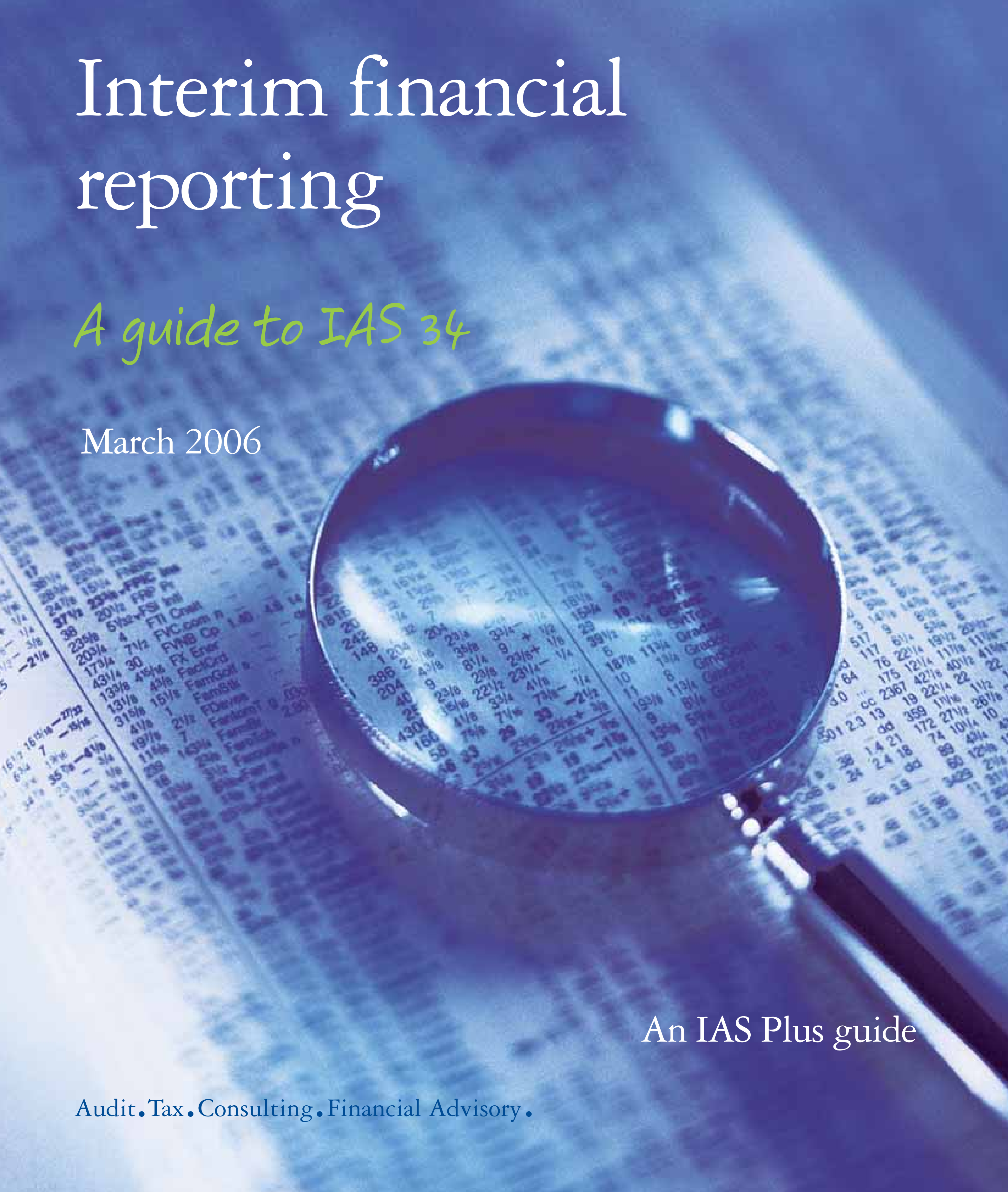
Audit

Interim financial reporting

A guide to IAS 34

March 2006



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Interim financial reporting
A guide to IAS 34

Contents

Abbreviations

Alt	Alternative
ED	Exposure Draft
EPS	Earnings per share
GAAP	Generally Accepted Accounting Principles
IAS(s)	International Accounting Standard(s)
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee of the IASB, and title of interpretations issued by that committee
IFRS(s)	International Financial Reporting Standard(s)

Throughout this publication, paragraphs that represent the authors' interpretations and examples other than those cited in IFRSs are highlighted by green shading.

1. Introduction and scope

IAS 34 *Interim Financial Reporting* prescribes the minimum content for an interim financial report, and the principles for recognition and measurement in complete and condensed financial statements for an interim period (defined as a financial reporting period shorter than a full financial year).

1.1 Scope of IAS 34

IAS 34 applies if an entity is required or elects to publish an interim financial report in accordance with International Financial Reporting Standards (IFRSs). [IAS 34.1] Such an interim report may be a complete set of financial statements prepared at the interim reporting date (and, therefore, complying in full with IFRSs) or a condensed interim financial report prepared in compliance with IAS 34.

1.2 No requirement to prepare interim financial reports

IAS 34 does not contain any rules as to which entities should publish interim financial reports, how frequently, or how soon after the end of an interim period. The Standard notes that governments, securities regulators, stock exchanges, and accountancy bodies often require entities with publicly-traded debt or equity to publish interim financial reports, and that those regulations will generally specify the frequency and timing of such reports.

However, IAS 34 *encourages* publicly-traded entities: [IAS 34.1]

- to provide interim financial reports at least as of the end of the first half of their financial year; and
- to make their interim financial reports available no later than 60 days after the end of the interim period.

1.3 No requirement for interim financial reports to comply with IAS 34

Each financial report, annual or interim, is evaluated on a stand-alone basis for compliance with IFRSs. It is important to note that entities that prepare annual financial statements in accordance with IFRSs are not precluded from preparing interim financial reports that do *not* comply with IFRSs, as long as the interim report does not state that it is IFRS compliant. The fact that an entity may not have provided interim financial reports during a financial year, or that it may have provided interim financial reports that did not comply with IAS 34, does not prevent the entity's annual financial statements from conforming to IFRSs, if they are otherwise IFRS compliant. [IAS 34.1 & 2]

1.4 Preliminary announcements

IAS 34 does not address the content of preliminary interim earnings announcements (i.e. those earnings announcements issued shortly after the end of an interim period that disclose abbreviated preliminary financial information for the interim period just ended). IAS 34.3 does state, however, that if an interim financial report is described as complying with IFRSs, it must comply with all of the requirements of IAS 34. Therefore, if any reference to IFRSs is made in a preliminary interim earnings announcement, the following sentences (or something substantively similar) should be included in that earnings release.

> *While the financial figures included in this preliminary interim earnings announcement have been computed in accordance with International Financial Reporting Standards (IFRSs) applicable to interim periods, this announcement does not contain sufficient information to constitute an interim financial report as that term is defined in IFRSs. The directors expect to publish an interim financial report that complies with IFRSs in August 2006.*

2. Content of an interim financial report

2.1 Minimum components

Entities reporting in accordance with IAS 34 are required to include in their interim financial reports, at a minimum, the following components: [IAS 34.8]

- a condensed balance sheet;
- a condensed income statement;
- a condensed statement showing either (a) all changes in equity or (b) changes in equity other than those arising from capital transactions with owners and distributions to owners;
- a condensed cash flow statement; and
- selected explanatory notes.

The interim statement of changes in equity should follow the same format as in the most recent annual financial statements. [IAS 34.13]

2.2 Periods required to be presented

IAS 34.20 requires interim financial reports to include interim financial statements (whether condensed or complete – see section 3 below) for the periods listed in the following table.

Statement	Current	Comparative
Balance sheet	End of current interim period	End of immediately preceding financial year
Income statement	Current interim period and cumulatively for the current financial year-to-date	Comparable interim period and year-to-date of immediately preceding financial year
Statement of changes in equity	Cumulatively for the current financial year-to-date	Comparable year-to-date of immediately preceding financial year
Cash flow statement	Cumulatively for the current financial year-to-date	Comparable year-to-date of immediately preceding financial year

2.2.1 Entities that report half-yearly

Based on the requirements of IAS 34.20, the following statements are required to be presented in the interim financial report of an entity that reports half-yearly, with a 31 December 2006 year end.

Balance sheet at	30 June 2006	31 December 2005
Income statement – 6 months ended	30 June 2006	30 June 2005
Statement of changes in equity – 6 months ended	30 June 2006	30 June 2005
Cash flow statement – 6 months ended	30 June 2006	30 June 2005

2.2.2 *Entities that report quarterly*

Based on the requirements of IAS 34.20, the following statements are required to be presented in the half-year interim financial report of an entity that reports quarterly, with a 31 December 2006 year end.

Balance sheet at	30 June 2006	31 December 2005
Income statement		
– 6 months ended	30 June 2006	30 June 2005
– 3 months ended	30 June 2006	30 June 2005
Statement of changes in equity		
– 6 months ended	30 June 2006	30 June 2005
Cash flow statement		
– 6 months ended	30 June 2006	30 June 2005

2.2.3 *Entities with seasonal businesses*

The requirements of IAS 34.20, as discussed above, set out the minimum periods for which interim financial statements are to be presented. However, entities may wish to provide additional information. For example, entities whose business is highly seasonal are encouraged to disclose financial information relating to the twelve-month period ended on the interim date, and comparative information on the same basis. [IAS 34.21]

2.2.4 *Change of financial year end*

IAS 34 does not discuss the circumstances where there is a change in the financial year end of the reporting entity. IAS 34.20 requires the presentation of comparative information for the income statement, statement of changes in equity, and cash flow statement for 'comparable' periods. Accordingly, in preparing the interim report based on the new financial year end, the entity should present comparative information for the same interim period, which may not have been the basis for the interim financial information previously reported.

Example 2.2.4

An entity with a 31 March year end, which reported half-year information to 30 September 2005, moves to a 31 December year end. It produces 'annual' accounts for the nine months ended 31 December 2005. Its half-year interim report for 2006 will be for the six months ended 30 June 2006.

The appropriate comparative period for the June 2006 interim report is the six months ended 30 June 2005. This will enable users to compare trends over time, particularly for a seasonal business. The statements for the six months ended 30 September 2005 are not directly comparable.

If it is not practicable to restate 2005 to the new interim period basis, the comparatives for the six months ended 30 September 2005, and also the amounts for the six months ended 31 March 2005, should be presented, with disclosure that restatement to the new interim period basis was not practicable.

2.2.5 *Comparatives when interim financial reports are produced for the first time*

When an entity is preparing its first interim financial report, unless the report relates to the first period of operation, it should generally include comparatives as discussed in the previous sections. In the exceptional circumstances where the entity does not have available in its accounting records the financial information that is needed to prepare the comparative interim financial statements, the entity has no choice but to omit disclosure of prior period comparative financial statements.

In the circumstances described, however, the omission of the comparatives represents a breach of IAS 34. Therefore, the interim financial report cannot be described as complying with IAS 34 without an 'except for' statement regarding the omission of prior period comparative figures. Both the fact of, and the reason for, the omission should be disclosed.

2.3 Group accounts

If the entity's most recent annual financial statements were consolidated statements, then the interim financial report should also be prepared on a consolidated basis. If the entity's annual financial report included the parent's separate financial statements in addition to consolidated financial statements, IAS 34 neither requires nor prohibits the inclusion of the parent's separate statements in the entity's interim report. [IAS 34.14]

Where the entity has disposed of all of its subsidiaries during the interim period, such that it has no subsidiaries at the interim reporting date, it should prepare its interim financial report on a consolidated basis because it had subsidiaries at some point during the interim period. The income statement, cash flow statement and statement of changes in equity will include the impact of the subsidiaries up to the date(s) of disposal.

2.4 Materiality

IAS 34.23 states that, in deciding how to recognise, measure, classify, or disclose an item for interim financial reporting purposes, materiality should be assessed in relation to the interim period financial data. In making assessments of materiality, it should be recognised that interim measurements may rely on estimates to a greater extent than measurements of annual financial data.

While materiality judgements are always subjective, the overriding concern is to ensure that an interim financial report includes all of the information that is relevant to understanding the financial position and performance of the entity during the interim period. Therefore, it is inappropriate to base quantitative estimates of materiality on projected annual figures.

3. Condensed or complete interim financial statements

Where the information prescribed by IAS 34.8 (as listed in section 2.1 above) is presented, the resultant financial statements are described as 'condensed'. However, entities also have the option of producing a complete set of financial statements for inclusion in their interim reports. Where an entity takes this alternative, the form and content of the financial statements must conform to the requirements of IAS 1 *Presentation of Financial Statements* for a complete set of financial statements, as well as the requirements of IAS 34. [IAS 34.7 & 9] Therefore, the measurement and disclosure requirements of all relevant Standards apply, including all measurement and disclosure requirements of IAS 34 and, in particular, the selected explanatory notes listed in IAS 34.16 (see section 4 below).

3.1 Items to appear on the face of condensed financial statements

IAS 34 requires that, for each component (balance sheet, income statement, statement of changes in equity, and cash flow statement), each of the headings and sub-totals that were included in the entity's most recent annual financial statements should be disclosed. Additional line items are required if their omission would make the condensed interim financial statements misleading. [IAS 34.10]

In prescribing the minimum content, IAS 34 uses the terms 'headings' and 'sub-totals', thereby seeming to imply that not all of the line items that were presented in the most recent annual financial statements are necessarily required. Such an interpretation would do a disservice, however, to a user of the financial statements who is trying to assess trends in the interim period in relation to financial years. Accordingly, the phrase should be interpreted, in nearly all cases, to mean the line items that were included in the entity's most recent annual financial statements. The line items on the face of most published financial statements are already highly aggregated and it would be difficult to think of a line item in the annual income statement, in particular, that would not also be appropriate in an interim income statement. For example, it would not be appropriate to begin a condensed income statement with the gross profit figure, omitting figures for revenue and cost of goods sold.

For the balance sheet, a too literal interpretation of 'each of the headings and subtotals' might lead to an interim balance sheet that presented lines only for total current assets, total non-current assets, total current liabilities, total non-current liabilities and total equity, which will generally be insufficient for trend analysis.

For the statement of changes in equity, all material movements in equity occurring in the interim period should be disclosed separately.

In the case of the cash flow statement, some condensation of the lines from the annual statement may be appropriate, but sub-totals for 'operating', 'investing' and 'financing' only are unlikely to be sufficient.

If a particular category of asset, liability, equity, income, expense or cash flows was so material as to require separate disclosure on the face of the financial statements in the most recent annual financial statements, such separate disclosure will generally be appropriate in the interim financial report. Further aggregation would only be anticipated where the line items in the annual statements are unusually detailed.

Under IAS 34.10, additional line items should be presented if their omission would make the condensed interim financial statements misleading. Therefore, a new category of asset, liability, equity, income, expense or cash flows arising for the first time in the interim period may require presentation as an additional line item in the condensed financial statements.

