Deloitte.

IFRS Survey 2013
Focus on financial reporting by Swiss listed companies

September 2013

Audit. Tax. Consulting. Corporate Finance

Contents

1. Executive summary

We are pleased to present our fourth Survey of the application of IFRS accounting standards by Swiss listed groups. Since we launched our first edition in 2010, we have engaged with many CFOs, Group Controllers and preparers of financial statements on leading reporting practices as well as practical difficulties in applying the standards. These discussions have not just been about the standards themselves but also about how to improve transparency in financial reporting and communication whilst fulfilling the increasing numbers of disclosure requirements.

In this year's survey, we have continued to explore new areas of analysis. Firstly, we introduced a qualitative review of the accounting policies driven by the fact this subject was one of the SIX Exchange Regulation focus areas. Secondly, we enhanced the analysis in complex and judgmental areas such as goodwill and impairment as well as provisions. Thirdly, we analysed in details the implications of the new IAS 19R *Employee Benefits* for Swiss listed companies. Last but not least, benchmarks with international companies in France, Germany and UK were also added in these areas.

Economic evolution and financial performance

The year under review was marked by an uncertainty about the economic evolution. Swiss companies performed relatively well in this environment with 83% of the companies reporting an increase in their revenues, 67% in their operating margin and 73% in their net profit, compared to the prior year. This positive performance resulted in limited changes to the financial statements both in terms of presentation and disclosures.

Communication with investors and analysts

Today, the level of transparency in financial communication is vital to maintain confidence in a company. Indeed, this is what puts management under pressure to tell investors and stakeholders a story that is consistent with the figures from the financial statements. Our analysis highlighted a certain disconnect between the information in the analysts' presentation and the financial data prepared in accordance with IFRS, in particular, in relation with measures of profit and cash flow statements. Despite all the efforts made by the IASB to constantly improve the accounting standards it seems that IFRS is not seen as sufficient to allow management to effectively communicate financial performance to the outside world.

Goodwill and impairment

Goodwill and impairment has been a subject of increased focus for the preparers, their auditors and the regulator. Over the last few years, economic conditions also triggered some concerns about goodwill impairment and the need for transparent disclosure has increased accordingly.

The positive financial performance of the companies analysed resulted in only five of them (17%) recording an impairment of goodwill, while in 2011 there were nine (31%).

European companies were more impacted by the continuing difficult economic environment where respectively 50% (France), 29% (Germany) and 22% (UK) of sampled companies recorded an impairment charge.

IAS 19R: significant implications

We anticipated since several years that the changes to IAS 19R *Employee Benefits* will impact more significantly the profitability of Swiss corporates than their European counterparts. Companies should have by now fully integrated these impacts in their financial communication.

We estimate that Swiss companies may see their 2013 and future pension costs increase by 56% on average versus the reported 2012 numbers. More significantly, 50% of the companies applying the "corridor method" will see their reported equity decrease by more than 5% on transition.

The funding status of Swiss companies, which is higher than those of German (62%) or French (57%) companies, remained unchanged compared to prior year (80% on average.)

(Executive summary continues next page)

Emergence of Swiss GAAP FER

Since 2008, the number of companies adopting Swiss GAAP FER has increased. October 2012 witnessed, with Swatch Group, the first ground-breaking switch of a company registered on the Swiss Market Index (SMI) from IFRS to Swiss GAAP FER.

In this context the supremacy of IFRS over Swiss GAAP FER is again up for discussions. We introduced a new section on the emergence of Swiss GAAP FER as the debate around the choice of accounting standards will be of a greater focus in the future.

We analysed the profile of companies that switched from IFRS to Swiss GAAP FER in the last few years, discussed some of the pros and cons and highlighted the key differences between these standards on the main financial reporting matters.

Looking ahead

IFRS are constantly changing. There are important projects that should be completed in the near future such as revenues, leases and financial instruments. We will continue to analyse the relevance and importance of these changes and how they will impact financial performance, management information systems and communication with stakeholders.

Our financial reporting experts would be delighted to respond to your questions on these projects or any other topics raised in this report.

Fabien Bryois
Swiss certified accountant

Sophie Ganière
Swiss certified accountant

Martin Welser
Swiss certified accountant

2. Survey objectives

This fourth edition of our IFRS Survey covers the impact of the economic environment and related disclosures, driven by the uncertainty prevalent throughout 2012. All companies have been impacted and our survey considers how this has been reflected in the annual reports, but also in the presentations made by the companies to analysts.

In this year's survey we focused on the implications of the new IAS 19R *Employee Benefits* for Swiss listed companies and analysed in more detail disclosures relating to goodwill and impairment. We also introduced a qualitative review of the accounting policies driven by the fact this subject was one of the SIX Exchange Regulation focus areas.

We have continued to extend some of our analysis to compare the results obtained from our survey of Swiss companies with presentation and disclosures in three other European countries, namely France, Germany and the UK. For the first two countries, we analysed the financial statements of all non-financial institutions included in the CAC 40 and DAX 30 respectively. With regard to the UK, we used the results from a similar survey of financial reporting carried out on 2011 financial statements by Deloitte UK.

The annual reports of 30 listed companies were reviewed to determine current practice. The sample of companies represents some of the largest by market capitalisation, with the exception of financial institutions and those companies reporting under US GAAP. We then included a selection of medium sized listed entities. Please refer to Appendix 1 for the list of the companies surveyed.

The only change in the sample compared to last year is the inclusion of OC Oerlikon and Temenos which replace Nobel Biocare and Kudelski.

Our sample was selected in March 2013, at which time 12 of the 30 companies were included in the SMI index. The sample represented a market value of CHF 669 billion as at 31 December 2012 or 69 % of the total market capitalisation of the Swiss exchange.

The annual reports used were those most recently available and published in the period from 1 May 2012 to 30 April 2013.

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 impact of current economic conditions on disclosures included in the annual report;
- the level of consistency in presentation of the primary statements in listed companies' financial statements, and how this compares to listed companies in other European countries;
- how well companies deal with the significant volume of disclosures required by IFRS, including areas of regulatory focus such as critical accounting judgements, accounting policy choices, key sources of estimation uncertainty and provisions;
- the changes and trends in financial reporting compared to previous years;
- the quality and relevance of information disclosed for complex areas such as taxes, goodwill and impairment and financial instruments;
- the level of compliance with the requirements of the SIX Exchange Regulation, with special focus on those areas in which sanctions have been recently issued;
- the foreseeable impact of future changes in accounting standards, particularly in the area of pension accounting; and
- the emergence of Swiss GAAP FER in Switzerland and more particularly analysing the profile of companies that recently switched from IFRS to Swiss GAAP FER.

3. Reporting the economic environment

- 2012 has been a challenging year for Swiss companies due to macro-economic uncertainties such as the lack of stability in the global financial system and the sovereign debt crisis. However, the economic outlook for 2013 tends to be more optimistic.
- 83% of companies in our sample disclosed an increase in revenues in the reporting currency, a result broadly similar in constant currency due to the stability of the CHF throughout the year.
- 16 companies increased their dividends per share compared to the prior year.
- Dividend pay-out ratio slightly decreased with an average of 51% on the surveyed companies (2011: 54%).

The economic environment in 2012

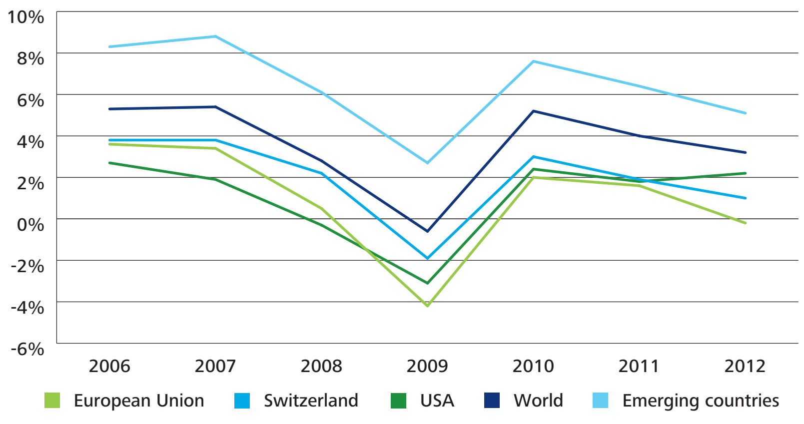
2012 was marked by an uncertainty about the economic environment. The possibility of an escalation in the Eurozone debt crisis, worries about a decline in foreign demand and the strength of the Swiss Franc were all key concerns for Swiss corporates.
In the first semester of 2013, the economic outlook of Swiss CFOs has improved considerably. Fears of a recession dropped to the lowest level since the third quarter of 2011. Even if the 2012 year-end closed on a more positive note, it was widely expected that companies would comment on the challenges or difficulties which had to be overcome during the year and the impact on their business.

Integrating an analysis of the economic environment into the IFRS survey provides an interesting overview of the impact of the economic environment on company results and financial statements disclosures. The first part of this chapter will consider the economic environment from a global perspective, the consequences of which will then be analysed at the level of the companies in our survey.

Even if the 2012 year-end closed on a more positive note, it was widely expected that companies would comment on the challenges or difficulties …

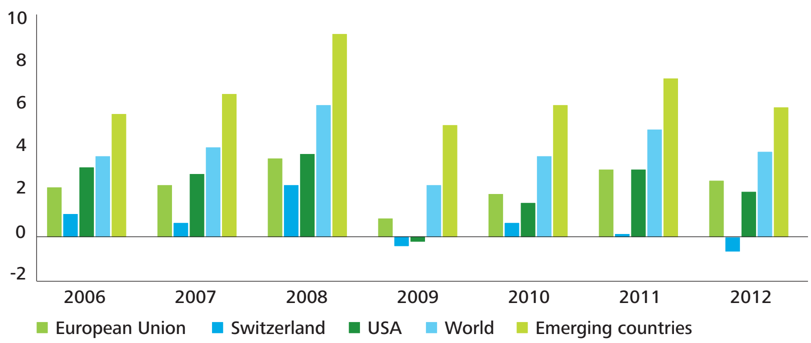
Figure 1. GDP growth rates for selected economies

In %, yoy



Source: IMF World Economic Outlook Database

Figure 2. Average inflation rate (%) for selected countries



Source: IMF World Economic Outlook Database

GDP growth

Global GDP growth remained around 3% during 2012, down by 1 percentage point from the previous year.

This is the result of a rather mixed pattern, with GDP growth in emerging economies (such as China, Brazil and India) exceeding 5.1% whilst the Swiss economy is at a pace of 1.0%. This performance is below the US (2.2%) and above the EU (-0.2%).

Inflation rate

In western economies – being in this case the EU, Switzerland and the USA – the average inflation rate remained under 1.5% in 2012, down by nearly 1% compared to 2011.

Once again emerging economies present quite a different picture. Even if the trend followed by these economies is roughly the same, the average inflation rate remained higher than 5% over the same period with 5.9% compared to the 7.2% peak in 2011.

Stock market prices

Overall, stock prices have fallen by 16% since 31 December 2007 (based on the MSCI World Index evolution).

All the major indices suffered from a dramatic blow in 2008. The change in the MSCI between 31 December 2007 and 31 December 2008 reveals this trend. It decreased by 44% on average. Based on the MSCI, stock prices then increased between 31 December 2008 and 31 December 2010 (+45%), before declining again in 2011 (-9%). We noticed an increase in the MSCI in 2012 of 13% reflecting the overall economic optimism.

The Swiss SMI index followed much the same pattern. It lost 35% between 31 December 2007 and 31 December 2008, increased by 16% between 31 December 2008 and 31 December 2010 and declined by 8% in 2011. In 2012, the Swiss SMI index increased by 15%. As a result, the SMI index has decreased by 20% since 31 December 2007. At the date of our survey, 12 of the companies included in the sample were part of the SMI.

Stronger CHF impact

The performance of Swiss companies was influenced by another factor: the strong national currency.

The value of the Swiss franc against other currencies rose dramatically over the past few years. The overall rise in the value of the Swiss franc against GBP, for example, between 2007 and 2011 amounts to 63%, with similar rises of 42% and 28% against USD and EUR respectively. Significant volatility during 2011 led the intervention by the Swiss National Bank (SNB) to set a floor on the CHF/EUR exchange rate.

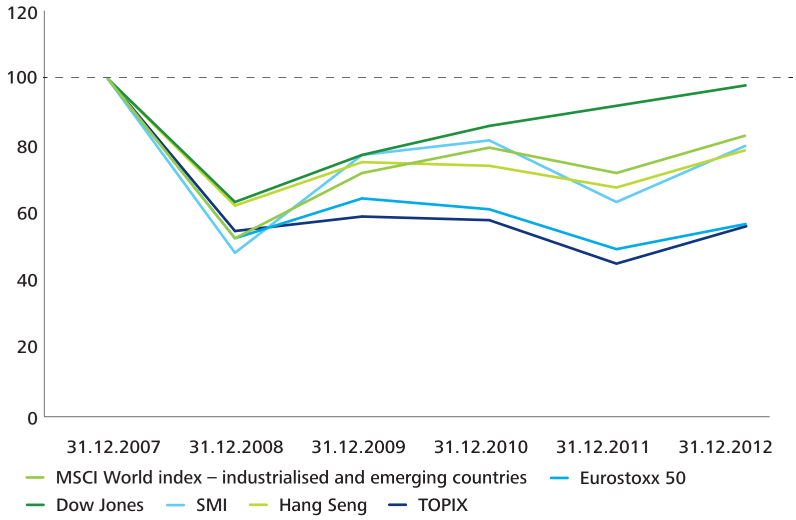
In 2012, as a result of the Swiss National Bank intervention, the Swiss Franc remained stable compared to major other foreign currencies.

Interest rates

The last two years have also been marked by the intervention of central banks in national economies through the lowering of refinancing interest rates.

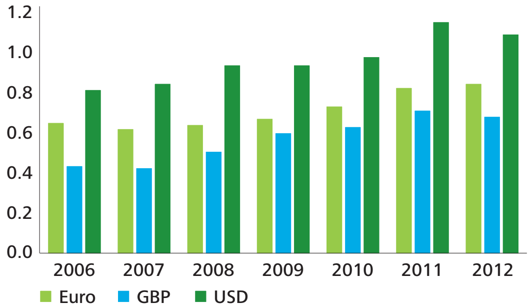
Interest rates of the main western central banks decreased from roughly 4% in 2007 to 0.5% in 2012.

Figure 3. Stock price variation



In 2012, as a result of the Swiss National Bank intervention, the Swiss franc remained stable compared to major other foreign currencies.

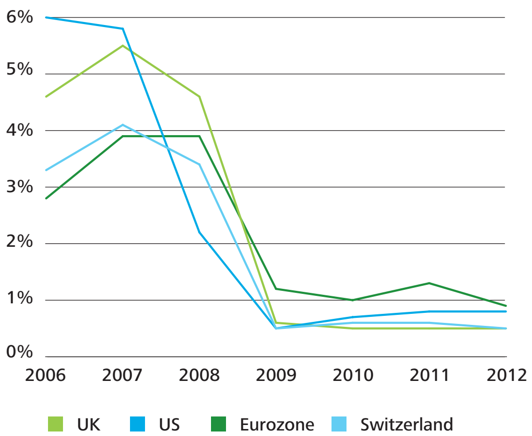
Figure 4. Main currencies vs. CHF



Source: Swiss National Bank

Figure 5. Official interest rates for selected countries

In %; data for Switzerland SNB LIBOR target rate



Raw material prices

One of the other main features of the worldwide economy over the past few years is the significant fluctuations in raw material prices.

Figure 6 indicates the variation of raw material prices between 2007 and 2011. From 2007 to 2012, prices have increased by nearly 30%. However, in 2012, raw material prices have decreased by 5%.

This volatility makes it difficult for companies to hedge against these sharp and unpredictable moves.

The economic environment as reported in the financial statements

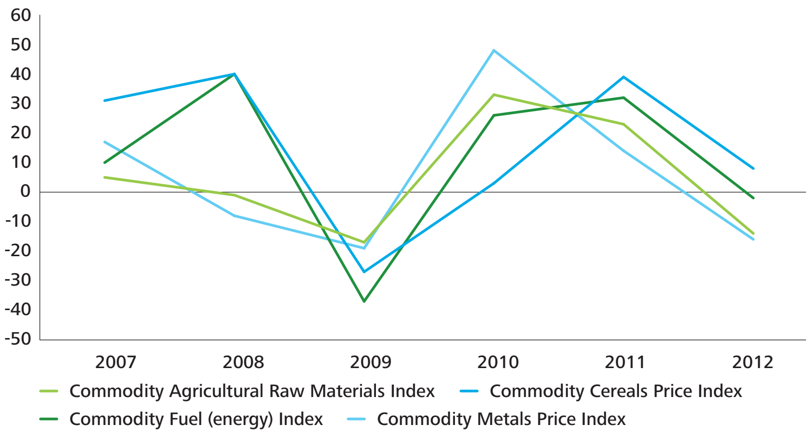
Most of the companies included in our sample mentioned an increased financial performance in their 2012 financial statements, although the environment remained challenging with some uncertainty about the euro debt crisis.

These companies highlighted that having a global presence, fostering creativity, and focusing on technologies helped them in improving financial performance. In addition, very attractive credit conditions, receding risks and Swiss attractiveness as a business location were also mentioned by Swiss CFOs in Deloitte's quarterly CFO survey.

The companies highlighted that having a global presence, fostering creativity, and focusing on technologies helped them in improving financial performance.

Figure 6. Evolution of the main commodities

Percentage of variation



A challenging year

In a very difficult and volatile market environment the Kuehne + Nagel Group was able to increase business volume in all segments; the results, however, were adversely affected by pressure on margins, cost increases and a high antitrust fine.

Kuehne + Nagel Annual report 2012

Figure 7. Distribution of the companies based on their revenue growth rates (reporting currency)

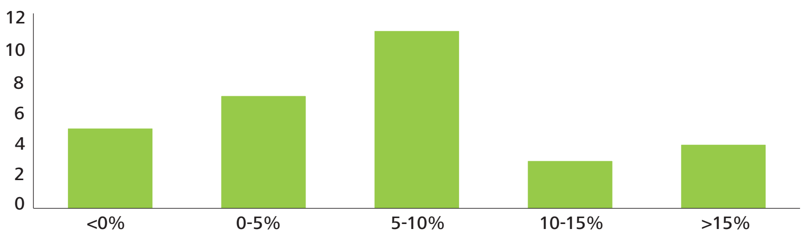
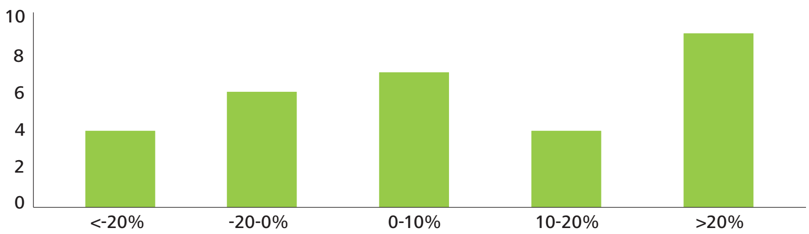


Figure 8. Distribution of the companies based on their EBIT growth rates (reporting currency)



Revenue growth

25 companies (83%) in our sample reported an increase in revenue in 2012 (in reporting currencies). Revenue growth rates across our sample ranged from 46% to a decrease of 49%.

Revenue growth improved compared to last year, with average growth for our sample of 5.9%, compared to 5.2% in 2011.

In 2012, companies reported overall a higher financial performance with 67% of the companies under review presenting an increase in their operating margin. 33% of the companies under review reported a decreased operating margin compared to the previous year. This represents a marked improvement in the number of companies compared to 2011, when 63% of the companies reported a decline in margin.

Variations in the EBIT across our sample were noted as being, on average, an increase of 3.4% (when adjusted to eliminate a significant, non-recurring decrease for one company in our sample). The high pressure on margins experienced in prior year seems to have reduced in 2012.

