged by companies



Foreign exchange risks

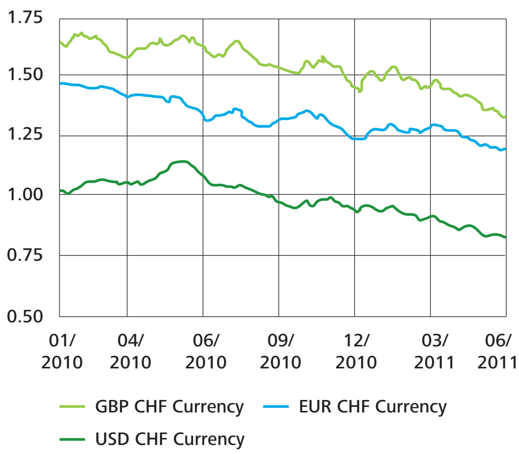
Multinational companies are exposed to foreign currency volatility, affecting directly their revenues, net income and assets and liabilities valuation.

Market trends

During 2010, the Swiss Franc strengthened against other currencies such as the Euro, U.S. Dollar and British Pound. The Euro versus the Swiss Franc dropped by 19%, from 1.48 at the beginning of 2010 to 1.25 at the end of the year. Also the U.S. Dollar versus Swiss Franc steadily decreased by 11%, from 1.04 to 0.93. The British Pound fell by 15%, from 1.67 to 1.45. These currencies continue to devalue against the Swiss Franc in 2011.

Figure 30 below highlights the decrease of the Euro, U.S. Dollar and British Pound against the Swiss Franc.

Figure 30. Evolution of EUR/CHF, USD/CHF and GBP/CHF from 01.01.2010 to 30.06.2011



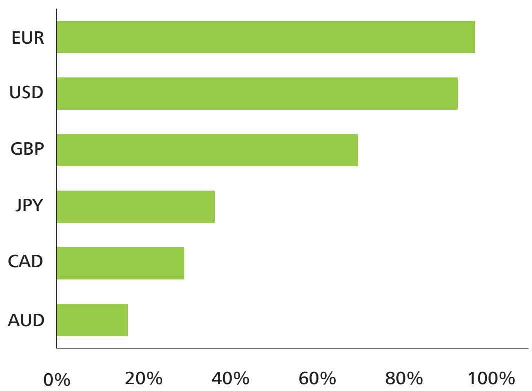
Due to the continued significant strengthening of the Swiss Franc, we examined the impact on the financial results and the companies' market communication.

Presentation currency and hedged currencies

83% of the companies adopted the Swiss Franc as the presentation currency, whereas 10% used the US Dollar and 7% used the Euro.

For the companies using the Swiss Franc as their presentation currency, the foreign currencies that were most commonly hedged are presented in Figure 31 below.

Figure 31. Top hedged currencies against the Swiss Franc



All companies hedged foreign exchange risk using futures and forwards contracts. About half of them (53%) also used options and about a third (37%) entered into swaps.

Sensitivity analysis

Companies performed scenarios with estimated percentage reasonable changes in value by currency to determine the potential impact on their profit and loss. These percentage changes were on average 8.1% for currencies such as Euro, U.S. Dollar and British Pound.

Figure 32 below shows the percentage reasonable change in values that were used to perform sensitivity analysis on foreign exchange rates.

Figure 32. Table of reasonable change in values used versus 2010's variations of foreign exchange against Swiss Franc

Currency	Variations			Actual variations against CHF in 2010
	Min	Average	Max	
EUR	1%	7.7%	15%	-19%
USD	1%	8.5%	20%	-11%
GBP	1%	8.1%	18%	-15%

Most of the companies in our sample performed foreign currency sensitivity analyses against the Swiss Franc using reasonable change in values lower than the actual variation of foreign exchange rates against the Swiss Franc. For instance, companies stressed EUR/CHF using an average percentage of 7.7% whereas the EUR/CHF rate decreased by 19%.

Companies may decide to revisit the percentage of reasonable change that they applied in the light of increased market volatility.

Impact on financial communication

The impact of the strengthening of the Swiss Franc is also very significant when communicating financial performance such as total revenues or the percentage of revenue growth.

63% of companies in our sample have reported with greater prominence the constant currency growth in sales in their executive summary and financial review. The example of Swatch Group is illustrated below. We expect this proportion to increase further in 2011 considering the Swiss Franc is achieving record highs against other currencies.

63% of companies in our sample have reported with greater prominence the constant currency growth in sales in their annual report.

Financial review

1. Operating results

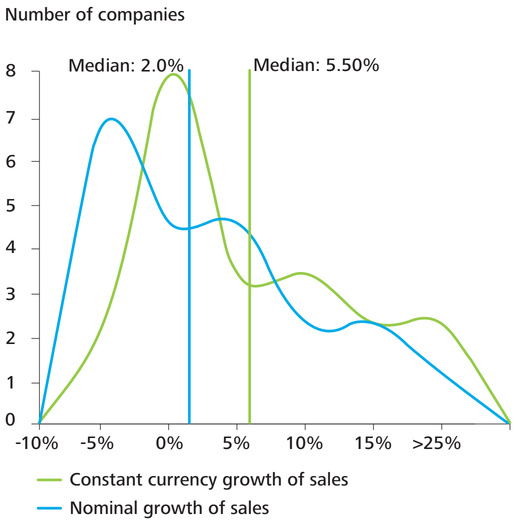
Key figures Group

(CHF million)	2010	2009	Change in % at constant rates	Change in % currency effect	Change in % Total
Gross sales	**6 440**	5 421	+21.8%	–3.0%	+18.8%
Net sales	**6 108**	5 142			+18.8%
Operating profit	**1 436**	903			+59.0%
– in % of net sales	**23.5%**	17.6%			
Net income	**1 080**	763			+41.5%
– in % of net sales	**17.7%**	14.8%			
Equity	**7 101**	5 981			+18.7%
– as % of total assets	**82.4%**	77.6%			
Average return on equity (ROE)	**16.5%**	13.3%			

Swatch Group, Annual Report 2010

Figure 33 below illustrates the distribution of constant currency growth versus nominal growth of sales in 2010.

Figure 33. Distribution of sales growth at constant currency vs. nominal sales



The median and average of nominal growth in sales were 2% and 9% respectively, whereas constant currency growth in sales were 5.5% and 11%.

Compared to the actual strength of the Swiss Franc over the last year, the difference between constant currency and nominal sales growth is not as significant as one may expect. This could be due to a combination of import and export activities, to the timing of exposures to currency risks and to other natural hedge effects on companies' sales.

Looking at further trends in foreign exchange rates since the beginning of 2011, we anticipate a greater impact on 2011 figures as we have seen in the recently published interim financial statements.

In the current environment, many companies are considering ways to reduce and manage this impact in the future, either via hedging strategy or via more strategic or structural changes in their revenues and costs structure.

Foreign operations: CTA impact on reported equity

The inclusion of the financial results of foreign operations in the consolidated financial statements triggers foreign exchange gains/losses, referred to as Currency Translation Adjustment (CTA). In the current market conditions, CTA may have a significant impact on the reported equity of the group.

Only 40% of companies mentioned CTA when analysing the financials risk within their annual report. However, its impact can be significant on ratios linked to equity.

A closer look at the ratio of CTA over equity gives an indication of the gain or loss due to fluctuations in exchange rates. For the companies surveyed, CTA had a negative impact on companies' equity of 13% on average.

What are companies doing to manage the effects of currency fluctuations on their financial statements? All companies do not suffer in the same way. For instance, we noted that for 23% of the sampled companies, CTA had a positive effect on equity, resulting in an increase of equity by 9% on average. For the remaining 77%, CTA had a negative impact on equity, decreasing equity by 21% on average.

Interest rate risk: debt matters

Interest rate risk and liquidity risk are closely related to the debt structure of a company.