3.2 Use of the term 'condensed'

The requirements discussed in the previous section will result in the presentation of at least some statements that include all of the line items, headings and sub-totals that were presented in the most recent annual financial statements. The question then arises as to whether such statements should, in practice, be described as 'condensed'.

Given that the notes supplementing the interim statements are limited, the presentation package taken together is condensed in comparison to what would be reported in a complete set of financial statements under IAS 1 *Presentation of Financial Statements* and other Standards. In such circumstances, the balance sheet/income statement/equity/cash flow information presented is condensed – even if the appearance of the face of the statements has not changed. These interim statements should therefore be described as 'condensed', since otherwise a user might infer that they constitute a complete set of financial statements under IAS 1, which they do not. A complete set of financial statements must include a full note presentation identical to the annual presentation.

4. Selected explanatory notes

IAS 34 specifies that an interim report should contain selected explanatory notes.

4.1 Required disclosures

The disclosure requirements of IAS 34 are based on the assumption that anyone reading the interim report will have access to the most recent annual financial statements. Therefore, not all of the supplementary notes in the annual financial statements are required for interim reporting purposes, since this would result in repetition, or the reporting of relatively insignificant changes. The explanatory notes included with the interim financial information are intended to provide an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the last annual reporting date. [IAS 34.15]

The following table lists the minimum explanatory notes required by IAS 34. The information is generally presented on a year-to-date basis. However, the entity is also required to disclose any events or transactions that are material to an understanding of the current interim period. [IAS 34.16]

The following information should be disclosed in the notes to the interim financial statements: [IAS 34.16]

- a statement that the same accounting policies and methods of computation are followed in the interim financial statements as were followed in the most recent annual financial statements or, if those policies or methods have been changed, a description of the nature and effect of the change;
- explanatory comments about the seasonality or cyclicality of interim operations;
- the nature and amount of items affecting assets, liabilities, equity, net income or cash flows, that are unusual because of their size, nature or incidence;
- the nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year, or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period;
- issuances, repurchases and repayments of debt and equity securities;
- dividends paid (aggregate or per share), separately for ordinary shares and other shares;
- for entities required to comply with IAS 14 *Segment Reporting* in their annual financial statements, segment revenue and segment result for business segments or geographical segments, whichever is the entity's primary basis of segment reporting;
- material events after the end of the interim period that have not been reflected in the interim financial statements;
- the effect of changes in the composition of the entity during the interim period, including business combinations, acquisitions or disposals of subsidiaries and long-term investments, restructurings and discontinued operations; and
- changes in contingent liabilities or contingent assets since the last annual balance sheet date.

The Standard requires the entity to provide explanatory comments about the seasonality or cyclicality of interim operations under IAS 34.16(b). Discussion of changes in the business environment (such as changes in demand, market shares, prices and costs) and discussion of prospects for the full current financial year of which the interim period is a part will normally be presented as part of a management discussion and analysis or financial review, outside of the notes to interim financial statements.

IAS 34.17 provides the following examples of the kinds of disclosures that are required by paragraph 16:

- the write-down of inventories to net realisable value and the reversal of any such write-down;
- recognition of a loss arising from the impairment of property, plant, and equipment, intangible assets, or other assets, and the reversal of any such impairment loss;
- the reversal of any provisions for the costs of restructuring;
- acquisitions and disposals of items of property, plant and equipment;
- commitments for the purchase of property, plant and equipment;
- litigation settlements;
- corrections of prior period errors;
- any loan default or any breach of a loan agreement that has not been remedied on or before the balance sheet date; and
- related party transactions.

Readers will note that IAS 34.16 requires entities that fall within the scope of IAS 14 *Segment Reporting* for the purposes of their annual financial statements to disclose segment revenue and segment result for business segments or geographical segments, whichever is the entity's primary basis of segment reporting. In January 2006, the IASB issued Exposure Draft (ED) 8 *Operating Segments* which proposes (a) to expand the number of entities required to provide segment information in their annual financial statements, and (b) to significantly increase the amount of segment information that is disclosed in interim financial reports. Because, under the revised management approach to segment reporting proposed in ED 8, amounts reported for segments would be consistent with those reported internally for management control purposes, the IASB has concluded that it should be possible to expand segment information in interim reports without undue cost or delay. If accepted, the proposed changes would come into effect from 1 January 2007, with early application encouraged.

4.2 Detail required in explanatory notes

IAS 34 does not specify the level of detail for the disclosures required by IAS 34.16 and IAS 34.17. The guiding principle is that the interim disclosures should be those that are useful in understanding the changes in financial position and performance of the entity since the last annual reporting date. IAS 34.18 points out that the detailed disclosures required by other IFRSs are not required in an interim financial report that includes condensed financial statements and selected explanatory notes. Therefore, in general, the level of detail in interim note disclosures will be less than the level of detail in annual note disclosures. To illustrate:

- IAS 2.37 suggests that amounts of inventories at the end of a period and changes in inventories during the period are normally classified between merchandise, production supplies, materials, work in progress and finished goods. That level of detail would not normally be required in condensed interim financial statements unless it is significant to an understanding of the changes in financial position and performance of the entity since the last annual reporting date. Therefore, the disclosure of a write-down of inventories to net realisable value and the reversal of such a write-down, as required by IAS 34.17(a), will generally be made at the entity-wide level in condensed interim financial statements, rather than analysed between different classes of inventories; and

- IAS 36.126 requires disclosure of impairment losses and reversals for each class of assets. The disclosure of impairment losses and reversals required by IAS 34.17(b) will generally be made at the entity-wide level in condensed interim financial statements, rather than by class of assets, except where a particular impairment or reversal is deemed significant to an understanding of the changes in financial position and performance of the entity since the last annual reporting date.

Where business combinations have occurred during the interim period, IAS 34.16(i) requires the entity to disclose all of the details prescribed for annual financial statements in paragraphs 66 to 73 of IFRS 3 *Business Combinations* (see points 34024 to 34032 of the IAS 34 compliance checklist included in this publication).

4.3 Comparative information required for explanatory note disclosures

Comparative information is required for the explanatory note disclosures provided under IAS 34.16. Although there is no explicit requirement in this regard in IAS 34, reference should be made to IAS 1 *Presentation of Financial Statements.*

IAS 1.3 states, in part, as follows:

> *This Standard does not apply to the strucuture and content of condensed interim financial statements prepared under IAS 34, Interim Financial Reporting. However, paragraphs 13-41 apply to such financial statements.*

IAS 1.36 requires as follows:

> *Except when a Standard or an Interpretation permits or requires otherwise, comparative information shall be disclosed in respect of the previous period for all amounts reported in the financial statements. Comparative information shall be included for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.*

IAS 34.16 contains no express reference to the requirement for comparative information – therefore, IAS 1.36 applies by default and comparatives are required for all numerical information, and for narrative and descriptive information to the extent that it is relevant to an understanding of the current interim period's financial statements.

For the purposes of interim financial statements, the "previous period" referred to in IAS 1.36 should be taken to mean the equivalent period. Therefore, for example, where disclosures are made under IAS 34.16 in respect of business combinations or share issues on a financial year-to-date basis, then comparative information for the equivalent year to date should be reported.

When an entity prepares a complete set of financial statements for interim reporting purposes, then all of the requirements of IAS 1 apply, and, therefore comparative information is required for the explanatory note disclosures under IAS 34.16.

4.4 Inclusion of interim period disclosures in next annual financial statements

If an item of information is deemed significant and, therefore, is disclosed in an entity's interim financial report, that item of information will not necessarily be disclosed in the entity's next annual financial report that includes the interim period in which the disclosure was made. Under IAS 34, interim period disclosures are determined based on materiality levels that are assessed in relation to the interim period financial data (see section 2.4 above). The Standard recognises that the notes to interim financial statements are intended to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the last annual reporting date. A disclosure that is useful for that purpose may not be useful in the annual financial statements.

To illustrate, IAS 34.16(c) requires disclosure of the nature and amount of any item that affects assets, liabilities, equity, net income or cash flows if it is unusual because of its nature, size or incidence. For example, such an item may be unusual in size in the context of a single quarter or half-year period, but not so with respect to the full financial year.

As discussed at section 4.7 below, IAS 34.26 does require disclosure in the notes to the annual financial statements where an estimate of an amount reported in an earlier interim period is changed significantly.

4.5 Inclusion of interim period disclosures in subsequent interim periods of the same financial year

If an item of information is deemed significant and, therefore, is disclosed in an entity's interim financial report for the first quarter, that item of information will not necessarily be disclosed in the interim financial reports for the subsequent quarters of the same financial year. As discussed in 2.4 above, under IAS 34, materiality is assessed in relation to each interim period's financial data. Therefore, an item that is considered material in the context of one interim period may not be material for subsequent interim periods of the same financial year. IAS 34.16 indicates that note disclosures are normally on a year-to-date basis.

For example, the explanatory notes in the interim report as of 30 June 2006 for a 31 December 2006 year-end entity that reports quarterly will cover the period 1 January 2006 to 30 June 2006. An item of information that was deemed significant in the first quarter's report and, therefore, was disclosed in the notes to the interim report for the three months ending 31 March 2006, may not be significant on a 30 June six-month year-to-date basis. If that is the case, disclosure in the six-month interim report is not required.

By contrast, an item might be significant to understanding the performance of the entity for the current interim period (in the example above, the three months ended 30 June 2006) but not for the year-to-date (six months ended 30 June 2006). IAS 34.16 specifically requires disclosure of such items: in addition to reporting information on a year-to-date basis, the entity is required to disclose any events or transactions that are material to an understanding of the current interim period.

4.6 Disclosure of compliance with IFRSs

IAS 34.19 requires that, where an interim financial report has been prepared in accordance with the requirements of that Standard, that fact should be disclosed. An interim financial report should not be described as complying with Standards unless it complies with all of the requirements of International Financial Reporting Standards.

Therefore, an interim financial report can only be described as complying with "International Financial Reporting Standards" if it includes a complete set of financial statements as stipulated by IAS 1 *Presentation of Financial Statements* in addition to the disclosures required by other Standards and the additional explanatory note disclosures required by IAS 34. Because condensed interim reports do not include all of the disclosures required by IAS 1 and other Standards, they do not meet this requirement. They are therefore more appropriately described as having been prepared "in accordance with the requirements of IAS 34".

IAS 34 clarifies that, where other Standards call for disclosures in financial statements, in that context they mean a complete set of financial statements of the type normally included in an annual financial report. Such disclosures are not required if the interim financial report includes only condensed financial statements and selected explanatory notes. [IAS 34.18]

Therefore, when presenting condensed interim financial information, the entity needs to consider compliance with Standards at two levels:

- compliance with all of the measurement rules contained in extant Standards and Interpretations (as stated in the previous paragraph, compliance with the disclosure requirements of Standards other than IAS 34 is not required); and
- compliance with the disclosure requirements and the measurement principles for interim reporting purposes specified by IAS 34.

4.7 Disclosure in annual financial statements

It is quite common that entities do not prepare a separate report for the final interim period in a financial year. This will be determined on the basis of the rules of local regulators. For example, an entity with a 31 December year, which reports half-yearly, may not be required to produce a separate interim report covering the period from July to December.

In such circumstances, IAS 34 requires disclosure in the notes to the *annual* financial statements where an estimate of an amount reported in an earlier interim period is changed significantly. The nature and amount of that change in estimate are required to be disclosed. [IAS 34.26] This requirement is intended to provide the user of the financial statements with details of changes in estimates in the final interim period consistent with those generally required by IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The Standard does state, however, that this disclosure requirement is intended to be narrow in scope, relating only to the change in estimate, and it is not intended to introduce a general requirement to include additional interim period financial information in the entity's annual financial statements. [IAS 34.27]

IAS 34.27 makes clear that, when such a change in estimate occurs and is required to be disclosed in the annual financial statements, the disclosure represents additional interim period financial information. Consequently, although the disclosure is made in the annual financial statements, materiality will be determined by reference to interim period financial data.

5. Accounting policies for interim reporting

5.1 Same accounting policies as annual financial statements

The accounting policies applied in the interim financial statements should be consistent with those applied in the most recent annual financial statements, except for accounting policy changes made after the date of the most recent annual financial statements that are to be reflected in the next annual financial statements. [IAS 34.28]

Entities are required to disclose their compliance with this principle in their interim financial reports. [IAS 34.16(a)]

5.2 Changes in accounting policies

Preparers of interim financial reports in compliance with IAS 34 are required to consider any changes in accounting policies that will be applied for the next annual financial statements, and to implement the changes for interim reporting purposes. Such changes will generally encompass:

- changes required by a Standard or Interpretation that will be mandatory for the annual financial statements; and
- changes proposed for adoption in the annual financial statements, in accordance with the requirements of IAS 8 *Accounting Policies, Changes in Accounting Policies and Errors*, on the basis that they will result in the financial statements providing reliable and more relevant information.

If there has been any change in accounting policy since the most recent annual financial statements, the interim report is required to include a description of the nature and effect of the change. [IAS 34.16(a)]

5.3 Restatement of previously reported interim periods

A change in accounting policy, other than one for which the transitional provisions are specified by a new or revised Standard or Interpretation, should be reflected by: [IAS 34.43]

- restating the financial statements of prior interim periods of the current financial year, and the comparable interim periods of prior financial years that will be restated in annual financial statements in accordance with IAS 8; or
- when it is impracticable to determine the cumulative effect at the beginning of the financial year of applying a new accounting policy to all prior periods, adjusting the financial statements of prior interim periods of the current financial year, and comparable interim periods of prior financial years, to apply the new accounting policy prospectively from the earliest date practicable.

IAS 34.44 states that an objective of these principles is to ensure that a single accounting policy is applied to a particular class of transactions throughout an entire financial year. That is not to say that voluntary changes in accounting policy part-way through the year are prohibited. Such changes are permitted, provided that the conditions of IAS 8 are met. What IAS 34.44 requires is that, where a change in accounting policy is adopted at some point during the year, the amounts reported for earlier interim periods should be restated to reflect the new policy (i.e. any change in accounting policy is applied either retrospectively or, if that is not practicable, prospectively from no later than the beginning of the financial year). This avoids two different accounting policies being applied to a particular class of transactions within a single financial year – thus avoiding interim allocation difficulties and obscured operating results.

6. General principles for recognition and measurement

As discussed in section 5 above, in preparing their interim reports, entities are required to apply the accounting policies that will be applicable for their next annual financial statements. The principles for recognising assets, liabilities, income and expenses for interim periods are the same as those applicable to annual financial statements.

It is not intended, however, that each interim period should be seen to stand alone as an independent period. The Standard states that the frequency of an entity's reporting (annual, half-yearly or quarterly) should not affect the measurement of its annual results. To achieve that objective, measurements for interim reporting purposes are made on a year-to-date basis. [IAS 34.28]

There is a degree of inconsistency in IAS 34. The requirement set out at section 5.1 above (that the same accounting policies should be applied in the interim financial statements as are applied in annual financial statements) represents a 'discrete period' approach to interim reporting. On the other hand, IAS 34.28's requirement that measurements for interim reporting purposes should be made on a year-to-date basis so that the frequency of the entity's reporting does not affect the measurement of its annual results represents an 'integral period' approach.