Strong but stable CHF during the year

As mentioned above, one of the key features of the past few years has been the increasing strength of the Swiss franc. This year, as the Swiss franc was only slightly over the exchange rate floor of EUR/CHF 1.20, the variation between growth range in CHF and growth range in constant currency is not significant.

In assessing the overall financial performance, a number of companies have not mentioned the currency impact in their performance in the narrative report.

In 2012, only 12 companies out of the 30 in our sample mentioned the impact of the currency on their reported performance in their narrative reporting, a marked decline compared to 2011 when 27 companies out of the 30 mentioned the adverse impact of stronger Swiss franc on their reported performance in the narrative reporting.

However, 24 companies presented the revenue growth percentages in their annual reports in constant currency. These companies reported average constant currency revenue growth of 7.0%, compared to an average growth of 5.9% in the reporting currency.

It is interesting to note the decline in the constant currency revenue growth from 12.1% in 2011 to 7.0% in 2012. The Deloitte CFO surveys published during the year outlined that external risks such as weaker foreign demand and the strength of the Swiss franc are clearly dominant in the business. 2012 has offered quite a few challenges such as the strong Swiss franc, euro debt crisis and slowing growth in emerging markets. During the second half of 2012, however, things are perceived to have calmed down somewhat and 2013 has started on a more positive note.

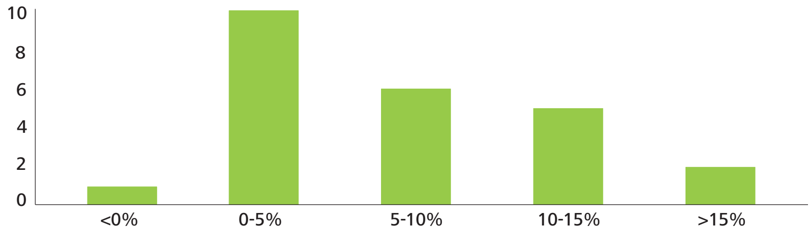
Share performance, dividends per share and dividend pay-out ratio

The share price of the companies included in our sample increased on average by 15% during the year. In 2012, out of the 30 companies in our sample 24 (80%) saw an increase in the share price compared with 2011, while six (20%) saw a decline.

Average dividends per share – based on the proposed dividend for the year ended 2012 – went up by 7.2%. Only one company in our sample did not propose a dividend in 2012, compared to three in 2011. This company did not pay a dividend in the prior year either.

Of our sample, 16 companies increased the dividend per share in 2012. Seven companies did not change the dividend proposed to shareholders, whilst the remaining experienced a reduction.

Figure 9. Distribution of the companies based on their revenue growth rates (constant currency)



The average dividend pay-out ratio of 51% slightly decreased compared to the 54% of 2011.

The dividend pay-out ratio represents the percentage of earnings paid to shareholders in dividends (calculated as dividend per share proposed to the next annual general meeting/earnings per share basic for the year). The average dividend pay-out ratio of 51% slightly decreased compared to the 54% of 2011 (these numbers do not include companies which had not paid a dividend nor companies with a net loss). Out of our sample, 14 companies decreased their dividend pay-out ratio, whereas only ten companies increased their ratio.

The pay-out ratio provides an idea of how well earnings support the dividend payments. More mature companies tend to have a higher pay-out ratio.
Of our sample, the companies with the highest and lowest pay-out ratios are as follows for 2012:

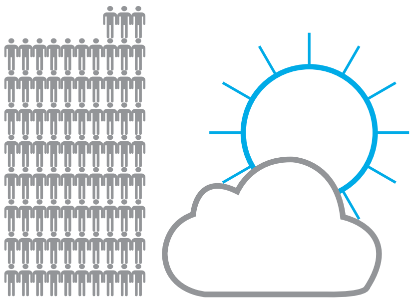
Company	Dividend pay-out ratio	Company	Dividend pay-out ratio
Kuehne+Nagel Int	86%	Swatch group	19%
Temenos	80%	Richemont	20%
Givaudan	80%	Oerlikon	21%
SGS	79%	Galenica	28%
Roche	65%	Sonova	32%

Outlook for 2013

Optimistic economic outlook

The economic outlook of Swiss CFOs has improved considerably during the first half of 2013. Fears of a recession dropped to the lowest level since Q3 2011.

This positive outlook is in line with the general sense of relief in the financial markets and economic trouble spots around the world. The euro debt crisis has, at least for the time being, been contained, even though it could escalate again, as events in Cyprus demonstrated at the end of March. The fiscal cliff in the US was avoided, although subsequent budgetary cuts and tax rises have been implemented, while economic growth is picking up again in many countries, including China.

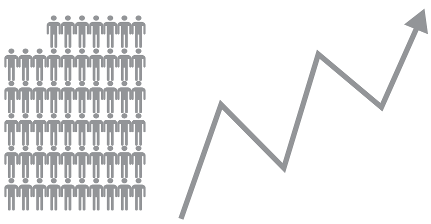


83% Few fears of a recession

of CFOs do not expect a recession in Switzerland within the next two years.

Revenue expectations increase

The rediscovered optimism is also reflected in the corporate outlook. 32% of CFOs report an improvement in the financial position of their company, while only 16% expect a deterioration. Revenue expectations have increased considerably with 57% anticipating an increase in revenue in the next 12 months, nearly twice as many as in the previous fourth quarter 2012. Margin expectations also continue to improve.



57% Growth

expect revenue to increase in the next 12 months.

Companies remain cautious

The improved sentiment must still be considered fragile though, which is supported by other corporate indicators. Expectations for capital expenditure, discretionary spending and recruiting have improved compared to the previous quarter. However, this is mainly due to the fact that several formerly pessimistic CFOs now have a neutral outlook. The share of companies that plan to increase expenditures remains high. For 83% of CFOs, cost control remains a top strategic priority, which is another signal of the cautious attitude.

83% Prudence

state that cost control is a top strategic priority.

Favourable credit conditions

Credit conditions for companies, as measured by the cost and availability of credit, have been viewed in a positive light since Q4 2009. In early 2013, 67% of CFOs consider credit cost to be low, while only 5% regard them as high. Perceived credit availability also improved, with 54% viewing credit as readily available, and only 11% saying it is hard to obtain.

67% Good credit conditions

of CFOs consider the cost of credit to be low compared to only 5% who say credit costs are high.

> The share of companies that plan to increase expenditures remains high. For 83% of CFOs, cost control remains a top strategic priority, which is another signal of the cautious attitude.

4. Investor presentations

- Presentations to investors enable management to communicate without the restrictions of IFRS.
- Differences were noted between figures provided to investors and the IFRS financial statements in terms of measures of profit and cash flow.
- There was a wide variety in the format and the length of the investor presentations, although much of the content was similar for the companies in our sample.

The presentation made by companies to investors upon publication of the annual results is a crucial step in most corporate communication strategies, as it allows management to focus on the key messages which they want to share with their stakeholders.

All but one companies included in our sample published this presentation on their corporate website.

Content of the presentation

Most of the information disclosed in the investor presentation is also included in the narrative part of the annual report.

The most common recurring items in our sample were:

- sales, presented by all the 29 companies;
- segment information in all but three cases;
- measure of operating profit;
- sales growth, both in reporting and constant currencies;
- cash flows; and
- dividends per share (26 out of 29).

In order to investigate further the consistency between those items highlighted in the investor presentation, and the figures in the IFRS financial statements, we carried out additional analysis on SMI companies, for the 11 out of 12 companies which published the document on their corporate website.

Operating profit

As expected, all companies included in our sample presented a measure of operating profit to investors; however those measures highlighted were not necessarily in line with the amounts shown on the face of the income statement. Of our sample, seven companies (64%) provided figures which could be directly reconciled to the face of income statements in their IFRS financial statements. Of the remaining four companies, three provided additional measures which were also disclosed in the narrative section of the annual report, and provided reconciliations in that document to the IFRS figures. A further company also presented figures from the narrative section of the report, although no reconciliation was provided.

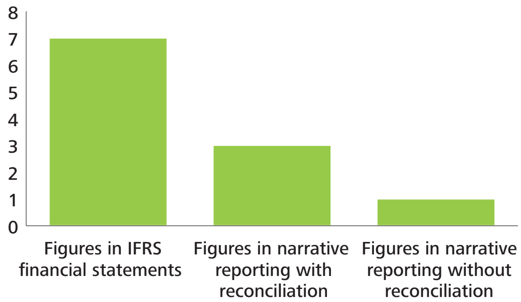
Core results reconciliation – 2012 in millions of CHF

	IFRS	Global restruc-turing	Intangibles amorti-sation	Intangibles impairment	Alliances & business combi-nations	Legal & environ-mental	Global issues	Normali-sation of ECP tax benefit	Core
Sales	45,499	–	–	–	–	–	–	–	45,499
Royalties and other operating income	1,945	–	–	–	–	–	–	–	1,945
Cost of sales	(12,175)	203	487	41	–	–	–	–	(11,444)
Marketing and distribution	(8,539)	141	6	–	–	–	–	–	(8,392)
Research and development	(9,552)	556	37	484	–	–	–	–	(8,475)
General and administration	(3,053)	536	–	187	(32)	389	–	–	(1,973)
Operating profit	**14,125**	**1,436**	**530**	**712**	**(32)**	**389**	**–**	**–**	**17,160**

Roche, Financial report 2012

Seven companies (64%) provided figures which could be directly reconciled to the face of income statements of their IFRS financial statements.

Figure 10. Profit measure included in investor presentations (Number of Companies)



Eight companies disclosed "operating income or profit"; two of them disclosed "core operating profit" and the last one presented the EBITDA only. We noted that EBITDA was the most common non-GAAP measure of profit presented in addition to IFRS measure by four companies and one company presented an "adjusted operating income".

Overall, two companies provided measures of profit to analysts which were not disclosed in the note on segmental reporting. This is surprising, given that these disclosures are, in accordance with IFRS 8, supposed to reflect the data used by management.

Overall, two companies provided measures of profit to analysts which were not disclosed in the note on segmental reporting. This is surprising, given that these disclosures are, in accordance with IFRS 8, supposed to reflect the data used by management.

Segmental analysis

Of the presentations analysed, seven disclosed information about operating segments which was directly reconcilable to the notes to the financial statements.

Of the remaining four companies:

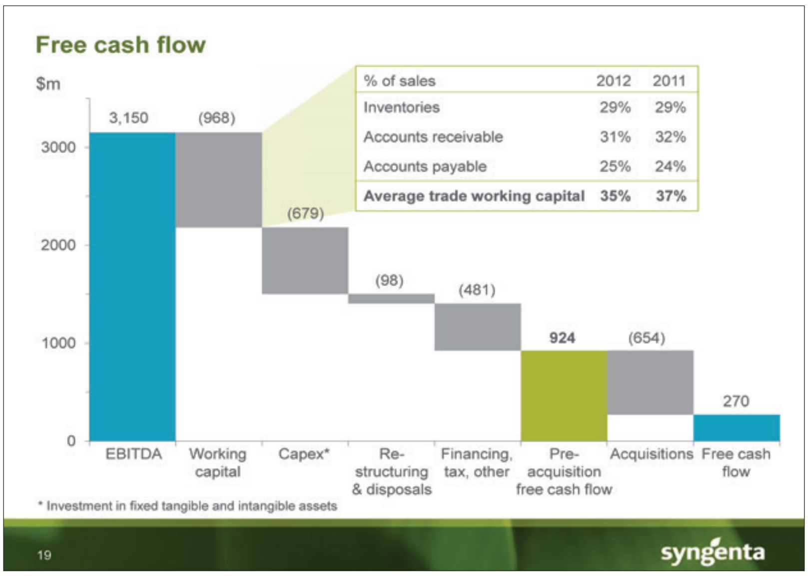
- the information was agreed to the narrative reporting section for one of them;
- one company presented a graph with no clear figures that could be reconciled to the financial statements; and
- two companies gave additional segment information – for example, a more detailed breakdown of sub-segments within reporting segments, or breakdown by geography which was different from that provided in the financial statements.

However, as mentioned above, there were at times inconsistencies between the information given in the narrative section, and that in the note on segmental reporting, with regard to the measure of profit used. We would have expected more consistency in this area.

Sales & EBITDA margins by business unit – full year

Full year Business Unit / Segment	Sales CHF mn	 % LC	EBITDA* % of Group	EBITDA margin* % 2012	 % 2011
Industrial & Consumer Specialties (ICS)	1 474	+1	26	16.8	17.0
Masterbatches (MB)	1 121	–1	14	11.8	11.5
Pigments (PIG)	899	–8	15	16.6	21.6
Functional Materials (FM)**	667	–	10	14.7	12.9
Catalysis & Energy (CE)**	751	–	17	21.4	21.8
Oil & Mining Services (OMS)	715	+15	10	12.9	11.6
Additives (ADD)***	411	–7	8	18.2	22.6
Total continuing	**6 038**	**+8**	**100**	**13.3**	**15.0**

Clariant, Investor presentation 2012

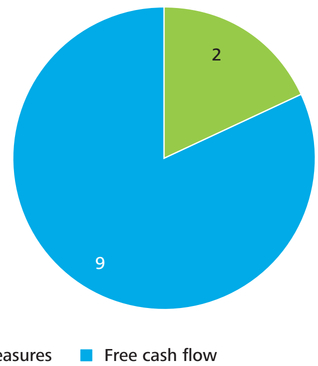


Syngenta, Investor presentation 2012

Cash flows

The difference between the investor presentation and the IFRS financial statements was particularly marked in relation to cash flows. Only two companies provided cash flow information which came from the IFRS cash flow statement. The remaining nine companies presented "Free cash flow" or "Operating free cash flow". This measure, for which there was no common definition across the sample, was only reconciled to the IFRS cash flow statement in three cases.

Figure 11. Presentation of cash flows (Number of companies)



This result is interesting, as it provides evidence that management and investors in general do not find that the IFRS cash flow statement contains sufficient details, and that additional information is provided instead.

However, the fact that a common term is used by many companies, without a common definition, limits comparability between companies by investors.

Outlook for 2013

Information on the outlook for the following year was varied in our sample, with two companies providing no guidance at all. Where given, most comments were vague and not particularly detailed. Five companies referred to steady or growing operating profits, while three companies specifically mentioned strategic acquisitions or investments.

Conclusion

While companies are free to choose the information they consider most appropriate and relevant to analysts and investors, it is interesting to note some disconnect between this information and the data prepared in accordance with the requirements of IFRS, especially for the cash flows information. This raises questions regarding the usefulness for investors of IFRS information.

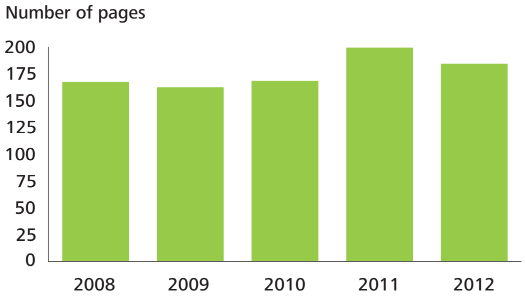
5. Overview of financial statements

- Annual reports ranged from 92 to 323 pages.
- The average number of working days following the year-end that results were released to the market was 41 days which is in line with 2011.
- No company had a modified audit report on its consolidated financial statements.

Length of the annual report

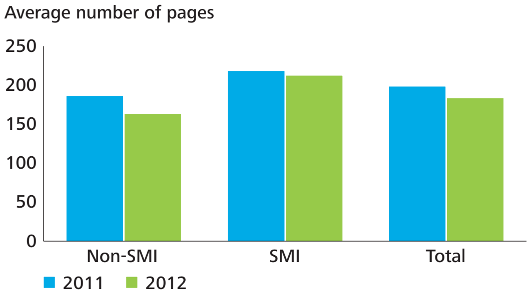
Over the last five years, the average length of annual reports remained broadly the same. Changes from one year to another were mainly due to an increase or decrease in the information disclosed in areas other than the financial statements such as business review, corporate governance and sustainability.

Figure 12. How was the average length of the annual report changed over time?



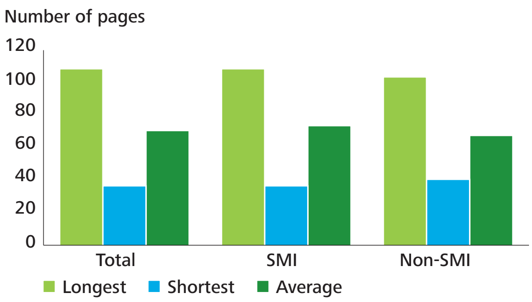
The average length of annual reports has decreased from 200 pages in 2011 to 185 in 2012. However, if the company with the largest number of pages is excluded, the average length falls to 180 in 2012 and 185 in 2011.

Figure 13. What is the overall length of the annual report?



Annual reports ranged from 92 to 323 pages (from 105 to 631 pages in 2011) with the financial statements covering from 37 to 109 pages (from 40 to 111 pages in 2011). The longest report in our sample, which was produced by an SMI company and which totalled 323 pages was primarily dedicated to narrative reporting, with 34% of the total relating to the financial statements. This does not represent the lowest percentage of the annual report as a whole, another SMI issued an annual report with only 25% of the report dedicated to financial statements, the maximum being 53% (from 13% to 53% in 2011). In 2012, the SMI companies in our sample dedicated the same number of pages to narrative reporting with an average of 36% (36% in 2011) of the report being financial statements, compared to an average of 40% (39% in 2011) across the sample and 42% (41% in 2011) for Non-SMI companies. Overall the length of financial statements remained relatively stable between 2011 and 2012 (average of 71 pages in 2012 and 72 in 2011), which was expected as there were limited changes and few new standards effective for the first time in 2012.

Figure 14. What is the length of the financial statements?



Speed of reporting

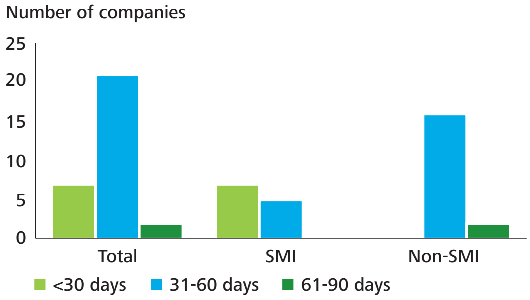
SIX Exchange Regulation requires listed companies to report within four months of the year-end.

All of the companies in our sample issued a press release containing the results for the year to market. For 2012 results, the average number of working days between the financial year-end and the release of results to the market was 41. This is stable with the prior year, when the average period was 38 days.

As expected, the SMI companies sampled were amongst the quickest, and included the fastest reporter at 12 working days (12 working days for 2011).

In the sample of companies selected, four published sales figures within ten working days (minimum was seven days) and of those, one confirmed positive expectations for operating profit.

Figure 15. How many working days after year-end was financial information reported to the market?



In terms of the board's authorization date for publication of the financial statements, the average number of days after the year-end was 51 days for 2012 (52 for 2011). Again the SMI companies approved their financial statements more quickly than non-SMI companies, the average being 40 days and 59 days respectively for 2012 (42 days and 57 days for 2011).

Audit reports

In the sample of companies selected, no audit report was modified.

First time adopters

None of the companies in our sample was adopting IFRS for the first time.

Overall the length of financial statements remained relatively stable between 2011 and 2012, which was expected as there are limited changes and few new standards effective for the first time in 2012.

IFRS insight

Overall, we expect more changes to the structure or length of the financial statements in 2013, when many new IFRS become applicable for the first time (e.g. the "package of five" standards on consolidation, IAS 19R on employee benefits and IFRS 13 on fair value disclosures). These forthcoming changes are further explained in the next chapters.