The median amount of debt held by a company decreased by 8% (from CHF 745 million to CHF 687 million). Moreover, for the 83% of companies presenting their financial statements in Swiss Franc the decrease in debt is partially due to the strengthening of the Swiss Franc versus Euro and US Dollar, which mechanically implies a decrease in the weighted EUR and USD debts once translated in the presentation currency.

In addition, the decrease of companies' debt levels also reflects general concerns about credit, counterparty and liquidity risks prevalent over the last couple of years and that increased borrowing and lending activities.

The main source of financing remains the issuance of bonds, notes and commercial papers. 52% of companies debts are financed by issuing bonds, notes and commercial papers, and another 39% are financed by bank loans or equivalents. These proportions are in line with prior year as illustrated in Figure 34 on the right.

The debt structure has a direct influence on the interest rate risk to which an institution is exposed. Almost all companies in our sample provided some narrative explanations in their risk management section describing this exposure and related group policies.

In practice, this risk was managed using a combination of fixed and floating debt positions and/or using financial derivatives instruments (essentially swaps but also some forward rate agreements).

Only a third of the companies disclosed the proportion of their fixed and floating rate debts. For these companies, floating rate debts decreased in favour of fixed rates. This shift reflects the current low interest rates for all maturities.

In addition, companies renewed or extended their debt arrangements from short-term to long-term debt maturities as illustrated in Figure 35 on the right.

In the current year, most companies tried to modify the structure of their debt by decreasing debt levels and increasing its duration.

Price risk

Commodity price

The continuing volatility of prices is significant enough to affect the cost structure of most businesses. Moreover, rising prices forced companies to rethink their approach to managing commodity price risk. Among the 43% of sampled companies which mentioned commodity price risk, 77% stated that they were significantly impacted by this risk and actively managed it using hedging strategies.

Due to increasing fluctuations in commodity prices, some companies have used derivative financial instruments to hedge commodity price risks. In such scenario, all of them used forward and futures contracts and half of them used options.

Figure 34. Financing sources

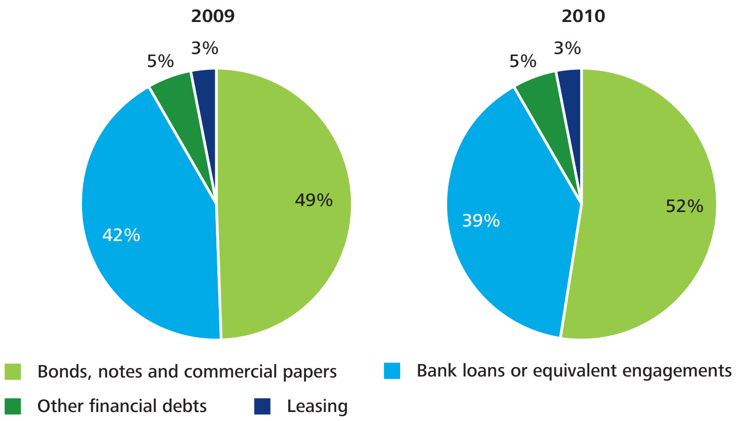
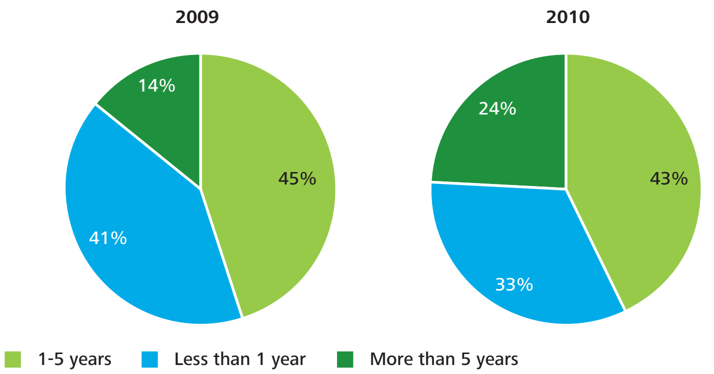


Figure 35. Debt maturities



In the current year, most companies tried to modify the structure of their debt, by decreasing debt levels and increasing its duration.

Equity price
23% of companies in our sample were significantly impacted by equity price risk and actively manage it.

This risk is managed by derivative financial instruments, such as options on equity securities. All the sampled companies exposed to equity price risk used options to do this.

Looking forward

IAS 39 is currently subject to a review project by the IASB in 3 phases.

In August 2011, the IASB announced that the target mandatory effective date of 1 January 2013 was postponed to 1 January 2015.

Phase I: Classification and measurements – deals with the classification and measurement requirements for financial assets and liabilities. The final standard was issued in October 2010.

Phase II: Impairment methodology – addresses impairment of financial assets; an exposure draft, followed by supplement information was issued in January 2011 and redeliberations are on-going.

Phase III: Hedge accounting – an exposure draft was issued in December 2010 and received very positive comments so far as it will ease the application of hedge accounting and focus more on a risk management approach. Opportunities for companies could be significant, especially in terms of commodity hedging. Based on the current exposure draft, the main improvement in terms of hedge accounting will be: Based on the current exposure draft, the main improvements in terms of hedge accounting will be:

- Elimination of the 80-125% 'bright line' for testing whether a hedging relationship qualifies for hedge accounting;

- Simplification of hedge effectiveness testing as only a prospective test is required;

- Eligibility to apply hedge accounting to non financial risk items (e.g. crude oil component of jet fuel) if the component is separately identified and reliably measurable;

- Eligibility to the hedge accounting of combination of derivatives;

- Simplification of the rules on hedges of group of items and net positions; and

- Extended disclosures for more transparency.

The IASB emphasised the importance of aligning financial reporting with company's risk management objectives. These changes will have a significant impact on companies that already apply hedge accounting, as well as companies that have not applied it yet, as the criteria under the current rules were considered too onerous.

The adoption and implementation of a hedging strategy enables companies to reduce volatility, secure their commercial margins, achieve their budget, improve their planning of short and long-term loans, and improve the visibility of their business model and reassure their stakeholders.

12. Provisions

- All companies surveyed recognised provisions in their financial statements.
- 97% of companies with provisions describe the nature of the obligations.

The recent economic climate has led to increase scrutiny of a company's financial position and in particular of its outstanding liabilities. These are fundamental in providing users of the financial statements with an understanding of the company's position.

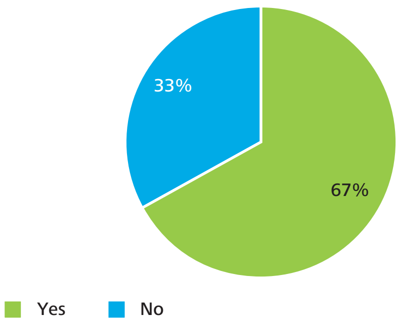
Provisions: recognition and disclosures

IAS 37 *Provisions, contingent liabilities and contingent assets* allows companies, in extremely rare circumstances, an exemption from disclosing some or all of the information required by the standard. These rare circumstances are where the required information is expected to prejudice seriously the position of a company in a dispute. In such cases, the company shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed. None of the companies surveyed had taken advantage of this exemption.

Of the 30 companies which recognised provisions, 29 (97%) provided a description of the obligation for each category (excluding "other provisions") in the notes to the financial statements. The company which did not disclose the description in the notes to provisions provided such information in their accounting policies and therefore also met the requirements of IAS 37.

