IFRS Survey 2011
Focus on financial reporting in Hungary

Accounting advisory

Contents

1. Executive summary

Introduction

We are pleased to present our first comprehensive survey of the application of IFRS accounting standards by Hungarian companies. Our research is based on 2010 IFRS reports published by 20 corporate groups listed and 8 entities not listed on the Budapest Stock Exchange. In order to ensure the consistency of our analysis, we have extended our sample to financial institutions and banks, as they are subject to specific accounting requirements which are unique to these types of business entities.

Throughout the report, the results are compared to a similar survey performed by Deloitte in Switzerland. It proved a suitable benchmark to highlight the similarities with and differences from an independent and fully-fledged capital market where IFRSs are extensively used.

Due to turbulent and disadvantageous economic circumstances, a general business uncertainty and lack of trust can be observed on the markets. The management and accounting specialists of Deloitte Hungary have been emphasizing for years that the application of International Financial Reporting Standards may be a suitable tool in regaining this confidence. Companies applying IFRS could be more attractive to foreign investors as the transparent report is internationally comparable and makes it easier to recognize the potential business risks in the investments. Naturally, this requires professional IFRS reports in compliance with the international standards. Transposing the Hungarian report to IFRS is a time-consuming procedure and not easily feasible as there are significant differences between the local and the international standards.

This study highlights the most problematic points in the current reporting practice, shows the level of variety in presentation of the primary statements in the companies' financial statements and exemplifies which critical judgments and key estimations executives consider to be the most significant in the financial statements.

Summary of key findings:

Speed of reporting

The average number of days between the financial year-end and the publication of financial statement is 92 (compared to 56 days for members of the CAC 40 in France and 59 days for members of the FTSE 350 in the UK) which seems to be significantly longer compared to companies in the western region. From an investor`s perspective the late publication of the financial statement poses risks as they need reliable and fresh information as soon as possible. On the other hand, reports later published may be based on more precise data; hence companies must balance between these two scenarios.

Income statement and balance sheet

Too many items in the income statement:
The length of the income statement, measured as the number of lines from the top to profit after tax, ranged from 14 to 45 lines (12 to 25 in Switzerland).

Too many items in the balance sheet:
The average length of the consolidated balance sheet was 34 lines (36 in Switzerland). The longest balance sheet included 73 and the shortest 24 lines while they consisted of 45 and 27 lines in Switzerland.

The lengths of the income statement and consolidated balance sheet are not strictly specified by IFRS; it may be determined by companies as suitable to their operations. However, providing information in a concise and focused way is more recommended in order to facilitate understanding and transparency. Detailed data should be published in the Notes instead.

Critical judgments and uncertainties

Every financial report contains uncertainties like the Useful life and depreciation of properties, plants and equipment, the Impairment of trade receivables and inventories, Provisions and Fair values. However, only 39% of the sampled companies presented general disclosures or did not disclose critical judgments and key uncertainties. This low figure clearly shows that this elusive part is not published transparently enough, despite its significant impact on the results.

Goodwill

44% of the companies with goodwill presented in their financial statements did not disclose allocation to CGU's (Cash Generating Units) which can be considered very low as it is compulsory in IFRS. In addition to the non-compliance factor, not disclosing this piece of information makes potential investors not fully involved in to the details which could increase their level of distrust.

39% of the companies with goodwill presented in their financial statements did not disclose a sensitivity analysis which may enhance the above mentioned confidence issue. Therefore it is recommended that companies focus more attention to this area.

Provisions

Only 14% (vs. 77% in Switzerland) of the companies disclosed major assumptions on future events concerning provisions. This extremely low percentage highlights that the majority of companies surveyed do not publish their estimates to external stakeholders.

Conclusion

The survey makes it clear that in addition to compliance with the IFRS standards, companies need to pay more attention to some key factors like easy comprehension and transparency of their financial reports.

It is vital to take into consideration the interests and expectations of stakeholders since it may contribute in many way to creating a more attractive image of the company.

Although in lack of local legislation the spread of IFRS usage is not expected to rise among small and middle entities in the near future, it will play an increasingly significant role for large and listed companies.

Immediate and future challenges

A number of new standards with expectedly significant impact are underway. IASB and FASB, for instance, are now working on the following projects:

- Revenue from customers
- Lease
- Financial instruments
- Insurance
- Consolidation (finalized in 2011)

These projects are expected to be completed in 2012-2013 and will have a significant effect on financial statements from 2014-2015. Compliance with future changes in IFRS will require time and energy from companies in the coming years.

2. Survey objectives

The annual reports of 20 listed companies and the additional 8 entities not listed on the stock exchange were surveyed to determine current practices in application of IFRSs in Hungary. There was an interest to better understand the financial communication of public entities which are traded on the Budapest Stock Exchange. Our sample was selected in 2010 and represents some of the largest by market capitalization. Please refer to Appendix 1 for the list of the companies surveyed.

The annual reports used were those most recently available and published in the period from February 2011 to May 2011.

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

The main objectives of the survey were to discover:

- The level of variety in presentation of the primary statements in companies' financial statements;
- How compliance with disclosure requirements and the accounting policy choices made under IFRS varied;
- Which critical judgments and key estimations directors consider to be the most significant when preparing their financial statements.

3. Overview of the financial statements

In the sample of companies selected, all audit reports were unmodified and none of them were adopting IFRS for the first time.