Many companies are looking for stability in their financial statements and are also trying to contain the risk of increasing disclosures and length of financial statements obscuring the information which is of the most value to users. This concern has underpinned many of the recent initiatives undertaken by different regulators (European Financial Reporting Advisory Group – EFRAG, French Autorité des Normes Comptables – ANC, and UK Financial Reporting Council – FRC). The IASB subsequently issued *Feedback Statement Discussion Forum – Financial Reporting Disclosure* on 28 May 2013, which outlined the IASB's intention to consider a number of further initiatives:

- narrow scope amendments to IAS 1 to address perceived impediments to preparers exercising their judgement in presenting their financial reports;
- a project on materiality, seeking to develop application guidance or educational material on materiality, with input from an advisory group; and
- a revised research project on financial statement presentation, focused on broader challenges associated with disclosure effectiveness, in essence developing a disclosure framework for IFRS.

6. Statement of financial performance

- All but one company presented the income statement and statement of comprehensive income in two separate statements.
- All companies presented a measure of operating profit on a voluntary basis.
- 40% of companies presented additional non-GAAP performance measures on the face of the income statement.
- International comparison reveals different national trends in terms of mixed classification of expenses and use of non-GAAP measures.

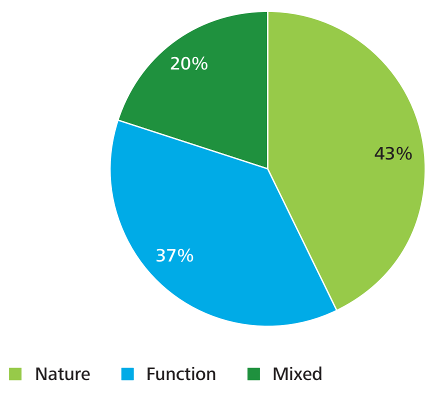
Income statement

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

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

There are no specific requirements regarding the classification of operating expenditure on the face of the income statement. IAS 1 recognises that showing expenses by either function or nature has benefits for different companies. Figure 16 shows how operating expenses are presented on the face of the income statement.

Figure 16. How are operating expenses presented on the face of the income statement?



13 companies sampled chose to present their expenses by nature, 11 by function and only 6 used a mix between function and nature.

Mixed presentation consists of situations where entities classified expenses on a functional basis but exclude certain ‘unusual’ expenses from the functional classification to which they relate and present these items separately by nature. Examples are restructuring expenses, impairment charges and amortisation of intangible assets. A mixed classification could be challenged on the grounds that IAS 1 requires presentation by nature or function.

SIX Exchange Regulation sanctions

In 2011 the SIX Exchange Regulation issued sanctions against two companies in relation to the classification of amounts in the income statement. The first related to the incorrect classification of restructuring costs as discontinued, while the second related to amounts which had not been classified by function (specifically, amortisation of intangible assets and restructuring costs) and which were significant as a percentage of the total costs presented in the income statement.

Operating profit

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

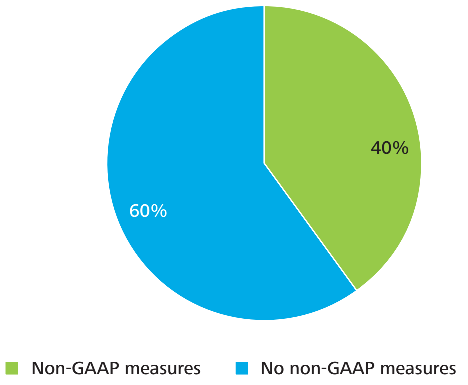
The terminology commonly used is operating profit, operating income or Earnings Before Interest and Taxes (EBIT).

Additional non-GAAP measures

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

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

Figure 17. What percentage of companies is presenting non-GAAP measures?

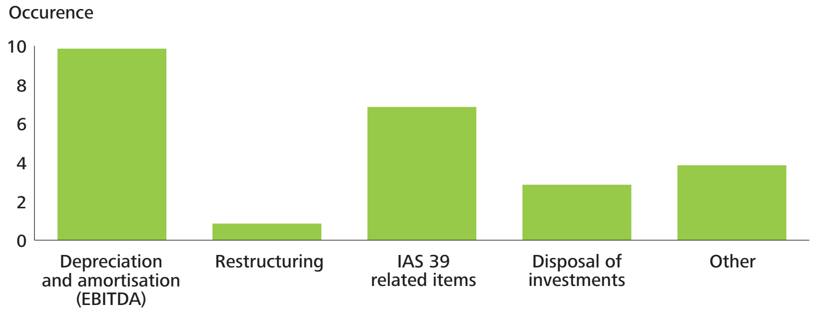


The use of additional measures is permitted under IAS 1 which encourages such items to be presented when this is relevant to the understanding of a company's financial performance.

The items most commonly excluded from non-GAAP performance measures are detailed in figure 18.

Amortisation and depreciation were excluded by 10 of the companies surveyed (10 in 2011); this resulted in the presentation of an EBITDA in addition to the operating profit.

Figure 18. What items do the non-GAAP measures exclude?



In the current economic environment, impairment charges and restructuring costs were unsurprisingly incurred by a number of companies in the current year. These categories of cost were excluded by respectively 11 and one companies. When using non-GAAP performance measures, most of the companies from the sample present additional line items on the face of the income statement.

SIX Exchange Regulation specific guidance

SIX Exchange Regulation refers to the classification of income and expenditure in its Circular No.2 on IFRS. This specifically states that "an entity must present expenses recognised in its statement of comprehensive income either by their nature ("nature of expense" method) or by their function within the entity ("function of expense" method). Under IAS 1, management is obliged to choose the more relevant of the two methods, and must apply it consistently."

It is clear that a 'mixed' presentation does not meet the requirements and indeed sanctions have been enforced in the past against companies for failing to comply with these rules (see above).

Statement of Comprehensive Income ('SOCI')

Only one SMI entity presented a single statement that combined the statement of income and comprehensive income.

23% of the entities sampled presented the tax effect of each component of other comprehensive income ("OCI") individually on the face of the statement (where applicable). Of the companies included in our sample, 33% presented one line containing the total tax impact of items of OCI and 27% disclosed that each component was net of tax. For the remaining 17%, the presentation of the tax impact was unclear.

Looking forward: new reporting requirements for the presentation of items in OCI

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 with US GAAP.

The amendments require companies to group together items within OCI that may be reclassified to the profit or loss at a later date. 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, which are effective for annual periods beginning on or after 1 July 2012 with full retrospective application, 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.

Only minor changes to the statement of OCI will be required to comply with this amended standard.

We noted that only one entity has early adopted this amendment to IAS 1 (see Syngenta Annual report, opposite).

The Annual Report of Nestlé shows an example of such disclosures with the presentation of a "Trading operating profit".

Consolidated income statement for the year ended 31 December 2012

In millions of CHF	Notes	2012	2011
Sales	3	**92 186**	83 642
Other revenue		138	128
Cost of goods sold		(48 398)	(44 127)
Distribution expenses		(8 167)	(7 602)
Marketing and administration expenses		(19 688)	(17 395)
Research and development costs		(1 544)	(1 423)
Other trading income	4	141	51
Other trading expenses	4	(656)	(736)
Trading operating profit	3	**14 012**	12 538
Other operating income	4	146	112
Other operating expenses	4	(226)	(179)
Operating profit		**13 932**	12 471
Financial income	13	110	115
Financial expense	13	(591)	(536)
Profit before taxes and associates		**13 451**	12 050
Taxes	14	(3 451)	(3 112)
Share of results of associates	15	1 060	866
Profit for the year		**11 060**	9 804
of which attributable to non-controlling interests		449	317
of which attributable to shareholders of the parent (Net profit)		10 611	9 487
As percentages of sales			
Trading operating profit		15.2%	15.0%
Profit for the year attributable to shareholders of the parent (Net profit)		11.5%	11.3%
Earnings per share (in CHF)			
Basic earnings per share	16	3.33	2.97
Diluted earnings per share	16	3.32	2.96

Nestlé, Annual Report 2012

Consolidated Statement of Comprehensive Income

(for the years ended December 31, 2012 and 2011)

($m)	Notes	2012	2011
Net income		**1,875**	1,600
Components of other comprehensive income (OCI)			
Items that will not be reclassified to profit or loss:			
Actuarial gains/(losses) of defined benefit post-employment plans	22	**(151)**	(252)
Income tax relating to items that will not be reclassified to profit or loss	7	**31**	71
		(120)	(181)
Items that may be reclassified subsequently to profit or loss:			
Unrealized gains/(losses) on available-for-sale financial assets	28	**(1)**	3
Gains/(losses) on derivatives designated as cash flow and net investment hedges	29	**108**	(150)
Currency translation effects		**86**	(186)
Income tax relating to items that may be reclassified subsequently to profit or loss	7	**(22)**	(14)
		171	(347)
Total comprehensive income		**1,926**	1,072
Attributable to:			
Syngenta AG shareholders		**1,924**	1,072
Non-controlling interests		**2**	–
Total comprehensive income		**1,926**	1,072

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

Syngenta, Annual report 2012

IFRS Insight

The IASB published a *Discussion Paper DP/2013/1 A Review of the Conceptual Framework for Financial Reporting* in July 2013. The eighth section "Statement of comprehensive income" mainly deals with proposals for distinguishing profit and loss and other comprehensive income (OCI). The IASB suggests retaining both profit and loss and OCI and marking them by (sub)totals. As a principle, all income and expense would be shown in profit and loss unless relating to the remeasurement of assets and liabilities – these would normally be shown in OCI with recycling generally permitted. A definition of profit and loss is not included in the conceptual framework.

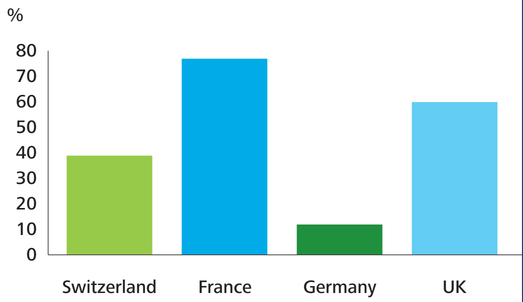
International comparison

Non-GAAP Measures

All Swiss companies sampled gave an operating profit line which is consistent with the practice in Europe, as the proportion of French, German and UK companies presenting a similar measure was 97%, 92% and 94% respectively.

Of the total number of Swiss companies surveyed, 40% presented additional non-GAAP performance measures on the face of the income statement. This use of additional measures is permitted under IAS 1; however, there is no consistency across Europe. Although German companies seem to be more reticent to go beyond the IAS 1 requirements, with only 13% presenting additional non-GAAP measures, the percentage of companies presenting non-GAAP measures is higher in UK and France, 61% and 78% respectively. It is common in France to present 'recurring operating income', which excludes other non-recurring income and expenses, as a result of a specific French legal requirement.

Figure 19. Presentation of non-GAAP measures



COMPTES DE RÉSULTAT CONSOLIDÉS

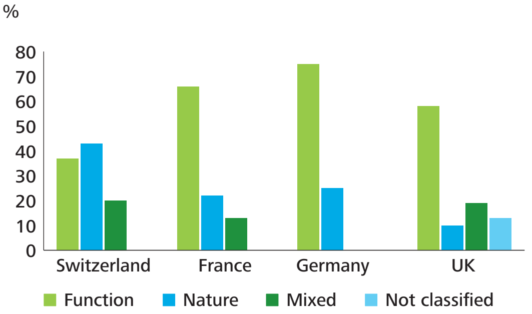
(En millions d'euros sauf résultat par action)	Notes	2012	2011	2010
Revenus	(5) & (6)	**14 446**	**15 327**	**15 658**
Coût des ventes (1)		(10 099)	(9 967)	(10 356)
Marge brute		**4 347**	**5 360**	**5 302**
Charges administratives et commerciales (1)		(2 393)	(2 642)	(2 769)
Frais de R&D avant capitalisation de frais de développement		*(2 432)*	*(2 472)*	*(2 593)*
Impact de la capitalisation des frais de développement		*(12)*	*5*	*(10)*
Frais de R&D (1)		(2 444)	(2 467)	(2 603)
Résultat de l'activité opérationnelle avant coûts de restructuration, résultat de cession de sociétés consolidées, litiges, perte de valeur sur actifs et amendement de régime d'avantages postérieurs à l'emploi	(5)	**(490)**	**251**	**(70)**
Coûts de restructuration (1)	(29)	(490)	(203)	(371)
Litiges		2	4	(28)
Résultat de cession de sociétés consolidées (2)		11	(2)	62
Perte de valeur sur actifs	(7)	(894)	-	-
Amendement de régime d'avantages postérieurs à l'emploi	(26)	204	67	30
Résultat de l'activité opérationnelle		**(1 657)**	**117**	**(377)**
Intérêts financiers relatifs à la dette financière brute		*(357)*	*(353)*	*(357)*
Intérêts financiers relatifs à la trésorerie et valeurs mobilières de placement		*78*	*59*	*53*
Coût de financement	(8)	(279)	(294)	(304)
Autres produits et charges financiers	(8)	347	359	356
Quote-part dans le résultat net des entreprises associées		2	4	14
Résultat net avant impôt et activités abandonnées		**(1 587)**	**186**	**(311)**
Impôt	(9)	(530)	544	(14)
Résultat net des activités poursuivies		**(2 117)**	**730**	**(325)**
Résultat net des activités abandonnées	(10)	666	414	33
Résultat net		**(1 451)**	**1 144**	**(292)**
dont :				
• **part du Groupe**		**(1 374)**	**1 095**	**(334)**
• part des participations ne donnant pas le contrôle		(77)	49	42
Résultat net part du Groupe par action (en euros) :				
• résultat par action de base	(11)	(0,61)	0,48	(0,15)
• résultat par action dilué	(11)	(0,61)	0,42	(0,15)
Résultat net part du Groupe des activités poursuivies (hors activités abandonnées) par action (en euros) :				
• résultat par action de base		(0,89)	0,30	(0,16)
• résultat par action dilué		(0,89)	0,28	(0,16)
Résultat net des activités abandonnées par action (en euros) :				
• résultat par action de base		0,29	0,18	0,01
• résultat par action dilué		0,29	0,14	0,01

Alcatel Lucent, Annual Report 2012

Income statement presentation

The analysis of the presentation of the income statement results in a considerable variety as companies present their results in a manner that is most appropriate to their business. The majority of Swiss companies surveyed presented their expenses by nature, with 20% using a mixed presentation, whereas the majority of European companies sampled presented their expenses by function with fewer companies using a mixed presentation in UK, France and Germany (with only 19%, 13% and 0% respectively). This absence of mixed presentation increases the user's ability to compare one company to another.

Figure 20. Function versus nature



All but one company sampled in Switzerland presented the additional performance measures on the face of the income statement using additional lines. This high percentage is consistent with the presentation used in France and Germany. However, it is common practice in the UK to present these non-GAAP measures in a variety of ways. 43% of relevant companies took a columnar approach to presenting their performance, 26% of the relevant companies in the sample included additional line items in their income statement and the removable box approach was the third most popular option used by 25%.

Consolidated income statement

For the year ended 31 December	Notes	2012 Before exceptional items(1) £m	2012 Total £m	2011 Before exceptional items(1) £m	2011 Total £m
Continuing operations					
Amounts staked(2)		**17,859.5**	**17,859.5**	16,466.7	16,466.7
Revenue	5	**1,084.4**	**1,084.4**	976.1	976.1
Cost of sales before depreciation and amortisation		**(709.0)**	**(712.7)**	(655.7)	(656.7)
Administrative expenses		**(86.9)**	**(86.9)**	(82.9)	(89.9)
Share of results from joint venture and associates	16, 17	**2.6**	**2.6**	1.0	1.0
EBITDA		**291.1**	**287.4**	238.5	230.5
Depreciation, amortisation and amounts written off non-current assets		**(55.0)**	**(57.3)**	(50.8)	(62.6)
Profit before tax and net finance expense	7	**236.1**	**230.1**	187.7	167.9
Finance expense	8	**(29.9)**	**(30.0)**	(33.4)	(34.0)
Finance income	8	**0.2**	**0.6**	0.6	0.7
Profit before tax		**206.4**	**200.7**	154.9	134.6
Income tax expense	10	**(10.7)**	**(10.4)**	(18.4)	(16.8)
Profit for the year – continuing operations		**195.7**	**190.3**	136.5	117.8
Discontinued operations					
Profit for the year from discontinued operations		**–**	**–**	–	0.4
Profit for the year		**195.7**	**190.3**	136.5	118.2
Attributable to:					
Equity holders of the parent		**195.7**	**190.3**	136.5	118.2
Non-controlling interests		**–**	**–**	–	–
Earnings per share from continuing operations					
– basic	12	**21.6p**	**21.0p**	15.0p	13.0p
– diluted	12	**21.2p**	**20.6p**	14.9p	12.9p
Earnings per share on profit for the year					
– basic	12	**21.6p**	**21.0p**	15.0p	13.0p
– diluted	12	**21.2p**	**20.6p**	14.9p	12.9p
Proposed dividends	11	**4.60p**	**4.60p**	3.90p	3.90p

(1) Exceptional items are profits or losses on disposal or impairment of non-current assets or businesses; unrealised gains and losses on derivative financial instruments; corporate transaction costs and any other non-recurring items considered exceptional by virtue of their nature and size. Details of the exceptional items are given in note 6.
(2) Amounts staked does not represent the Group's statutory revenue and comprises the total amounts staked by customers on betting and gaming activities.

Ladbrokes Plc, Annual report 2012

7. Statement of financial position

- A third balance sheet was presented by three companies compared to five companies in prior year.
- Amendments to IAS 1, effective on 1 January 2013, clarifies the requirements to present a third balance sheet and removes the requirements for related notes.
- 57% of companies sampled presented specifically all individual items required by IAS 1 on the face of the balance sheet.

The third balance sheet

IAS 1 *Presentation of Financial Statements* requires a minimum of two balance sheets to be presented. However, before 2013 (see overleaf), 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 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.

Out of the three companies presenting two comparative periods, two of them did so because of changes related to the early application of IAS 19 *Employee Benefits* (revised June 2011). The remaining company presented two comparatives periods on a voluntary basis, which it did already in the previous year.

As already noted in our survey in prior years, application in Switzerland appeared to be less rigid. Of the 30 companies included in our sample, only three presented three balance sheets (against five in 2011).

Out of the three companies presenting two comparative periods, two of them did so because of changes related to the early application of IAS 19 *Employee Benefits* (revised June 2011) as further discussed in section 16. The remaining company presented two comparatives periods on a voluntary basis, which it did already in the previous year.

The 27 companies in our sample, which did not present a third balance sheet, were reviewed for evidence of restatements.

Five companies were identified which had disclosed a restatement of some kind in the financial statements. Of these, one had restated the balance sheet, two the income statement and statement of comprehensive income and one the cash-flow statement. We also noted that for one company restatement was made following the acquisition of an entity and one restated due to discontinuation of the consumer activities.

Of the five companies identified above, two companies restated the segmental reporting information due to a change in operating structure (acquisition and/or discontinuation of activities). Three companies restated their notes following the change in presentation in cash-flow statement, in balance sheet, or in income statement. Most of these restatements were due to changes in presentation leading to a restatement of 2011 to ensure consistent presentation.

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

The presentation of two comparative years is illustrated opposite.

Looking forward: clarification of the requirement to present a third balance sheet

After some debate about the requirement to produce a third balance sheet and to avoid differences in practical application, the IASB published in May 2012 as part of the annual improvements to IFRS, effective from 1 January 2013, a clarification regarding comparative information.

This amendment to IAS 1 explicitly states that a third balance sheet is only required where the effect of the restatement or reclassification is material on the balance sheet. A change to IAS 1, made as part of the same improvements, will remove the requirement to present related notes accompanying a third balance sheet.

This clarifies an area of varying interpretations and the removal of the requirement for related notes has been welcomed by many.

IFRS insight

While there have been few changes to accounting standards in 2012, meaning that very few entities have prepared a third statement of financial position, a number of new and revised standards which are due to come into force in 2013 and 2015 indicate that the presentation of two comparative periods will be more common in the near future.