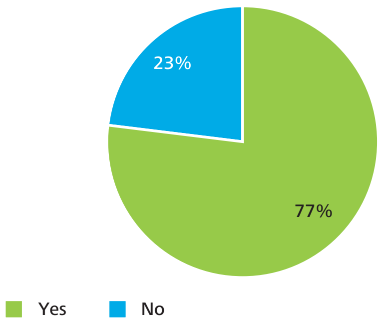
Only 67% (60% in 2009) of relevant companies met the IAS 37 requirement to provide details of the expected timing of any resulting outflows for provisions, as shown in figure 36 below. No explanation was given by 33% (40% in 2009) of companies, although in many cases the classification of provisions as either current, non-current or both provided an indication of the expected timing of the resulting outflows of economic benefit. Half of companies with provisions (50%) disclosed any uncertainty around the timing of the associated outflows, another requirement of the standard.

Figure 36. Has the expected timing of any resulting outflows of economic benefit been disclosed?



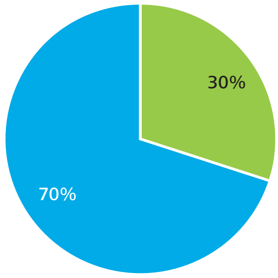
77% (57% in 2009) of relevant companies disclosed the major assumptions concerning future events relating to provisions held at the year-end, as shown in figure 37 below. This disclosure is required by IAS 37 only where it is "necessary to provide adequate information". It seems that after the financial crisis, companies show the willingness to be more transparent in this area.

Figure 37. Have major assumptions concerning future events been considered?



30% (same as in 2009) of companies with provisions disclosed the unwinding of discounts on provisions, as shown by figure 38 right. Discounting is required by IAS 37 where its effect is material. It is likely that the low level of companies disclosing this information is because few companies had discounted their provisions, particularly if they are expected to be used within a year or so.

Figure 38. Has the unwinding of any discount on provisions been disclosed?



Overall, 6 companies clearly complied with all of the IAS 37 requirements examined in this survey. A further 5 companies complied with all requirements other than disclosing the effect of the possible unwinding of any discounts. These findings are in line with last year's survey.

IAS 37 Provisions, contingent liabilities and contingent assets is very prescriptive in terms of the items that must be disclosed for each class of provision, most of which are straightforward. It is therefore surprising to see so many companies failing to meet the disclosure requirements. However, this may be due to the immaterial nature or value of some of the provisions.

Below left is a good example of a provision note from the annual report of Swisscom.

28 Provisions

In CHF million	Termination benefits	Dismantlement and restoration costs	Regulatory proceedings	Cross-border lease agreements	Other	Total
Balance at 31 December 2008	**22**	**435**	**312**	**258**	**170**	**1,197**
Additions to provisions	33	2	53	–	69	157
Present-value adjustments	–	14	6	–	2	22
Release of unused provisions	(5)	(12)	(7)	–	(40)	(64)
Use of provisions	(15)	–	(113)	(258)	(49)	(435)
Balance at 31 December 2009	**35**	**439**	**251**	**–**	**152**	**877**
Additions to provisions	33	44	76	–	154	307
Present-value adjustments	–	12	14	–	4	30
Release of unused provisions	(18)	(6)	(66)	–	(30)	(120)
Use of provisions	(25)	(2)	(116)	–	(81)	(224)
Foreign currency translation adjustments	–	–	–	–	(8)	(8)
Balance at 31 December 2010	**25**	**487**	**159**	**–**	**191**	**862**
Thereof current provisions	25	–	26	–	95	146
Thereof non-current provisions	–	487	133	–	96	716

Provisions for termination benefits

The provisions for termination benefits comprise the costs for the programmes defined in the social plans of 2001 and 2006. For further information see Note 9.

Provisions for dismantling and restoration costs

The provisions for dismantling and restoration costs relate to the dismantling of mobile phone and broadcasting stations of Swisscom Broadcast and the restoration to its original state of the land owned by third parties on which the transmitters are located. The provisions are computed by reference to estimates of future dismantling costs and are discounted using an average interest rate of 2.79% (prior year: 3.28%). The effect of using different interest rates amounted to CHF 42 million (prior year: CHF 2 million). In 2010, adjustments aggregating CHF 40 million (prior year: CHF 2 million) were recorded under the dismantling costs capitalised as part of property, plant and equipment and CHF 5 million (prior year: CHF 1 million) was recognised in the income statement. The non-current portion of the provisions is expected to be settled subsequent to 2020.

Provisions for regulatory proceedings

Provisions for interconnection and other access services pursuant to the revised Swiss Federal Telecommunications Law (FMG)

Swisscom provides interconnection services and other services to other telecommunication service providers in Switzerland. Interconnection regulates the joint hook-up of Swisscom's networks and those of other telecommunication service providers. Since 2000, Swisscom charges its interconnection prices in accordance with the cost-accounting method of long-run incremental costs (LRIC) prescribed in the Ordinance on Telecommunication Services (FDV). The amended Telecommunications Act (FMG) and its implementing ordinances obligate Swisscom, from 1 April 2007 onwards, to offer further access services to the other providers of telecommunication services at prices which – with the exception of charges for subscriber connections over fixed landlines – are also computed in accordance with the LRIC cost-accounting method prescribed in the Ordinance on Telecommunication Services (FDV).

Swisscom, Annual Report 2010

Overall, 6 companies clearly complied with all of the IAS 37 requirements examined in this survey.

Looking forward: the future of lease accounting

In August 2010, the International Accounting Standards Board (IASB) published *ED Leases*. The ED proposes significant changes to the current requirements under IAS 17 *Leases*.

The accounting under existing requirements depends on the classification of a lease (i.e. finance lease or operating lease). Classification as an operating lease results in the lessee not recording any assets or liabilities in the statement of financial position. The lessee simply accounts for the lease payments as an expense over the lease term. Lease commitments are disclosed in the notes to the financial statements.

This results in many investors having to adjust the financial statements (using disclosures and other available information) to estimate the effects of lessees' operating leases for the purpose of investment analysis.

The IASB's proposals in the ED would result in a consistent approach to lease accounting for both lessees and lessors – a 'right-of-use' approach. This approach would result in all leases being included in the statement of financial position, thus providing more complete and useful information to investors and other users of financial statements.

The comment period ended in December 2010 and many constituents raised concerns about the propositions in the ED. At the July 2011 Board meeting, the Board noted that decisions taken to date warrant re-exposure of the revised proposals. The Board intends to complete the deliberations during the third quarter of 2011 with a view to publish a revised exposure draft shortly thereafter. The final standard is now expected in 2012.

The effective date of the new leasing standard is still uncertain. However, it is anticipated that the proposed transition requirements would not "grandfather" any existing leases. Therefore, lessors and lessees that enter into longer-term leases will need to consider the potential affect of the proposed rules on existing leases.

IFRS insight – the future of lease accounting

Companies active in real estate, retail and shipping are expected to be most impacted by any proposition to bring all leases on their balance sheets.

For 2010 year-end, had companies in our sample accounted for operating leases commitments as additional liabilities on their balance sheet, the average increase on the total balance sheet would have been 6%. However, the maximum impact being an increase of 27% of the total balance sheet.

Companies that use leasing extensively should monitor closely the developments on this project and start thinking today about how these proposals could affect their financial statements, and should consider the need to make changes to lease structuring, performance metrics, debt covenants and information systems.

The proposed requirements – which are subject to on-going changes – could prove time-consuming to adopt, which makes a well-thought-out work plan critical to a smooth transition to the new accounting rules.

13. Income taxes

- All companies produced a tax reconciliation as required by IAS 12 *Income taxes*.
- In their tax reconciliation, 77% of companies started from the blended rate which ranged from 10.7% to 36%.
- Only 30% of companies clearly disclosed the aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures for which deferred tax liabilities had not been recognised.
- Qualitative information in accounting policies and related notes can be further improved.

Tax reconciliation

The presentation of an explanation of the relationship between the tax expense and accounting profit must be disclosed.

This reconciliation was prepared by all companies surveyed. 28 of 30 companies (93%) produced a numerical reconciliation between tax expense/(income) and the product of accounting profit multiplied by the applicable tax rate(s). Only two companies performed a percentage reconciliation.