Average length of the annual reports

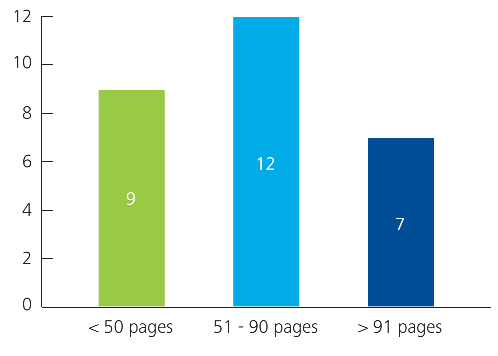
Annual reports ranged up to 265 pages with the financial statements covering from 26 to 121 pages. The average length of annual reports was 112. There were 6 companies in our sample which have no annual report at all.

Length of the financial statements

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

The average number of pages in the annual report is 112, the average length of the financial statements is 71 pages.

Figure 1: Length of the financial statements
(Number of companies)

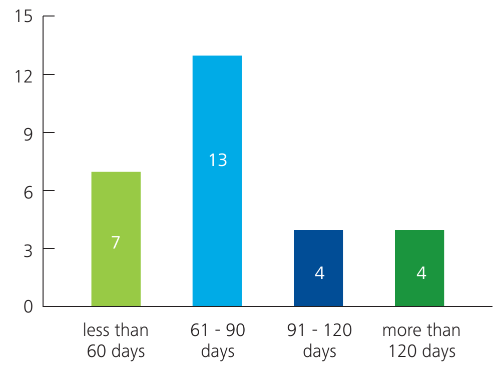


Speed of reporting

The Budapest Stock Exchange requires listed companies to report within 4 months of the year end.

The average number of days between the financial year-end and the release of results to the market is 92 (compared to 56 days for members of the CAC 40 in France and 59 days for members of the FTSE 350 in the UK).

Figure 2: How many days after year-end was financial information reported to the market?
(Number of companies)



4. Statement of financial performance

First time application of IAS 1 Presentation of Financial Statements (revised 2007)

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

2 of the 28 companies elected to present comprehensive income in a single statement which is similar to Swiss figures where only one of the companies surveyed chose to do so. The amendments of IAS 1 published in June 2011 reaffirm existing requirements that items in other comprehensive income and profit or loss should be presented as either a single statement or two consecutive statements.

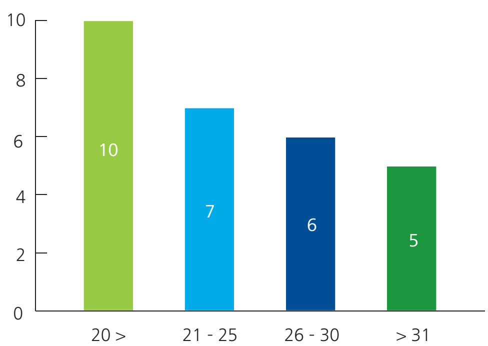
Income statement

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

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

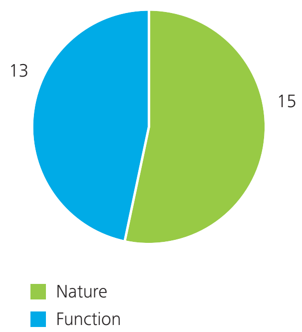
The length of the income statement, measured as the number of lines from the top to profit after tax, ranged from 14 to 45 lines (12 to 25 in Switzerland).

Figure 3: How many lines, from top to profit after tax, are in the income statement?
(Number of companies)



There is no specific requirement regarding the classification of operating expenditures on the face of the income statement. IAS 1 recognizes that showing expenses by either function or nature has benefits for different companies. Figure 4 below shows how operating expenses are presented on the face of the income statement.

Figure 4: How are expenses presented on the face of the financial statement? (Number of companies)



Nearly half of the sampled companies chose to present their expenses by nature and the rest by function.

None of the selected companies used the mix between function and nature. The best practice would suggest avoiding the mixing of the two methods of analysis even in the absence of a formal IFRS requirement.

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

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

Discontinued operations

None of the companies surveyed had discontinued operations in the current year.

IFRS 5 define discontinued operation as a component of an entity that either has been disposed of or is classified as held for sale and a) represents a separate major line of business or major geographical area of operations, b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or c) is a subsidiary acquired exclusively with a view to resale. An entity presents as a single amount in the statement of comprehensive income the sum of the post-tax profit or loss from discontinued operations for the period and the post-tax gain or loss arising on the disposal of discontinued operations (or on the reclassification of the assets and liabilities of discontinued operations as held for sale). Therefore, the statement of comprehensive income is effectively divided into two sections – continuing operations and discontinued operations.

Way forward new reporting requirements

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

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

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

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

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

IFRS insight

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

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

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

5. Statement of financial position

Number of balance sheets presented

The third balance sheet

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

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

Of the 28 companies included in our sample, only 2 presented three balance sheets.

Of the 2 companies presenting two comparative periods, 1 did so because of changes in accounting policies, 1 because of restatement due to reclassifications (including 1 with a correction of an error). There are no companies which have presented 2 comparative periods on a voluntary basis.

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

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

IFRS insight

When is a third statement of financial position required?

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

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

The logic seems to suggest that an additional statement of financial position may be required when it provides additional information that was not included in prior year financial statements.