2 ROMANDE ENERGIE GROUP CONSOLIDATED FINANCIAL STATEMENTS

Balance sheet

as at 31 December 2012

In CHF thousands	Note	31/12/12	31/12/11 restated	01/01/11 restated
ASSETS				
Current assets				
Cash and cash equivalents	14	427'856	261'135	288'271
Securities and term deposits	16	44'390	142'791	107'114
Trade accounts receivable	17	111'722	104'413	116'784
Current taxes receivable		2'535	7'075	1'692
Other current assets	18	6'375	9'296	13'760
Total current assets		**592'878**	**524'710**	**527'621**
Non-current assets				
Tangible fixed assets	19	901'839	885'105	862'953
Investment property	20	2'623	1'382	1'483
Intangible fixed assets	21	25'716	27'038	27'565
Investments in affiliated companies	22	888'477	1'296'988	1'611'475
Other long-term financial assets	23	11'716	12'398	16'220
Deferred tax assets	12	12'796	14'812	665
Total non-current assets		**1'843'167**	**2'237'723**	**2'520'361**
Total assets		**2'436'045**	**2'762'433**	**3'047'982**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Trade accounts payable		33'215	50'267	53'533
Other short-term liabilities and derivative financial instruments	24	104'859	97'323	105'626
Short-term portion of long-term borrowings	25	262	262	25'262
Short-term provisions	27	5'062	2'970	2'035
Total current liabilities		**143'398**	**150'822**	**186'456**
Non-current liabilities				
Long-term borrowings	25	115'556	115'818	116'030
Deferred tax liabilities	12	145'837	146'761	140'815
Liabilities resulting from defined-benefit pension plan	26	54'826	63'462	2'849
Long-term provisions	27	2'787	6'753	5'783
Total non-current liabilities		**319'006**	**332'794**	**265'477**
Total liabilities		**462'404**	**483'616**	**451'933**
Equity attributable to parent company shareholders				
Share capital	28	28'500	28'500	28'500
Additional paid-in capital		13'111	13'111	13'111
Other reserves	29	(13'256)	(9'184)	(5'735)
Retained earnings		1'938'912	2'266'877	2'570'705
Own shares		(19'826)	(19'826)	(19'826)
Total equity attributable to parent company shareholders		**1'947'441**	**2'279'478**	**2'586'755**
Minority interests in equity		**26'200**	**(661)**	**9'294**
Total shareholders' equity		**1'973'641**	**2'278'817**	**2'596'049**
Total liabilities and shareholders' equity		**2'436'045**	**2'762'433**	**3'047'982**

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

Romande Energie Group Financial Review 2012

Romande Energie, Annual Report 2012

The amendment to IAS 1 explicity states that a third balance sheet is only required where the effect of the restatement or reclassification is material on the balance sheet.

Balance sheet presentation

IAS 1 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 6.

57% of companies sampled presented all individual items required by IAS 1 on the face of the balance sheet.

For the remaining 43%, it appeared that all items were not separately presented on the balance sheet on grounds of materiality. For instance, several companies presented financial assets within other current assets on the grounds of materiality.

> **SIX Exchange Regulation sanctions**
>
> In 2012 and 2013, the SIX Exchange Regulation issued sanctions against three companies in relation to the presentation and measurement of items in the balance sheet and notes. The first was related to an error regarding the valuation of inventories in the 2012 interim financial statements, while the second was linked to an erroneous presentation of earnings per share, incomplete disclosures regarding goodwill impairment testing as well as the incorrect disclosure of the classification of derivatives in its 2011 financial statements. The third was related to the failure to record an impairment on a financial asset, the overstatement of cash and cash equivalents, the overstatement of own shares, and the omission of various disclosures from the financial statements in 2010/2011 financial statements and 2011 interim financial statements.
>
> All companies will correct the errors in accordance with the requirement of IFRS in their next financial statements, presenting a third balance sheet for the material effect.

The IASB's proposals in the ED would result in a consistent approach to lease accounting for both lessees and lessors – a 'right-of-use' approach.

Looking forward: the future of lease accounting

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

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

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

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

Feedback on the 2010 ED indicated that the profit or loss impact of the lessee model did not reflect useful information as a result of so-called "front-loading" to profit or loss.

Front-loading is caused by the combination of a decreasing interest charge over time as the lease liability is repaid and the straight line amortisation of the right-of-use asset. The re-exposed ED includes proposals to mitigate the front-loading of profit or loss for specific types of leases, typically property.
For lessors, feedback indicated that the current model does reflect decision useful information to users which has resulted in a reassessment of the symmetrical approach in the 2010 ED.

The IASB has re-exposed in May 2013 its proposed approach for the recognition and measurement of leases. For lessees, the ED proposes the recognition of a liability and a right-of-use asset for all leases with a profit or loss impact dependent on the classification of a lease. The lessor model in the ED is similar to current lease accounting with some nuances for the recognition of revenue and discounting of the residual asset.
The proposals are only applicable for leases with a lease term that could exceed 12 months. Comments were due 13 September 2013 and redeliberations are expected to begin in the fourth quarter of 2013.

The effective date of the new leasing standard is still uncertain but is unlikely to be before 2017. Certain transitional reliefs are being proposed rather than a mandatory full retrospective approach.

8. Statement of cash flows

- All companies used the indirect method to present the cash flow statement.
- Interest paid and received were classified as operating, investing and financing activities by different companies across the sample.
- One company did not present the interest paid and received distinctly on the face of the cash flow statement, but presented them as additional information.
- All companies with dividends payable classified them as financing cash flows.

IAS 7 *Statement of cash flows* requires that a cash flow statement is presented reporting the inflows and outflows of cash and cash equivalents during the period. All of the companies sampled complied with the requirement to present a cash flow statement as a primary statement but there was great variety across the companies in the presentation of cash flow items.

The standard gives companies two options as to how they present their cash flow statement. Companies have to split cash flows between operating, investing and finance activities but have a choice as to how they calculate their operating cash flows. IAS 7 encourages companies to use the direct method, whereby they disclose major classes of cash receipts and payments, as the IASB considers that it gives users more useful information. However, the overwhelming preference for Swiss companies (used by all companies in our survey) is the indirect method, where profit from operations is adjusted for non-cash items and movements in working capital balances.
It seems likely that the indirect method is preferred by companies as it derives more easily from the income statements and balance sheet information and therefore requires less additional work to produce.

It is interesting to note that a project on financial statement presentation initiated a few years ago proposed the removal of the option to apply the indirect method. If this proposition is ultimately adopted, the preparation of the first cash flow statement using the direct method is likely to be a difficult exercise for all preparers. The work on this project has, however, been put on hold by the IASB until it concludes its on-going deliberations about its future work plan, following responses on its Agenda consultation project.

70% of the companies in our sample started their cash flow statements with net income, 20% with income before taxes, 7% with the cash flows generated from operations and the remaining 3% related to one company that began with operating profit.
This company had previously started its cash flow statement with net profit.

90% of the companies surveyed disclosed additional information regarding operational cash flows in the notes (all SMI companies and 83% of the non SMI). Information disclosed included details on the reversal of non-cash items, changes in working capital and details of cash flows arising from acquisitions and disposals of subsidiaries, dividends from associates. The list above is not exhaustive.

The overwhelming preference for Swiss companies is the indirect method, where profit from operations is adjusted for non-cash items and movements in working capital balances.

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

FINANCIAL REPORT

Consolidated financial statements of the Clariant Group

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended 31 December 2012 and 2011	Notes[1]	**2012** in CHF m		2011[2] in CHF m	
Net income			**238**		**251**
Adjustment for:					
Depreciation of property, plant and equipment (PPE)	5	255		219	
Impairment and reversal of impairment	25	12		21	
Amortization of intangible assets	6	61		39	
Impairment of working capital		70		89	
Income from associates and joint ventures	7	– 49		– 47	
Tax expense		46		83	
Net financial income and costs		153		125	
Gain from the disposal of activities not qualifying as discontinued operations	23	– 4		– 5	
Other non-cash items		9		27	
Total reversal of non-cash items			553		551
Dividends received from associates and joint ventures	7		38		25
Income taxes paid			– 134		– 145
Payments for restructuring			– 150		– 155
Cash flow before changes in net working capital and provisions			**545**		**527**
Changes in inventories			– 97		– 152
Changes in trade receivables			– 46		13
Changes in trade payables			25		17
Changes in other current assets and liabilities			– 113		– 183
Changes in provisions (excluding payments for restructuring)			154		92
Cash flow from operating activities			**468**		**314**
Investments in PPE	5	– 311		– 370	
Investments in financial assets, associates and joint ventures		– 1		– 15	
Investments in intangible assets	6	– 41		– 17	
Changes in current financial assets and near cash assets		– 256		695	
Sale of PPE and intangible assets		17		96	
Acquisition of companies, businesses and participations	24	– 5		– 1137	
Proceeds from the disposal of activities not qualifying as discontinued operations	23	5		7	
Cash flow from investing activities			**– 592**		**– 741**
Proceeds from the issuance of share capital	15	–		356	
Reduction of share capital to shareholders of Clariant Ltd	15	– 84		–	
Acquisition of non-controlling interests	15	– 12		– 83	
Purchase of treasury shares		– 60		– 69	
Sale of treasury shares		4		1	
Proceeds from financial debts		1605		1485	
Repayments of financial debts		– 1057		– 640	
Dividends paid to non-controlling interests		– 15		– 17	
Interest paid		– 98		– 122	
Interest received		22		14	
Cash flow from financing activities			**305**		**925**
Currency translation effect on cash and cash equivalents			– 8		– 15
Net change in cash and cash equivalents			**173**		**483**
Cash and cash equivalents at the beginning of the period	**14**		**1199**		**716**
Cash and cash equivalents at the end of the period	**14**		**1372**		**1199**

[1] The notes form an integral part of the consolidated financial statements.

[2] Starting from 2012, interest paid and interest received are part of the financing cash flow. Prior year information has been restated accordingly.

Clariant, Annual report 2012

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 21 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. All of the companies in the sample recognise cash flows from interest received. Of these companies, there was no clear preference to present these cash flows as an operating or investing activities, with both options adopted by 47% of companies. We noted few changes compared to previous year:

- one company decided to change the presentation of interest received to a financing activity this year instead of operating in the past;
- one company clearly disclosed the interest as operating for the first time in its notes; and
- one company decided to provide additional information, on interest and tax, at the bottom of the cash flow statement.

All of the companies in the sample recognised cash flows from interest paid. 60% of companies paying interest chose to present this as an operating activity and 37% of companies chose to present the interest payments as a financing activity.

One company in our sample disclosed the amount of dividends received, interest received and paid in the notes to the financial statements. Three companies disclosed the amounts of dividends, interest received and paid below the cash flows statement and mentioned that they were included in the cash flows from operating activities. One company disclosed this information below the cash flow statement, but did not disclose where these cash flows had been classified.

Figure 21. How are cash flows from interest received classified?

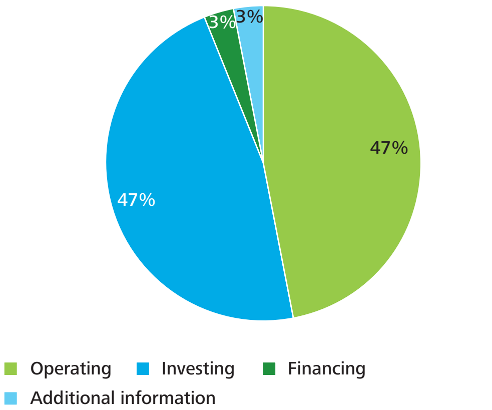
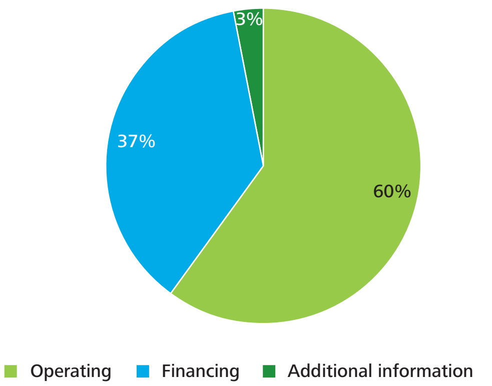


Figure 22. How are cash flows from interest paid classified?

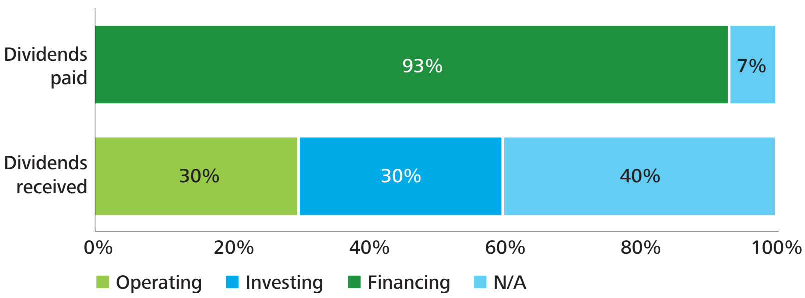


Dividends

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

18 companies received dividends during the period. Half of companies classified the cash flows as an investing activity and other half companies classified them as an operating activity, in accordance with the flexibility afforded by IAS 7.

Figure 23. How are cash flows from dividends paid and dividends received classified?



SIX Exchange Regulation sanctions

In 2010 the SIX Exchange Regulation sanctioned a company for incorrect treatment of foreign exchange differences in the cash flow statement. Specifically, certain cash flows were translated into the reporting currency at the closing rate, rather than the average or spot rate, as is required by IAS 7. Moreover, changes to provisions which did not impact cash flows were reported incorrectly within the effects of changes in exchange rates on cash and cash equivalents.

Most, if not all, of the companies in our sample have cash flows in foreign currencies and so need to consider the impact of changes in exchange rates on the items disclosed in the cash flow statement. Although for practical reasons cash flow statements may be established using average rates, companies need to consider whether significant non-recurring transactions should be translated using the spot rate in effect at the date of the cash flow.

9. Reporting changes in equity

- The average number of reserves shown on the face of the Statement of Changes in Equity (SCE) was six.
- 90% of companies presented a separate reserve for treasury shares.
- One company did not present an analysis of other comprehensive income (OCI) by item neither on the face of the SCE nor in the notes.

Presentation of movements in other comprehensive income (OCI)

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

Since 2011, companies may present the analysis of OCI by item either in the SCE or in the notes.

Figure 24. Have movements in OCI been reproduced in the SCE?

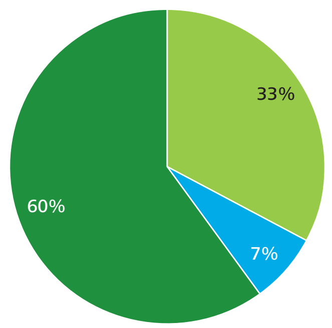
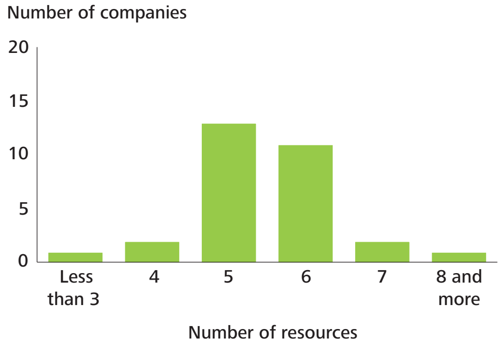


Figure 24 clearly shows that the majority of companies have chosen to include only the total other comprehensive income in one line in the SCE, rather than re-producing all of the movements. Of the 18 companies which present movements in this way, 12 provide sufficient details on the face of the SCE to meet the requirements of IAS 1, with a further five companies providing the details in the notes. Only one company in our sample did not present the required details.

Reserves

The number of reserves that each company disclosed was reasonably consistent across the sample, as illustrated by figure 25 below.

Figure 25. How many reserves have been disclosed?



The majority of companies have chosen to include only the total other comprehensive income in one line in the SCE, rather than re-producing all of the movements.

The company which presents the most reserves in the SCE is Arytza.

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

The type of reserves presented in the primary statement varied across the sample. Of the total companies, 24 companies presented separate reserves for currency translation differences unchanged from prior year, nine companies for movements in fair value (2011: 11 companies), 13 companies for hedging reserves unchanged from prior year and three companies for movements related to defined benefit pension schemes unchanged from prior year.

We identified eight companies that presented a column "other reserves" and then provided details on the nature and amounts included in this reserve in the notes.

Included in our sample were 27 companies which presented a separate treasury share reserve. Although this is not required by IAS 32 *Financial Instruments: Presentation*, it is common practice in Switzerland for such a reserve to be separately disclosed as it mirrors the disclosure in the statutory stand-alone statements.

IFRS insight

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

Group Consolidated Statement of Changes in Equity
for the year ended 31 July 2012

31 July 2012 in EUR '000	Share capital	Share premium	Treasury shares	Other equity reserve	Cash flow hedge reserve	Revaluation reserve	Share-based payment reserve	Foreign currency translation reserve	Retained earnings	Total shareholders equity	Non controlling interests	Total
At 1 August 2011	**1,061**	**632,951**	**(30)**	**285,004**	**260**	**17,148**	**24,989**	**44,054**	**1,118,659**	**2,124,096**	**72,410**	**2,196,506**
Profit for the year	–	–	–	–	–	–	–	–	146,264	146,264	16,290	162,554
Other comprehensive income	–	–	–	–	(2,721)	–	–	95,910	(10,790)	82,399	(2,039)	80,360
Total comprehensive income	**–**	**–**	**–**	**–**	**(2,721)**	**–**	**–**	**95,910**	**135,474**	**228,663**	**14,251**	**242,914**
Issue of treasury shares	41	–	(41)	–	–	–	–	–	–	–	–	–
Issue of shares, net of costs	70	140,784	–	–	–	–	–	–	–	140,854	–	140,854
Transfer of share-based payments reserve to retained earnings	–	–	–	–	–	–	(21,682)	–	21,682	–	–	–
Release of treasury shares due to exercise of LTIP	–	–	14	–	–	–	–	–	–	14	–	14
Share-based payments	–	–	–	–	–	–	6,872	–	–	6,872	193	7,065
Equity dividends	–	–	–	–	–	–	–	–	(41,490)	(41,490)	–	(41,490)
Dividends to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(6,437)	(6,437)
Transfer of revaluation reserve to retained earnings	–	–	–	–	–	(1,361)	–	–	1,361	–	–	–
Dividend accrued on perpetual callable subordinated instrument	–	–	–	–	–	–	–	–	(16,642)	(16,642)	–	(16,642)
Total contributions by and distributions to owners	**111**	**140,784**	**(27)**	**–**	**–**	**(1,361)**	**(14,810)**	**–**	**(35,089)**	**89,608**	**(6,244)**	**83,364**
Dilution due to vesting of Origin management equity entitlements	–	–	–	–	80	(384)	(31)	334	(5,807)	(5,808)	5,808	–
Non-controlling interest forward contract	–	–	–	–	–	–	–	–	(13,429)	(13,429)	–	(13,429)
Total transactions with owners recognised directly in equity	**111**	**140,784**	**(27)**	**–**	**80**	**(1,745)**	**(14,841)**	**334**	**(54,325)**	**70,371**	**(436)**	**69,935**
At 31 July 2012	**1,172**	**773,735**	**(57)**	**285,004**	**(2,381)**	**15,403**	**10,148**	**140,298**	**1,199,808**	**2,423,130**	**86,225**	**2,509,355**

The notes on pages 72 to 143 are an integral part of these Group consolidated financial statements.

Arytza, Annual Report 2012

10. Accounting policies

- The notes on accounting policies were on average ten pages long, one page longer than in prior year, and made up 14% of the financial statements.
- 97% of the companies disclosed standards issued but not yet effective, with 83% indicating that these might have a material impact.
- Significant variety was noted in the disclosures around significant accounting estimates and areas of management judgment.
- The average number of judgements and estimates disclosed was six, unchanged from previous year.