This inconsistency has led to a number of areas of potential conflict between the requirements of IAS 34 and those of other Standards applied at interim reporting dates. The International Financial Reporting Interpretations Committee (IFRIC) has recently issued a draft interpretation that deals with one such issue (see section 8.1 below).

6.1 Overall considerations

IAS 34 does not repeat the general principles underlying the preparation of financial information that are set out in IAS 1 *Presentation of Financial Statements*. However, prepararers need to refer to IAS 1 itself for clalrification in this regard.

IAS 1.3 states, in part, as follows:

> *This Standard does not apply to the structure and content of condensed interim financial statements prepared under IAS 34, Interim Financial Reporting. However, paragraphs 13-41 apply to such financial statements.*

Paragraphs 13 to 41 of IAS 1, which therefore apply when preparing condensed financial statements for interim purposes, deal with:

- fair presentation and compliance with IFRSs;
- going concern;
- accrual basis of accounting;
- consistency of presentation;
- materiality and aggregation;
- offsetting; and
- comparative information.

6.2 Seasonal, cyclical or occasional revenues

Revenues that are received seasonally, cyclically or occasionally within a financial year may not be anticipated or deferred as of an interim date, if anticipation or deferral would not be appropriate at the end of the financial year. [IAS 34.37]

Thus, for example, an entity engaged in retailing does not divide forecasted revenue by two to arrive at its half-year revenue figures. Instead, it reports its actual results for the six-month period. If the retailer wishes to demonstrate the cyclicality of its revenues, it may include, as additional information, revenue for the 12 months ending on the interim reporting date and comparative information for the corresponding previous 12-month period (see section 2.2.3 above).

6.3 Uneven costs

The rule on revenues also applies to costs. Costs that are incurred unevenly during an entity's financial year should be anticipated or deferred for interim reporting purposes if, and only if, it is also appropriate to anticipate or defer that type of cost at the end of the financial year. [IAS 34.39]

A cost that does not meet the definition of an asset at the end of an interim period is not deferred in the interim balance sheet either to await future information as to whether it has met the definition of an asset, or to smooth earnings over interim periods within a financial year. [IAS 34.30(b)] Thus, when preparing interim financial statements, the entity's usual recognition and measurement practices are followed. The only costs that are capitalised are those incurred *after* the specific point in time at which the criteria for recognition of the particular class of asset are met. Deferral of costs as assets in an interim balance sheet in the hope that the criteria will be met before the year end is prohibited (see also section 7.6 below).

Example 6.3A

Major advertising campaign early in the financial year

An entity reports quarterly. In the first quarter of the financial year, the entity introduces new models of its products that will be sold throughout the year. At that time, it incurs a substantial cost for a major advertising campaign that will benefit sales throughout the year. Is it appropriate to spread the advertising cost over the benefit period – all four quarters of the year – or is the entire cost an expense of the first quarter?

The entire cost is recognised in the first quarter. Explanatory note disclosure may be required. IAS 38.69(c) requires that all expenditure on advertising and promotional activities should be recognised as an expense when incurred. As outlined above, a cost that does not meet the definition of an asset at the end of an interim period is not deferred, either to await future information as to whether it has met the definition of an asset or to smooth earnings over interim periods within a financial year.

Example 6.3B

Fixed costs of a manufacturer whose business is seasonal

A manufacturer's shipments of finished products are highly seasonal (shares of annual sales are respectively 20 per cent, 5 per cent, 10 per cent, and 65 per cent for the four quarters of the financial year). Manufacturing takes place more evenly throughout the year. The entity incurs substantial fixed costs, including fixed costs relating to manufacturing, selling, and general administration, and wishes to allocate all of its fixed costs to the four quarters based on each quarter's share of estimated annual sales volume.

Such an allocation is not acceptable under IAS 34. IAS 34.39 states that costs that are incurred unevenly during an entity's financial year should be anticipated or deferred for interim reporting purposes if, and only if, it is also appropriate to anticipate or defer that type of cost at the end of the financial year.

In the circumstances described, the fixed costs should be split between manufacturing fixed costs and non-manufacturing fixed costs. IAS 2.12 *Inventories* requires that the cost of manufactured inventories should include a systematic allocation of fixed production overheads (i.e. fixed manufacturing costs). Because manufacturing takes place evenly throughout the year, the entity will recognise cost of goods sold expense only when sales are made and, therefore, it will achieve its objective of allocating fixed manufacturing costs to the four quarters based on sales volume.

Fixed non-manufacturing costs are, however, different. IAS 2.16 makes clear that administrative overheads that do not contribute to bringing inventories to their present location and condition and selling costs (whether variable or fixed) are excluded from the cost of inventories and are recognised as expenses in the periods in which they are incurred. Therefore, the entity must charge its fixed non-manufacturing costs to expense as incurred in each of the four quarters. As required by IAS 34.16, explanatory comments about the seasonality or cyclicality of interim operations should be disclosed in the notes to interim financial statements. In addition, IAS 34.21 encourages seasonal businesses to present "rolling" 12-month financial statements in addition to interim period financial statements

6.4 Use of estimates

IAS 34.41 requires that measurement procedures used in interim financial reports produce information that is reliable, with all material relevant financial information being appropriately disclosed. It nevertheless acknowledges that, while reasonable estimates are often used for both annual and interim reports, interim reports generally will require a greater use of estimation methods than annual financial reports.

Appendix C to the Standard provides a number of examples of the use of estimates at interim reporting dates, which are reproduced below.

Examples of the use of estimates for interim reporting purposes

Inventories: Full stock-taking and valuation procedures may not be required for inventories at interim dates, although they may be carried out at financial year end. It may be sufficient to make estimates at interim dates based on sales margins.

Classifications of current and non-current assets and liabilities: Entities may do a more thorough investigation for classifying assets and liabilities as current or non-current at annual reporting dates than at interim dates.

Provisions: Determination of the appropriate amount of provisions (such as provisions for warranties, environmental costs and site restoration costs) may be complex and often costly and time-consuming. Entities sometimes engage outside experts to assist in the annual calculations. Making similar estimates at interim dates often entails updating prior annual provisions, rather than engaging outside experts to do a new calculation.

Pensions: IAS 19 *Employee Benefits* requires that an entity determine the present value of defined benefit obligations and the market value of plan assets at each balance sheet date, and encourages entities to involve a professionally-qualified actuary in the measurement of the obligations. For interim reporting purposes, reliable information is often obtainable by extrapolation of the latest actuarial valuation.

Income taxes: Entities may calculate income tax expense and deferred income tax liability at annual dates by applying the tax rate for each individual jurisdiction to measures of income for each jurisdiction. While such precision is also desirable at interim reporting dates, it may not be achievable in all cases, and a weighted average of rates across jurisdictions or across categories of income is used if it is a reasonable approximation of the effect of using more specific rates.

Contingencies: The measurement of contingencies may involve the opinions of legal experts or other advisers. Formal reports from independent experts are sometimes obtained with respect to contingencies. Such opinions about litigation, claims, assessments, and other contingencies and uncertainties, may or may not be needed at interim dates.

Revaluations and fair value accounting: IAS 16 *Property, Plant and Equipment* allows an entity to choose as its accounting policy the revaluation model whereby items of property, plant and equipment are revalued to fair value. Similarly, IAS 40 *Investment Property* requires an entity to determine the fair value of investment property. For those measurements, an entity may rely on professionally-qualified valuers at annual reporting dates, though not at interim reporting dates.

Intercompany reconciliations: Some intercompany balances that are reconciled on a detailed level in preparing consolidated financial statements at financial year end might be reconciled at a less detailed level in preparing consolidated financial statements at an interim date.

Specialised industries: Because of complexity, costliness and time, interim period measurements in specialised industries might be less precise than at financial year end. An example would be the calculation of insurance reserves by insurance companies.

6.5 Changes in estimates

As an illustration of the impact of changes in estimates, IAS 34 considers the rules for recognising and measuring losses from inventory write-downs, restructurings or impairments. The principles to be followed in an interim period are the same as those for annual periods. If such items are recognised and measured in, say, the first quarter of a financial year and the estimate changes in the second quarter of the year, the original estimate is adjusted in the second interim period, either by accrual of an additional amount or by reversal of the previously recognised amount. [IAS 34.30(a)]

If changes in estimates arise, the results of previous interim periods of the current year are not retrospectively adjusted. However, the nature and amount of any significant changes in estimates must be disclosed either: [IAS 34.16(d), 26 & 35]

- in the annual report, if there has been no subsequent interim period financial report that has disclosed the change in estimate (see section 4.7 above); or
- in the following interim period financial report of the same year.

Changes in estimates should also be disclosed in the corresponding interim report for the following year, so that the comparative figures (which are not restated) will not be misleading.

7. Applying the recognition and measurement principles

Appendix B to IAS 34 contains a number of detailed examples to illustrate the application of the recognition and measurement principles discussed in the previous sections. These are reproduced below, together with a number of additional examples developed to illustrate important points.

7.1 Employer payroll taxes and insurance contributions

If employer payroll taxes or contributions to government-sponsored insurance funds are assessed on an annual basis, the employer's related expense is recognised in interim periods using an estimated average annual effective payroll tax or contribution rate, even though a large portion of the payments may be made early in the financial year. A common example is an employer payroll tax or insurance contribution that is imposed up to a certain maximum level of earnings per employee. For higher income employees, the maximum income is reached before the end of the financial year, and the employer makes no further payments through the end of the year. [IAS 34.B1]

7.2 Major planned periodic maintenance or overhaul

The cost of a planned major periodic maintenance or overhaul or other seasonal expenditure that is expected to occur late in the year is not anticipated for interim reporting purposes, unless an event has caused the entity to have a legal or constructive obligation. The mere intention or necessity to incur expenditure related to the future is not sufficient to give rise to an obligation. [IAS 34.B2]

7.3 Provisions

A provision is recognised when an entity has no realistic alternative but to make a transfer of economic benefits as a result of an event that has created a legal or constructive obligation. The amount of the obligation is adjusted upward or downward, with a corresponding loss or gain recognised in the income statement, if the entity's best estimate of the amount of the obligation changes. [IAS 34.B3]

IAS 34 requires that an entity apply the same criteria for recognising and measuring a provision at an interim date as it would at the end of its financial year. The existence or non-existence of an obligation to transfer benefits is not a function of the length of the reporting period. It is a question of fact. [IAS 34.B4]

7.4 Year-end bonuses

The nature of year-end bonuses varies widely. Some are earned simply by continued employment during a time period. Some bonuses are earned based on a monthly, quarterly, or annual measure of operating result. They may be purely discretionary, contractual, or based on years of historical precedent. [IAS 34.B5]

A bonus is anticipated for interim reporting purposes if, and only if: [IAS 34.B6]

- the bonus is a legal obligation, or past practice would make the bonus a constructive obligation and the entity has no realistic alternative but to make the payments; and
- a reliable estimate of the obligation can be made.

IAS 19 *Employee Benefits* provides guidance on the application of the recognition rules to year-end bonuses.

7.5 Contingent lease payments

Contingent lease payments can be an example of a legal or constructive obligation that is recognised as a liability. If a lease provides for contingent payments based on the lessee achieving a certain level of annual sales, an obligation can arise in the interim period of the financial year before the required annual level of sales has been achieved, if that required level of sales is expected to be achieved and the entity, therefore, has no realistic alternative but to make the future lease payment. [IAS 34.B7]

7.6 Intangible assets

Entities are required to apply the definition and recognition criteria for an intangible asset in the same way in an interim period as in an annual period. Costs incurred before the recognition criteria for an intangible asset are met are recognised as an expense. Costs incurred after the specific point in time at which the criteria are met are recognised as part of the cost of an intangible asset. 'Deferring' costs as assets in an interim balance sheet in the hope that the recognition criteria will be met later in the financial year is not justified. [IAS 34.B8]

Example 7.6

Development costs that meet the IAS 38 capitalisation criteria midway in an interim period

An entity engaged in the pharmaceutical sector, with a December year end, reports quarterly. Throughout 2006, its research department is engaged in a major drug development project. Development costs incurred in 2006, by quarter, are as follows:

First quarter	CU100
Second quarter	CU100
Third quarter:	
1 July to 31 August	CU80
1 September to 30 September	CU60
Fourth quarter	CU150

The entity publishes its half-year report on 15 August, and the CU200 of development costs incurred during the first and second quarters are charged to expense. On 1 September, the research department determines that the criteria set out in IAS 38 for capitalising the development costs as an intangible asset have been met.

IAS 38 provides that asset recognition (cost capitalisation) begins at the point in time at which the recognition criteria are met, not at the start of the financial reporting period in which those criteria are met. Therefore, the following amounts are reported in the interim reports for the second half of the financial year, and in the annual report at 31 December 2006:

	30 September	31 December
	CU	CU
Asset recognised in the balance sheet	60	210

	3 months ended 30 September	9 months ended 30 September	12 months ended 31 December
	CU	CU	CU
Development costs charged to expense	80	280	280

7.7 Pensions

The pension cost for an interim period is calculated on a year-to-date basis by using the actuarially-determined pension cost rate at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-time events. [IAS 34.B9]

7.8 Vacations, holidays, and other short-term compensated absences

Accumulating compensated absences are those that are carried forward and can be used in future periods if the current period's entitlement is not used in full. IAS 19 *Employee Benefits* requires that an entity measure the expected cost of and obligation for accumulating compensated absences at the amount the entity expects to pay as a result of the unused entitlement that has accumulated at the balance sheet date. That principle is also applied at interim reporting dates. Conversely, an entity recognises no expense or liability for non-accumulating compensated absences at an interim reporting date, just as it recognises none at an annual reporting date. [IAS 34.B10]

Example 7.8

Vacation accruals at interim dates

An entity reports quarterly. Its financial year end is 31 December. Holiday entitlement accumulates with employment over the year, but any unused entitlement cannot be carried forward past 31 December. Most of the entity's employees take a substantial portion of their annual leave in July or August. Should an appropriate portion of employees' salaries during the July/August vacation period be accrued in the first and second quarter interim financial statements?

Yes, if the employees' vacation days are earned (accumulated) through service during the first and second quarters. Vacations are a form of short-term compensated absence as defined in IAS 19. IAS 19.11 requires that the expected cost of short-term accumulating compensated absences be recognised when the employees render service that increases their entitlement to future compensated absences. This principle is applied at both annual and interim financial reporting dates.