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

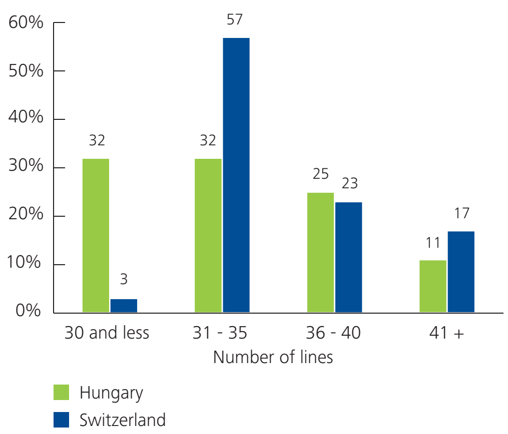
Within its Exposure Draft on Improvements to IFRS issued in June 2011, the IASB proposed to amend IAS 1 in order to clarify the requirements for providing additional financial statement information.

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

Balance sheet presentation

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

Figure 5: How many lines are there on the face of the group balance sheet? (%)



The average length of the consolidated balance sheet was 34 lines (36 in Switzerland). The longest balance sheet contained 73 and the shortest 24 lines while they consisted of 45 and 27 lines in Switzerland.

IAS 1 (2007) allows entities to present their balance sheets in order of the ageing of the items (i.e. current/ non-current) or in order of liquidity. All companies - excluding banks and other financial institutions - presented the balance sheet based on current and non-current distinction.

Statement title

In 2009, IAS 1 (2007) introduced revised terminology for the financial statements. The balance sheet is now referred to in the standard as the 'Statement of Financial Position'. There is no requirement for companies to adopt this new title; in 2010, only 6 out of the 28 companies in our sample chose to do so.

The lengths of the income statement and balance sheet (number of lines) are not strictly specified by IFRS; it may be determined by companies as suitable to their operations. However, providing information in a concise and focused way is more recommended in order to facilitate understanding and transparency. Detailed data should be published in the Notes instead.

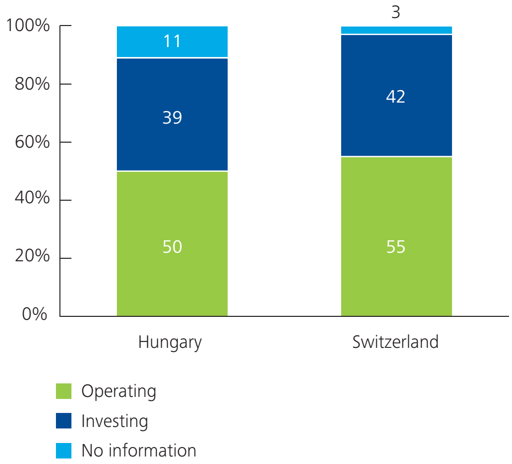
6. Statement of cash flows

Introduction (IAS 7)

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

All of the companies sampled complied with the requirement to present a cash flow statement as a primary statement.

Figure 6: How are cash flows from interest received classified? (%)



The standard describes two methods of presenting the cash flow statement: the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed, and the indirect method, whereby profit is adjusted for a variety of effects. All companies sampled chose to present their cash flow statement using the indirect method presumably because this method is believed to be easier.

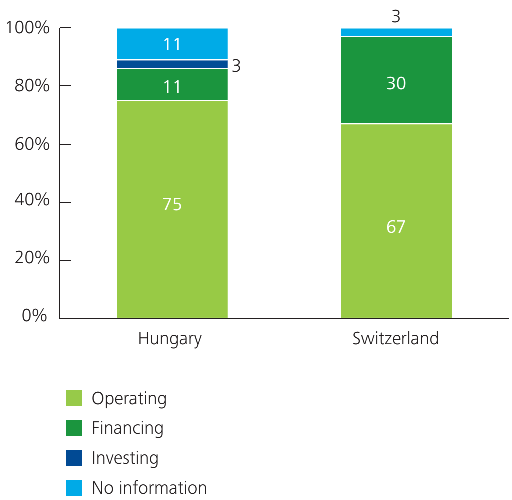
Interest

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

Figure 6 illustrates how cash flows from interest received were classified across the sample.

IAS 7 suggests that interest received be classified as either operating or investing activities. 25 of the companies in the sample recognized cash flows from interest received. Of these companies, there was a preference to present these cash flows as an operating activity, an approach adopted by 14 companies, rather than as an investing activity, chosen by 11 companies. 11% of the selected companies did not report on the interest received.

Figure 7: How are cash flows from interest paid classified? (%)



89% of the companies in the sample recognized cash flows from interest paid. 75% of companies paying interest chose to present this as an operating activity and 11% of companies chose to present the interest payments as a financing activity. One company chose the investing activity.

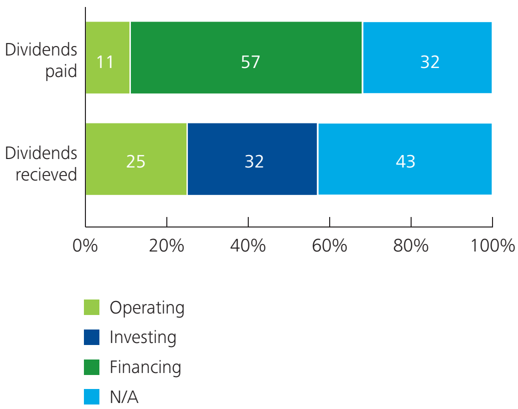
3 companies in our sample disclosed the amount of interest received and paid in the notes to the financial statements, but did not disclose where these cash flows had been classified.

Dividends

68% of companies paid dividends in the current period. Of these 57% presented dividends paid as financing and 11% as operating activity. This approach is consistent with one of the proposed alternatives of IAS 7 which states that for dividends paid there is an alternative to classify them as financing or operating cash flow.