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

All companies presented their accounting policies in a note immediately following the primary statements. The approaches to present them before the primary statements themselves or, as permitted by IAS 1, to present individual accounting policies with the notes to which they relate have not been chosen by our companies surveyed. An emerging approach is for a few companies to refer to the detailed note in the body text of the accounting policies for critical judgements or estimation uncertainty.The length of the accounting policies notes (excluding disclosures on new standards, critical judgments and accounting estimates) ranged from three to 20 pages with an average of ten pages, one page longer than in prior year. The length represents 14% of the financial statements. These figures did not change significantly when SMI companies were compared with non-SMI companies.

Qualitative review of the accounting policies

Although pre-announced by the SIX Exchange Regulation as an area of focus for the 2012 financial statements review, most companies only made limited adjustments to their accounting policies note.
A particular emphasis was placed on the relevance of the information.

IAS 1.117(b) requires disclosure of those accounting policies that are relevant to an understanding of the financial statements. To be relevant, the accounting policy disclosures must be specific to the company, its business and the transactions involved.

The selection of the appropriate accounting policies to be disclosed requires management's judgment considering materiality. Generic or "boilerplate" disclosures only reflecting the wording of the applicable IFRS and extensive disclosures of accounting policies which are not material are not considered relevant.

Disclosure of accounting policies that are chosen from allowed alternatives are of particular importance to users. Other accounting policies may be significant because they are expected by users due to the nature of the entity's business (e.g. construction contracts, research and development) even if the amounts involved are not material.

Considering the emphasis of the SIX Exchange Regulation, especially its intention to scrutinize disclosures of lesser importance, overall one would expect that this might lead to a more condensed presentation of the accounting policies note.

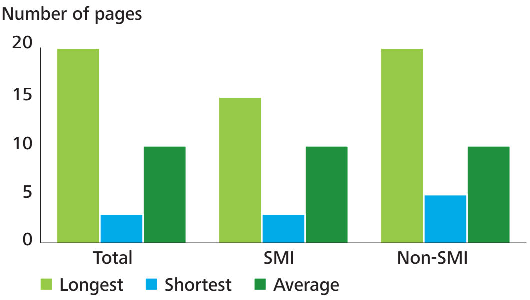
Surprisingly, 19 out of the 30 companies surveyed increased the length of the accounting policy note. The range of the increase was from 1 to 3 pages. Most of the additions related to the disclosure of the first time implementation of IAS 19 revised will impact almost all Swiss companies. Only six companies took the opportunity to streamline the accounting policy notes.

Considering the emphasis of the SIX Exchange Regulation, especially its intention to scrutinize disclosures of lesser importance, overall one would expect that this might lead to a more condensed presentation of the accounting policies note.

Most companies achieved the decrease by disclosing the standards issued but not yet effective in a tabular format and only giving further explanations to those standards which will have a material impact on the entity's financial statements. Only one of the companies surveyed undertook a larger revision and eliminated accounting policy notes not material to the company and shortened policy notes for those transactions which might occur in the future, but did not occur in the reporting and prior period (e.g. business combinations).

Generally, the accounting policy notes still contained a lot of standard wording and accounting policies which were not very material to the company. This was particularly true for the financial instruments and hedging policy notes where many companies gave extensive disclosures to all measurement categories and hedging transactions although not all seem to be relevant. Also many companies disclosed accounting policies for associates and joint ventures although no material investments existed.

Figure 26. How long is the accounting policies note?



Standards issued but not yet effective

Due to the constant changes to IFRS as a result of amendments, new standards and new interpretations, another important disclosure is the list of standards and interpretations issued but not yet effective as required by IAS 8 *Accounting policies, changes in accounting estimates and errors*. Companies are required to disclose not only the standards, but also an estimate of their impact on the company if they had been applied. Opinions vary as to how detailed this disclosure should be.

Figure 27. How detailed are the disclosures regarding standards in issue but not yet effective?

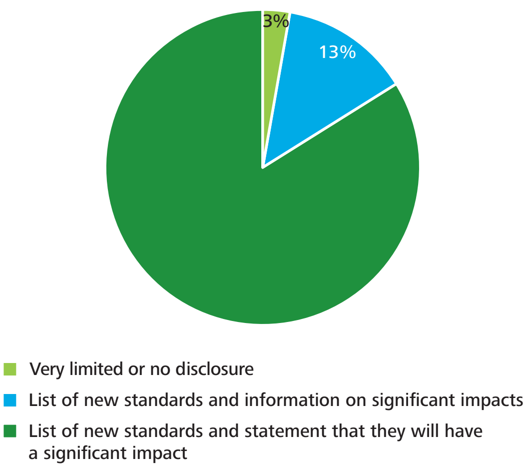


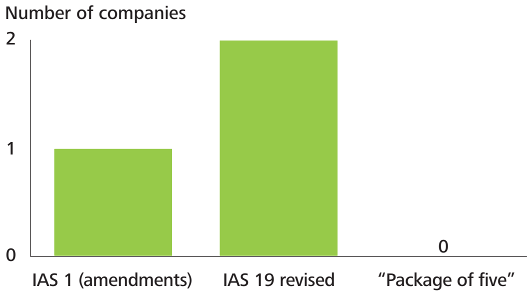
Figure 27 shows the level of detail given by companies in their disclosures. It is encouraging to note that the majority do give information on the impact of the new standards, even if it is a negative statement.

83% of the companies disclosed an anticipated material impact of applying a new standard or interpretation in the future (47% in 2011; none in 2010; 40% in 2009). Only a very limited impact is expected from the first time application of the "package of five" (IFRS 10,11,12, IAS 27 and 28). Only two companies report that adopting IFRS 11 will decrease their net sales by 2 and 3%, respectively. None of the companies surveyed expects a material impact from IFRS 10. However, first time adoption of IFRS 10 and particularly IFRS 12 still requires some attention as additional documentation and/or disclosure might be required. The "package of five" is further discussed below. The main impacts expected were related to the revised version of IAS 19 *Employee benefits* – please refer to section 16 Pensions for more details on this subject.

Early adoption

Three (two in 2011) companies chose to adopt standards early. Figure 28 below shows which standards they chose to adopt early.

Figure 28. Which standards has the company chosen to adopt early?



IAS 1 (revised 2011) *Presentation of items of OCI* which requires entities to group items presented in OCI based on whether they are potentially classifiable to profit or loss subsequently, was early adopted by one company.

IAS 19 (revised 2011) was early adopted by two companies. The potential impact of this standard is considered further in section 16.

83% of the companies disclosed an anticipated material impact of applying a new standard or interpretation in the future.

Moreover, none of the surveyed companies decided to early adopt the "package of five" on consolidation, joint arrangements and associates (effective as from 1 January 2013). This new package includes three new standards and two significantly amended existing standards. The new standards are IFRS 10 *Consolidated Financial Statements,* IFRS 11 *Joint arrangements* and IFRS 12 *Disclosure of interests in other entities*. The amended standards are IAS 28 *Investments in Associates* and IAS 27 *Separate Financial Statements*. The main objective of the publication of this "package of five" is to have a single basis for consolidation and a uniform approach for all entities.

New reporting requirement for 2013: "Package of five"

In May 2011, the IASB issued the "package of five". A brief summary of the main 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, and that basis is control. The risks and rewards approach applicable only to the consolidation of special purpose entities was removed.

- 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 for such arrangements. This will have a significant impact in Switzerland where proportionate consolidation was applied by 35% of the companies with joint ventures. However, based on the limited effects disclosed, the amounts involved do not seem to be significant.

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

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

IFRS insight – defining control

IFRS 10 is a complex Standard and requires the application of significant judgement in a number of respects.

It uses the concept of 'control' as the determining factor in assessing whether an investee is a subsidiary. Sometimes, the determination as to who controls an entity will be very straightforward; it may be clear that power over the investee is exercised by means of equity instruments (e.g. ordinary shares) that give the holder proportionate voting rights. In clear-cut situations, an investor that holds a majority of those voting rights, and has an entitlement to dividends, in the absence of any other factors, controls the investee.

For more complex scenarios, more judgement may be required. IFRS 10's definition of control involves three elements: (1) power over the investee, (2) exposure, or rights, to variable returns from involvement with the investee; and (3) the ability to use power over the investee to affect the amount of the investor's returns. An investor must possess all three elements to conclude that it controls an investee. The assessment of control is based on specific facts and circumstances, and the conclusion is required to be reassessed if there is an indication that there are changes to any of the three elements of control.

While assessment of the second and third criteria may be straightforward, the most complex analysis relates to whether the investor has power over the investee (i.e. whether the investor has existing rights that give it the current ability to direct the 'relevant activities' of the investee).

Critical judgements and estimation uncertainties

As an essence of the summary of important accounting policies, IAS 1 requires the disclosure of the critical judgements made by management in the process of applying the group's accounting policies. These are described as those judgements that have the most significant effect on the amounts recognised in the financial statements.

To be relevant, it is crucial that these disclosures are very specific to the company and do not just contain generic wording.

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

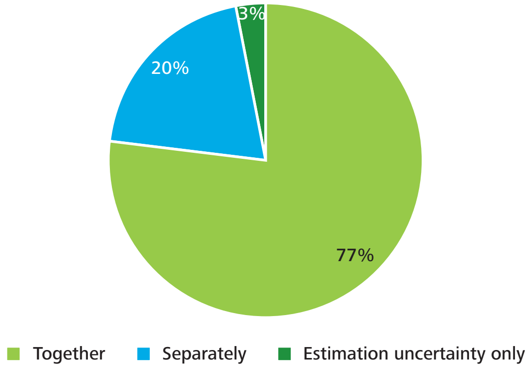
All companies disclosed either the critical judgments or some information relating to key sources of estimation uncertainty or both. In our sample, one company did not clearly disclose the critical judgments made in applying the group's accounting policies.

These disclosures have been under increasing scrutiny. Although these are identified as separate disclosures, as illustrated in figure 29, 77% (2011: 80%) of the companies surveyed combined these two disclosures and presented a single list of judgements and uncertainties, perhaps because of a lack of clarity in distinguishing the two. An example of a critical judgement could be the timing of revenue recognition or determination of CGU's in a goodwill impairment test and recognition criteria of development cost. We would also expect more critical judgment disclosures after adoption of IFRS 10 as this is a more principle based standard, which requires a lot of judgement.

In most cases there is a clear prevalence of disclosure related to estimation uncertainties, presumably because their existence is more obvious in IFRS financial statements. Examples of estimation uncertainty are cash flow forecasts for a goodwill impairment test, measurement of provisions with significant uncertainties (e.g. legal and environmental provisions) and uncertainties surrounding post-employment benefits.

A good example of disclosures of critical judgements and distinct key source of estimation uncertainty is given by Givaudan.

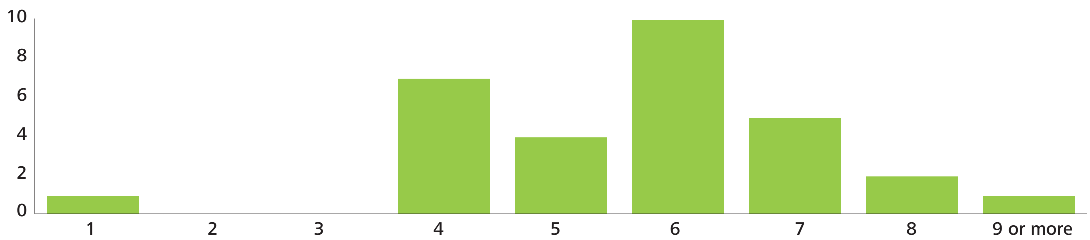
Figure 29. What percentage of companies discloses critical judgements and key sources of estimation uncertainty?



These disclosures are specific to the company, and thus provide the investor with better information than the more standard, 'boiler-plate' disclosures noted in some annual reports.

Figure 30 shows the distribution of critical judgements and sources of estimation uncertainty. The number of critical judgements and accounting estimates (taken together) disclosed by companies varied from one to nine, with an average of six, unchanged from previous year.

Figure 30. How many critical judgements and key sources of estimation uncertainty are disclosed?



All companies disclosed either the critical judgements or some information relating to key sources of estimation uncertainty or both. In our sample, one company did not clearly disclose the critical judgements made in applying the group's accounting policies.

3. Critical accounting estimates and judgments

The estimates and underlying assumptions are reviewed on an on-going basis and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

3.1 Critical accounting estimates and assumptions

The key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are for the most part related to:

1) The impairment of goodwill requiring estimations of the value in use of the cash-generating units to which goodwill is allocated (see Note 22)
2) The impairment of property, plant and equipment requiring estimations to measure the recoverable amount of an asset or group of assets (see Note 21)
3) The calculation of the present value of defined benefit obligations requiring financial and demographic assumptions (see Note 6)
4) The determination and provision for income taxes requiring estimated calculations for which the ultimate tax determination is uncertain (see Note 14)
5) The provisions requiring assumptions to determine reliable best estimates (see Note 24)
6) The contingent liabilities assessment (see Note 28)

If, in the future, estimates and assumptions, which are based on management's best judgement at the date of the financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the year in which the circumstances change.

3.2 Critical judgment in applying the entity's accounting policies

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

- *Computer software and Enterprise Resource Planning:* Computer software is internally developed programmes or modifications that results in new or in substantial improvements of existing IT systems and applications. Enterprise Resource Planning relates to the implementation of an ERP system that is changing the way the business is done in the areas of Finance, Supply Chain and Compliance. The Group has determined that the development phase of internally developed software and the ERP business transformations will provide future economic benefits to the Group and meet the criterion of intangible assets (see Note 22).
- *Internal developments on formulas, technologies and products:* The outcome of these developments depends on their final assemblage and application, which varies to meet customer needs, and consequently the future economic benefits of these developments are not certain. Thus the criteria for the recognition as an asset of the internal developments on formulas, technologies and products are generally not met. The expenditures on these activities are recognised as expense in the period in which they have incurred.
- *Available-for-sale financial assets:* In addition to the duration and extent (see accounting policy in Note 2.12) to which the fair value of an investment is less than its cost, the Group evaluates the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance. This judgment may result in impairment charges (see Note 2.20).

The nature of judgements and estimates identified by companies in our sample is very large. Most companies clearly identified their key estimates and critical judgements with reference to their own business and gave a good level of detail regarding why they had identified these. However, certain themes have emerged from our survey, with some areas in particular identified as sensitive by a large number of companies.

Figure 31 shows what these key areas were. The most common judgements made were around pensions (typically the actuarial assumptions), tax related items, provisions and contingent liabilities, goodwill and intangibles (valuation and impairment).

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

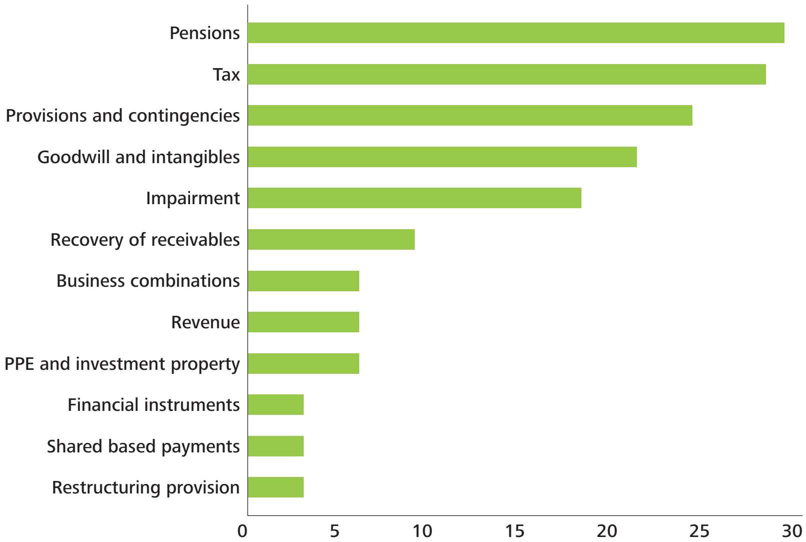
Pensions and taxes (both current and deferred) are cited by 29 and 28 companies respectively each as examples of critical judgements or accounting estimates. Given the issues involved in these areas, and the complexity of the related accounting standards, it is not surprising that so many companies have chosen to include these areas in their disclosures.

Revenue recognition

Revenue recognition is an area of focus for users of accounts. It is also a "hot topic" for regulators, who tend to focus on whether the accounting policy for revenue recognition contains sufficient specific detail to enable users of the financial statements to understand the basis on which each significant category of revenue is recognised. For some companies, such as retailers, this can be relatively straightforward, but for others, such as those engaged in long-term contracting, it is a highly complex area.

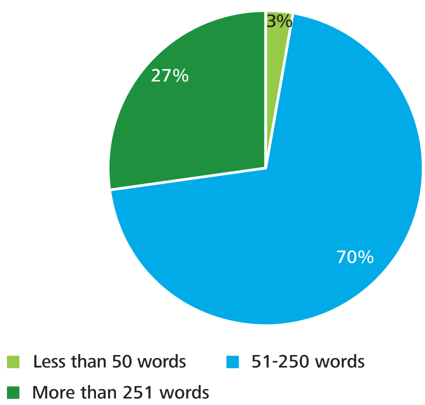
The length of the revenue recognition policy is a somewhat crude measure of its quality, but it is encouraging to see that the number of companies providing a revenue recognition policy shorter than 50 words long continues to fall, with one of the companies surveyed falling into this category (2011: 3).

Figure 31. What are the critical judgements being made and/or key sources of estimation uncertainty?



As shown in figure 32 below, most companies (70%) had revenue recognition policies that contained between 51 and 250 words. Only one company had revenue recognition policies containing fewer than 50 words. It is perhaps surprising that this company included within the SMI is able to communicate the policy for revenue recognition so succinctly. Eight companies had revenue recognition policies containing more than 250 words of which four were from the SMI.

Figure 32. How long is the revenue recognition policy?



Consideration of impairment, whether it is on goodwill, intangible assets or any other assets held on the balance sheet is clearly an issue for companies.

The approach presenting the revenue recognition policy varies from company to company and is also influenced by the industry. Kuehne & Nagel for example presents the revenue recognition policies specifically for each of the services rendered which equal the operating segments. Another example is Novartis which presents revenue recognition specifics in accordance with the different sales contracts (e.g. right to return, stock piling etc.)

Looking forward: new reporting requirements on revenue recognition

A joint IASB-FASB project started in 2008 to clarify the principles for recognising revenue and to develop a common revenue standard for IFRS and US GAAP. The IASB released a revised exposure draft, ED/2011/6 'Revenue from Contracts with Customers' in November 2011.

The joint project will clarify the principles for recognising revenue and develop a common revenue standard for IFRSs and US GAAP that would:

- remove inconsistencies and weaknesses in existing revenue requirements;
- provide a more robust framework for addressing revenue issues;
- improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets;
- provide more useful information to users of financial statements through improved disclosure requirements; and
- simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer.

Initially, the fundamental principle of the ED is that revenue is recognised when the customer obtains control of the goods or services, determined as that point at which "the customer has the ability to direct the use of, and receive the benefit from, the good or service". This element of the ED may require judgement by management.

As the proposals of the IASB may have a significant impact on some entities, particularly those in industries such as telecom and software, there have been many deliberations.

In December 2012, the Boards finalised their conclusions following consideration of the view of these industries regarding the much debated issue of accounting for bundled arrangements and concluded that they would not be modifying the proposals.

However, the Boards acknowledged that when applying the proposed revenue recognition model, entities may use a portfolio technique to aggregate contacts with customers that exhibit similar characteristics. The Boards therefore tentatively agreed to add clarifying language to the final standard to emphasise that it is acceptable for all industries, including the telecoms industry, to use a portfolio technique as long as it yields results that are similar to those the entity would have obtained if it had applied the revenue model to an individual contract.

The Boards are expected to publish the final standard in the near future. The effective date is likely to be 1 January 2017.

SIX Exchange Regulation insight

The SIX Exchange Regulation circular No2 on IFRS states that "the specific accounting policies applied to the recognition of revenue must be explained properly and in sufficient detail in the notes for each category".