Under IAS 12 *Income Taxes*, a company has a choice to reconcile to a blended (or "weighted average") tax rate or headquarter/Swiss statutory tax rate. 77% of companies used a blended rate which ranged from 10.7% to 36%. 23% of companies used a headquarter tax rate which ranged from 7.8% to 23.4%.

One company disclosed the reason for an increase in their blended tax rate which is very useful to the reader of the accounts who otherwise have no visibility over how the blended rate is made up and varies from one reporting period to another.

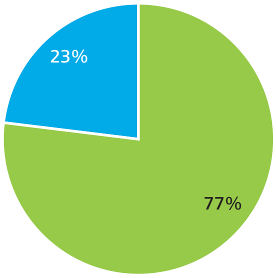
We noted that the percentage of companies using the blended rate is higher in Switzerland than in many other IFRS reporting jurisdictions where the statutory rate of the headquarter jurisdiction is often used. This may be because Swiss listed groups consider that a blended rate better reflects the reality of their worldwide activities, however it is more likely due to the difficulties in defining a Swiss statutory rate. The varying rates between cantons and the structural rate reductions available to entities with a certain tax status mean that a single Swiss statutory rate cannot be defined easily.

Below is an example of the tax reconciliation from the annual report of Swatch Group.

	2010 **%**	2009 %
Group's average expected tax rate	**21.4**	19.6
Tax effect of:		
– Change in the applicable tax rate on temporary differences	**–0.1**	–0.1
– Recognition of tax losses not recognized in prior years	**0.0**	0.0
– Utilization of previously unrecognized tax losses	**–0.1**	–0.1
– Unrecognized current year tax losses	**1.0**	1.2
– Non-taxable income	**–0.2**	–0.3
– Non-tax-deductible expenses	**0.7**	0.3
– Items taxable at reduced rates	**–0.4**	–0.4
– Adjustments recognized for current taxes of prior periods	**0.1**	–0.2
– Other items	**0.4**	–0.4
Group's effective tax rate	**22.8**	19.6

Swatch, Annual Report 2010

Figure 39. Do companies use a blended tax rate or a headquarter/Swiss tax rate for the reconciliation?



Current and non-current taxes

IAS 12 does not currently require companies to make disclosures concerning uncertain tax positions. However, it is necessary to classify current income taxes as either "current" or "non-current".

IAS 1 *Presentation of Financial Statements* requires that liabilities are disclosed as current unless, amongst other requirements, the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. In many instances, it can be difficult to demonstrate this for tax liabilities hence there is an argument that tax liabilities should be current. In practice, some companies might set up provisions for uncertain tax positions and classify as non-current.

However, only two companies disclosed non-current income tax liabilities. An analysis of the three year average current tax charge versus cash tax paid shows that 17 of 30 companies (57%) have a tax charge which exceeds cash tax paid. This implies that a large percentage of companies have significant provisions for tax risk which are either included in current tax or elsewhere on the balance sheet and as such are not transparent to the reader of the accounts. This lack of transparency is compounded by the absence of written commentary in all except one group.

However, the IASB is very aware of the current lack of guidance in IAS 12 and IAS 37 around providing for and disclosing uncertain tax positions, in particular when compared with the detailed US GAAP "FIN 48" requirements. IFRS reporters can therefore expect that future disclosure requirements in this area will be considerably more stringent than they are currently.

Deferred taxes assets

Deferred tax assets are recognised for all deductible temporary differences and all unused tax losses and tax credits, to the extent that it is probable that the future taxable profit will be available against which they can be utilised. The amount and expiry date of deductible temporary differences for which no deferred tax asset was recognised must be disclosed.

97% of companies clearly disclosed the amount of deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset had been recognised on the balance sheet. Most companies disclosed unused tax losses. Only one company did not disclose such information.

> … a large percentage of companies have significant provisions for tax risk which are either included in current tax or elsewhere on the balance sheet and as such are not transparent to the reader of the accounts.

… to improve transparency for the reader of the accounts, it is best practice to disclose gross deferred tax assets and liabilities by nature (i.e. before offsetting).

Deferred tax balances: offsetting

An entity shall offset deferred tax assets and deferred tax liabilities only if:

- the entity has a legal right to offset current assets against current liabilities; and
- the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either;
  - the same taxable entity,
  - different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

IAS 12 requires that deferred tax balances are disclosed by nature. In addition, to improve transparency for the reader of the accounts, it is best practice to disclose gross deferred tax assets and liabilities by nature (i.e. before offsetting). 27 companies (90%) conformed to this best practice indicating that companies have sufficiently detailed records to present in this manner.

Interestingly, the majority of companies offsetted deferred tax assets and liabilities to reach balance sheet totals. However, only 2 companies clearly explained the reason for offsetting (i.e. entities with common tax authorities). For the other companies, the deferred tax assets and liabilities in the balance sheet did not clearly reconcile to the gross deferred tax balances (by nature) in the disclosures. Although not required by the standard, further explanation of offsetting to reach the balance sheet totals may be beneficial.

Unremitted earnings

An entity should recognise a deferred tax liability for all temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, except to the extent that both of the following conditions are satisfied:

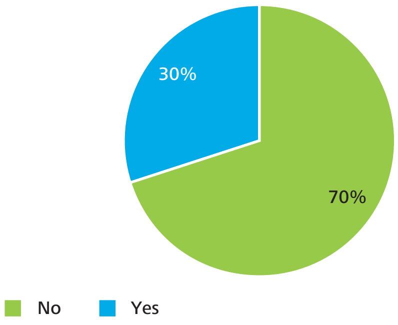
- the parent, investor or venturer is able to control the timing of the reversal of temporary differences; and
- it is probable that temporary differences will not reverse in the foreseeable future.

15 of 30 companies (50%) commented on the temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures as required by IAS 12. Of these, 1 company recognised a deferred tax liability.

Surprisingly, 50% of companies did not provide this disclosure. It has to be assumed therefore that these companies did not have deferred tax liabilities, fell within the exemptions in the standard or took advantage of the carve out in paragraph 87 which states, where it is impracticable to compute the amount of unrecognised deferred tax liability it need not be disclosed.

However, irrespective of whether a company takes advantage of paragraph 87, the standard requires companies to disclose the aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures, for which deferred tax liabilities have not been recognised. Only 9 out of 30 (30%) companies disclosed the aggregate amount of underlying temporary differences, often referred to as "unremitted earnings".

Figure 40. Have the unrecognised temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures been disclosed?



Qualitative comments

Whilst the quantitative information required to be disclosed was largely satisfactorily completed by the groups analysed, there were a significant number of cases where incoherence and imprecision was noted in the accompanying text. For example, in the case of several groups, the accounting policy described the policy around deferred tax on unremitted earnings, however the actual tax notes did not include any information at all related to this item. Some groups included within their accounting policy positions that were incoherent with the requirements of IAS 12, for example in relation to withholding taxes and capital taxes. In other cases, the text did not stand up to scrutiny from a technical perspective, for example in relation to the use of language.

The overall conclusion related to this part of the analysis was that much less care was taken to ensure the technical accuracy and clarity of written information around tax in the financial statements than for other line items.

Looking forward

Following the deferral of the International Accounting Standard Board's (IASB) March 2009 Exposure Draft (ED) *Income Taxes*, and in light of the responses to the ED, the IASB has narrowed the scope of the project to address more practical issues.

In December 2010, the Board issued an amendment to IAS 12 *Deferred Tax – Recovery of Underlying Assets.*

The timetable for further *Income Taxes* EDs remains unclear; the Board may consider a fundamental review of income taxes after 2011.