16 companies received dividends during the period. Of these, 32% classified the cash flows as an investing activity, 25% classified them as an operating activity and none of the companies classified them as financing cash flow, in accordance with the guidance in IAS 7.

Figure 8: How are cash flows from dividends paid and dividends received classified? (%)



Discontinued operations

IFRS 5 requires that the net cash flows attributable to the activities of discontinued operations (operating, investing and financing) be presented either in the notes to the financial statements or on the face of the cash flow statement. There was no company in our sample with discontinued operations.

7. Reporting changes in equity

Introduction (IAS 1)

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

Figure 9: Have movements in OCI been reproduced in the statement of Change in Equity (SCE)? (%)

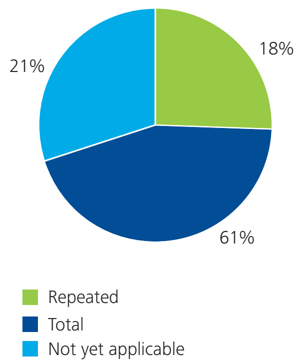


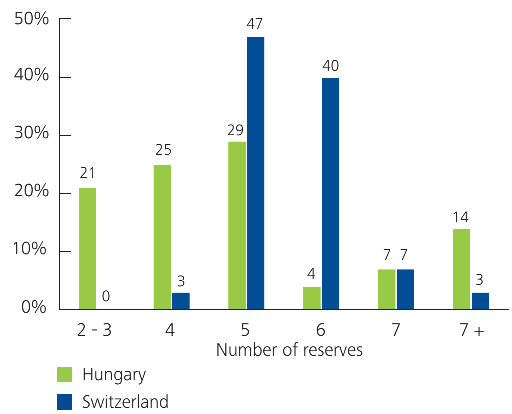
Figure 9 shows that only 18% of the companies have chosen to reproduce all of the movements in the SCE, rather than include only the total other comprehensive income in the SCE. This is an IFRS requirement; companies may have chosen not to reproduce all details in the SCE in order to avoid redundancy. The annual improvements project 2010 (effective from 1 January 2011, early adoption permitted) clarified that companies may present the analysis of other comprehensive income by item either in the SCE or in the notes.

Reserves

The number of reserves that each company disclosed was not very consistent across the sample, as illustrated by figure 10. The average number of reserves disclosed across all companies was 5.

The type of reserves presented in the primary statement varied across the sample. Of the total companies, 13 presented separate reserves for currency translation differences, 7 companies for movements in fair value (primarily of financial instruments), 4 companies for hedging reserves.

Figure 10: How many reserves have been disclosed? (%)



Included in our sample were 10 companies which presented a separate treasury share reserve. Although this is not required by IAS 32 Financial Instruments: Presentation, it is common practice for such a reserve to be separately disclosed.

As can be seen in figure 10 above, 46% of the companies reported 2-4 reserves (3% in Switzerland) and 33% reported 5-6 reserves in Hungary (87% in Switzerland), which means that the presentation of reserves is more detailed in Switzerland.

Share-based payments

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

Of the 28 companies in our sample, 4 recorded a share based payments reserve in equity.

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

Finally 1 company in our sample was identified which disclosed share based payments, including options which had not yet completely vested at the end of the reporting period, but for which the related charge in equity was not clearly presented. Best practice would be to present a separate share-based payments reserve or, at least, to record the IFRS 2 charge in a separate line in the Statement of Changes in Equity.

IFRS insight

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

8. Accounting policies

Introduction

A summary of the significant accounting policies and other explanatory notes are required by IAS 1 (2007) *Presentation of Financial Statements* as a component of a complete set of IFRS financial statements.

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

Critical judgments and estimation uncertainties

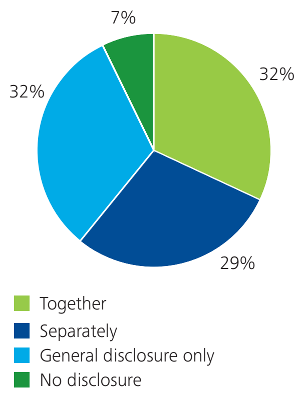
IAS 1 (2007) requires the disclosure of the critical judgments made by management in the process of applying the group's accounting policies. These are described as those judgments that have the most significant effect on the amounts recognized in the financial statements.

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

Two companies in our sample did not disclose information relating to key sources of estimation uncertainty and critical judgments. 29% of the companies in our sample disclosed critical judgments and estimation uncertainties separately as illustrated below.

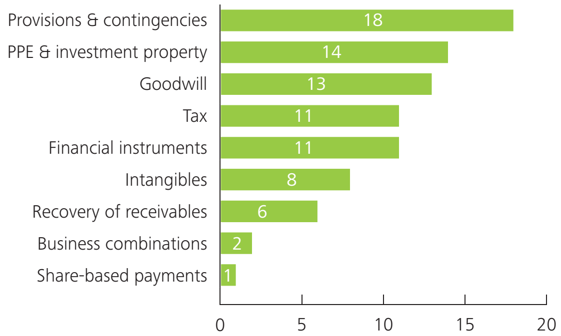
The disclosures about critical judgments and estimation uncertainties shall be specific to the company, and thus provide the investor with better information than the more standard 'boilerplate' disclosures noted in some annual reports.