7.9 Other planned but irregularly occurring costs

An entity's budget may include certain costs expected to be incurred irregularly during the financial year, such as charitable contributions and employee training costs. Those costs generally are discretionary, even though they are planned and tend to recur from year to year. Recognising an obligation at an interim financial reporting date for such costs that have not yet been incurred generally is not consistent with the definition of a liability. [IAS 34.B11]

7.10 Contractual or anticipated purchase price changes

Volume rebates or discounts and other contractual changes in the prices of raw materials, labour, or other purchased goods and services are anticipated in interim periods, by both the payer and the recipient, if it is probable that they have been earned or will take effect. Thus, contractual rebates and discounts are anticipated, but discretionary rebates and discounts are not anticipated, because the definitions of asset and liability (requiring *control* over resources to be received, or an *obligation* to pay out resources) would not be met. [IAS 34.B23]

7.11 Depreciation and amortisation

Depreciation and amortisation charges for an interim period are based only on assets owned during that interim period. They should not take into account asset acquisitions or disposals planned for later in the financial year. [IAS 34.B24]

7.12 Inventories

7.12.1 Measurement of inventories – general

Inventories are measured for interim financial reporting using the same principles as at financial year end. IAS 2 *Inventories* establishes standards for recognising and measuring inventories. Inventories pose particular problems at any financial reporting date because of the need to determine inventory quantities, costs, and net realisable values. Nonetheless, the same measurement principles are applied for inventories at interim dates. To save cost and time, entities often use estimates to measure inventories at interim dates to a greater extent than at annual reporting dates. The following sections set out examples of how to apply the net realisable value test at an interim date and how to treat manufacturing variances at interim dates. [IAS 34.B25]

7.12.2 Net realisable value of inventories

The net realisable value of inventories is determined by reference to selling prices and related costs to complete and dispose at interim dates. [IAS 34.B26]

An entity should reverse a write-down to net realisable value in a subsequent reporting period only if it would be appropriate to do so at the end of the financial year. [IAS 34.B26]

7.12.3 Interim period manufacturing cost variances

Price, efficiency, spending and volume variances of a manufacturing entity are recognised in income at interim reporting dates to the same extent that those variances are recognised in income at financial year end. Deferral of variances that are expected to be absorbed by the year end is not appropriate because it could result in reporting inventory at the interim date at more or less than its portion of the actual cost of manufacture. [IAS 34.B28]

7.13 Foreign currency translation gains and losses

Foreign currency translation gains and losses are measured for interim financial reporting using the same principles as at financial year end. [IAS 34.B29]

IAS 21 *The Effects of Changes in Foreign Exchange Rates* specifies how to translate the financial statements for foreign operations into the presentation currency, including guidelines for using average or closing foreign exchange rates and guidelines for including the resulting adjustments in profit or loss or in equity. Consistent with IAS 21, the actual average and closing rates for the interim period are used. Entities do not anticipate changes in foreign exchange rates in the remainder of the current financial year when translating foreign operations at an interim date. [IAS 34.B30]

If IAS 21 requires that translation adjustments be recognised as income or as expenses in the period in which they arise, that principle is applied during each interim period. Entities do not defer some foreign currency translation adjustments at an interim date if the adjustment is expected to reverse before the end of the financial year. [IAS 34.B31]

7.14 Interim financial reporting in hyperinflationary economies

Interim financial reports in hyperinflationary economies are prepared using the same principles as at financial year end. IAS 29 *Financial Reporting in Hyperinflationary Economies* requires that the financial statements of an entity that reports in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date, and the gain or loss on the net monetary position is included in net income. Also, comparative financial data reported for prior periods is restated to the current measuring unit. [IAS 34.B32 & B33]

Entities are required to follow the same principles at interim dates, thereby presenting all interim data in the measuring unit as of the end of the interim period, with the resulting gain or loss on the net monetary position included in the interim period's net income. Entities should not annualise the recognition of the gain or loss. Nor do they use an estimated annual inflation rate in preparing an interim financial report in a hyperinflationary economy. [IAS 34.B34]

7.15 Capitalisation of borrowing costs in interim periods

Example 7.15

An entity follows the alternative treatment under IAS 23 *Borrowing Costs*, and capitalises borrowing costs directly attributable to the construction of qualifying assets. The entity funds its asset construction with general borrowings, rather than project-specific borrowings. Further, it uses general borrowings for purposes other than construction, so the amount of borrowings in any period is not necessarily related to the amount of construction during that period. The entity reports quarterly.

IAS 23.17 requires that the capitalisation rate for general borrowings be the weighted average of borrowing costs on borrowings outstanding during the period. For interim reporting purposes, the reference to 'period' in IAS 23.17 should be interpreted to mean the year-to-date period, not each individual quarter so that, in accordance with IAS 34.28 and IAS 34.36, the amount of borrowing costs capitalised is 'trued-up' each quarter on a year-to-date basis.

8. Impairment of assets

IAS 36 *Impairment of Assets* requires that an impairment loss be recognised if the recoverable amount of an asset has declined below its carrying amount. IAS 34 requires that an entity apply the same impairment testing, recognition and reversal criteria at an interim date as it would at the end of its financial year. That does not mean, however, that an entity must necessarily make a detailed impairment calculation at the end of each interim period. Rather, an entity will review for indications of significant impairment since the end of the most recent financial year to determine whether such a calculation is needed. [IAS 34.B35 & B36]

8.1 IFRIC Draft Interpretation D18

IFRIC Draft Interpretation D18 *Interim Financial Reporting and Impairment* was issued on 12 January 2006, with comments requested by 31 March 2006. The final Interpretation is expected to be issued before 30 June 2006.

The Draft Interpretation deals specifically with an area of conflict between IAS 34's general principle that the frequency of an entity's reporting (annual, half-yearly or quarterly) should not affect the measurement of its annual results [IAS 34.28] and the rules in IAS 36 and IAS 39 *Financial Instruments: Recognition and Measurement* regarding reversals of impairment for certain classes of assets, as follows:

- IAS 36.124 states that "An impairment loss recognised for goodwill shall not be reversed in a subsequent period";
- IAS 39.69 states that "Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale shall not be reversed through profit or loss"; and
- IAS 39.66 requires that impairment losses for financial assets carried at cost (such as an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured) should not be reversed.

The conflict is best illustrated by considering the example of Entity A and Entity B, which each hold the same equity investment with the same acquisition cost. Entity A prepares quarterly interim financial statements whilst Entity B prepares half-yearly financial statements. The entities have the same financial year-end date. If there was a significant decline in the fair value of the equity instrument below its cost in the first quarter, Entity A would recognise an impairment loss in its first quarter interim financial statements. However, if the fair value of the equity instrument subsequently recovered, so that by the half-year date there had not been a significant decline in fair value below cost, Entity B would not recognise an impairment loss in its half-yearly financial statements if it tested for impairment only at its external balance sheet date. Therefore, unless Entity A reversed the impairment loss that had been recognised in an earlier interim period, the frequency of reporting would affect the measurement of its annual results when compared with Entity B's approach.

The question addressed in IFRIC D18 is whether IAS 34 requires impairment losses recognised in an interim period on goodwill and investments in equity intruments and financial assets carried at cost to be reversed or not reversed if a loss would not have been recognised, or a smaller loss would have been recognised, had an impairment assessment been made only at a subsequent balance sheet date.

The consensus proposed in the Draft Interpretation is that an entity should not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in an equity instrument or a financial asset carried at cost. Essentially, the IFRIC has concluded that the prohibitions on reversals of recognised impairment losses on goodwill in IAS 36 and on investments in equity instruments and financial assets carried at cost in IAS 39 should take precedence over the more general statement in IAS 34 regarding the frequency of an entity's reporting not affecting the measurement of its annual results.

8.2 Other areas of potential conflict

There are a number of other areas where similar conflicts may arise, for example:

- the revaluation of assets under IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets* and IAS 40 *Investment Property*; and
- the reassessment of certain liabilities under IAS 19 *Employee Benefits* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

In its Draft Interpretation, the IFRIC has emphasised that the Committee has not studied those other areas of potential conflict and, therefore, it has not identified any general principles that might apply both to the proposed interpretation and to other areas of potential conflict. Therefore, the proposed interpretation applies only to reversals of impairment losses of goodwill and investments in equity instruments and financial assets carried at cost.

9. Measuring interim income tax expense

9.1 Use of estimated annual rate

The interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings, i.e. the estimated average annual effective income tax rate applied to the pre-tax income of the interim period. [IAS 34.B12]

This is consistent with the basic principle set out in IAS 34.28 that the same accounting recognition and measurement principles should be applied in an interim financial report as are applied in annual financial statements. Income taxes are assessed on an annual basis. Interim period income tax expense is calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to total annual earnings. [IAS 34.B13]

To the extent practicable, a separate estimated average annual effective income tax rate is determined for each tax jurisdiction and applied individually to the interim period pre-tax income of each jurisdiction. Similarly, if different income tax rates apply to different categories of income (such as capital gains or income earned in particular industries), to the extent practicable, a separate rate is applied to each individual category of interim period pre-tax income. While that degree of precision is desirable, it may not be achievable in all cases and a weighted average of rates across jurisdictions or across categories of income is used if it is a reasonable approximation of the effect of using more specific rates. [IAS 34.B14]

9.2 Impact of progressive tax rates

The estimated average annual effective income tax rate will reflect a blend of the progressive tax rate structure expected to be applicable to the full year's earnings, including enacted or substantively enacted changes in the income tax rates scheduled to take effect later in the financial year. [IAS 34.B13] Example 9.2, which is drawn from Appendix B to IAS 34, illustrates the impact of progressive tax rates.

Example 9.2

Progressive tax rates

[IAS 34.B15]

An entity reports quarterly. It expects to earn CU10,000 pre-tax each quarter, and operates in a jurisdiction with a tax rate of 20 per cent on the first CU20,000 of annual earnings and 30 per cent on all additional earnings. Actual earnings match expectations.

CU10,000 of tax is expected to be payable for the full year on CU40,000 of pre-tax income (CU20,000 at 20 per cent and CU20,000 at 30 per cent). The income tax expense that is reported in each quarter is as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Annual
Tax expense (CU)	2,500	2,500	2,500	2,500	10,000

9.3 Uneven earnings throughout the year

Example 9.3, again drawn from Appendix B to IAS 34, illustrates the application of the IAS 34 principles when earnings are distributed unevenly throughout the year.

Example 9.3

Uneven earnings throughout the year

[IAS 34.B16]

An entity reports quarterly. It earns CU15,000 pre-tax profit in the first quarter, but expects to incur losses of CU5,000 in each of the three remaining quarters (thus having zero income for the year). It operates in a jurisdiction in which its estimated average annual income tax rate is expected to be 20 per cent. The income tax expense reported in each quarter is as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Annual
Tax expense (CU)	3,000	(1,000)	(1,000)	(1,000)	0

9.4 Change in estimate of annual tax rate

When preparing the tax estimate to be included in an interim period, the tax expense is based on the best estimate of the weighted average *annual* income tax rate expected for the full financial year. Therefore, as for other changes in estimates, amounts accrued for income tax expense in one interim period may have to be adjusted in a subsequent interim period if the estimate of the annual income tax rate changes. [IAS 34.30(c)] The estimated average annual income tax rate would be re-estimated on a year-to-date basis, consistent with IAS 34.28.

The nature and amount of any significant changes in the estimated tax rate should be disclosed either: [IAS 34.16(d), 26 & 35]

- in the annual report, if there has been no subsequent interim period financial report that has disclosed the change in estimate (see section 4.7 above); or

- in the following interim period financial report of the same year.

9.5 Difference in financial reporting year and tax year

If the financial reporting year and the income tax year differ, the income tax expense for the interim periods of that financial reporting year is measured using separate weighted average estimated effective tax rates for each of the income tax years applied to the portion of pre-tax income earned in each of those income tax years. [IAS 34.B17]

Example 9.5

Difference in financial reporting year and tax year

[IAS 34.B18]

An entity's financial reporting year end is 30 June and it reports quarterly. Its taxable year end is 31 December. For the financial year that begins on 1 July 2006 and ends on 30 June 2007, the entity earns CU10,000 pre-tax each quarter. The estimated average annual income tax rate is 30 per cent in 2006 and 40 per cent in 2007.

	Quarter ending 30/09/06	Quarter ending 31/12/06	Quarter ending 31/03/07	Quarter ending 30/06/07	Year ending 30/06/07
Tax expense (CU)	3,000	3,000	4,000	4,000	14,000

9.6 Tax credits

Some tax jurisdictions give taxpayers credits against the tax payable based on amounts of capital expenditure, exports, research and development expenditure, or other bases. Anticipated tax benefits of this type for the full year are generally reflected in computing the estimated annual effective income tax rate, because those credits are granted and calculated on an annual basis under most tax laws and regulations. On the other hand, tax benefits that relate to a one-time event are recognised in computing income tax expense in that interim period, in the same way that special tax rates applicable to particular categories of income are not blended into a single effective annual tax rate. Moreover, in some jurisdictions, tax benefits or credits that are reported on the income tax return, including those related to capital expenditure and levels of exports, are more similar to a government grant and are recognised in the interim period in which they arise. [IAS 34.B19]

9.7 Tax loss and tax credit carrybacks and carryforwards

The benefits of a tax loss carryback are reflected in the interim period in which the related tax loss occurs. IAS 12 *Income Taxes* provides that "the benefit relating to a tax loss that can be carried back to recover current tax of a previous period should be recognised as an asset". A corresponding reduction of tax expense or increase of tax income is also recognised. [IAS 34.B20]

IAS 12 also provides that "a deferred tax asset should be recognised for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised". Detailed criteria are specified for the purpose of assessing the availability of future taxable profit against which the unused tax losses and credits can be utilised. [IAS 34.B21]

For interim reporting purposes, the criteria for recognition of deferred tax assets are applied at the end of each interim period and, if they are met, the effect of the tax loss carryforward is reflected in the computation of the estimated average annual effective income tax rate. [IAS 34.B21]

Example 9.7A

Tax loss carryforward at interim reporting date

[IAS 34.B22]

An entity, which reports quarterly, has an operating loss carryforward of CU10,000 for income tax purposes at the start of the current financial year, for which a deferred tax asset has not been recognised. The entity earns CU10,000 in the first quarter of the current year and expects to earn CU10,000 in each of the three remaining quarters. Excluding the carryforward, the estimated average annual income tax rate is expected to be 40 per cent.

The taxable income for the year is therefore estimated to be CU30,000 (i.e. income earned in the period of CU40,000 less the loss carried forward of CU10,000). The total tax payable will be CU12,000 (CU30,000 at 40 per cent), or an effective annual tax rate of 30 per cent (CU12,000/CU40,000).

The tax expense for each interim period is calculated as 30 per cent of earnings in the period, as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Annual
Tax expense (CU)	3,000	3,000	3,000	3,000	12,000

The tax effect of losses that arise in the early portion of a financial year should be recognised only when the tax benefits are expected to be realised either during the current year or as a deferred tax asset at the end of the year. For the purpose of applying this guidance, an established seasonal pattern of loss in the early interim periods followed by income in later interim periods is generally sufficient to support a conclusion that realisation of the tax benefit from the early losses is probable. Recognition of the tax benefit of losses incurred in early interim periods will generally not occur in those interim periods if available evidence indicates that income is not expected in later interim periods.