IFRS insight

- Current lack of guidance in relation with uncertain tax positions is expected to be remediated by more stringent requirements in the medium term by the IASB. Watch this space.
- Companies should explain more clearly the reasons for offsetting deferred tax balances to reach balance sheet totals.
- Deferred tax assets and liabilities in the balance sheet should clearly reconcile to the gross deferred tax balances (by nature) in the disclosures.
- Compliance with disclosures requirement in relation with unremitted earnings can be further improved by many of the companies surveyed.

The overall conclusion related to this part of the analysis was that much less care was taken to ensure the technical accuracy and clarity of written information around tax in the financial statements than for other line items.

14. Pensions

- 63% of companies applied the "corridor approach" for the recognition of actuarial gains and losses.
- 33% of companies presented additional information on pensions assumptions.
- Following the amendments to IAS 19, published in June 2011, we estimated that Swiss companies may see their pension cost increasing by 34% on average.

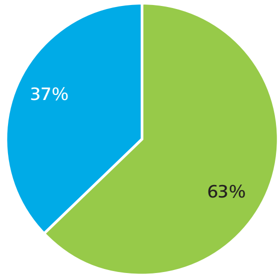
The areas surveyed focused on defined benefit schemes and also considered the implications of the amendments to IAS 19 *Employee Benefits* (2011).

Recognition of actuarial gains and losses

IAS 19 *Employee Benefits* allows, until end of 2012, a number of options for the recognition of actuarial gains and losses. At a minimum, to the extent that the unrecognised gains and losses exceed a corridor of 10% of the defined benefit obligation, then that excess is recognised in the income statement over a specified time span. This is known as the "corridor approach".

IAS 19 also permits systematic methods of faster recognition of actuarial gains and losses provided that the basis is consistent, including immediate recognition outside the income statement in the statement of comprehensive income. Figure 41 above right shows which policy companies adopted for recognising actuarial gains and losses. These results are consistent with last year's survey.

Figure 41. What is the policy for recognising actuarial gains and losses?



Pension assumptions

All companies complied with the IAS 19 requirement to disclose the discount rate on pension obligations and the actual return on plan assets.

Furthermore, 33% of the companies surveyed went beyond the minimum disclosure requirements and provided further information.

These 10 companies disclosed additional pension assumptions either by region, by pension plan or alternatively, disclosing the range of values applicable (e.g. from 2% to 5%).

Indeed, for companies operating several pension schemes in different geographical regions, these assumptions may significantly vary from one region to another.

An illustrative example is Richemont which provides an applicable range of values for the relevant key assumptions.

21. Retirement benefit obligations continued

The principal actuarial assumptions used for accounting purposes reflected prevailing market conditions in each of the countries in which the Group operates and were as follows:

	2010 Range	Weighted average	2009 Range	Weighted average
Discount rate	**2.0% to 6.0%**	**3.5%**	1.8% to 7.0%	4.3%
Expected return on plan assets	**2.8% to 6.0%**	**4.9%**	3.2% to 6.0%	5.1%
Future salary increases	**1.8% to 5.2%**	**2.7%**	1.8% to 4.9%	2.6%
Future pension increases	**2.2% to 3.6%**	**3.2%**	2.2% to 3.3%	3.0%

Assumptions used to determine the benefit expense and the end-of-year benefit obligations for the defined benefit plans varied within the ranges shown above. The weighted average rate for each assumption used to measure the benefit obligation is also shown. The assumptions used to determine end-of-year benefit obligations are also used to calculate the following year's cost.

The Group's major benefit plans are in Switzerland, the UK and Germany.

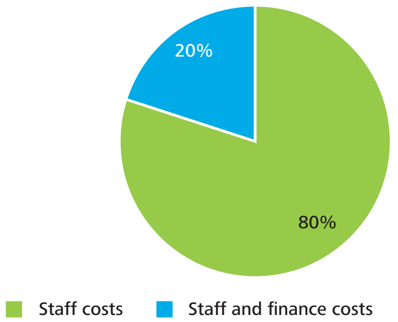
Richemont, Annual Report 2010

Defined benefit pension costs

IAS 19 *Employee Benefits* discusses the various costs that may need to be recognised in the income statement (such as current service costs, interest costs, expected return on plan assets, actuarial gains and losses to the extent recognised and the effect of curtailments or settlements). However, neither IAS 1 nor IAS 19 clearly dictates how the charge/credit to the income statement ought to be presented.

Figure 42 below shows where the companies surveyed elected to include the costs in the income statement.

Figure 42. Where are defined benefit pension costs included in the income statement?



80% of companies attributed the pension costs to staff costs alone. 20% allocated the pension costs to both staff costs and finance costs. Compared to prior year survey, 3 companies elected to change the presentation from staff costs alone to both staff and finance, most probably in the light of the forthcoming amendments discussed below.

Looking forward: amendments to IAS 19 and implications for Swiss companies

The objective of this project was to improve financial reporting of employee benefits by eliminating some presentation options, thus increasing comparability, and enhancing the disclosures about risks arising from defined benefit plans.

Indeed, IAS 19 was often criticised for permitting deferred recognition of actuarial gains and losses and its ambiguity in other areas which has resulted in a lack of transparency and diversity in practice.

In June 2011, the International Accounting Standards Board (IASB) issued amendments to IAS 19 *Employee Benefits* (2011) that change the accounting for defined benefit plans and termination benefits. The amendments are effective for annual periods beginning on or after 1 January 2013. Retrospective application is required with certain exemptions.

Elimination of the corridor method

The most significant amendment will require an entity to recognise changes in defined benefit obligations and plan assets when they occur. This means that all actuarial gains and losses will be recognised immediately through OCI and the net pension asset or liability recognised in the statement of financial position will reflect the full amount of the over- or underfunded status of the benefit plans.

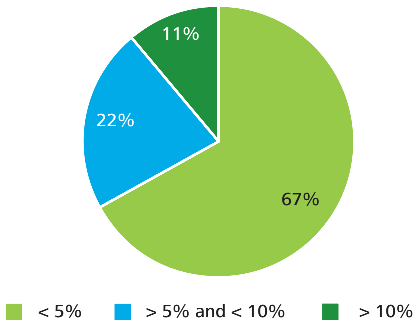
- For users of the "corridor method", larger liability may have to be recognised on transition, which could affect key performance metrics and compliance with debt covenants;

- Going forward, there will be a greater volatility on the statement of financial position and in OCI.

This change is particularly relevant in the Swiss context where 19 of the companies surveyed (or 63%) will be impacted. More significantly, 33% (or 6 companies) will see their reported equity decreased by more than 5% on transition.

On an ongoing basis, there will be greater volatility in the statement of financial position and in OCI due to immediate recognition of actuarial gains and losses, but the profit and loss impact of amortising actuarial gains and losses will no longer occur.

Figure 43. Elimination of the "corridor method" and corresponding decrease on reported equity



Elimination of expected return on plan assets

Another significant change, that has not been commented to the extent that it could have been, is the removal of the expected return on plan assets in the calculation of the pension cost.

Going forward a net interest expense/(income) calculated by applying the discount rate to the net defined benefit liability/(asset) at the beginning of each reporting period will be recognised in the profit and loss. The difference between the actual return on plan assets and the change in plan assets resulting from the passage of time will be recognised in OCI as part of the remeasurement component.

In many cases, using the discount rate to calculate the interest income on the plan assets will reduce net profit, since the interest income will not reflect the benefit from the expectation of higher returns on riskier investments.

This change may also cause an entity to become more conservative in its investment strategies relating to its defined benefit plan which could lead to higher costs of providing the associated benefits.

Unsurprisingly, in the sample of companies surveyed, the expected return always exceeded the discount rate. We estimated that Swiss companies may see their pension cost increasing by 34% on average versus the reported 2010 numbers. 5 companies out of the 30 surveyed may see their pension cost more than double.