Figure 11: What percentage of companies disclose critical judgments and key sources of estimation uncertainty?(%)



As shown in figure 12 below, the most common judgments made were around provisions and contingencies.

Figure 12: What are the critical judgements being made of? (Number of companies)

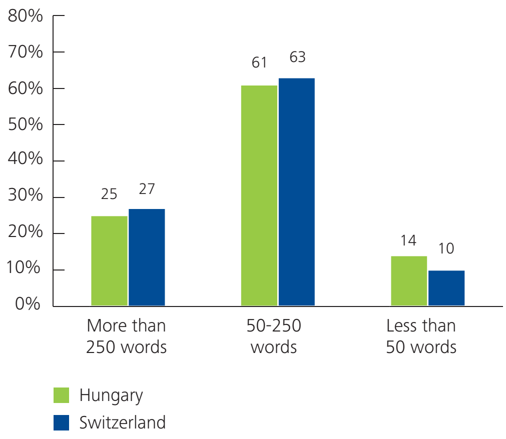


Revenue recognition

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

As shown in figure 13 below, most companies (61%) had revenue recognition policies that contained between 50 and 250 words. Only 4 companies had revenue recognition policies containing fewer than 50 words. It is questionable how such brief of the policy for revenue recognition may be suitable to provide adequate information. Seven companies had revenue recognition policies containing more than 250 words. As it can be seen on the chart below the results are quite similar to the Swiss ones.

Figure 13: How long is the revenue recognition policy?
(%)



IFRS insight

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

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

9. Segmental analysis

Application of IFRS 8

IFRS 8 *Operating Segments*

This standard became effective for periods beginning on or after 1 January 2009. The standard applies to the consolidated financial statements of a group with a parent (and to the separate or individual financial statements of an entity):

- whose debt or equity instruments are traded in a public market; or
- that files, or is in the process of filing, its (consolidated) financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market.

IFRS 8 aims to be using a 'through the eyes of management' approach, with the information reported being what the Chief Operating Decision Maker (CODM) uses when making decisions. Some companies may want to avoid disclosing internal information as they fear this could be commercially sensitive.

6 sampled companies did not report on operating segments.

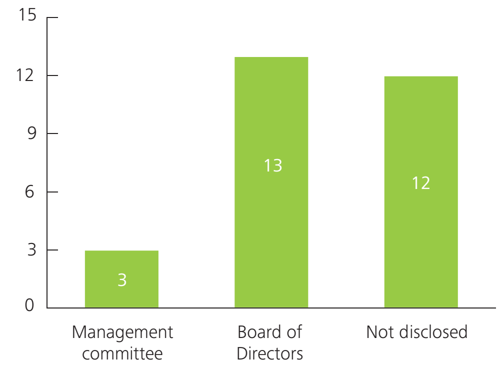
How is the Chief Operating Decision Maker defined?

The management approach relies on the structure of the organization and the internal operating reports typically used by the CODM, who determines the allocation of resources and assesses the performance of the operating segments.

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

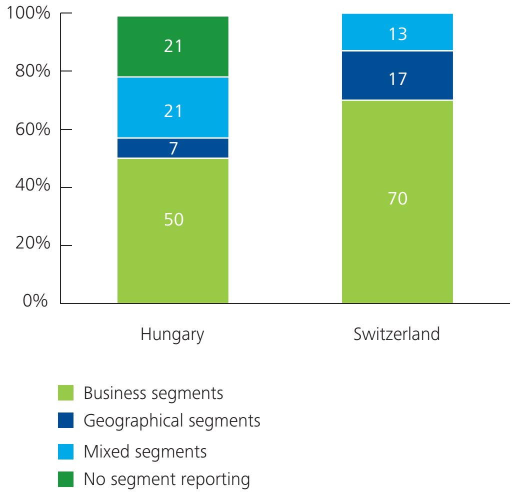
16 (57%) companies in the sample specifically disclosed how the CODM was defined despite the fact that this information is not required by the standard. Most companies (46%) reported the Board of Directors as the CODM as illustrated in figure 14 below. 3 company use management committee as CODM.

Figure 14: Who is the Chief Operating Decision Maker?
(Occurence)



21% of the companies in Hungary reported its operations as a single segment (0% in Switzerland) and 50% of the companies used business segments (70% in Switzerland). This difference is deemed to be due to different company sizes since in Switzerland there are a lot of multinational companies with headquarters and listed in the Zurich Stock Exchange.

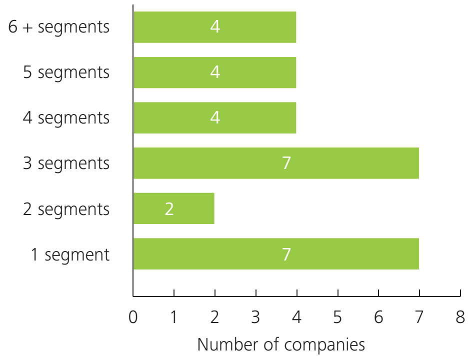
Figure 15: What reporting format has been used?
(%)



How many segments?

The number of segments reported ranged from 1 to 6 with an average of 3 being reported. Of the companies surveyed, 75% identified two or more segments. 11 companies reported the performance of their business using 3 or 4 segments as illustrated in figure 16 below.

Figure 16: How many segments were identified?



Measure of segment result

As would be expected from information which is used for internal purposes, there is a great deal of variety amongst the companies. From the sample selected there is not a clear favorite reporting format. We noted that 4% of the companies disclosed non-GAAP measures such as segment results and that 96% used net income or operating profit as the measure of segment profit.