If the tax benefits of losses that are incurred in early interim periods of a financial year are not recognised in those interim periods, no income tax expense will be provided on income generated in later interim periods until the tax effects of the previous losses are offset.

The tax effect of a deferred tax asset expected to be recognised at the end of a financial year for deductible temporary differences and carryforwards that originate during the current financial year should be spread throughout the financial year by an adjustment to the annual effective tax rate.

Example 9.7B

Recognition of deferred tax assets at interim reporting dates

Assume that during the first quarter of 2006, an entity, operating in a tax jurisdiction with a 50 per cent tax rate, generates a tax credit of CU4,000 (i.e. sufficient to cover taxable profits of CU8,000) that, under tax law, will expire at the end of 2007. At the end of the first quarter of 2006, available evidence about the future indicates that taxable income of CU2,000 and CU4,000 will be generated during 2006 and 2007, respectively. Therefore, the entity expects to utilise CU1,000 (CU2,000 x 50 per cent) of the tax credit to offset tax on its 2006 taxable income, and CU2,000 (CU4,000 x 50 per cent) to offset tax on its 2007 income. It expects to recognise a deferred tax asset in its balance sheet at the end of 2006 of CU2,000 (relating to the tax relief available in 2007), and the balance of CU1,000 will not be recognised due to the low likelihood of its realisation.

Because the tax credit is generated during the current year, the tax consequence of the CU2,000 deferred tax asset expected to be recognised at the end of 2006 is applied ratably to each of the interim periods during 2006.

Therefore, if profits arise on a straight line basis through 2006, a benefit for income taxes of CU500 [CU2,000 x 1/4] will be recognised during the first interim period. Assuming the estimates about the future do not change during the remainder of the year, the tax benefit of the remaining CU1,500 (CU2,000 – CU500) of net deferred tax asset will be recognised ratably over the pre-tax accounting income generated in the later interim periods of 2006.

9.8 Change in estimate as to recoverability of tax loss carryforward

Example 9.8

Change in estimate as to recoverability of tax loss carryforward

An entity operates in a tax jurisdiction with a 50 per cent tax rate. In 2005, the entity incurs tax losses of CU50,000, which can be carried forward to offset against future taxable profits until 2007. At 31/12/2005, the entity estimates that CU40,000 of the losses can be recovered against profits in 2006 (budgeted profit CU15,000) and 2007 (budgeted profit CU25,000), and therefore recognises a deferred tax asset of CU20,000 (CU40,000 x 50 per cent) in its annual financial statements for 2005.

At the end of the first quarter of 2006, actual year to date profits and anticipations for the remainder of the year are in line with budget. However, the budgeted profit for 2007 is revised downward to CU20,000. Therefore, the carrying amount of the deferred tax asset at the end of 2006 should be reduced by CU2,500 (CU5,000 at 50 per cent). The effect of this reduction is spread throughout the year as part of the computation of the annual effective tax rate.

Therefore, in quarter 1 of 2006, assuming taxable profits of CU6,000 out of estimated annual profits of CU15,000, the income tax expense for the quarter is estimated as follows:

Estimated effective annual tax rate:	[(CU15,000 x 0.50) + CU2,500] /CU15,000 = 66.7%
Tax expense in Quarter 1:	CU6,000 x 66.7% = CU4,000

10. Earnings per share

Earnings per share (EPS), both basic and diluted, should be presented on the face of the income statement (whether complete or condensed) for the interim period. [IAS 34.11]

IAS 33 *Earnings Per Share* was revised in 2003 to require the disclosure in annual financial statements of more EPS information than had previously been required. IAS 34 has not itself been amended, nor does it make any specific reference to the requirements of IAS 33. Nevertheless, to enable users to compare trends, the same EPS figures should be presented in the interim report as in annual financial statements. Therefore, irrespective of whether the interim statement is described as 'condensed', the following should be presented on the face of the interim period income statement, with equal prominence for basic and diluted EPS for all periods presented:

- profit or loss attributable to the ordinary equity shareholders of the parent entity; and
- if presented in the annual financial statements, profit or loss from continuing operations attributable to the ordinary equity holders of the parent entity.

These should be presented for each class of ordinary shares that has a different right to share in profit for the period.

EPS figures should be provided for all income statement periods presented in the interim report. Therefore, if the entity presents income statement information separately for the current interim period and the current year-to-date, with comparatives for each, EPS (both basic and diluted) should be presented for the same four periods.

Any change in assumptions for the purposes of computing diluted EPS during the interim period may result in an apparent anomaly. For example, the sum of diluted EPS for the first quarter plus diluted EPS for the second quarter may not always equal diluted EPS for the half-year period.

Diluted EPS for the first quarter is based on assumptions that were valid during and at the end of that quarter. IAS 33 states that diluted EPS should not be restated for changes in the assumptions used or for conversions of potential ordinary shares into outstanding ordinary shares. Therefore, diluted EPS for the second quarter and for the half-year period may be based on different assumptions than were used in computing diluted EPS for the first quarter. Also, certain outstanding potential ordinary shares may have been 'anti-dilutive' (their conversion to ordinary shares would increase EPS) in the first quarter and would, therefore, be excluded from first quarter diluted EPS. In the second quarter and on a six-month basis, however, they may have been dilutive, and would therefore be included in diluted EPS.

Example 10

The following information relates to a quarterly reporter:

	Quarter 1 (1 January to 31 March)	Quarter 2 (1 April to 30 June)	Half year (1 January to 30 June)
Net income	CU1,000	CU1,000	CU2,000
Ordinary shares outstanding	1,000	1,000	1,000
Weighted average quoted market price of ordinary shares	CU8	CU20	CU14

Throughout the half-year, the entity had outstanding 100 options each allowing the holder to purchase one ordinary share for CU10. No options were exercised. For the second quarter interim report, IAS 34.20(b) requires an income statement for the second quarter and an income statement for the half-year. Calculations of basic and diluted EPS are as follows:

	Quarter 1 (1 January to 31 March)	Quarter 2 (1 April to 30 June)	Half year (1 January to 30 June)
Basic EPS	CU1,000/1,000 = CU1.00	CU1,000/1,000 = CU1.00	CU2,000/1,000 = CU2.00
Diluted EPS – numerator	CU1,000	CU1,000	CU2,000
Diluted EPS – denominator	1,000*	1,050 (1,000 + 50**)	1,028.57 (1,000 + 28.57***)
Diluted EPS	CU1	CU0.9524	CU1.9444

* The exercise price of the options is greater than the average market price of shares during the period. Therefore, the options are ignored in computing diluted EPS.

** If the share options were exercised, the proceeds of issue of CU1,000 would equate to an issue of 50 shares at the average market price of CU20. Therefore, the remaining 50 shares are assumed to have been issued for no consideration and are added to the number of ordinary shares outstanding for the computation of diluted EPS.

*** If the share options were exercised, the proceeds of issue of CU1,000 would equate to an issue of 71.43 shares at the average market price of CU14. Therefore, the remaining 28.57 shares are assumed to have been issued for no consideration and are added to the number of ordinary shares outstanding for the computation of diluted EPS.

Note that the sum of diluted EPS for the first quarter (CU1.00) plus diluted EPS for the second quarter (CU0.9524) does not equal diluted EPS for the first six months (CU1.9444).

11. First-time adoption of IFRSs

Where an entity presents an interim financial report under IAS 34 for part of the period covered by its first IFRS financial statements, in addition to following all the requirements of IAS 34, the entity must meet certain additional requirements imposed by IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

Note that, where an entity proposes to adopt IFRSs for the first time in its annual financial statements, as noted at section 1.3 above, there is no requirement under IFRSs that IAS 34 be adopted for its interim financial reports issued in that period. However, local regulators may have issued recommendations or requirements in that regard.

Where the entity elects to prepare interim reports under IAS 34 in the period of first-time application, IFRS 1 requires a range of further information including presentation of restated comparative information under IAS 34 and reconciliations between amounts reported under previous GAAP and under IFRSs.

11.1 Requirement to restate comparative information

When an entity prepares an interim financial report under IAS 34 for part of the period covered by its first IFRS financial statements, comparative information will need to be restated to comply with IFRSs. [IFRS 1.IG37]

11.2 The entity's first interim financial report under IAS 34

In the entity's *first* interim financial report under IAS 34 for part of the period covered by its first IFRS financial statements, the following reconciliations are required: [IFRS 1.45(b), 39(a)&(b)]

Note that these reconciliations are also required to be presented in the entity's first annual IFRS financial statements.

- reconciliations of its equity reported under previous GAAP to its equity under IFRSs for both of the following dates:
  - the date of transition to IFRSs; and
  - the end of the latest period presented in the entity' s most recent annual financial statements under previous GAAP; and
- a reconciliation of the profit or loss reported under previous GAAP for the latest period in the entity's most recent annual financial statements to its profit or loss under IFRSs for the same period.

Note that the Standard allows a cross-reference to another published document that includes these reconciliations in place of presentation of the reconciliations themselves in the interim financial report.

These reconciliations are required to give sufficient detail to enable users to understand the material adjustments to the balance sheet and income statement. If the entity presented a cash flow statement under its previous GAAP, it is also required to explain the material adjustments to the cash flow statement. [IFRS 1.40]

If the entity becomes aware of errors made under previous GAAP, the reconciliations required by IFRS 1.39(a) and (b) (see above) should distinguish the correction of those errors from changes in accounting policies. [IFRS 1.41]

Where the entity presented an interim financial report (under previous GAAP) for the comparable interim period of the immediately preceding financial year, the following reconciliations are also required: [IFRS 1.45(a)]

- a reconciliation of its equity under previous GAAP at the end of that comparable interim period to its equity under IFRSs at that date; and
- a reconciliation of its profit or loss under previous GAAP for that comparable interim period (current and year-to-date) to its profit or loss under IFRSs for that period.

11.3 Subsequent interim financial reports in the year of first-time application

Section 11.2 (see above) sets out the requirements for the entity's first interim financial report prepared under IAS 34 in the year of first-time application. For subsequent interim financial reports in the year of first-time application, only the requirements of IFRS 1.45(a) (see above) and IFRS 1.46 (see below) apply. Therefore, reconciliations between IFRSs and previous GAAP are only required in respect of equity at the end of the comparable interim period and of profit or loss for the comparable interim period (current and year-to date).

The Implementation Guidance attached to IFRS 1, reproduced below, illustrates the various reconciliations that need to be provided.

Example 11.3

Interim financial reporting

[IFRS 1.IG Example 10]

Background

Entity R's first IFRS financial statements have a reporting date of 31 December 2005, and its first interim financial report under IAS 34 is for the quarter ended 31 March 2005. Entity R prepared previous GAAP annual financial statements for the year ended 31 December 2004, and prepared quarterly reports throughout 2004.

Application of requirements

In each quarterly interim financial report for 2005, entity R includes reconciliations of:

(a) its equity under previous GAAP at the end of the comparable quarter of 2004 to its equity under IFRSs at that date; and

(b) its profit or loss under previous GAAP for the comparable quarter of 2004 (current and year-to-date) to its profit or loss under IFRSs.

In addition to the reconciliations required by (a) and (b) and the disclosures required by IAS 34, entity R's interim financial report for the first quarter of 2005 includes reconciliations of (or a cross-reference to another published document that includes these reconciliations):

(a) its equity under previous GAAP at 1 January 2004 and 31 December 2004 to its equity under IFRSs at those dates; and

(b) its profit or loss for 2004 under previous GAAP to its profit or loss for 2004 under IFRSs.

Each of the above reconciliations gives sufficient detail to enable users to understand the material adjustments to the balance sheet and income statement. Entity R also explains the material adjustments to the cash flow statement.

If entity R becomes aware of errors made under previous GAAP, the reconciliations distinguish the correction of those errors from changes in accounting policies.

If entity R did not, in its most recent annual financial statements under previous GAAP, disclose information material to an understanding of the current interim period, its interim financial reports for 2005 disclose that information or include a cross-reference to another published document that includes it. [IFRS 1.46]

11.4 Other information material to an understanding of the interim period

In addition, if a first-time adopter did not, in its most recent annual financial statements under previous GAAP, disclose information material to an understanding of the current interim period (see section 4.1 above), its interim financial report should disclose that information or include a cross-reference to another published document that includes it. [IFRS 1.46]

11.5 Disclosure of accounting policies

As noted at section 5.1 above, IAS 34.16 requires that interim financial reports prepared in accordance with its requirements should include a statement that the same accounting policies and methods of computation are followed in the interim financial statements as were followed in the most recent annual financial statements or, if those policies or methods have been changed, a description of the nature and effect of the change. On an ongoing basis, therefore, IAS 34 does not require a complete description of all of the entity's accounting policies in its interim financial reports.

However, in the period of first-time application, we would recommend that a full description of the entity's accounting policies under IFRSs be included in the entity's interim reports or, at least, a reference to another published document where the accounting policies can be found. Since those policies will inevitably differ from the policies disclosed in the most recent annual financial statements (prepared under previous GAAP), it is important for a user of the interim financial report to understand the basis of accounting under IFRSs.

Model interim financial report

Global GAAP Holdings Limited

Interim financial report for the 3 months ended 30 June 2006

The model interim financial report of Global GAAP Holdings Limited is intended to illustrate the presentation and disclosure requirements of IAS 34 *Interim Financial Reporting*. The presentation adopted, however, will not be the only possible presentation to meet the reporting requirements.

Global GAAP Holdings Limited is assumed to have presented financial statements in accordance with IFRSs for a number of years. Therefore, it is not a first-time adopter of IFRSs. IFRS 1 *First-time Adoption of International Financial Reporting Standards* includes additional disclosure requirements for interim periods covered by the entity's first IFRS financial statements. These requirements are included in the compliance checklist in the next section of this publication.

The model report illustrates the presentation of a set of condensed financial statements, as envisaged by IAS 34.8. If a complete set of financial statements is published in the interim financial report, the form and content of those statements should conform to the requirements of IAS 1 *Presentation of Financial Statements* for a complete set of financial statements.

This model interim financial report has been presented without regard to local laws or regulations. Preparers of interim financial reports will need to ensure that the options selected under IFRSs do not conflict with such sources of regulation (e.g. the revaluation of assets is not permitted in certain regimes – but these financial statements illustrate the presentation and disclosures required where the entity adopts the revaluation model under IAS 16 *Property, Plant and Equipment*). In addition, local laws or securities regulations may specify disclosures in addition to those required by IFRSs. Preparers of interim financial reports will consequently need to adapt the model interim financial report to comply with such additional local requirements.

For users' convenience, cross-references to IAS 34 and to the compliance checklist in the next section of this publication have been included in the model report.

For the purpose of presenting the income statement and the statement of changes in equity, the alternatives allowed for under IFRSs for those primary statements have been illustrated. The alternatives selected should be appropriate to the entity's circumstances, and should generally be consistent with the options selected by the entity for its annual financial statements.