With this rise of pension costs recognised in profit or loss, the revision of IAS 19 will have significant consequences on Swiss companies' operating profitability.

Change in presentation approach

The amendments introduce a new approach for presenting changes in defined benefit obligations and plan assets in profit or loss and OCI. Entities will need to segregate changes in the defined benefit obligation and fair value of plan assets into those associated with (1) service costs, (2) net interest and (3) remeasurements.

- Service cost component – recognised in profit or loss and includes current service cost, vested and unvested past service cost (together with gains and losses from curtailments) and gains or losses on settlements. The distinction between past service cost and curtailments in the previous version of IAS 19 is no longer necessary as both of these items are now recognised immediately.

- Net interest component – net interest is recognised in profit or loss and is calculated by applying the discount rate to the net defined benefit liability or asset at the beginning of each reporting period. The difference between the actual return on plan assets and the change in plan assets resulting from the passage of time will be recognised in OCI as part of the remeasurement component.

  While the 2010 Exposure Draft proposed to include the net interest component as part of finance cost, the final amendment does not specify where in profit or loss an entity should present the net interest component. Out of the 30 companies surveyed, only 6 presented an allocation of the pension costs between salaries and finance costs.

- Remeasurement component – recognised in OCI and comprises actuarial gains and losses on the defined benefit obligation, the actual return on plan assets net of the interest on plan assets included in the net interest component and any changes in the effect of the asset ceiling. Actuarial gains and losses include experience adjustments and the effects of change in actuarial assumptions. Remeasurements are never reclassified to profit or loss but may be transferred within equity (e.g., to retained earnings).

We estimated that Swiss companies may see their pension cost increasing by 34% on average versus the reported 2010 numbers. 5 companies out of the 30 surveyed may see their pension cost more than double.

Risk-based disclosures

The amendments set objectives to improve the understandability and usefulness of disclosures, allowing users of financial statements to evaluate better the financial effect of liabilities and assets arising from defined benefit plans.

Judgement will often be required to determine the significant actuarial assumptions to be disclosed, which actuarial assumptions have a material effect if they are changed and what is the range of reasonably possible change for the sensitivity analysis.

Expected requirements may include: discount rate, salary increase, pension indexation and longevity.

An important note is that for periods beginning before 1 January 2014, comparative information does not need to be presented for the sensitivity of the defined benefit obligation, while the other amendments are effective for annual periods beginning on or after 1 January 2013.

IFRS insight – The future of pension accounting

- Immediate action by companies in order to understand the broader impact of the amendments to IAS 19 on their financial position, operating performance and key metrics is strongly advised.
- Disclosures will be risk-based and become more judgmental. Early consideration of the new requirements and alignment of financial reporting system in order to gather the required information will ease first-application.
- Companies operating globally should already consider providing more detailed information about the key assumptions. Additional information either by region, pension plan or by way of range of applicable values are only reported by 33% of the companies surveyed.

15. Business combinations, joint ventures and consolidation

- 73% of companies had business combinations in the year.
- 55% of business combinations had the accounting determined provisionally.
- 64% of joint ventures were accounted for using the equity method of accounting.
- The "package of five" recently issued by the IASB will require careful judgment in its application. Early consideration of the likely consequences is strongly advised.

Business combinations

Overview of application in Switzerland

IFRS 3 (2008) *Business Combinations* was adopted in the current year by 94% of the companies surveyed. While the remaining two entities disclosed that the revised standard will only be applicable in their next reporting period commencing on 1 April 2010.

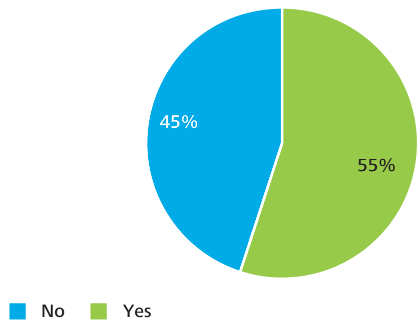
73% of companies disclosed that a business combination had occurred in the current reporting period (70% in 2009).

When, at the end of an acquirer's first accounting period following the combination the fair value of the acquiree's net assets can only be determined on a provisional basis, IFRS 3 (2008) requires that:

- the acquirer accounts for the business combination using provisional fair values;
- the fact that provisional fair values have been used is disclosed; and
- an explanation of why this is the case is given.

As shown in figure 44 below, more than half of companies (55%) with business combinations explicitly stated that the initial accounting had been determined provisionally.

Figure 44. Has the initial accounting been determined provisionally?



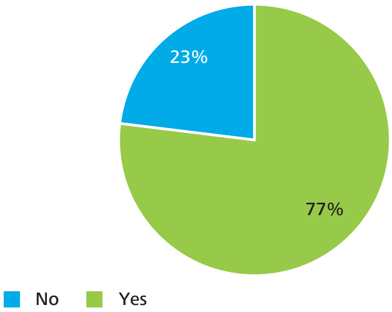
11 out of 12 companies explained why the initial accounting for the business combination had been determined provisionally, with only one of the relevant companies not providing the required explanation.

Adjustments to provisional fair values may be made within 12 months of the acquisition date and accounted for as if they were made at the acquisition date.

On the right is an example from Annual Report of Roche.

IFRS 3 (2008) requires the disclosure of the revenue and profit or loss of the combined entity for the period as if the acquisition date for all business combinations during the period had been the first day of the period. 77% of relevant companies provided this information. Of the five companies that did not provide this information, two stated that the acquisitions were not deemed material to the entity while three did not disclose any reason for the missing information.

Figure 45. Has the revenue and profit or loss of the combined entity been disclosed as if all business combinations during the period had been entered into on the first day of the period?



First application of the new business combinations standard: impact of key changes

Transaction costs
All acquisition costs, other than equity/debt related issuance costs, are accounted for separately from business combinations and therefore affect profit or loss.

In accordance with IFRS 3 (2008), companies should disclose specifically the line items in profit or loss where the transaction costs were recorded.

This information was provided by 59% of the companies with business combination, in addition, two companies provided an explanation for the non disclosure stating that acquisition costs were deemed to be immaterial.

7. Business combinations

Acquisitions – 2010

Marcadia | Effective 29 December 2010 the Group acquired a 100% controlling interest in Marcadia Biotech, Inc., ('Marcadia'), a privately owned US company based in Carmel, Indiana. Marcadia is a biopharmaceutical company focused on developing a broad portfolio of drug candidates for the treatment of diabetes and obesity. Marcadia is now reported as part of the Roche Pharmaceuticals operating segment. The acquisition of Marcadia will allow the Group to integrate Marcadia's development pipeline into its own Research and Development portfolio. Marcadia's research programmes focus on new peptide therapies for the treatment of Type 2 diabetes and obesity. These include next generation peptides such as MAR701, a novel compound currently in Phase I development. Based on Marcadia's unique peptide chemistry technology, these peptides are designed to offer patients improved efficacy, safety and convenience.

The total purchase consideration was 359 million Swiss francs, of which 273 million Swiss francs was paid in cash and 86 million Swiss francs arises from a contingent consideration arrangement. The payment from this arrangement is based on the achievement of two separate performance milestones that may arise between 2013 and 2015 and the range of outcomes, undiscounted, is between zero and 250 million US dollars, equivalent to 234 million Swiss francs at 31 December 2010 exchange rates. A liability of 86 million Swiss francs was recognised at the acquisition date, based on management's best estimate of the probability-adjusted expected cash outflow from the arrangement. As at 31 December 2010 the amount recognised for this arrangement was unchanged based on the most recent management estimates.

The purchase consideration has been allocated as shown in the table below. The assets and liabilities and the amounts allocated to them are provisional based on preliminary information and valuations of the assets and liabilities of Marcadia. They are subject to adjustment during 2011 if new information is obtained about the facts and circumstances that existed at the acquisition date.