IFRS insight

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

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

10. Goodwill and intangibles

Introduction

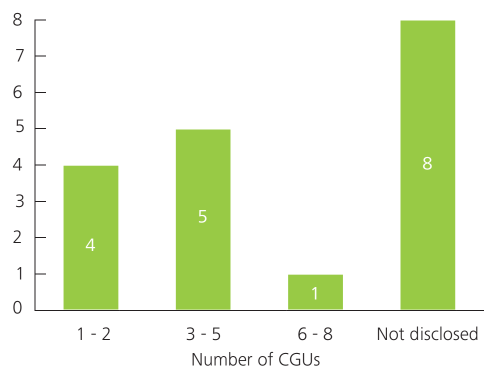
IFRS 3 *Business Combinations* includes a general objective to disclose information that enables users of the financial statements to evaluate changes in the carrying amount of goodwill during the period. Further information about the recoverable amount and impairment of goodwill must also be disclosed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

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

Goodwill – allocation

64% (93% in Switzerland) of the companies surveyed (18 of 28) had goodwill on their balance sheets. Of these companies, 56% disclosed the allocation of goodwill across cash generating units (CGUs), only one company grouped small amounts of goodwill into 'other'. We noted that 8 companies did not provide this information, which is a requirement of IFRS. Figure 17 below shows the variety in the number of CGUs disclosed. The greatest number disclosed was 8.

Figure 17: How many CGUs has goodwill been allocated to? (Number of companies)



The average number of CGUs disclosed, excluding those with goodwill who did not disclose any information regarding the CGUs, was 3.

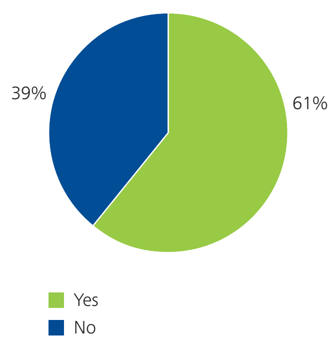
Goodwill – impairment review

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

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

Of the 18 companies with goodwill, 11 companies (61%) included such sensitivity disclosures while this figure is significantly higher in Switzerland (75%). Of these companies making these disclosures, 3 reported that reasonably possible changes of key assumptions would not cause the unit's carrying amount to exceed its recoverable amount.

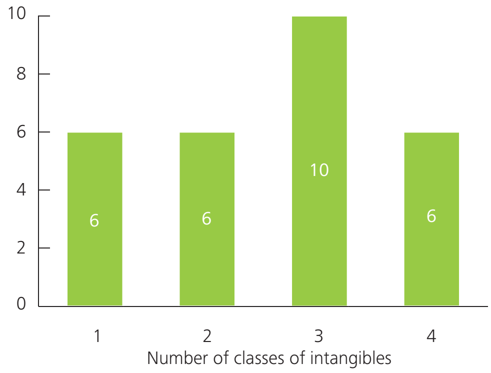
Figure 18: Sensitivity disclosure requirements under IAS 36 involved (%)



Intangibles

All companies included in the sample recognized intangible assets, other than goodwill, on their statement of financial position. The number of classes of intangibles ranged from 1 to 4 with an average of 3 across all companies.

Figure 19: How many classes of intangibles are disclosed? (Number of companies)



IFRS insight

Impairment calculation and related cash flow projections are the key accounting considerations in today's declining markets.

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

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

Key principles to bear in mind include:

- estimated cash flows and discount rates should be free from both bias and factors unrelated to the asset in question;
- estimated cash flows or discount rates should reflect a range of possible outcomes, rather than a single, most likely, minimum or maximum possible amount;
- cash flow projections should be based on most recent financial budget/forecasts approved by management, covering a maximum period of five years, unless a longer period can be justified.

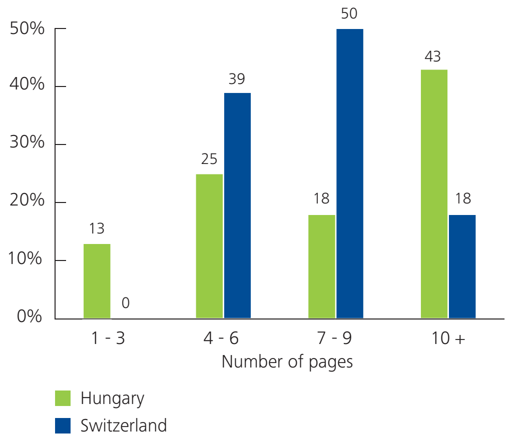
11. Financial instruments

Financial risk management disclosures

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

The IFRS 7 standard does not stipulate that all of the disclosure requirements must be disclosed in one note. As a result, it is common for these disclosures to be disclosed across several notes. The number of pages in the notes to the financial statements relating to IFRS 7 (25%) disclosures is shown in figure 20 below.

Figure 20: How long are the identified notes on financial instruments? (%)



These disclosures were on average 8 pages long just as in Switzerland, though the divisions are quite different. The number of pages ranged from 1 to 15 pages. There was a clear link between the size of the companies and the length of their disclosures.

Fair value disclosures

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

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

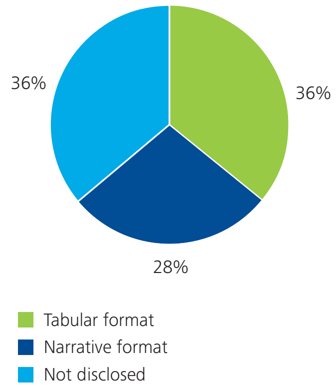
Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

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

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

Most companies presented this information in a tabular format as suggested by the amendments, while other companies show this in a narrative format; in particular when the fair value levels applicable were limited (e.g. only level 1 and 3). 36% of the selected companies did not report on the fair value measurements; we assume they have no financial instruments carried in the statement of financial position at fair value.