Contents

Source	Checklist
IAS 34.8(b)	34001(b)
IAS 34.10	34003
	34004
IAS 34.20(b)	34012(b)

Condensed consolidated income statement for the period ended 30 June 2006

[Alt 1]

	Notes	Three months ended		Six months ended	
		30/6/06	30/6/05	30/6/06	30/6/05
		CU'000	CU'000	CU'000	CU'000
Continuing operations					
Revenue		255,931	162,492	450,077	297,336
Other operating income		6,227	4,236	8,650	6,037
Changes in inventories of finished goods and work in progress	5	14,908	(9,028)	5,446	7,329
Raw materials and consumables used		(189,924)	(94,062)	(282,754)	(167,366)
Employee benefits expense		(70,574)	(60,350)	(133,100)	(111,760)
Depreciation and amortisation expense		(8,382)	(6,232)	(14,302)	(12,498)
Other operating expenses		–	–	(695)	(1,404)
Operating profit (loss)		8,186	(2,944)	33,322	17,674
Finance costs		(6,500)	(4,873)	(11,859)	(8,492)
Share of profit of associates		1,042	839	4,818	1,669
Investment revenues		78	321	2,927	1,043
Profit (loss) before tax		2,806	(6,657)	29,208	11,894
Income tax (charge) credit	6	(1,332)	1,616	(4,598)	(1,290)
Profit (loss) for the period from continuing operations		1,474	(5,041)	24,610	10,604
Discontinued operations					
Profit for the year from discontinued operations	19	5,962	1,460	2,691	(1,168)
Profit (loss) for the period		7,436	(3,581)	27,301	9,436
Attributable to:					
Equity holders of the parent		7,138	(3,581)	20,705	6,776
Minority interest		298	–	6,596	2,660
		7,436	(3,581)	27,301	9,436

Source	Checklist
IAS 34.11	34005

	Notes	Three months ended		Six months ended	
		30/6/06	30/6/05	30/6/06	30/6/05
Earnings (loss) per share	7				
From continuing and discontinued operations					
Basic		5.94 cents	(2.98 cents)	17.24 cents	5.64 cents
Diluted		4.26 cents	(2.30 cents)	11.50 cents	4.28 cents
From continuing operations					
Basic		0.98 cents	(4.20 cents)	15.00 cents	6.61 cents
Diluted		0.70 cents	(3.24 cents)	10.00 cents	5.01 cents

Note: The format outlined above aggregates expenses according to their nature.

Source	Checklist						
IAS 34.8(b)	34001(b)	**Condensed consolidated income statement**					
IAS 34.10	34003	**for the period ended 30 June 2006**					**[Alt 2]**
	34004						
IAS 34.20(b)	34012(b)		Notes	Three months ended		Six months ended	
				30/6/06	30/6/05	30/6/06	30/6/05
				CU’000	CU’000	CU’000	CU’000
		Continuing operations					
		Revenue		255,931	162,492	450,077	297,336
		Cost of sales	5	(161,634)	(98,460)	(272,632)	(176,297)
		Gross profit		94,297	64,032	177,445	121,039
		Other operating income		6,227	4,236	8,650	6,037
		Distribution costs		(45,006)	(31,082)	(73,274)	(55,807)
		Administrative expenses		(45,928)	(38,891)	(77,661)	(52,185)
		Other operating expenses		(1,404)	(1,239)	(1,838)	(1,410)
		Operating profit (loss)		8,186	(2,944)	33,322	17,674
		Finance costs		(6,500)	(4,873)	(11,859)	(8,492)
		Share of profit of associates		1,042	839	4,818	1,669
		Investment revenues		78	321	2,927	1,043
		Profit (loss) before tax		2,806	(6,657)	29,208	11,894
		Income tax (charge) credit	6	(1,332)	1,616	(4,598)	(1,290)
		Profit (loss) for the period from continuing operations		1,474	(5,041)	24,610	10,604
		Discontinued operations					
		Profit for the year from discontinued operations	19	5,962	1,460	2,691	(1,168)
		Profit (loss) for the period		7,436	(3,581)	27,301	9,436
		Attributable to:					
		Equity holders of the parent		7,138	(3,581)	20,705	6,776
		Minority interest		298	–	6,596	2,660
				7,436	(3,581)	27,301	9,436
IAS 34.11	34005	**Earnings (loss) per share**	7				
		From continuing and discontinued operations					
		Basic		5.94 cents	(2.98 cents)	17.24 cents	5.64 cents
		Diluted		4.26 cents	(2.30 cents)	11.50 cents	4.28 cents
		From continuing operations					
		Basic		0.98 cents	(4.20 cents)	15.00 cents	6.61 cents
		Diluted		0.70 cents	(3.24 cents)	10.00 cents	5.01 cents

Note: The format outlined above aggregates expenses according to their function.

Source	Checklist
IAS 34.8(a)	34001(a)
IAS 34.10	34003
	34004
IAS 34.20(a)	34012(a)

Condensed consolidated balance sheet at 30 June 2006

	Notes	30/6/06	31/12/05
		CU'000	CU'000
Assets			
Non-current assets			
Property, plant and equipment	9	592,227	577,612
Intangible assets		26,985	21,294
Goodwill		3,010	2,538
Interests in associates	10	45,060	12,274
Available-for-sale investments		23,373	25,432
Finance lease receivables		114,937	104,489
Deferred tax assets		4,118	3,802
Derivative financial instruments		3,204	2,908
		812,914	750,349
Current assets			
Inventories		108,199	91,815
Finance lease receivables		54,713	49,674
Trade and other receivables		181,464	142,062
Investments held for trading		35,407	27,932
Derivative financial instruments		1,836	1,798
Cash and cash equivalents		5,609	1,175
		387,228	314,456
Total assets		1,200,142	1,064,805

Source	Checklist

Condensed consolidated balance sheet at 30 June 2006 – continued

	Notes	30/6/06	31/12/05
		CU'000	CU'000
Equity and liabilities			
Capital and reserves			
Share capital	12	142,343	142,343
Revaluation reserves	13	72,260	45,094
Hedging and translation reserves	14	(528)	(3,467)
Retained earnings	15	174,059	159,119
		388,134	343,089
Minority interest		9,172	2,576
Total equity		397,306	345,665
Non-current liabilities			
Borrowings	11	477,966	493,393
Deferred tax liabilities		14,556	2,972
Retirement benefit obligation		33,928	38,474
Obligations under finance leases		5,923	1,244
Provisions		2,118	–
		534,491	536,083
Current liabilities			
Trade and other payables		80,862	48,890
Current tax liabilities		8,229	1,986
Obligations under finance leases		1,470	1,483
Borrowings	11	171,352	128,633
Provisions		6,432	2,065
		268,345	183,057
Total liabilities		802,836	719,140
Total equity and liabilities		1,200,142	1,064,805

Source	Checklist
IAS 34.8(c)	34001(c)
IAS 34.10	34003
	34004
IAS 34.20(c)	34012(c)

Condensed consolidated statement of recognised income and expense for the period ended 30 June 2006

[Alt 1]

	Six months ended	
	30/6/06	30/6/05
	CU'000	CU'000
Gain (loss) on revaluation of property	32,094	(2,113)
(Deferred tax liability) reversal of deferred tax liability arising on revaluation of property	(4,695)	380
Gains on cash flow hedges taken to equity	172	230
Gains on available-for-sale investments taken to equity	26	–
Exchange differences arising on translation of overseas operations	3,351	1,023
Net income recognised directly in equity	30,948	(480)
Transfers:		
Transfer to profit or loss from equity on cash flow hedges	(498)	(153)
Transfer to profit or loss from equity on sale of available-for-sale investments	(259)	(125)
Transfer to initial carrying amount of non-financial hedged item on cash flow hedges	(86)	–
Profit for the period	27,301	9,436
Total recognised income and expense for the period	57,406	8,678
Attributable to:		
Equity holders of the parent	50,810	6,018
Minority interest	6,596	2,660
	57,406	8,678

Source	Checklist
IAS 34.8(c)	34001(c)
IAS 34.10	34003 34004
IAS 34.20(c)	34012(c)

Condensed consolidated statement of changes in equity for the period ended 30 June 2006

[Alt 2]

	Share capital	Revaluation reserves	Hedging and translation reserves	Retained earnings	Attributable to equity holders of the parent	Minority interest	Total
	CU'000	CU'000	CU'000	CU'000	CU'000	CU'000	CU'000
Balance at 1 January 2005	142,343	49,427	(5,828)	149,786	335,728	(4,281)	331,447
Loss on revaluation of property	–	(2,113)	–	–	(2,113)	–	(2,113)
Reversal of deferred tax liability arising on revaluation of property	–	380	–	–	380	–	380
Gains on fair value hedges	–	–	230	–	230	–	230
Exchange differences arising on translation of overseas operations	–	–	1,023	–	1,023	–	1,023
Net income recognised directly in equity	–	(1,733)	1,253	–	(480)	–	(480)
Transfer to profit or loss on cash flow hedges	–	–	(153)	–	(153)	–	(153)
Transfer to profit or loss on sale of available-for-sale investments	–	(125)	–	–	(125)	–	(125)
Profit for the period	–	–	–	6,776	6,776	2,660	9,436
Dividends	–	–	–	(14,472)	(14,472)	–	(14,472)
Balance at 30 June 2005	142,343	47,569	(4,728)	142,090	327,274	(1,621)	325,653
Balance at 1 January 2006	142,343	45,094	(3,467)	159,119	343,089	2,576	345,665
Gain on revaluation of property	–	32,094	–	–	32,094	–	32,094
Deferred tax liability arising on revaluation of property	–	(4,695)	–	–	(4,695)	–	(4,695)
Gains on cash flow hedges	–	–	172	–	172	–	172
Gains on available-for-sale investments	–	26	–	–	26	–	26
Exchange differences arising on translation of overseas operations	–	–	3,351	–	3,351	–	3,351
Net income recognised directly in equity	–	27,425	3,523	–	30,948	–	30,948
Transfer to profit or loss on cash flow hedges	–	–	(498)	–	(498)	–	(498)
Transfer to profit or loss on sale of available-for-sale investments	–	(259)	–	–	(259)	–	(259)
Transfer to initial carrying amount of non-financial hedged item on cash flow hedges	–	–	(86)	–	(86)	–	(86)
Profit for the period	–	–	–	20,705	20,705	6,596	27,301
Dividends	–	–	–	(5,765)	(5,765)	–	(5,765)
Balance at 30 June 2006	142,343	72,260	(528)	174,059	388,134	9,172	397,306

Note: *The above layout combines reserves of a similar nature for ease of presentation. Details of movements on individual reserves are presented in notes 12 to 14.*

Source	Checklist
IAS 34.8(d) IAS 34.10 IAS 34.20(d) IAS 34.16(c)	34001(d) 34003 34004 34012 (d) 34008(c)

Condensed consolidated cash flow statement for the period ended 30 June 2006

	Notes	Six months ended 30/6/06	Six months ended 30/6/05
		CU'000	CU'000
Net cash from operating activities		6,048	46,480
Additions to property, plant and equipment	9	(57,527)	(28,940)
Acquisition of interest in an associate	10	(34,519)	–
Acquisition of a subsidiary	19	(9,491)	–
Proceeds on disposal of property, plant and equipment	9	33,386	9,827
Proceeds on disposal of a subsidiary	19	30,900	–
Other investing cash flows (net)		8,345	(17,941)
Net cash used in investing activities		(28,906)	(37,054)
New bank loan raised	11	50,000	–
Repayments of bank loans	11	(19,818)	(18,230)
Other financing cash flows (net)		(2,890)	11,881
Net cash from (used in) financing activities		27,292	(6,349)
Net increase in cash and cash equivalents		4,434	3,077
Cash and cash equivalents at 1 January		1,175	2,033
Cash and cash equivalents at 30 June			
Bank balances and cash		5,609	5,110

Source **Checklist**

IAS 34.8(e) 34001(e)

Notes to the condensed consolidated financial statements for the period ended 30 June 2006

IAS 34.19 34011

1. Basis of preparation

The condensed financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting.

2. Significant accounting policies

The condensed financial statements have been prepared under the historical cost convention, except for the revaluation of certain properties and financial instruments.

IAS 34.16(a) 34008(a)

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005.

IAS 34.16(g) 34008(g)

3. Segment information

The following is an analysis of the revenue and results for the period, analysed by business segment, the Group’s primary basis of segmentation.

Business segments	Revenue		Segment result	
	Six months ended		Six months ended	
	30/6/06	30/6/05	30/6/06	30/6/05
	CU’000	CU’000	CU’000	CU’000
Continuing operations				
Manufacture of sports shoes and equipment	314,905	206,650	22,808	10,460
Trading of electronic goods	127,616	84,986	7,081	5,193
Leasing	7,556	5,700	7,037	3,236
	450,077	297,336	36,926	18,889
Discontinued operation				
Manufacture of toys	63,747	55,265	1,698	1,758
	513,824	352,601	38,624	20,647
Unallocated corporate expenses			(3,604)	(1,215)
Operating profit from continuing and discontinued operations			35,020	19,432

IAS 34.16(b) 34008(b)

4. Results for the period

[Commentary on seasonal trends etc.]

IAS 34.16(c) 34008(c)

5. Changes in inventories/costs of sales

Included in [changes in inventories of finished goods and work in progress/cost of sales] for the six months ended 30 June 2006 is an amount of CU2.79 million in respect of exceptional allowances recognised to reduce the carrying amount of inventories to their net realisable value. The allowances were recognised in the three months ended 31 March 2006.

6. Income tax (charge) credit

Interim period income tax is accrued based on the estimated average annual effective income tax rate of 14 per cent (6 months ended 30 June 2005: 18 per cent).

Notes to the condensed consolidated financial statements for the period ended 30 June 2006 – continued

7. Earnings (loss) per share

From continuing and discontinued operations

The calculation of the basic and diluted earnings per share is based on the following data:

	Three months ended		Six months ended	
	30/6/06	30/6/05	30/6/06	30/6/05
	CU'000	CU'000	CU'000	CU'000
Earnings				
Earnings for the purposes of basic and diluted earnings per share (profit (loss) for the period attributable to the equity holders of the parent)	7,138	(3,581)	20,705	6,776
Number of shares	'000	'000	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	120,111	120,111	120,111	120,111
Effect of dilutive share options	47,430	35,317	59,981	38,216
Weighted average number of ordinary shares for the purposes of diluted earnings per share	167,541	155,428	180,092	158,327

From continuing operations

Earnings figures are calculated as follows:

	Three months ended		Six months ended	
	30/6/06	30/6/05	30/6/06	30/6/05
	CU'000	CU'000	CU'000	CU'000
Profit (loss) for the period attributable to the equity holders of the parent	7,138	(3,581)	20,705	6,776
Less: (profit) loss for the period from discontinued operations	(5,962)	(1,460)	(2,691)	1,168
Earnings for the purposes of basic and diluted earnings per share from continuing operations	1,176	(5,041)	18,014	7,944

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

IAS 34.16(f) 34008(f)

8. Dividends

During the interim period, a dividend of 4.8 cents (2005: 12.04 cents) per share was paid to the shareholders.