Marcadia acquisition: net assets acquired | in millions of CHF

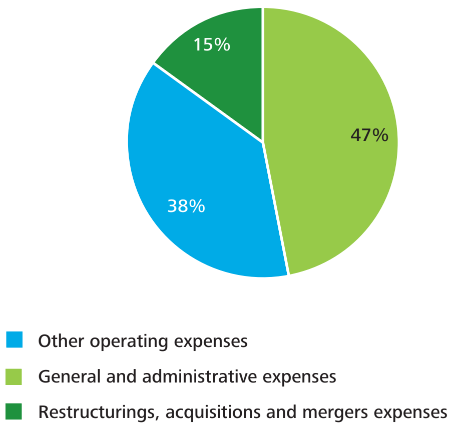
	Carrying value prior to acquisition	Fair value adjustments	Carrying value upon acquisition
Property, plant and equipment	–	–	–
Intangible assets			
– Product intangibles: in use	–	89	89
– Product intangibles: not available for use	–	196	196
Inventories	–	–	–
Deferred income taxes	9	(116)	(107)
Cash	35	–	35
Other net assets (liabilities)	1	–	1
Net identifiable assets	**45**	**169**	**214**
Goodwill			145
Purchase consideration			**359**

Goodwill represents a control premium and synergies that can be obtained from the Group's existing business. None of the goodwill recognised is expected to be deductible for income tax purposes.

Roche, Annual Report 2010

The vast majority of companies (86%) chose to measure non controlling interests at their proportionate interest in the identifiable assets of the acquiree while the remaining 14% measured this at fair value.

Figure 46. Which line items have transaction costs been recorded in the income statement?



Contingent consideration
25% of companies disclosed that, as part of their acquisitions, contingent consideration may be paid and, in addition, also stated their fair values at the date of acquisition. For these companies, remeasurement of the contingent consideration will give rise of an increase volatility in the profit and loss.

As a reminder, consideration for an acquisition, including contingent consideration, is recognised and measured at fair value at the date of acquisition. Subsequent changes to those fair values affect the measurement of goodwill only where they occur during the 'measurement period' and are as a result of additional information becoming available about facts and circumstances that existed at the acquisition date. This will usually mean that changes in the fair value of contingent consideration are recognised in the income statement.

Partial acquisition
Partial acquisition refers to the acquisition of a controlling interest, but with a proportion of the acquiree's equity held by other investors (referred to as non controlling interests, formerly a minority interest).

The vast majority of companies (86%) choose to measure non controlling interests at their proportionate interest in the identifiable assets of the acquiree while the remaining 14% measured this at fair value.

As a reminder, a choice is available, on an acquisition by acquisition basis, to measure such non controlling interests either at their proportionate interest in the identifiable assets of the acquiree, or at fair value.

Transactions with non controlling interest
One third of the companies acquired additional interest in a subsidiary with no significant impact on the reported equity. This was explained by the relative small size of these transactions in the current year.

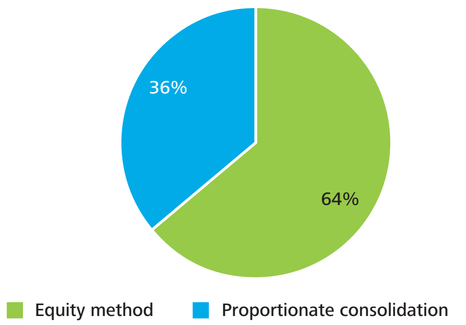
As a reminder, once control has been achieved and acquisition accounting is applied, any subsequent transactions in subsidiary equity interests between the parent and non controlling interests are accounted for as equity transactions. Consequently, additional goodwill does not arise on any increase in the parent interest, there is no remeasurement of net assets to fair value and no gain or loss arises on any decrease in the parents' interest.

Financial communication
The impacts of the revised standard on business combinations are not only limited to the point of acquisition but will also affect subsequent reporting periods with contingent consideration giving rise to increased volatility in profit or loss. One of the challenges faced by IFRS reporting entities will be explaining these changes to the market to ensure that the implications on financial performance are understood.

Joint ventures

IAS 31 *Interests in joint ventures* allows companies a choice of accounting for interests in jointly controlled entities using either proportionate consolidation or the equity method. 22 companies had interests in joint ventures at the period end. As shown in figure 47 below, 64% of these companies accounted for their interests in joint ventures using the equity method of accounting, by which an investment is initially recorded at cost and subsequently adjusted to reflect the investor's share of the net assets of the investment.

Figure 47. Have joint ventures been accounted for using the equity method of accounting or proportionate consolidation?



Looking forward

In May 2011, the IASB issued a package of five standards on consolidation, joint ventures, investments and related disclosures. The effective date is 1 January 2013, with earlier application permitted under certain circumstances.

A brief summary of some of the changes introduced is provided below:

– IFRS 10 *Consolidated Financial Statements:* the objective is to have a single basis for consolidation for all entities, regardless of the nature of the investee, that basis is control. Risks and rewards approach applicable only to the consolidation of special purpose entities was removed. The definition of control includes three elements: power over an investee, exposure or rights to variable returns of the investee and the ability to use power over the investee to affect the investor's return.

– IFRS 11 *Joint Ventures:* the new standard classifies joint arrangements as either joint operations or joint ventures. In addition, it requires the use of the equity method of accounting for interests in joint ventures thereby eliminating the proportionate consolidation method. This will have significant impact in Switzerland where proportionate consolidation was applied by 36% of the companies.

– IFRS 12 *Disclosures of Involvements with Other Entities:* the objective is to have a single source of guidance that comprises the disclosure requirements for entities that have an interest in subsidiaries, joint arrangements, associates or unconsolidated structured entities. This new standard also enhances disclosures about consolidated and unconsolidated entities.

Finally, amendments were made to IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* for conforming changes based on issuance of IFRS 10 and IFRS 11.

IFRS insight – "package of five" why does it matter now?

The release of the "package of five" concluded an important part of the IASB's response to the financial crisis. Indeed, there were concerns that existing consolidation and disclosures standards failed to capture adequately the risks that investors in certain entities were exposed to.

Will there be more or less consolidation in the future? At this stage, it is difficult to say, however, certain industries such as real estate, funds and assets management will be impacted by the new requirements.

Furthermore, removal of the proportionate consolidation method will be unpopular in real estate and extractive industries that use joint arrangements to a significant degree and in which the proportionate consolidation option was extensively applied. Transition from proportionate consolidation to equity method will affect all of an entity's financial statement line items, in particular, decreasing revenue, gross assets and gross liabilities. These companies will need to consider the effect on existing debt and remuneration arrangements for instance.

Implementation of these new standards will require significant judgment in several respects. While they will not be mandatorily effective until 2013, we advise preparers to begin evaluating their impact sooner rather than later, bearing in mind that retrospective application will be required.