Figure 21: How is fair value hierarchy presented? (%)



Nature and risks arising from financial instruments

IFRS 7 requires companies to provide information to enable users of the financial statements to evaluate the nature and extent of risks arising from financial instruments. It refers to these risks typically being credit, liquidity and market risks.

For liquidity risks, IFRS 7 calls for a maturity analysis of non-derivative financial liabilities that shows the remaining contractual maturities and a description of how liquidity is managed.

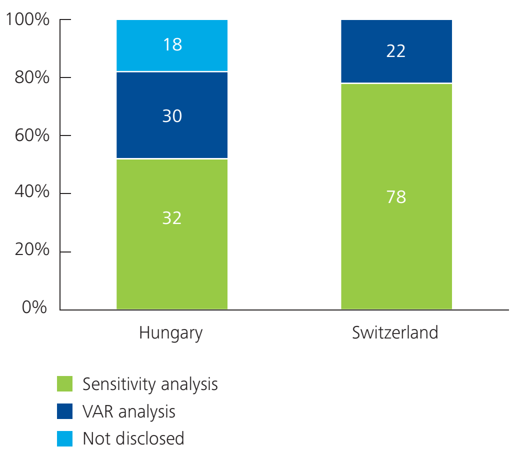
Market risk is defined as "the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency, interest rate risk and other price risk".

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

As an alternative to sensitivity analysis, disclosure may be provided in the form of a value-at-risk (VaR) analysis that reflects interdependencies between risk variables.

Of the 28 companies surveyed included in our sample, 17 (52%) companies used the sensitivity analysis.

Figure 22: How is exposure to market risk disclosed?
(%)



Looking forward

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

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

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

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

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

12. Provisions

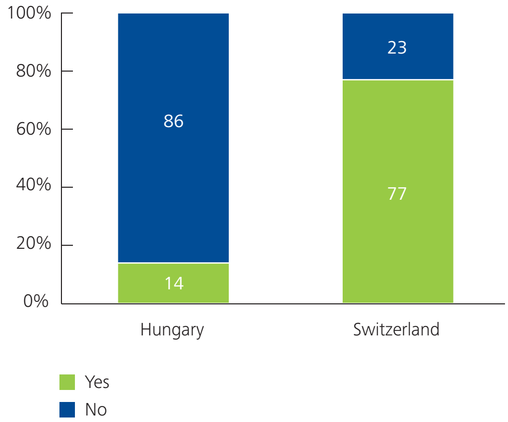
Provisions: recognition and disclosures

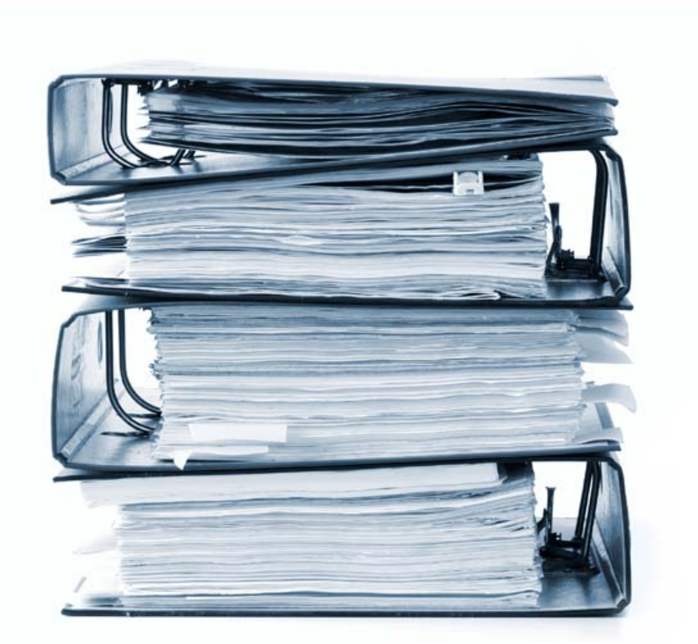
The recent economic climate has led to increased scrutiny of a company's financial position and in particular of its outstanding liabilities. These are fundamental in providing users of the financial statements with an understanding of the company's position.

14% of relevant companies disclosed the major assumptions concerning future events relating to provisions held at the year-end (in contrast with the Swiss results), as shown in figure 23. This disclosure is required by IAS 37 only where it is "necessary to provide adequate information".

It may be concluded from the research that the financial crisis has lowered companies' willingness to increased transparency.