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

"Boiler-plate" disclosures may lead to additional challenge from the regulator in this area.

11. Segmental analysis

- 60% of surveyed companies identified business segments as their reporting format.
- Most companies disclosed between two and four reportable segments.
- Four companies revised their segment presentation in the current year to reflect changes in their operational structure and activities.
- Comparison with disclosures in other countries revealed significant diversity.

IFRS 8 *Operating Segments*

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

In the current year, four companies revised their segment presentation to reflect changes in their operational structure and activities.

How is the CODM defined?

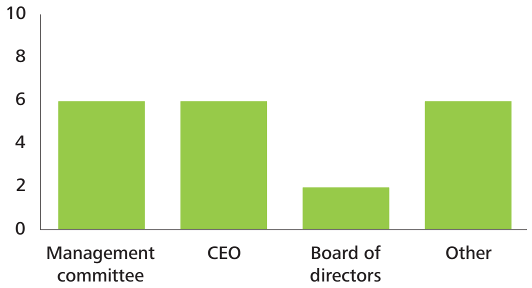
The management approach relies on the structure of the organisation and the internal operating reports typically used by the CODM, who determines the allocation of resources and assesses the performance of the operating segments.

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. Whilst there is no requirement to disclose the identity of the CODM, 67% of companies elected to do so.

Most companies (37%) reported the CEO or the management committee or executive committee as the CODM, whilst others often stated the role was performed by an executive board, other committee or body.

As shown by figure 33, only 2 companies either explicitly stated or implied their entire Board of directors was their CODM. Such a statement could cause confusion over the level of involvement that directors have in managing an organisation.

Figure 33. How is the CODM defined?



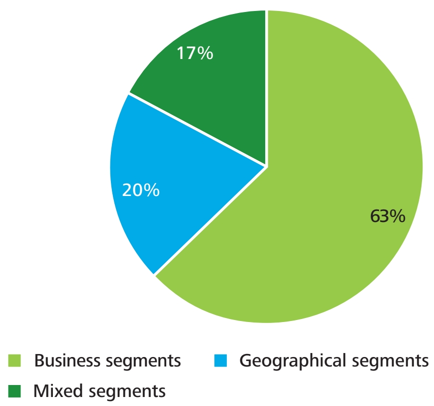
Segment presentation

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

Figure 34 below shows the reporting format used.

The majority (18) of companies reported their segments on the basis of business segments. Seven companies used geographical segments and the remaining five companies reported a mixture of geographical and business segments, which is allowed under IFRS 8 provided this is the information reported to the CODM.

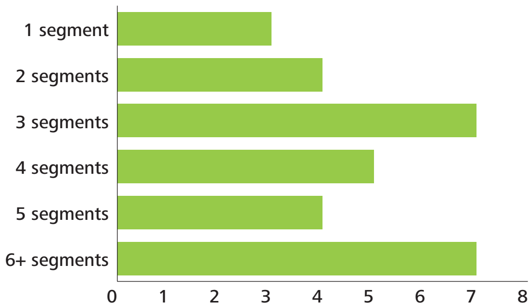
Figure 34. What reporting format has been used?



How many segments?

The number of segments reported ranged from one to 10 segments with an average of four being reported (same as prior year). Of the companies surveyed, 90% identified two or more segments. Almost half of the companies reported the performance of their business using five segments or more as illustrated in figure 35. This measure excludes unallocated or central corporate segments.

Figure 35. How many segments were identified?



Measure of segment result

IFRS 8 allows the reporting of any measure of segment profit and loss as long as that measure is reviewed by the CODM.

As a consequence, entities have more discretion in determining what is included in segment profit or loss under IFRS 8, limited only by their internal reporting practices.

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

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

The flexibility offered by IFRS 8 in terms of measurement of segment result is illustrated in the Annual Report of Temenos which discloses *operating contribution* as the measure of segment performance with reconciliation to *profit/(loss) before tax*. *Operating contribution* excludes amongst others depreciation, amortisation and unallocated expenses as well as net finance costs.

In our sample 23 companies (77%) of the companies indicated a measure of total assets per segment and 18 companies (60%) a measure of total liabilities per segment.

	Product		Services		Total	
	2012 USD 000	2011 USD 000	**2012 USD 000**	2011 USD 000	**2012 USD 000**	2011 USD 000
Revenue	**326,794**	343,350	**123,415**	130,119	**450,209**	473,469
Operating contribution	**131,845**	93,122	**1,374**	7,450	**133,219**	100,572
Total assets (re-presented)	**170,335**	113,389	**108,774**	119,207	**279,109**	232,596

All revenue is derived from external customers. The Group has a large number of customers and no individual customer contributed more than 10% of total Group's revenue in the current and prior year.

The accounting policies applied to the reportable segments are the same as the Group's accounting policies described in note 2.

Intersegment transactions are recognised as part of the allocated expenses. They are based on internal cost rates that excludes any profit margin.

Reconciliation to the Group's Financial Statement	**2012 USD 000**	2011 USD 000
Total operating contribution from the reportable segments	**133,219**	100,572
Depreciation and amortisation (note 25)	**(47,468)**	(46,773)
Unallocated expenses	**(37,636)**	(55,845)
Finance costs – net (note 26)	**(11,339)**	(14,031)
Profit/(loss) before taxation	**36,776**	(16,077)

Temenos, Annual report 2012

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

SIX Exchange Regulation insight

In 2010 segmental reporting was an area of focus for SIX Exchange Regulation, amid concerns that some companies could try to avoid disclosing internal information as they fear this could be commercially sensitive.

The regulator notes that the aggregation of reporting segments is permissible under certain circumstances, but that if there is a marked difference in operating margins between two operating segments, these criteria will generally not be met.

It also notes the requirement for the reconciliation of segment profit or loss with the result for the entity as a whole, with material reconciling items presented separately.

In order to reduce the risk of challenge from the regulator, a single story should be told to the users of the financial statements throughout the annual report. Linking the narrative reporting to the financial statements in this way is paramount. It should be noted however that, even though application of IFRS 8 has been an area of focus for the SIX Exchange Regulation, no official sanctions have been published with regards to these disclosures as at June 2013.

International comparison

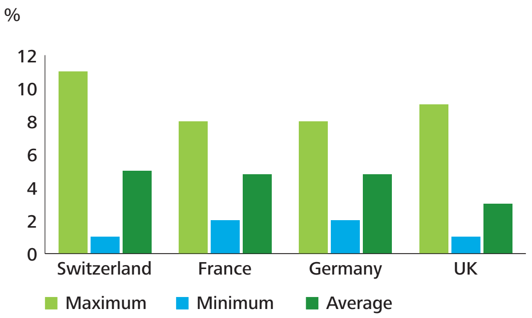
How is the CODM defined?

Most Swiss companies (67%) reported the Chief Operating Decision maker in their financial statements. This information is not required under IFRS, but considered as a "best practice". Similar results were noted in France (69%). This information was disclosed by a large majority of companies in the UK (78%), compared to Germany were only one third of companies provided this information.

Segment presentation

The majority of companies in the countries analysed reported their segments on the basis of business lines.
Interestingly, mixed presentation is more commonly applied in France (31%) and Germany (42%) than in Switzerland (17%)

Figure 36. How many segments were identified?



How many segments?

The number of segments reported in Switzerland ranged from one to 10 segments with an average of four being reported. This is consistent with the segmental information provided by companies in France, Germany and UK, as illustrated in figure 36.

Measure of segment result

In Switzerland, 20% of the companies surveyed disclosed non-GAAP measures as segment results. This proportion contrasts with the practice in Europe where companies regularly use non-GAAP measures. In France, 91% of companies used non-GAAP measures, which is consistent with their use on the face of the income statement. Additionally, even if German companies do not present non-GAAP measures on the face of the income statement, 67% used them for their segment results, with an appropriate reconciliation disclosed. In the UK, 73% of companies reported a measure of profit consistent with the measurement and recognition principles of IFRSs but before items such as finance costs, exceptional items and head-office costs, often reflecting a line item presented on the face of their income statement.

12. Goodwill and impairment

- Five companies recorded goodwill impairment in the current year (2011: nine).
- A lower proportion of Swiss companies recorded goodwill impairment compared with other European countries.
- Goodwill tends to represent a significant proportion of equity with an average of 41%.
- If goodwill was amortised over 20 years, the reported net result would be on average lower by 17%.
- 90% of companies provided the necessary disclosures on the sensitivity of the goodwill impairment; of those, 24% of the companies provided detailed sensitivity analysis.

Investors view on goodwill

Goodwill is not often presented as a potential benchmark in the companies' financial analysis; however, it would be interesting to look at it from this perspective. Indeed, goodwill and amortisation of goodwill in particular have an impact on financial indicators as shown in the table below. In the section below we analysed the proportion of goodwill compared to equity, as well as the potential impact on net profit if goodwill was amortised as it used to be required under IFRS until 2004.

Impact of goodwill amortisation on financial indicators

Impact of goodwill amortisation on important indicators

Indicator	Without goodwill amortisation	With goodwill amortisation
Revenues	no change	no change
Net profit	visually higher	visually lower
Net profit per share	visually higher	visually lower
P/E	visually lower	visually higher
Equity capital per share	visually higher	visually lower
Price/Book	visually lower	visually higher
Enterprise Value (EV)	theoretically the same	theoretically the same
Free cash flow (FCF)	no change	no change
EV/FCF	theoretically the same	theoretically the same
Cash flow/share	no change	no change
EBIT	visually higher	visually lower
Sales / EBIT	visually lower	visually higher
EBITDA	no change	no change
Dividend per share	theoretically the same	theoretically the same

Source: Sarasin

Impact on proprietary ratio

The *proprietary ratio* (also known as the *equity ratio*) is the proportion of shareholders' equity to total assets, and as such provides a rough estimate of the amount of capitalization currently used to support a business. If the ratio is high, this indicates that a company has a sufficient amount of equity to support the functions of the business, and probably has room in its financial structure to take on additional debt, if necessary. Conversely, a low ratio indicates that the business may be making use of too much debt or trade payables, rather than equity, to support operations. Thus, the ratio is a general indicator of financial stability. However, if goodwill tends to represent a large portion of the equity, this may be a sign of low quality capital and the equity, as well as equity ratio will decrease significantly in the event of substantial impairment charge being recognised. Analysis of the companies in the scope of this survey indicated that overall goodwill tends to be quite a significant portion of the equity with an average proportion of 41% (maximum reached 124%). Only five companies presented a ratio below 10%, while for seven companies this ratio was above 50%.

Table 1. Top ten companies with highest proportion of goodwill compared to equity

Company	Goodwill in % of equity
Kuoni	124%
Swisscom	112%
Temenos	81%
Galenica	76%
Arytza	71%
Sonova	61%
Nestle	52%
Lonza	48%
Sulzer	47%
Givaudan	46%

Analysis of the companies in the scope of this survey idicated that overall goodwill tends to be quite significant portion of the equity with average proportion of 41%.

Goodwill and annual profit

The Goodwill/earnings ratio ("G/E ratio") is an indicator used by analysts which is based on the net result of the company. Since 2005, goodwill is no longer amortised under IFRS, thus its book value remains relatively stable, unless there is an impairment charge or an acquisition made by the company. However, analysing goodwill as percentage of annual profit would demonstrate how the annual result would be affected if goodwill still had to be annually amortised. In simple terms, if, for instance, goodwill represents 100% of company's annual profit, then with generally accepted amortisation period of 20 years impact on annual profit would comprise reduction by 5% per annum. For the companies surveyed this G/E ratio varies from 1% to 65% per annum, with 13 companies having an impact of less than 10% and three companies showing a negative indicator due to the fact that their annual result for fiscal year 2012 was a loss. The following table shows the top ten companies with the highest percentage of goodwill versus their net result. Please note that the companies showing a loss at the end of the year were not considered on this table.

Table 2. Top ten companies with highest percentage of goodwill versus their net profit

Company	Goodwill as % of net profit
Temenos	65%
Arytza	55%
Holcim	37%
Lonza	32%
Clariant	23%
Givaudan	21%
Galenica	19%
Sonova	18%
Sulzer	18%
Novartis	16%

The G/E ratio is also dependent on the company strategy whether growth is organic or acquisition led. The net profit of companies based on acquisition growth is higher than those based on organic growth. Indeed, goodwill is capitalised on the balance sheet whereas costs related to an organic growth are immediately recorded in profit & loss. Therefore, it is essential to consider the goodwill percentage in net profit when comparing companies with different strategies.

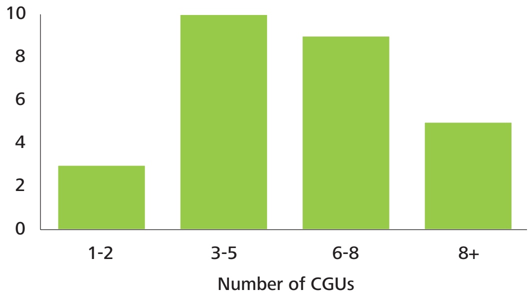
Goodwill – allocation

97% of the companies surveyed had goodwill on their balance sheets. Of these companies, 93% disclosed the allocation of goodwill across cash generating units (CGUs), although seven companies did so only for the largest balances, while the remaining with smaller amounts of goodwill were grouped into 'other'. We noted that one company (2011: two) did not provide the allocation neither by CGUs nor by segments, which is a requirement of IFRS.

Figure 37 below shows the variety in the number of CGUs disclosed. One company stated that they had allocated goodwill to more than 50 CGUs – this company presented detailed information for the most significant goodwill items only, making up for more than 50% of the balance. No further disclosures for the remaining balance were made. Last year there were two companies with more than 50 CGUs being disclosed.

The average number of CGUs disclosed, excluding those with goodwill who did not disclose any information regarding the CGUs, was seven (2011: ten). If the company with the large number of CGUs disclosed as above is excluded, the average number of CGUs falls to six.

Figure 37. How many CGUs has goodwill been allocated to?



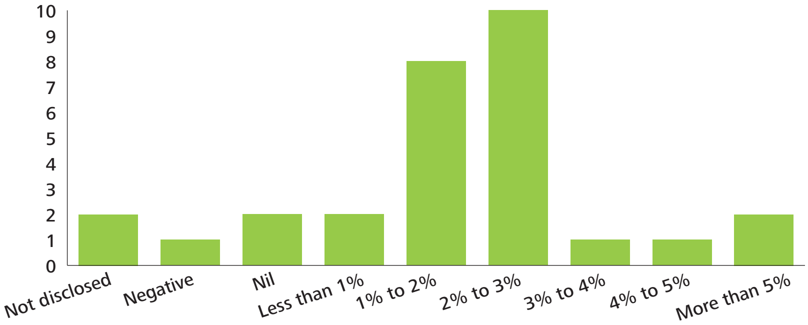
Goodwill – impairment charge

Over the course of the last few years, economic conditions have had an impact on company results and the need for goodwill impairment and for transparent disclosure has increased accordingly. However, lower interest rates may indirectly provide certain protection against impairment charges. For instance, only five (17%) companies in the survey population recorded an impairment of goodwill in 2012, while in 2011 there were nine (31%) companies. In addition, total impairment recorded in 2012 amounted only to 0.3% of total recorded goodwill (2011: 2%).

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

By far the most common basis on which a CGU's recoverable amount had been determined was value in use, with 93% (2011: 90%) of all companies with goodwill following this approach. However, two companies of this 93% applied "fair value less costs to sell" to one of their CGUs, while the rest of the CGUs were assessed using "value in use" method. This information has been properly disclosed by these companies.

Figure 38. What are the long term growth rate assumptions used?



There are two companies which did not provide details of the long-term growth rate, despite the fact that this is a requirement of IFRS. This is however a significantly improvement compared to prior year where six companies did not provide such disclosure.

Figure 39. What are the discount rates used?

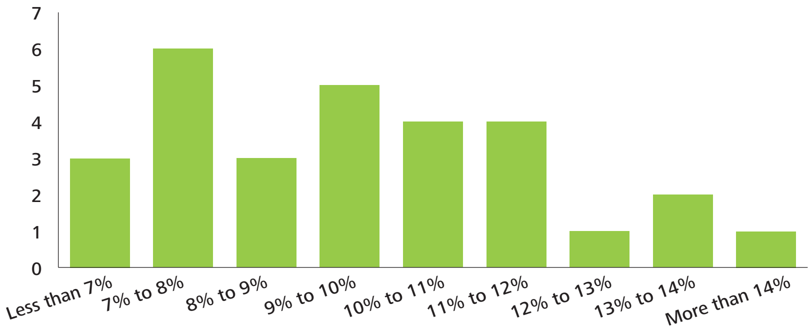
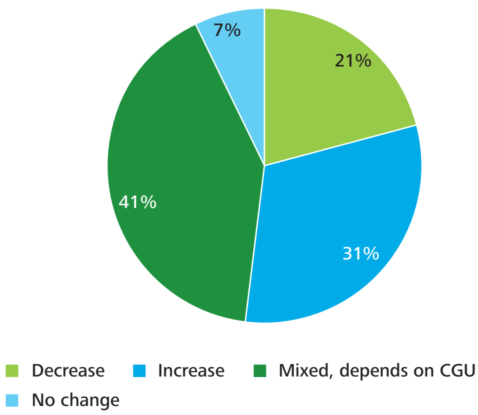


Figure 40. How did the discount rate change in 2012 compared to last year?



Goodwill – key assumptions & disclosures

All but one company with goodwill disclosed the key assumptions (other than discount rate) on which management based its cash flow projections. The quality and quantity of these disclosures varied significantly, with some companies providing only narrative assumptions with others providing also quantitative data. There were two companies which did not provide details of the long-term growth rate, despite the fact that this is a requirement of IFRS. This is however a significant improvement compared to the prior year where six companies did not provide such disclosure. Figure 38, top left, shows the range of the long term growth rate assumptions applied by the companies under survey.

One of the companies applied a negative term growth rate for its CGUs and two companies based their impairment analysis on "zero" long term growth rate.

Compliance with the requirement of IAS 36 to disclose the period over which the cash flows have been projected was met by all of the companies with goodwill in our sample except for two (2011: one).

Three companies assessed their recoverable amounts using cash flow projections over a period of greater than five years (2011: four). Two of them met the requirement to provide an explanation of why the company is using a period greater than five years.

All relevant companies disclosed the discount rate they used in their value in use calculations. Seven companies appear to use the same discount rate for all cash generating units, which is appropriate only if the CGUs were faced with the same risk profile or the cash flow are being risk adjusted (2011: five).

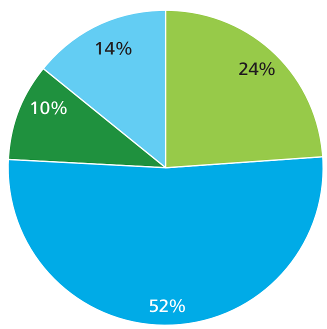
Discount rate assumptions were changed by 93% (2011: 97%) of the relevant companies. Figure 40 discloses the change in discount rate.

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 29 companies with goodwill, 26 companies (90%) included such sensitivity disclosures (2011: 25). Figure 41 shows the level of detail given by the 29 companies with goodwill. It is good to see that most companies were commenting on sensitivities as part of their goodwill disclosures, although for the majority this was limited to a high-level commentary.

One issue which may be slightly concerning is that two of the three companies which did not provide a sensitivity analysis had nevertheless identified impairment of goodwill as a key source of estimation uncertainty or critical judgement. This demonstrates that there may still be some disconnect between the assessment of key accounting issues and the level of disclosure subsequently given in the financial statements.

Figure 41. Were additional sensitivity disclosures provided regarding goodwill impairment?