9. Property, plant and equipment

During the period, the Group spent approximately CU57 million on the final stage of construction of its new office premises and on additions to the manufacturing plant in B Land, in order to upgrade its manufacturing capabilities.

It also disposed of certain of its machinery and tools with a carrying amount of CU30 million for proceeds of CU33 million.

Notes to the condensed consolidated financial statements for the period ended 30 June 2006 – continued

IAS 34.16(i) 34008(i)

10. Interests in associates

On 25 May 2006, the Group acquired a 30 per cent interest in A Plus Limited, a company incorporated in C Land and engaged in the manufacture of electronic goods. The consideration for the acquisition was CU34.5 million.

IAS 34.16(e) 34008(e)

11. Borrowings

During the period, the Group obtained a new short-term bank loan in the amount of CU50 million. The loan bears interest at market rates and is repayable within 1 year. The proceeds were used to meet short-term expenditure needs. Repayments of other bank loans amounting to CU20 million were made in line with previous disclosed repayment terms.

IAS 34.16(e) 34008(e)

12. Share capital

Share capital as at 30 June 2006 amounted to CU142,343,000. There were no movements in the share capital of the Company in either the current or the prior interim reporting period.

13. Revaluation reserves

	Properties revaluation reserve	Investments revaluation reserve	Total
	CU'000	CU'000	CU'000
Balance at 1 January 2005	42,552	6,875	49,427
Loss on revaluation of property	(2,113)	–	(2,113)
Reversal of deferred tax liability arising on revaluation of property	380	–	380
Transfer to profit or loss on sale of available-for-sale investments	–	(125)	(125)
Balance at 30 June 2005	40,819	6,750	47,569
Balance at 1 January 2006	38,704	6,390	45,094
Gain on revaluation of property	32,094	–	32,094
Deferred tax liability arising on revaluation of property	(4,695)	–	(4,695)
Gains on available-for-sale investments	–	26	26
Transfer to profit or loss on sale of available-for-sale investments	–	(259)	(259)
Balance at 30 June 2006	66,103	6,157	72,260

Source	Checklist

Notes to the condensed consolidated financial statements for the period ended 30 June 2006 – continued

14. Hedging and translation reserves

	Hedging reserve	Translation reserve	Total
	CU'000	CU'000	CU'000
Balance at 1 January 2005	1,501	(7,329)	(5,828)
Gains on cash flow hedges	230	–	230
Exchange differences arising on translation of overseas operations	–	1,023	1,023
Transfer to profit or loss on cash flow hedges	(153)	–	(153)
Balance at 30 June 2005	1,578	(6,306)	(4,728)
Balance at 1 January 2006	1,156	(4,623)	(3,467)
Gains on cash flow hedges	172	–	172
Exchange differences arising on translation of overseas operations	–	3,351	3,351
Transfer to profit or loss on cash flow hedges	(498)	–	(498)
Transfer to carrying amount of non-financial hedged item on cash flow hedges	(86)	–	(86)
Balance at 30 June 2006	744	(1,272)	(528)

15. Retained earnings

	CU'000
Balance at 1 January 2005	149,786
Profit for the period attributable to equity holders of the parent	6,776
Dividends	(14,472)
Balance at 30 June 2005	142,090
Balance at 1 January 2006	159,119
Profit for the period attributable to equity holders of the parent	20,705
Dividends	(5,765)
Balance at 30 June 2006	174,059

Source **Checklist**

Notes to the condensed consolidated financial statements for the period ended 30 June 2006 – continued

IAS 34.16(j) 34008(j)

16. Contingencies and commitments

[Changes in contingent liabilities or contingent assets since the last annual balance sheet date.]

IAS 34.16(h) 34008(h)

17. Post balance sheet events

[Material events subsequent to the end of the interim reporting period that have not been reflected in the financial statements for the interim period.]

18. Related party transactions

[Details of significant related party transactions for the period.]

IAS 34.16(i) 34008(i)

19. Acquisition and disposal of subsidiaries

Discontinued operation

On 30 April 2006, the Group disposed of Sub A Limited, which carried out all of its toy manufacturing operations. The proceeds of disposal of CU30.9 million were received in cash.

The profit (loss) for the period from the discontinued operation is analysed as follows:

	Month ended 30/4/06	3 months ended 30/06/05	4 months ended 30/4/06	6 months ended 30/6/05
	CU'000	CU'000	CU'000	CU'000
Profit (loss) of toy manufacturing operation for the period	2,079	1,460	(1,192)	(1,168)
Gain on disposal of toy manufacturing operation	3,883	–	3,883	–
	5,962	1,460	2,691	(1,168)

The following were the results of the toy manufacturing operation for the period:

	Month ended 30/4/06	3 months ended 30/06/05	4 months ended 30/4/06	6 months ended 30/6/05
	CU'000	CU'000	CU'000	CU'000
Revenue	22,318	28,802	63,747	55,265
Operating costs	(19,011)	(25,209)	(62,049)	(53,507)
Finance costs	(1,228)	(1,203)	(2,890)	(2,103)
Profit (loss) before tax	2,079	2,390	(1,192)	(345)
Income tax expense	–	(930)	–	(823)
Profit (loss) after tax	2,079	1,460	(1,192)	(1,168)

Source	Checklist	

Notes to the condensed consolidated financial statements for the period ended 30 June 2006 – continued

IAS 34.16(i) 34008(i)

The net assets of Sub A Limited at the date of disposal were as follows:

	CU'000
Net assets disposed of	25,998
Attributable goodwill	1,019
	27,017
Profit on disposal	3,883
Total consideration	30,900
Satisfied by cash, and net cash inflow arising on disposal	30,900

A profit of CU3.88 million was earned on the disposal of Sub A Limited. No tax charge or credit arose from the transaction.

Sub A Limited did not make any significant contribution to the results or cash flows of the Group during the interim period.

IAS 34.16(i) 34008(i)

Acquisition

IFRS 3.66
IFRS 3.67(a) to (d) — 34024
34025(a) to (d)

On 1 June 2006, the Group acquired 100 per cent of the issued share capital of Sub X Limited for cash consideration of CU16 million. This transaction has been accounted for using the acquisition method of accounting.

IFRS 3.67(f) — 34025(i)
34025(j)

The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Acquiree's carrying amount before combination	Fair value adjustments	Fair value
	CU'000	CU'000	CU'000
Net assets acquired:			
Property, plant and equipment	8,140	767	8,907
Deferred tax asset	–	351	351
Inventories	2,393	461	2,854
Trade receivables	2,520	–	2,520
Bank and cash balances	6,493	–	6,493
Retirement benefit obligation	(2,436)	–	(2,436)
Trade payables	(4,626)	(48)	(4,674)
Deferred tax liability	(150)	–	(150)
Contingent liability	–	(21)	(21)
	12,334	1,510	13,844
Goodwill arising on acquisition			2,140
Total consideration, satisfied by cash			15,984
Net cash outflow arising on acquisition:			
Cash consideration paid			(15,984)
Cash and cash equivalents acquired			6,493
			(9,491)

Source	Checklist	
		Notes to the condensed consolidated financial statements for the period ended 30 June 2006 – continued
IFRS 3.67(h)	34025(m)	The goodwill arising on the acquisition of Sub X Limited is attributable to the anticipated profitability of the distribution of the Group's products in the new markets and the anticipated future operating synergies from the combination.
IFRS 3.67(i)	34025(o)	The results contributed by Sub X Limited in the period between the date of acquisition and the balance sheet date were not significant.
IFRS 3.70	34027	If the acquisition had been completed on 1 January 2006, total group revenue for the period would have been CU541million, and profit for the period would have been CU32.2 million.

IAS 34 compliance checklist

Reference	Requirement	Source
	This checklist addresses the requirements of IAS 34, Interim Financial Reporting. *IFRS 1, First-time Adoption of International Financial Reporting Standards, includes additional disclosure requirements for interim periods covered by the entity's first IFRS financial statements. These requirements are also included in this checklist.* *Where an entity elects to present a complete set of financial statements at the interim reporting date, IAS 1, Presentation of Financial Statements, will apply to those financial statements. Even where a condensed interim financial report is prepared, certain requirements of IAS 1 apply. The sections applicable to condensed interim financial reports, as set out in IAS 1.3, deal with:* • *fair presentation and compliance with IFRSs;* • *going concern;* • *accrual basis of accounting;* • *consistency of presentation;* • *materiality and aggregation;* • *offsetting; and* • *comparative information.*	
	Minimum components of an interim financial report	
	Note: IAS 34 defines the minimum content of an interim financial report as including condensed financial statements and selected explanatory notes. The interim financial report is intended to provide an update on the latest complete set of annual financial statements. Accordingly, it focuses on new activities, events and circumstances and does not duplicate information previously reported.	IAS 34.6
34001	An interim financial report shall include, at a minimum, the following components:	
	a) condensed balance sheet;	IAS 34.8(a)
	b) condensed income statement;	IAS 34.8(b)
	c) condensed statement showing either: i) all changes in equity; or ii) changes in equity other than those arising from capital transactions with owners and distributions to owners.	IAS 34.8(c)
	d) condensed cash flow statement; and	IAS 34.8(d)
	e) selected explanatory notes.	IAS 34.8(e)
	Form and content of interim financial statements	
34002	If an entity publishes a complete set of financial statements in its interim financial report, the form and content of those statements shall conform to the requirements of IAS 1 *Presentation of Financial Statements* for a complete set of financial statements.	IAS 34.9
34003	If an entity publishes a set of condensed financial statements in its interim financial report, those condensed statements shall include, at a minimum, each of the headings and subtotals that were included in the entity's most recent annual financial statements and the selected explanatory notes as required by IAS 34.	IAS 34.10
34004	Additional line items or notes shall be included if their omission would make the condensed interim financial statements misleading.	IAS 34.10
	Note: Where the entity has opted to publish a complete set of financial statements for the interim period, the recognition and measurement guidance in IAS 34 applies to those financial statements, and such statements should include all of the disclosures required by IAS 34 (particularly the selected note disclosures in paragraph 16 of IAS 34) as well as those required by other Standards.	IAS 34.7

Reference	Requirement	Source
34005	Basic and diluted earnings per share shall be presented on the face of the income statement, complete or condensed, for the interim period.	IAS 34.11
34006	An entity follows the same format in its interim statement of changes in equity as it did in the entity's most recent annual financial statements.	IAS 34.13
	Note: IAS 1 requires a statement of changes in equity to be presented as a separate component of an entity's financial statements, and permits information about changes in equity arising from transactions with equity holders acting in their capacity as equity holders (including distributions to equity holders) to be shown either on the face of that statement or in the notes.	IAS 34.13
34007	An interim report is prepared on a consolidated basis if the entity's most recent annual financial statements were consolidated statements.	IAS 34.14
	Note: The parent's separate financial statements are not consistent or comparable with the consolidated statements in the most recent annual financial report. If an entity's annual financial report included the parent's separate financial statements in addition to consolidated financial statements, IAS 34 neither requires nor prohibits the inclusion of the parent's separate statements in the entity's interim financial report.	IAS 34.14
	Selected explanatory notes	
	Note: A user of an entity's interim financial report will also have access to the most recent annual financial report of that entity. It is unnecessary, therefore, for the notes to an interim financial report to provide relatively insignificant updates to the information that was already reported in the notes in the most recent annual report. At an interim date, an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the last annual reporting date is more useful.	IAS 34.15
34008	An entity shall include the following information, as a minimum, in the notes to its interim financial statements, if material and if not disclosed elsewhere in the interim financial report:	
	a) a statement that the same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements or, if those policies or methods have been changed, a description of the nature and effect of the change;	IAS 34.16(a)
	b) explanatory comments about the seasonality or cyclicality of interim operations;	IAS 34.16(b)
	c) the nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidence;	IAS 34.16(c)
	d) the nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period;	IAS 34.16(d)
	e) issuances, repurchases and repayments of debt and equity securities;	IAS 34.16(e)
	f) dividends paid (aggregate or per share) separately for ordinary shares and other shares;	IAS 34.16(f)
	g) segment revenue and segment result for business segments or geographical segments, whichever is the entity's primary basis of segment reporting;	IAS 34.16(g)
	Note: Disclosure of segment data is required in an entity's interim financial report only if IAS 14, Segment Reporting, requires that entity to disclose segment data in its annual financial statements.	IAS 34.16(g)
	h) material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period;	IAS 34.16(h)
	i) the effect of changes in the composition of the entity during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinued operations; and	IAS 34.16(i)

Reference	Requirement	Source
	Note: In the case of business combinations, the entity shall disclose the information required to be disclosed under paragraphs 66 to 73 of IFRS 3, Business Combinations. See items 34024 to 34032 below.	IAS 34.16(i)
	j) changes in contingent liabilities or contingent assets since the last annual balance sheet date.	IAS 34.16(j)
34009	The explanatory notes outlined above (paragraph 16 of IAS 34) shall normally be reported on a financial year-to-date basis.	IAS 34.16
34010	Notwithstanding that the explanatory notes outlined above (paragraph 16 of IAS 34) are normally reported on a financial year-to-date basis, the entity shall also disclose any events or transactions that are material to an understanding of the current interim period.	IAS 34.16
	Notes:	
	1) Examples of the kinds of disclosures that are required by paragraph 16 of IAS 34 are set out below. Individual Standards and Interpretations provide guidance regarding disclosures for many of these items: • *the write-down of inventories to net realisable value and the reversal of such a write-down;* • *recognition of a loss from the impairment of property, plant, and equipment, intangible assets, or other assets, and the reversal of such an impairment loss;* • *the reversal of any provisions for the costs of restructuring;* • *acquisitions and disposals of items of property, plant, and equipment;* • *commitments for the purchase of property, plant, and equipment;* • *litigation settlements;* • *corrections of prior period errors;* • *any loan default or breach of a loan agreement that has not been remedied on or before the balance sheet date; and* • *related party transactions.*	IAS 34.17
	2) Other Standards specify disclosures that should be made in financial statements. In that context, financial statements means complete sets of financial statements of the type normally included in an annual financial report and sometimes included in other reports. Except as required by paragraph 16(i) (business combinations – see item 34008(i) above), the disclosures required by those other Standards are not required if an entity's interim financial report includes only condensed financial statements and selected explanatory notes rather than a complete set of financial statements.	IAS 34.18
	Disclosure of compliance with IFRSs	
34011	If an entity's interim financial report is in compliance with IAS 34, that fact shall be disclosed.	IAS 34.19
	Note: An interim financial report shall not be described as complying with Standards unless it complies with all of the requirements of IFRSs.	IAS 34.19
	Periods for which interim financial statements are required to be presented	
34012	Interim reports shall include interim financial statements (condensed or complete) for periods as follows:	
	a) balance sheet as of the end of the current interim period and a comparative balance sheet as of the end of the immediately preceding financial year;	IAS 34.20(a)
	b) income statements for the current interim period and cumulatively for the current financial year to date, with comparative income statements for the comparable interim periods (current and year-to-date) of the immediately preceding financial year;	IAS 34.20(b)
	c) statement showing changes in equity cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year; and	IAS 34.20(c)