Figure 23: Have major assumptions concerning future events been disclosed? (%)

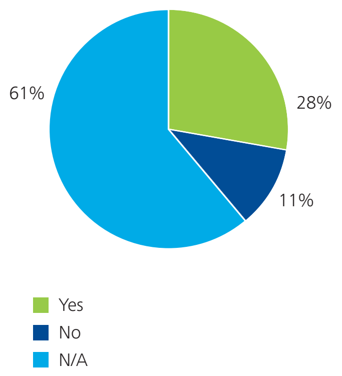




13. Subsidiaries and joint ventures

Subsidiaries

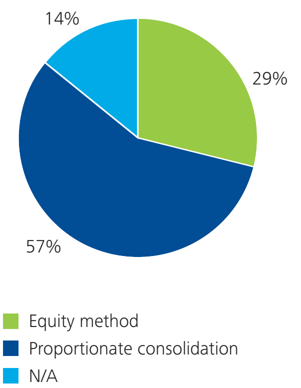
Figure 24: Where the parent does not own more than half of the voting power, has the nature of the relationship between parent and subsidiary been disclosed? (%)



IAS 27 Consolidated and separate financial statements requires disclosure in the consolidated financial statements of the nature of the relationship between the parent and subsidiary when the parent does not own, directly or indirectly through subsidiaries, more than half of the voting power. As shown in figure 26 above 11% of the companies did not disclose this relationship.

Joint ventures

Figure 25: Have joint ventures been accounted for using the equity method of accounting or proportionate consolidation? (%)



IAS 31 Interests in joint ventures allows companies a choice of accounting for interests in jointly controlled entities using either proportionate consolidation or the equity method. 25 companies had interest in joint ventures at the period end. As shown in figure 27, 29% of these companies accounted for their interests in joint ventures using the equity method of accounting, by which an investment is initially recorded at cost and subsequently adjusted to reflect the investor's share of the net assets of the investment.

Looking forward

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

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

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

IFRS 11 Joint Ventures: the new standard classifies joint arrangements as either joint operations or joint ventures. In addition, it requires the use of the equity method of accounting for interests in joint ventures thereby eliminating the proportionate consolidation method.

IFRS insight: Package of five—Why does it matter now?

The release of the "package of five" concluded an important part of the IASB's response to the financial crisis. Indeed, there were concerns that existing consolidation and disclosures standards failed to capture adequately the risks that investors in certain entities were exposed to. Will there be more or less consolidation in the future? At this stage, it is difficult to say, however, certain industries such as real estate, funds and assets management will be impacted by the new requirements.

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

Appendix 1:
List of companies surveyed

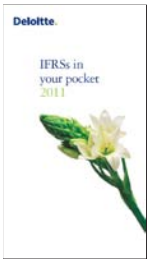
Company	Industry
Állami Nyomda Nyrt.	Printing & Publishing
CIB Közép-Európai Nemzetközi Bank Zrt.	Banking and Securities
Danubius Hotels Nyrt.	Tourism & Leisure
EDF Démász Zrt.	Energy & Resources
EGIS Nyrt.	Pharmaceuticals
ELMŰ Nyrt.	Energy & Resources
ÉMÁSZ Nyrt.	Energy & Resources
EST MEDIA Nyrt.	Media
E-Star Alternatív Nyrt.	Energy & Resources
FHB Nyrt.	Banking and Securities
Graphisoft Park SE	Technology
Hungaropharma Zrt.	Pharmaceuticals
Kereskedelmi és Hitelbank Zrt.	Banking and Securities
Magyar Posta Zrt.	Postal services
Magyar Telekom Nyrt.	Telecommunications
MKB Bank Zrt.	Banking and Securities
MOL Nyrt.	Oil and Gas
OTP Bank Nyrt.	Banking and Securities
PannErgy Nyrt.	Energy & Resources
Philips Kft.	Technology
RÁBA Nyrt.	Automotive
RAIFFEISEN BANK Zrt.	Banking and Securities
Richter Gedeon Nyrt.	Pharmaceuticals
Synergon Nyrt.	Technology
TVK Nyrt.	Process Industries
Unicredit Bank Hungary Zrt.	Banking and Securities
Waberer's Holding Zrt.	Transportation Services
Zwack Unicum Nyrt.	Consumer Product Companies

Appendix 2: More IFRS thought leadership

iGAAP 2012 - A Guide to IFRS Reporting

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

Deloitte iGAAP books are available from Lexis-Nexis: www.lexisnexis.co.uk/deloitte/



IFRSs in your pocket 2011

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

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

Printed copies are available with your local Deloitte contact.

**International Financial Reporting Standards
Model financial statements 2011**

The model financial statements of International GAAP Holdings Limited are intended to illustrate the presentation and disclosure requirements of International Financial Reporting Standards (IFRSs). They also contain additional disclosures that are considered to be best practice, particularly where such disclosures are included in illustrative examples provided with a specific Standard.

Printed copies are available in both English and Hungarian language with your local Deloitte contact.

IFRS e-learning

Deloitte’s www.iasplus.com website provides, without charge, comprehensive information about international financial reporting in general and IASB activities in particular.

Modules are available for virtually all IASs/IFRSs. They are regularly updated.

The e-learning modules may be used and distributed freely by those registering with the site, without alteration from the original form and subject to the terms of Deloitte copyright over the material.

To download, go to www.iasplus.com and click on the light bulb icon on the home page.

Subscribe to our IFRS in Focus newsletter

Deloitte publishes an IFRS in Focus newsletter to address important pronouncements and proposals and other major news events in detail.

If you would like to receive alerts to these newsletters with download links via email, you can subscribe by visiting the IAS Plus website www.iasplus.com/subscribe.htm.

Hungarian editions of our IFRS newsletters are available at www.deloitte.com/hu/ifrs-newsletters.

We also offer alerts via our RSS feed - subscribe on the IAS Plus website home page.

Your IFRS contacts

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

Tamás Horváth
Partner, IFRS leader
thorvath@deloitteCE.com
+36 1 428 6852

Gábor Molnár
Director, Accounting advisory
gmolnar@deloitteCE.com
+36 1 428 6450

Notes