Detected sensitivity analysis

High-level sensitivity analysis

Negative statement only

No sensitivity analysis

Goodwill impairment testing

Goodwill is allocated to the cash-generating units of Swisscom according to their business activities. Goodwill acquired in a business combination is allocated to each cash-generating unit expected to benefit from the synergies of the business combination.
The allocation of the goodwill to the cash-generating units is as follows:

In CHF million	31.12.2012	31.12.2011
Residential Customers	2,495	2,495
Small and Medium-Sized Enterprises	656	656
Corporate Business	734	734
Wholesale	45	45
Cash-generating units of Swisscom Switzerland	**3,930**	**3,930**
Fastweb	594	598
Other cash-generating units	138	136
Total goodwill	**4,662**	**4,664**

Goodwill was tested for impairment in the fourth quarter of 2012 after the business planning had been completed. The recoverable amount of a cash-generating unit is determined based on its value in use, using the discounted cash flow (DCF) method. The projected cash flows are estimated on the basis of the business plans approved by management in general covering a three-year period. A planning horizon of five years is used for the impairment test of Fastweb. For the free cash flows extending beyond the detailed planning period, a terminal value was computed by capitalising the normalised cash flows using a constant growth rate. The growth rates applied are those customarily assumed for the country or market. The key assumptions underlying the calculations are as follows:

	2012			2011		
Disclosures in %	WACC pre-tax	WACC post-tax	Long-term growth rate	WACC pre-tax	WACC post-tax	Long-term growth rate
Residential Customers	7.33	4.63	(1.0)	5.76	3.77	(1.0)
Small and Medium-Sized Enterprises	7.32	4.63	(1.1)	5.76	3.77	(1.1)
Corporate Business	7.47	4.63	(0.9)	5.96	3.77	(0.9)
Wholesale	7.31	4.63	(1.2)	5.78	3.77	(1.2)
Fastweb	10.34	7.60	1.0	9.70	7.75	1.0
Other cash-generating units	6.9–11.8	5.7–9.7	0–1.5	6.3–11.4	5.4–9.1	1.0–1.5

The application of pre- or post-tax discount rates (WACC pre-tax and WACC post-tax) results in the same value in use. The discount rates used take into consideration the specific risks relating to the cash-generating unit being considered. The projected cash flows and management assumptions are corroborated by external sources of information. The approach taken and assumptions made for the impairment tests of Swisscom Switzerland and Fastweb are presented below.

Swisscom, Annual report 2012

Goodwill impairment testing disclosure requirements can be onerous. A good example of such disclosures is provided by Swisscom, as shown left.

Goodwill and business combinations

As can be seen from the "Critical judgements and key sources of estimation uncertainty" discussion in Chapter 10, initial recognition and subsequent measurement of goodwill is often one of the most judgemental area in a company's financial statements.

Initial recognition of goodwill is governed by the requirements of IFRS 3 *Business Combinations*. Goodwill is recognised as a residual amount after recognition of all assets and liabilities at fair value (incl. intangible assets). Identification and valuation of intangible assets requires significant judgements. Of the companies surveyed, 21 had acquired business during the year (2011: 25). Nine of these were from the SMI companies and 12 from the non-SMI companies.

IFRS 3 includes an extensive list of disclosures that companies should make when they have acquired a business during the year. As well as a number of narrative disclosures describing the purpose of the transaction, these include giving details of the consideration paid and the fair values of the assets acquired – the difference between these gives rise to the goodwill recognised. Entities are then required to disclose the nature of this goodwill, for example customer relationships, staff expertise or other assets that do not meet the criteria for separate recognition as intangible assets.

International comparison

Among the Swiss companies surveyed, 97% had goodwill on their balance sheets. This proportion is consistent with the other countries in Europe, as 100% of French and German companies and 84% of UK companies had goodwill.

Goodwill – allocation

The majority of these companies disclosed the allocation of goodwill across CGUs: 93% in Switzerland, 88% in France, 83% in Germany and 74% in UK. The average number of CGUs disclosed, excluding companies with goodwill who did not disclose any information regarding the CGUs, was seven in Switzerland, eight in France and seven in Germany. Only the UK is differentiated with an average of four.

Goodwill – impairment charge

In Switzerland, 17% of the relevant companies recorded a goodwill impairment charge during the period under review. This is less than companies in France, Germany and UK which appear to have been more impacted by the continuing difficult economic environment and where respectively 50%, 29% and 22% of the companies recorded an impairment charge.

Accordingly, the percentage of goodwill which was impaired this year in Switzerland was lower than in France and Germany, as shown in the table as follows:

Companies in our sample	Carrying value of goodwill	Impairment charge in the current year
Switzerland	CHF 98 billion	CHF 248 million (0.3%)
France	CHF 320 billion	CHF 8.3 billion (2.6%)
Germany	CHF 204 billion	CHF 4.6 billion (2.3%)

For the impairment review of goodwill, the most common basis on which a CGU's recoverable amount had been determined was the value in use, with 93% of all companies with goodwill in Switzerland following this approach. This is also the most common basis used in France, with 91%, in Germany, with 67% and the vast majority in UK with 98%.

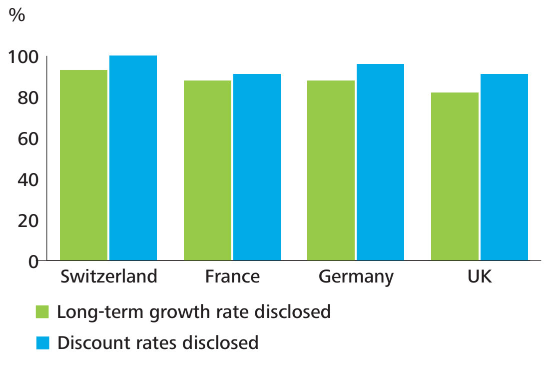
Goodwill – key assumptions & disclosures

The key assumptions on which management based its cash flow projections have been disclosed by the majority of companies in Switzerland as is the case elsewhere in Europe.

Of the companies with goodwill in Switzerland, 97% met the requirement of IAS 36 to disclose the period over which the cash flows have been projected. This is consistent with the percentage in Europe, with 91% in France, 100% in Germany and 89% in the UK respectively.

10% of Swiss companies that had goodwill assessed its recoverable amount using cash flow projections over a period greater than five years. There is no consistency in Europe, where 28% of French, 25% of German and 2% of the UK companies use such an extended period.

Figure 42. Were the growth rates and the discount rates disclosed?



The long term growth rate used in the impairment calculation was disclosed by 93% of Swiss companies and the discount rate by 100%. As shown in figure 42, these high proportions are consistent with the trend in Europe.

In Switzerland, 90% of companies disclosed sensitivity information which is higher than elsewhere with respectively 56% in France, 46% in Germany and 62% in UK.

12. Financial instruments and financial risk management

- Credit conditions in Switzerland are attractive compared to other European countries and therefore debt issuance remained the preferred form of financing.
- Low currency variations are used for currency sensitivity analysis however this is in line with the foreign exchange rate fluctuations observed in 2012 following the introduction of the SNB EUR/CHF floor.
- 80% of companies elected to apply IAS 39 hedge accounting.
- No company has early adopted IFRS 13 or IFRS 9 (one company early adopted IFRS 9 in 2011).

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

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

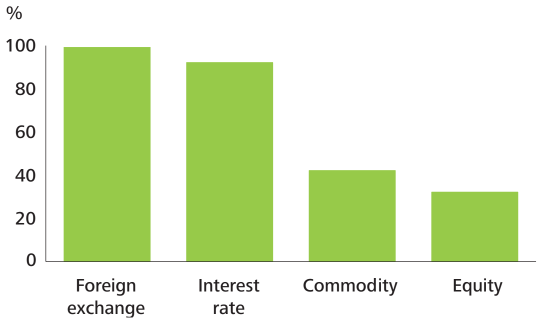
IAS 39 *Financial Instruments: Recognition and Measurement*, which establishes principles for recognising and measuring financial assets and liabilities, was applicable during 2012. Alternatively companies were able to choose to early adopt IFRS 9 *Financial instruments: Classifications and Measurements.*

The mandatory effective date of IFRS 9 was already deferred from 1 January 2013 to 1 January 2015 due to the complexity and strategic importance of this project for the IASB. However, in the July 2013 Board Meeting, the IASB tentatively decided to defer the mandatory effective date of IFRS 9 and that mandatory effective date should be left open pending finalization of the impairment and classifications and measurement requirements. Refer to the looking forward section at the end of this chapter to have more details on the IASB project on financial instruments and its current status.

Financial risk management: nature and risks

All companies in our sample managed their foreign exchange risk, and 93% on interest rate risks. Those proportions fall to 43% for commodity price risks, and to 33% for equity price risks.

Figure 43. Nature of market risks hedged by companies

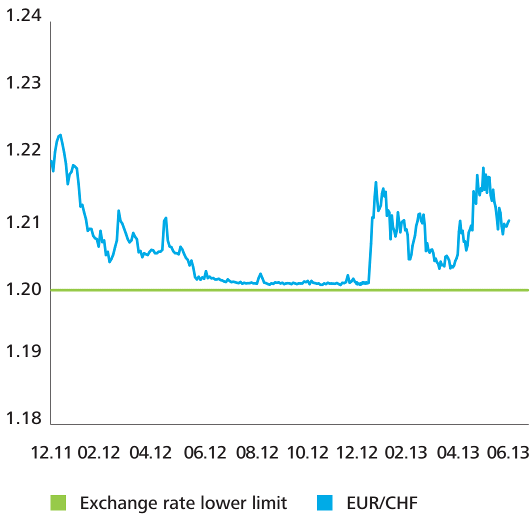


Foreign exchange risk

Multinational companies are exposed to the volatility of foreign currency exchange rates, which directly affect revenues, net income as well as the valuation of assets and liabilities.

Since January 2010, the Swiss franc strengthened significantly against Euro, US Dollar and British Pound with a record high in summer 2011. The Swiss National Bank (SNB) stopped this evolution on 6 September 2011, by introduction of a floor at 1.20 EUR/CHF.

Figure 44. CHF/EUR exchange rate over the last 18 months



Source: Thomson Reuters Datastream

Multinational companies are exposed to the volatility of foreign currency exchange rates, which directly affect revenues, net income as well as the valuation of assets and liabilities.

Foreign exchange risk management

83% of the companies in our sample used the Swiss franc as the presentation currency, whereas 10% used US dollar and 7% euro.

Based on financial statements of the sampled companies, we observed no significant changes compared to previous year. All of the companies hedged foreign exchange risk using futures and forward contracts (100%). About two-thirds (73%) used natural hedges to cover their positions. Options and swaps are also used but to a lesser extent. These figures are illustrated in the table below.

Table 3. Proportion of financial instruments used to hedge foreign exchange risk

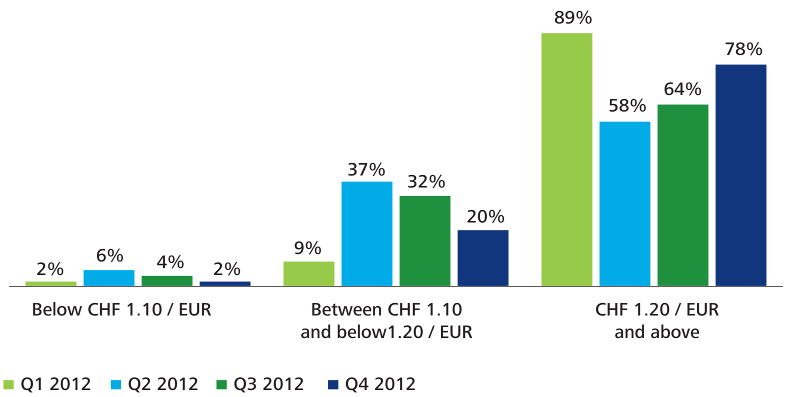
Financial Instruments	Proportion
Natural hedge	73%
Forward contracts	100%
Options	43%
Swaps	27%

The use of natural hedging, where receivables and payables across the group are 'matched' by currency, could be a good opportunity for multinational companies to manage foreign exchange risk. Although changing the natural hedge within the structure of a business can be complicated, it could lead to significant benefits in long run.

The use of natural hedging, where receivables and payables across the group are 'matched' by currency, could be a good opportunity for multinational companies to manage foreign exchange risk.

Figure 45. CFO's expected level of EUR/CHF over the next 12 months

Exchange rate expectations for the Swiss Franc/Euro in 12 months



Source: Deloitte CFO Survey Q4 2012

Sensitivity analyses

All but one of the companies in our sample disclosed their foreign exchange sensitivity analysis in the annual report. Companies performed scenarios with estimated reasonable changes in value by currency to determine the potential impact on their profit and loss. These percentage changes were on average 7.8% for currencies such as euro and US dollar, a percentage that slightly decreased compared to the prior year (8.1%).

Table 4, below, shows information of shocks (movement in foreign currency) values that were used to perform stress scenarios on foreign exchange.

Table 4. Table of shocks used (in absolute values) versus 2012 actual maximum variations of Foreign exchange against Swiss Franc

Currency	Shocks applied (absolute values)			Maximum movement over 2012
	Min	Average	Max	
EUR/CHF	1.7%	7.2%	15.0%	-1.23%
USD/CHF	5.0%	8.4%	17.0%	6.02%
USD/EUR	5.0%	9.1%	12.0%	-6.81%

Given the stable regime of the currency since the intervention of the SNB, these shocks (movement in foreign currency) applied on the Swiss franc exchange rates compared to euro may be considered sufficient by most companies for assessing potential future movements as that regime is expected not to change significantly for the foreseeable future.

These results are consistent with CFOs' anticipation of the evolution of the EUR/CHF exchange rate over the next 12 months as per figure 44.

78% of Swiss CFOs expect a EUR/CHF foreign exchange rate at least or greater than 1.20 (+14% compared to Q3 2012 and +20% compared to Q2 2012). In the CFO survey Q2 2013, the CFOs expect the exchange rate to increase to EUR/CHF 1.25 in 12 months.

With regard to budgeting for 2013, EUR/CHF foreign exchange rates were assumed to be, on average, 1.20.

Foreign operations: CTA impact on reported equity

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

Table 5. Impacts of Cumulative Translation Adjustment on Equity

Cumulative Translation Adjustment	Proportion of Companies	Result on Equity
Positive Impact	0%	N/A
Negative Impact	100%	-22%

The ratio of CTA over equity provides an interesting indication about the impact on total equity of the gain or loss due to fluctuations of Swiss franc against other currencies. All companies in our sample were penalized by the foreign exchange fluctuations with an average impact of -22% on total equity, which is not surprising given the historical strength of the CHF.

The ratio of CTA to total equity is presented in figure 46 below.

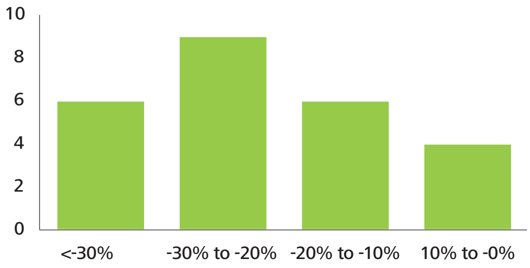
International companies can apply hedge accounting and define a net investment hedge relationship, i.e. hedges of the net investments in foreign operations, in order to reduce the impact on their total equity. However, in practice, a net investment hedging strategy could be difficult to implement.

Interest rate risk

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

In the current economic environment, the levels of interest rates are low on a worldwide basis.

Figure 46. Ratio of cumulative CTA to total equity



In Switzerland, the SNB implemented a "zero" interest rate policy in order to boost the Swiss economy and to prevent the appreciation of Swiss franc. In 2012, interest rates in the Swiss franc money market continued to fluctuate around zero per cent with negative interest rates in the repo market.

Interest rate risk management

In addition to decisions on debt volume and structure, companies can apply risk management strategies to hedge interest risk, 90% of them actively managed this risk.

Among companies that actively manage their interest rate risk, almost a half applies natural hedging (46%).

Several types of derivative financial instruments were used by sampled companies, essentially swaps (82%) but also a small proportion of forward rate agreements (14%) and options (4%).

Table 6. Proportion of financial instruments used to hedge interest rate risk

Financial Instruments	Proportion
Forward Rate Agreements	14%
Swaps	82%
Options	4%

Price risk

Commodity risk

The continuing volatility of prices usually impacts the cost structure of most businesses and may require companies to reconsider their approach to risk management.

Half of the companies in our sample had commodity-related activities, such as physical trading, refinery, distribution or simply end-user. 43% reported actively managing this risk.

Due to increasing fluctuations in commodity prices, 54% of companies that reported being impacted by commodity price risk have used derivative financial instruments to hedge this risk while 46% of companies used non-derivative instruments (i.e long-term purchase or sale agreements with suppliers and clients, barter agreements, etc.).

The types of derivative financial instruments used for commodity price risk hedging are illustrated in the table below.

Table 7. Proportion of financial instruments used to hedge Commodity price risk

Financial Instruments	Proportion
Futures and Forward contracts	56%
Swaps	11%
Options	33%

Equity risk

33% of sampled companies mentioned being exposed to equity price risk in their annual report and actively managing it.

The risk of changes in equity prices, which is not identified by many companies as a key risk, is managed by derivative financial instruments, such as options on equity securities. In addition, equity price risks are also being managed with portfolio diversification and performance monitoring.

Debt and equity trends

Debt evolution

All of the sampled companies have reported the amount of their debt in 2012 and have presented the detailed structure of their debt by maturity.

The average and median amount of debt for surveyed companies in 2011 and 2012 are illustrated in the table below.

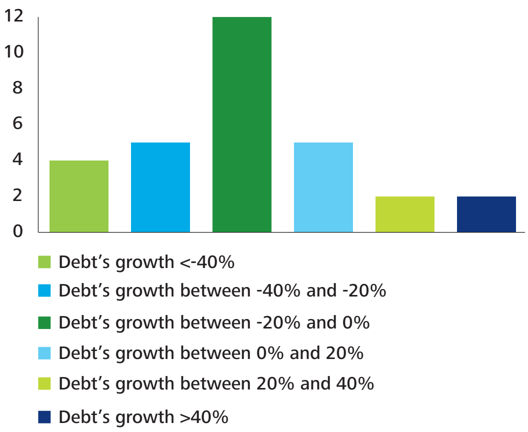
Table 8. Average and Median Amount of Debt in 2011 and 2012

Amount of Debt	2011	2012	Evolution
Average Debt (MCHF)	3,750	3,850	+3%
Median Debt (MCHF)	809	731	-10%

A significant difference between the amount of average debt (CHF 3,850m) and median debt (CHF 731m) was observed. Although the average amount of debt has slightly increased in 2012 (+3%), this rise was not representative for all sampled companies, where 20 (67%) reduced their debt compared to 10 (33%) that increased it. These differences reveal that the distribution of debt amounts among companies is uneven and that only few companies have very high amounts of debt.

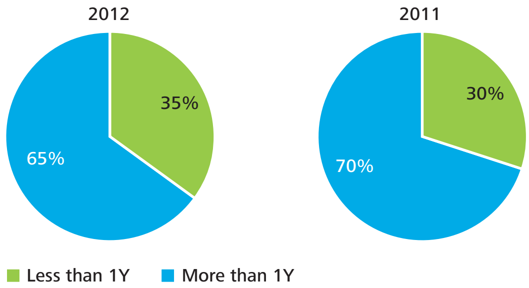
The distribution of surveyed companies by averaged debt growth in 2012 is presented in figure 47 below.

Figure 47. Distribution of debt growth



Regarding the debt maturity of sampled companies, the pie charts below illustrate the proportion of the debt structure by maturity in 2011 and 2012.

Figure 48. Proportion of debt by maturity for sampled companies



We noted that in 2012 the proportion of short-term debt (less than one year) has increased from 30% to 35% of the total debt volume.

In summary, there is a tendency for the companies sampled to reduce their proportion of long-term debt. This may be explained by general concerns about credit, counterparty and liquidity risks that penalized borrowing and lending activities. However, some other companies have also taken the opportunity of low interest rates environment to increase debt at a reduced cost and have been more attracted by shorter term than medium and longer term debt in 2012.

Although the average amount of debt has slightly increased in 2012 (+3%), this rise was not representative for all sampled companies, where 20 (67%) reduced their debt compared to 10 (33%) that increased it.