Appendix 1. List of companies surveyed

Company	Activity	Location
Aryzta	Food producers	Zurich (ZH)
Barry Callebaut	Food producers	Zurich (ZH)
Clariant	Chemicals	Muttenz (BL)
Galenica	Pharmaceuticals	Bern (BE)
Geberit	Construction & materials	Jona (SG)
Georg Fischer	Manufacturing engineering	Schaffhausen (SC)
Givaudan	Chemicals	Vernier (GE)
Holcim	Construction & materials	Jona (SG)
Kudelski	Software	Cheseaux sur Lausanne (VD)
Kühne + Nagel	Transportation	Schindellegi (SZ)
Lindt & Sprüngli	Food producers	Kilchberg (ZH)
Lonza	Biotechnology	Basel (BS)
Meyer Burger	Industrial machinery	Baar (ZG)
Nestlé	Food producers	Vevey (VD)
Nobel Biocare	Healthcare equipment	Kloten (ZH)
Novartis	Pharmaceuticals	Basel (BS)
Panalpina	Transportation	Basel (BS)
Petroplus	Oil & gas	Zug (ZG)
Richemont	Personal goods	Bellevue (GE)
Roche	Pharmaceuticals	Basel (BS)
Romande Energie	Electricity	Morges (VD)
Schindler	Industrial machinery	Ebikon (LU)
SGS	Inspection services	Geneva (GE)
Sika	Construction & materials	Baar (ZG)
Sonova	Medical equipment	Stäfa (ZH)
Sulzer	Industrial machinery	Winterthur (ZH)
Swatch	Personal goods	Biel/Bienne (BE)
Swisscom	Telecommunications	Warblaufen (BE)
Syngenta	Chemicals	Basel (BS)
Von Roll	Electronic & electrical equipment	Wädenswil (ZH)

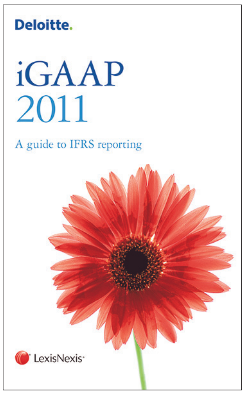
Appendix 2. Addressing common problems in financial statements

The table below sets out some of the common problems identified from the survey and provides suggested solutions for addressing those problems.

Problem	Solution
Accounting policies Accounting policies are unclear or inappropriate.	Lack of clarity may be the result of boiler-plate narrative and/or the retention of redundant policies. Accounting policies should be relevant to an understanding of a company's financial statements and explain its specific application of IFRS principles. A review of the appropriateness of accounting policies at each reporting period will help to eliminate redundant disclosure. *Accounting policies are discussed in more detail in section 8.*
Revenue recognition Difficulty understanding the bases of recognition for each significant revenue stream.	Where a revenue stream is material, the financial statements should include a specific accounting policy with sufficient detail to understand the revenue recognition criteria and whether these have been satisfied. *Revenue recognition is discussed in more detail in section 8.*
Management judgements Difficulty understanding the extent to which directors' judgement has been applied and its effect. **Estimates** Limited insight into the impact of reasonably possible alternative estimation assumptions on the company's financial position.	Disclosure of critical judgements and key sources of estimation uncertainty continues to be important in difficult economic conditions. Clear presentation of this information in a separate note in the financial statements with appropriate cross-references will enable users to understand more easily the areas in which directors have applied judgement, while avoiding unnecessary duplication. Companies should be open about the source of the uncertainties they face and the specific consequences. Disclosing an analysis of the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation may be an effective means of achieving this candour. *Critical judgements and estimates are discussed in more detail in section 8.*
Impact of economic conditions The financial statements do not explain the impact of continuing difficulties in the markets on the company.	The recent economic downturn has affected different companies in a variety of ways. Disclosure of this information is of particular significance to users during this period. The IAS 1 disclosures on the company's objectives, policies and processes for managing capital should be made in sufficient detail for a user to understand what is being managed as capital and how the policies adopted help the company to manage the economic uncertainties. Other areas where the quality of disclosure needs careful consideration include impairment of assets, risks arising from financial instruments and modifications of share-based payment schemes.
Use of management information The operating segments disclosed in the financial statements are different from the information provided in the business review.	IFRS 8 requires the reporting of segmental information to be based on the information that the chief operating decision maker receives and uses to make decisions. This may well be an area of significant judgement. If the chief operating decision maker discusses the components of the business in a different way in the business review, the operating segments may need to be reconsidered. The disclosures on risk required by IFRS 7 and those on managing capital required by IAS 1 should also be based on information provided internally to key management personnel. This information should therefore be specific to the company and consistent with that provided in the narrative reporting section of the annual report. *IFRS 8 is discussed in more detail in section 9 and IFRS 7 is discussed section 11.*
Comparability and consistency in measuring financial performance Difficulty comparing financial performance with previous years and/or other companies in the same industry group.	Ensure that any non-GAAP performance measures are clearly defined and used consistently each reporting period. IAS 1 allows such items to be presented when this is relevant to an understanding of financial performance. However, if non-GAAP measures are poorly defined, it will be hard for users to appreciate why these measures are being used and to compare recent with past performance and the company in question with others in the same industry. Think about the most appropriate presentation of non-GAAP measures on the face of the income statement. Whichever format is chosen, it should not have greater prominence than the IFRS measures. Care should also be taken to ensure that the income statement does not become cluttered and confused by the additional information. *Non-GAAP performance measures are discussed in more detail in section 4.*

Problem	Solution
The financial statements in overview Key messages on financial performance and position are lost in the detail.	The length of financial statements continues to rise and there is a risk that they cease to be an effective means of communicating with investors. A regular review of the 'big picture' will help to ensure that the financial statements are logically structured and easy to navigate. The financial statements should be linked to and consistent with the narrative reporting in the annual report. Cross-references will help to achieve this and avoid unnecessary duplication of material. A regular review also facilitates the deletion of redundant material, which detracts from telling the company's story clearly and succinctly.
Missing disclosures The financial statements fail to provide disclosure on material balances.	IFRS has over 3000 disclosure requirements, with more new standards on the way. Establishing a process to ensure compliance with all accounting standards and company law is essential. Without one there is a risk that companies fail to meet straightforward disclosure requirements and provide insufficient detail for a user to understand the impact of material transactions on the company's financial position or performance. Deloitte has model financial statements and disclosure checklists to help address the completeness and quality of disclosures.
Unprepared for the 2011 reporting season Uncertainty about the standards and interpretations applicable now and in the foreseeable future.	Financial reporting requirements continue to grow in number and complexity. There are a number of changes that are applicable from 1 January 2011. It is important to understand which standards currently apply and the impact of those in issue but not yet effective. Deloitte has a number of resources to assist with this process including iGAAP 2011 *A guide to IFRS reporting*, quarterly iGAAP IFRS Newsletter and www.iasplus.com, a website which provides daily updates on global accounting news.

Appendix 3. Other Deloitte IFRS publications

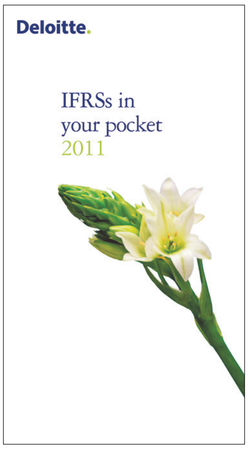


iGAAP 2011 – A Guide to IFRS Reporting

Deloitte has published the fourth edition of this guide that sets out comprehensive guidance for entities reporting under IFRSs. It has been updated not only to deal with new and amended requirements but also to reflect increased practical experience of dealing with IFRS issues and to include many more illustrative examples.

As well as dealing comprehensively with Standards that apply for periods ending 31 December 2010, it also covers those further pronouncements issued by the IASB that will apply from 2011. New material includes:

- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*.
- the revised version of IAS 24 *Related Party Disclosures*.
- the IASB's amendments to existing Standards.
- an overview of the *IFRS for SMEs*, identifying key differences with full IFRSs.
- IFRS 9 *Financial Instruments*.



IFRSs in your Pocket 2011

We have published the tenth edition of our popular guide to IFRSs – IFRSs in your pocket 2011. This 134-page guide includes information about:

- The IASB organisation – its structure, membership, due process, contact information, and a chronology.
- Use of IFRSs around the world, including updates on Europe, United States, Canada and elsewhere in the Americas, and Asia-Pacific.
- Recent pronouncements – those which are effective and those which can be early adopted.
- Summaries of current Standards and related Interpretations, as well as the Conceptual Framework for Financial Reporting and the Preface to IFRSs.
- IASB agenda projects and active research topics.
- IFRS Interpretations Committee current agenda topics.
- Other useful IASB-related information.

Printed copies are available with your local Deloitte contact.

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Notes

Notes

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