Reference	Requirement	Source
	d) cash flow statement cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year.	IAS 34.20(d)
	Note: Appendix A to IAS 34 illustrates the periods required to be presented by an entity that reports half-yearly and an entity that reports quarterly.	
34013	Entities whose business is highly seasonal are encouraged (but not required) to report financial information for the twelve months ending on the interim reporting date, and comparative information for the prior twelve-month period.	IAS 34.21
	Note: If such information is reported, on the basis that it may be useful to users of the interim financial report, it is in addition to the information required by paragraph 20 of IAS 34 (see above).	IAS 34.21
	Materiality	IAS 34.23
34014	In deciding how to recognise, measure, classify, or disclose an item for interim financial reporting purposes, materiality shall be assessed in relation to the interim period financial data.	
	Notes:	
	1) In making assessments of materiality, it should be recognised that interim measurements may rely on estimates to a greater extent than measurements of annual financial data.	IAS 34.23
	2) IAS 1, Presentation of Financial Statements, and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, define an item as material if its omission or misstatement could influence the economic decisions of users of the financial statements. IAS 1 requires separate disclosure of material items, including (for example) discontinued operations, and IAS 8 requires disclosure of changes in accounting estimates, errors and changes in accounting policies. Neither Standard contains quantified guidance as to materiality.	IAS 34.24
	3) While judgement is always required in assessing materiality, IAS 34 bases the recognition and disclosure decision on data for the interim period by itself for reasons of understandability of the interim figures. Thus, for example, unusual items, changes in accounting policies or estimates, and errors are recognised and disclosed on the basis of materiality in relation to interim period data to avoid misleading inferences that might result from non-disclosure. The overriding goal is to ensure that an interim financial report includes all information that is relevant to understanding an entity's financial position and performance during the interim period.	IAS 34.25
	Disclosure in annual financial statements	
34015	If an estimate of an amount reported in an interim period changed significantly during the final interim period of the financial year, but a separate financial report is not published for that final interim period, the nature and amount of that change in estimate shall be disclosed in a note to the annual financial statements for that financial year.	IAS 34.26
	Note: IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, requires disclosure of the nature and (if practicable) the amount of a change in estimate that either has a material effect in the current period or is expected to have a material effect in subsequent periods. Paragraph 16(d) of IAS 34 requires similar disclosure in an interim financial report. Examples include changes in estimate in the final interim period relating to inventory write-downs, restructurings, or impairment losses that were reported in an earlier interim period of the financial year. The disclosure required by paragraph 26 of IAS 34 is consistent with the IAS 8 requirement and is intended to be narrow in scope — relating only to the change in estimate. An entity is not generally required to include additional interim period financial information in its annual financial statements.	IAS 34.27

Reference	Requirement	Source
	Restatement of previously reported interim periods	
34016	A change in accounting policy (other than one for which the transition is specified by a new Standard or Interpretation) shall be reflected by: a) restating the financial statements of prior interim periods of the current financial year and the comparable interim periods of any prior financial years that will be restated in the annual financial statements in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; or b) when it is impracticable to determine the cumulative effect at the beginning of the financial year of applying a new accounting policy to all prior periods, adjusting the financial statements of prior interim periods of the current financial year and comparable interim periods of prior financial years to apply the new accounting policy prospectively from the earliest date practicable.	IAS 34.43
	Note: One objective of the preceding principle is to ensure that a single accounting policy is applied to a particular class of transactions throughout an entire financial year. Under IAS 8, a change in accounting policy is reflected by retrospective application, with restatement of prior period financial data as far back as is practicable. However, if the cumulative amount of the adjustment relating to prior financial years is impracticable to determine, then under IAS 8 the new policy is applied prospectively from the earliest date practicable. The effect of the principle in paragraph 43 of IAS 34 (see above) is to require that within the current financial year any change in accounting policy is applied either retrospectively or, if that is not practicable, prospectively, from no later than the beginning of the financial year.	IAS 34.44
	Requirements for interim periods covered by the entity's first IFRS financial statements	
	Note: The requirements below refer to interim reports prepared under IAS 34 for interim periods covered by the entity's first IFRS financial statements. They supplement the requirements of IAS 34 for such interim periods.	IFRS 1.45
34017	Where an entity presents an interim financial report under IAS 34 for part of the period covered by its first IFRS financial statements, and it presented an interim financial report for the comparable interim period of the immediately preceding financial year, each such interim financial report shall include reconciliations of: a) its equity under previous GAAP at the end of that comparable interim period to its equity under IFRSs at that date; and b) its profit or loss under previous GAAP for that comparable interim period (current and year-to-date) to its profit or loss under IFRSs for that period.	IFRS 1.45(a)
34018	In addition to the reconciliations required by paragraph 45(a) of IFRS 1 (as outlined above), the entity's <u>first</u> interim financial report under IAS 34 for part of the period covered by its first IFRS financial statements shall include the reconciliations described in paragraphs 39(a) and 39(b) of IFRS 1 (supplemented by the details required by paragraphs 40 and 41 of IFRS 1) (see below) or a cross-reference to another published document that includes those reconciliations.	IFRS 1.45(b)
34019	If a first-time adopter did not, in its most recent annual financial statements under previous GAAP, disclose information material to an understanding of the current interim period, its interim financial report shall disclose that information or include a cross-reference to another published document that includes it.	IFRS 1.46
34020	The entity's <u>first</u> interim financial report under IAS 34 for part of the period covered by its first IFRS financial statements shall include reconciliations of its equity reported under previous GAAP to its equity under IFRSs (unless this disclosure requirement is met by a cross-reference to another published document that includes those reconciliations) for both of the following dates: a) the date of transition to IFRSs; and b) the end of the latest period presented in the entity's most recent annual financial statements under previous GAAP.	IFRS 1.39(a)

Reference	Requirement	Source
34021	The entity's first interim financial report under IAS 34 for part of the period covered by its first IFRS financial statements shall include a reconciliation of the profit or loss reported under previous GAAP (unless this disclosure requirement is met by a cross-reference to another published document that includes those reconciliations) for the latest period in the entity's most recent annual financial statements to its profit or loss under IFRSs for the same period.	IFRS 1.39(b)
	Note: The reconciliations required by paragraphs 39(a) and 39(b) of IFRS 1 (as outlined above) are required to give sufficient detail to enable users to understand the material adjustments to the balance sheet and income statement.	IFRS 1.40
34022	If the entity presented a cash flow statement under its previous GAAP, it shall explain the material adjustments to the cash flow statement.	IFRS 1.40
34023	If the entity has become aware of errors made under previous GAAP, the reconciliations required by paragraphs 39(a) and 39(b) of IFRS 1 (as outlined above) shall distinguish the correction of those errors from changes in accounting policies.	IFRS 1.41
	Requirements for business combinations during the interim period derived from IFRS 3	
	As noted at item 34008(i) above, in the case of business combinations, the entity is required to disclose the information set out in paragraphs 66 to 73 of IFRS 3, Business Combinations. The information required is set out below for users' convenience.	
34024	The acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of business combinations that were effected: a) during the period; and b) after the balance sheet date but before the financial statements are authorised for issue.	IFRS 3.66
	Note: Paragraphs 67 to 71 of IFRS 3, set out below, specify the minimum disclosures required to satisfy this requirement.	
	Business combinations effected during the period	
	Note: The information listed below should be disclosed in aggregate for business combinations effected during the period that are individually immaterial.	IFRS 3.68
34025	The acquirer shall disclose the following information for each business combination that was effected during the period:	
	a) the names and descriptions of the combining entities or businesses;	IFRS 3.67(a)
	b) the acquisition date;	IFRS 3.67(b)
	c) the percentage of voting equity instruments acquired;	IFRS 3.67(c)
	d) the cost of the combination and a description of the components of that cost, including any costs directly attributable to the combination; and	IFRS 3.67(d)
	e) where equity instruments have been issued or become issuable as part of the cost of the combination, the following information: i) the number of equity instruments issued or issuable; ii) the fair value of the equity instruments issued or issuable; and iii) the basis for determining that fair value;	IFRS 3.67(d)

Reference	Requirement	Source
	f) in disclosing the basis for determining the fair value of equity instruments issued or issuable as part of the cost of the combination, if a published price for the instruments did not exist at the date of exchange, the significant assumptions used to determine fair value;	IFRS 3.67(d)
	g) in disclosing the basis for determining the fair value of equity instruments issued or issuable as part of the cost of the combination, if a published price for the instruments existed at the date of exchange, but was not used as the basis for determining the cost of the combination:	IFRS 3.67(d)
	i) that fact:	
	ii) the reasons the published price was not used;	
	iii) the method and significant assumptions used to attribute a value to the equity instruments; and	
	iv) the aggregate amount of the difference between the value attributed to, and the published price of, the equity instruments;	
	h) details of any operations the entity has decided to dispose of as a result of the business combination;	IFRS 3.67(e)
	i) the amounts recognised at the acquisition date for each class of the acquiree's assets, liabilities and contingent liabilities;	IFRS 3.67(f)
	j) unless disclosure would be impracticable, the carrying amounts of each class of the acquiree's assets, liabilities and contingent liabilities, determined in accordance with IFRSs, immediately before the combination;	IFRS 3.67(f)
	k) if disclosure of such IFRS carrying amounts immediately before combination is impracticable, that fact, together with an explanation of why this is the case;	IFRS 3.67(f)
	l) in respect of any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost;	IFRS 3.67(g)
	i) the amount of any such excess recognised in profit or loss in accordance with paragraph 56 of IFRS 3; and	
	ii) the line item in the income statement in which the excess is recognised;	
	m) a description of the factors that contributed to a cost that results in the recognition of goodwill, including a description of each intangible asset that was not recognised separately from goodwill and an explanation of why the intangible asset's fair value could not be measured reliably;	IFRS 3.67(h)
	n) a description of the nature of any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost, recognised in profit or loss in accordance with paragraph 56 of IFRS 3;	IFRS 3.67(h)
	o) unless impracticable, the amount of the acquiree's profit or loss since the acquisition date included in the acquirer's profit or loss for the period; and	IFRS 3.67(i)
	p) if it is impracticable to disclose the amount of the acquiree's profit or loss since the acquisition date included in the acquirer's profit or loss for the period:	IFRS 3.67(i)
	i) that fact; and	
	ii) an explanation of why this is the case.	
34026	If the initial accounting for a business combination that was effected during the period has been determined only provisionally as described in paragraph 62 of IFRS 3, the entity shall disclose:	IFRS 3.69
	a) that fact; and	
	b) an explanation of why this is the case.	

Reference	Requirement	Source
34027	Unless impracticable, the following information shall be disclosed:	
	a) the revenue of the combined entity for the period as though the acquisition date for all business combinations effected during the period had been the beginning of the period; and	IFRS 3.70(a)
	b) the profit or loss of the combined entity for the period as though the acquisition date for all business combinations effected during the period had been the beginning of the period.	IFRS 3.70(b)
34028	If disclosure of the information required by paragraphs 70(a) and 70(b) of IFRS 3 (see above) would be impracticable, the entity shall disclose:	IFRS 3.70
	a) that fact; and	
	b) an explanation of why this is the case.	
	Business combinations effected after the balance sheet date	
34029	Where practicable, the acquirer shall disclose the information required by paragraphs 67(a) to 67(i) of IFRS 3 (see above) for each business combination effected after the balance sheet date but before the financial statements are authorised for issue.	IFRS 3.71
34030	If disclosure of any of the information required by paragraph 71 of IFRS 3 (see above) in respect of business combinations effected after the balance sheet date would be impracticable, the entity shall disclose:	IFRS 3.71
	a) that fact; and	
	b) an explanation of why this is the case.	
	The effect of adjustments recognised that relate to business combinations that were effected in the current or in previous periods	
34031	The acquirer shall disclose information that enables users of its financial statements to evaluate the financial effects of gains, losses, error corrections and other adjustments recognised in the current period that relate to business combinations that were effected in the current or in previous periods.	IFRS 3.72
	Note: Paragraph 73 of IFRS 3, set out below, specifies the minimum disclosures required to satisfy this requirement.	
34032	The entity shall disclose:	
	a) the amount, and an explanation, of any gain or loss recognised in the current reporting period that is of such a size, nature or incidence that disclosure is relevant to an understanding of the combined entity's financial performance, and that relates to the identifiable assets acquired or liabilities or contingent liabilities assumed in a business combination that was effected in either the current or a previous period;	IFRS 3.73(a)
	b) if the initial accounting for a business combination that was effected in the immediately preceding period was determined only provisionally at the end of that period, the amounts, and explanations, of adjustments to the provisional values recognised during the current period; and	IFRS 3.73(b)
	c) the information about error corrections required to be disclosed by IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for any of the acquiree's identifiable assets, liabilities or contingent liabilities, or changes in values assigned to those items, that the acquirer recognises during the current period in accordance with paragraphs 63 and 64 of IFRS 3.	IFRS 3.73(c)

Deloitte IFRS resources

In addition to this publication, Deloitte Touche Tohmatsu has a range of tools and publications to assist companies in implementing and reporting under IFRSs. These include:

www.iasplus.com	Updated daily, iasplus.com is your one-stop shop for information related to IFRSs.
Deloitte's IFRS e-Learning Modules	e-Learning IFRS training materials, one module for each IAS and IFRS and the Framework, with self-tests, available without charge at **www.iasplus.com.**
IAS Plus Newsletter	A quarterly newsletter on recent developments in International Financial Reporting Standards and accounting updates for individual countries. In addition, special editions are issued for important developments. To subscribe, visit **www.iasplus.com**.
IFRSs in your Pocket	Published in English, French, Spanish, Polish, Finnish, Chinese, and other languages, this pocket-sized guide includes summaries of all IASB Standards and Interpretations, updates on agenda projects, and other IASB-related information.
IFRSs and US GAAP: A pocket comparison	A summary of the principal differences in pocket-sized format, including a status report as to what is being done about each difference.
Presentation and disclosure checklist 2005	Checklist incorporating all of the presentation and disclosure requirements of Standards effective in 2005.
Model financial statements	Model financial statements illustrating the presentation and disclosure requirements of IFRSs.
iGAAP 2006 Financial Instruments: IAS 32, IAS 39 and IFRS 7 Explained	2nd edition (February 2006). Guidance on how to apply these complex Standards, including illustrative examples and interpretations.
First-time Adoption:A Guide to IFRS 1	Application guidance for the "stable platform" Standards effective in 2005.
Share-based Payment: A Guide to IFRS 2	Guidance on applying IFRS 2 to many common share-based payment transactions.
Business Combinations: A Guide to IFRS 3	Supplements the IASB's own guidance for applying this Standard.

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