Credit financing

Figure 49 taken from the Deloitte CFO Survey illustrates the number of CFOs who considered credit financing to be costly/cheap and available/hard to get.

Credit availability has increased since Q1 2012, even if the cost of credit has deteriorated slightly more recently. Hence, as credit conditions continue to be positive, CFO's expect an increase in their company's demand for credit in the next 12 months.

Based on international Deloitte CFO Survey, Switzerland, compared to other selected European countries, is the most attractive with regards to credit costs.

Sources of corporate funding

Deloitte CFO Survey (refer to the chart below) highlighted an increase in equity as sources of corporate funding. At that time, even if bank loans and corporate bonds are still the preferred forms of financing, due to the recent move in stock markets, the issuance of equity becomes more attractive.

Hedge accounting

Applying IAS 39 hedge accounting is voluntary. When an entity wishes to apply hedge accounting, it must formally document in writing its intention to apply it prospectively. Additionally, hedge accounting must be consistent with the entity's established risk management strategy and appropriate hedge documentation and effectiveness testing must be in place.

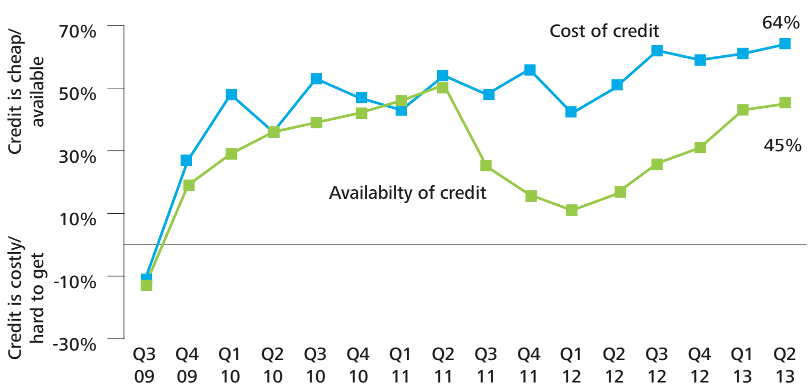
An expected consequence of these onerous conditions is that derivative financial instruments were also commonly used to "economically" hedge an exposure without applying IAS 39 hedge accounting requirements. Consequently, these derivatives were re-measured at fair value with movements recorded directly in the profit or loss.

IAS 39 hedge accounting was applied by 80% of sampled companies (87% in 2011). IAS 39 recognises three types of hedge accounting depending on the nature of the risk exposure:

- Fair Value Hedge
- Cash Flow Hedge
- Net Investment Hedge

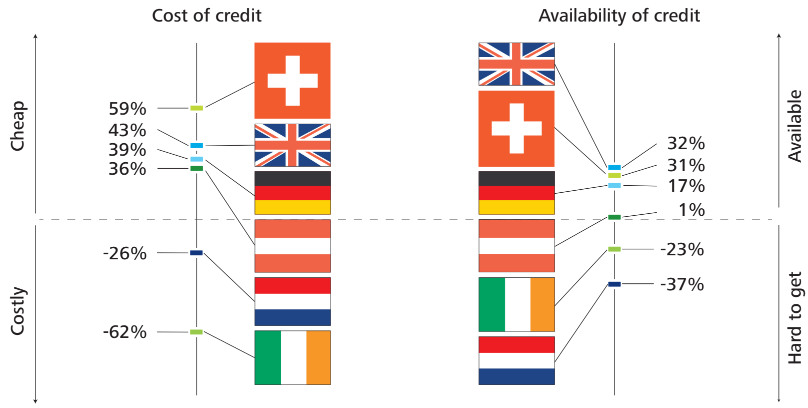
Figure 49. Cost and availability of credit financing

Net balance of CFOs who consider credit financing to be costly/cheap and available/hard to get



Source: Deloitte CFO Survey Q2 2013

Figure 50. International comparison: Credit conditions

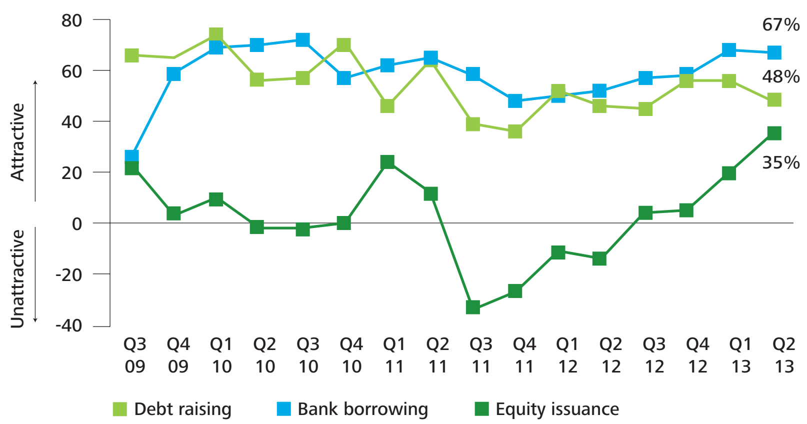


Source: Deloitte CFO Survey Q4 2012

Note: Q4 2012 Deloitte CFO surveys in UK, Ireland and Switzerland and with results from Germany, Netherlands and Austria.

Figure 51. Sources of corporate funding

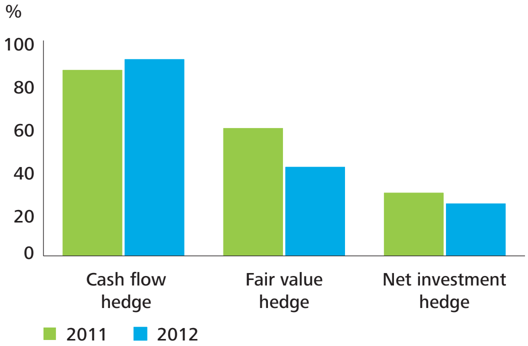
Net balance of CFOs reporting the following sources of funding attractive/unattractive



Source: Deloitte CFO Survey Q2 2013

Cash flow hedging was the most frequently used within surveyed companies at 92%; whereas fair value hedging was used by 42% of companies and net investment hedging by 25%. Figure 52 illustrates the types of hedge applied by the companies surveyed in 2011 and 2012.

Figure 52. What type of IAS 39 hedge accounting is applied?



Compared to the prior year survey, we noted a slight decrease in the application of IAS 39 hedge accounting.

Fair value measurements

IFRS 13 *Fair Value Measurements*, which is effective from 1 January 2013, introduces a single framework for measuring fair value and providing disclosures about fair value measurements. This standard introduces a new definition of fair value which replaces the previous definition in IAS 39 and enhances the related disclosure requirements. IFRS 13 definition of fair value for a financial liability is based on a transfer notion rather than a settlement notion as under IAS 39. In accordance with IAS 39 definition, an entity is required to include counterparty credit risk in fair value measurement of a financial asset. However, for a financial liability, under IAS 39, there was some divergence in practice concerning the inclusion of own credit risk into fair value of a financial liability. This has now been clarified in IFRS 13, the effect of own credit risk should be incorporated.

Fair value disclosures

IFRS 13 incorporates the "fair value hierarchy" previously included in IFRS 7.

This hierarchy categorises the inputs used in valuation techniques into three levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

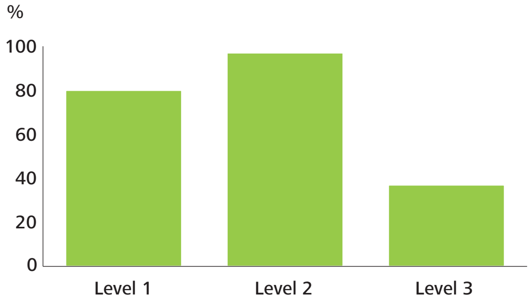
Level 2: Inputs other than quoted prices included within level 1, that are observable for asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

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

IFRS 13 extends the scope of the disclosures under this hierarchy to include not only financial assets and liabilities as currently required under IFRS 7 but also non-financial items.

As illustrated in figure 53 below, 80% of companies disclosed fair value level 1, 97% disclosed fair value level 2, whereas about one-third of the companies (37%) disclosed level 3 instruments. The latter is a relatively high proportion considering that the survey excluded financial institutions, which are more likely to hold these types of instruments. However, the average fair value of these instruments was relatively low. For companies with level 3 instruments, 82% provided additional disclosure about purchases, sales or transfers in this category and 18% did not give any further disclosure presumably on ground of materiality.

Figure 53. What fair value levels are applicable?



Looking forward: the future of financial instruments

The objective of this project is to completely replace the requirements of IAS 39 *Financial Instruments: Recognition and Measurement* with a new standard that represents a comprehensive reconsideration of the requirements of accounting for financial instruments.

IAS 39 is subject to a review project by the IASB in three phases. This project is on-going. The mandatory effective date of this new standard was deferred from 1 January 2013 to 1 January 2015.

Phase I: Classification and measurements

The final standard, issued in October 2010, covers classification and measurement of financial assets and incorporates new requirements on accounting for financial liabilities and carrying over from IAS 39 the requirements for derecognition of financial assets and financial liabilities. However, as part of the discussion of other phases, the IASB re-opened the Phase I and in January 2012 the IASB decided to consider limited amendments in order to:

- clarify a narrow range of application questions;
- reduce key differences with the US Financial Accounting Standards Board's (FASB) tentative classification and measurement model to achieve increased comparability internationally in the accounting for financial instruments; and
- take into account the interaction between the classification and measurement of financial assets and the accounting for insurance contract liabilities.

In November 2012, the IASB issued an exposure draft which proposes the introduction of a fair value through other comprehensive income (FVOCI) measurement category for debt instruments that would be based on an entity's business model. The exposure draft commenting period closed on 28 March 2013 and redeliberations are on-going.

Phase II: Amortised cost and impairment of financial assets

This phase addresses the impairment of financial assets measured at amortised cost. This project is considering various forms of the 'expected loss' approach, whereby expected losses are recognised throughout the life of a loan or other financial asset measured at amortised cost, not just after a loss event has been identified.

The IASB published a first Exposure Draft *Financial Instruments: Amortised Cost and Impairment* in November 2009, with supplement information in 2011.

Also, following discussion, the IASB published a second Exposure Draft Financial Instruments: Expected Credit Losses in March 2013, with a comment deadline that closed on 5 July 2013. Redeliberations are on-going.

Phase III: Hedge accounting

The project involves a comprehensive review of hedge accounting requirements, to establish a more objective-based approach to hedge accounting and align it with an entity's risk management processes.

This project is split into two phases: general hedge accounting and macro hedge accounting.

- ***General hedge accounting:*** An exposure draft on Hedge Accounting was issued in December 2010 and received very positive comments as it will ease the application of hedge accounting and focus more on a risk management approach. By adopting a hedging program, this allows companies to reduce the volatility of their results, secure their commercial margins, hold their budget, improve their planning of short and long term loans, improve the visibility of their business model and reassure their stakeholders.

- A 'review draft' of the hedge accounting section of IFRS 9 Financial Instruments was published in September 2012, dealing with general hedge accounting. The finalized requirements, which would represent a significant change to the current hedge accounting approach under IAS 39, are expected to be issued in the third or fourth quarter of 2013.

- ***Macro hedge accounting:*** This phase of the project considers risk management that assesses risk exposures on a continuous basis and at a portfolio level. Risk management strategies tend to have a time horizon (e.g. two years) over which an exposure is hedged. Consequently, as time passes new exposures are continuously added to the hedged portfolio and other exposures are removed from it.

  The IASB continues to deliberate issues surrounding macro hedge accounting and expects to issue a Discussion Paper in the third or fourth quarter of 2013.

IFRS 9 was mentioned in the annual reports by 93% of sampled companies, describing the specific changes and indicating that they do not intend to early adopt this standard. One company has already early adopted this standard in 2011.

The objective of this project is to completely replace the requirements of IAS 39 F*inancial Instruments: Recognition and Measurement* with a new standard that represents a comprehensive reconsideration of the requirements of accounting for financial instruments.

13. Provisions

- All companies surveyed recognised provisions in their financial statements.
- 93% of companies with provisions describe the nature of obligations.
- The average number of provisions disclosed is five.
- The magnitude of the provisions recognised on the balance sheet represented on average 8% of total equity.

In 2012, provisions were an area of focus for the SIX Exchange Regulation and therefore we performed additional analysis on the nature and significance of the provisions recognised and also introduced additional international comparisons on this important subject.

Provisions: number, nature and significance

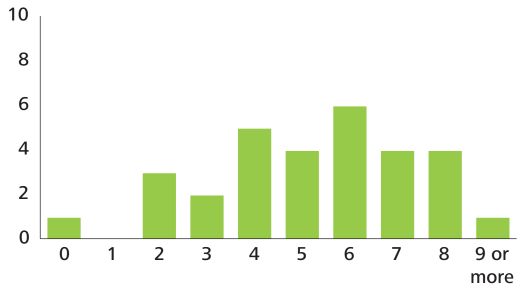
Of the 30 companies which recognised provisions, 28 (93%) provided a description of the obligation for each category (excluding "other provisions") in the notes to the financial statements. The companies which did not disclose the description in the notes provided such information in their accounting policies and therefore also met the requirements of IAS 37.

The average number of provisions disclosed by companies is five (excluding defined benefit obligations), with a maximum of ten as shown in figure 54.

Of the 30 companies which recognised provisions, 28 provided a description of the obligation for each category (excluding "other provisions") in the notes to the financial statements.

24 companies presented an "other provisions" category than on average represented 31% of the total amount of provisions.

Figure 54. How many provisions are disclosed?



The provisions recognised by the companies may be really business-specific, such as ordinance on low voltage installations provision, provision for on-going asbestos lawsuits or sale's agent indemnities provision. However, the provisions disclosed are also often of the same nature and can be summarized as follows:

- Provisions for restructuring costs.
- Provisions for litigations, tax risks and contingent considerations.
- Provisions for asset retirement obligation.
- Environmental provisions.
- Provisions for warranties, products liabilities and customers return.
- Provisions for projects and contracts, such as provision for royalties, for revenues reduction, for sales returns, for long term contractual obligation, for onerous contract.
- Personnel provisions, including employee compensation and benefit, accrued share-based payments.
- Others, comprising "other provision" category and business-specific provisions.

The magnitude of the provisions recognised on the balance sheet represented on average 8% of total equity and 3% of total equity and liabilities, including seven companies with provisions representing less than 2% of total equity.

Qualitative review of provisions

Due to the uncertainties involved and the resulting high degree of managements' judgements required, provisions are one of the potential areas of earnings management. Accordingly, for the readers of financial statements the accounting for provisions is a good indicator to assess whether the company's accounting policy tends to be more prudent or more aggressive and to assess the level of transparency provided to the investors.

Although taking into account that provisioning is highly dependent on the company's individual situation, its industry and business model involved, the level of provisions vary significantly in the survey. More noteworthy, however, is the variety in the developments of the provisions during the year. While one would expect that current provisions should be either used or released within 12 months, some companies in the survey used and released less than 20% of their current provisions. That might suggest that provisions contain "reserves" or have been reallocated, both not in line with IFRS and a true and fair presentation.

This is why appropriately disaggregated information and sufficient disclosures are important for the interpretation of financial statements and the performance presented. While one might think overstatement of provisions is prudent and hence "positive", it should be born in mind that reserves could be released in years with unsatisfactory performance and hence used to conceal a downturn in profitability.

Based on the companies surveyed, the level of transparency presented in the provision disclosures seems to coincide with the tendency to use provisions as "cookie jars": the lower the level of details presented is, the higher the amount of provisions seems to be. This is particularly true for the disaggregation of the classification of the provisions, disclosure of major assumptions and the expected timing of outflows.

Provisions: disclosures

Only 37% of relevant companies met the IAS 37 requirement to provide details of the expected timing of any resulting outflows for provisions, as shown in figure 56. No explanation was given by 19 companies, although 15 companies provided the classification of provisions as either current, non-current or both as an indication of the expected timing of the resulting outflows of economic benefit.

Figure 55. What are the different natures of provisions disclosed?

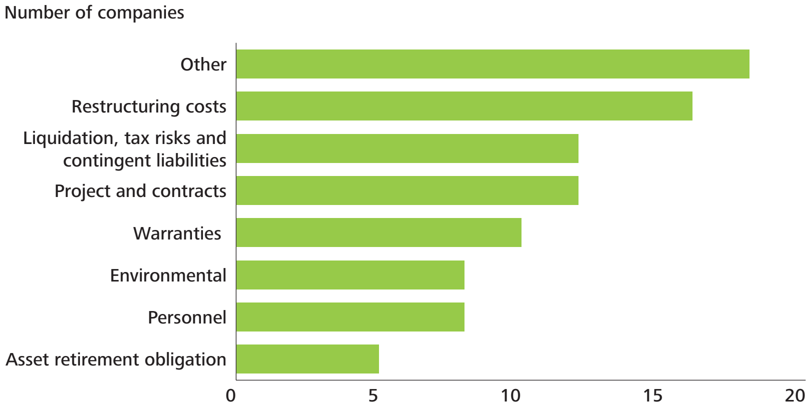
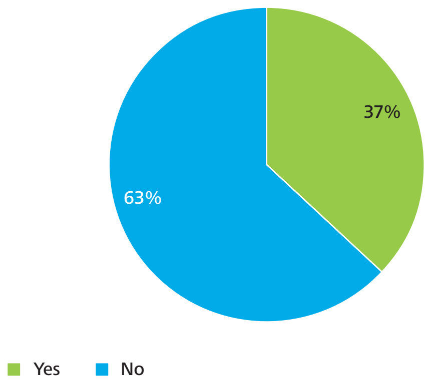


Figure 56. Has the expected timing of any resulting outflows of economic benefit been disclosed?



Based on the companies surveyed, the level of transparency presented in the provision disclosures seems to coincide with the tendency to use provisions as "cookie jars": the lower the level of details presented is, the higher the amount of provisions seems to be.

20. PROVISIONS AND OTHER NON-CURRENT LIABILITIES

	2012 USD millions	2011 USD millions
Accrued liability for employee benefits:		
– Defined benefit pension plans	5 296	2 991
– Other long-term employee benefits and deferred compensation	631	600
– Other post-employment benefits	1 104	1 098
Environmental remediation provisions	1 001	1 059
Provisions for product liabilities, governmental investigations and other legal matters	630	777
Contingent consideration	573	482
Other non-current liabilities	644	785
Total	**9 879**	**7 792**

ENVIRONMENTAL REMEDIATION PROVISIONS

The material components of the environmental remediation provisions consist of costs to sufficiently clean and refurbish contaminated sites to the extent necessary and to treat and where necessary continue surveillance at sites where the environmental remediation exposure is less significant. The provision recorded at December 31, 2012 totals USD 1.1 billion (2011: USD 1.1 billion) of which USD 119 million (2011: USD 59 million) is current.

A substantial portion of the environmental remediation provision relates to the remediation of Basel regional landfills in the adjacent border areas in Switzerland, Germany and France following internal and external investigations completed during 2007 and the subsequent creation of an environmental remediation provision. The provisions have been re-assessed during 2012 and as a result adjusted.

In the United States, Novartis has been named under federal legislation (the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended) as a potentially responsible party (PRP) in respect of certain sites. Novartis actively participates in, or monitors, the clean-up activities at the sites in which it is a PRP. The provision takes into consideration the number of other PRPs at each site and the identity and financial position of such parties in light of the joint and several nature of the liability.

The following table shows the movements in the environmental liability provisions during 2012 and 2011:

	2012 USD millions	2011 USD millions
January 1	**1 118**	**1 126**
Cash payments	–30	–29
Releases	–39	–8
Interest expense arising from discounting provisions	33	29
Additions	10	
Currency translation effects	28	
December 31	**1 120**	**1 118**
Less current liability	–119	–59
Non-current environmental remediation liability provisions at December 31	**1 001**	**1 059**

The expected timing of the related cash outflows as of December 31, 2012 is currently projected as follows:

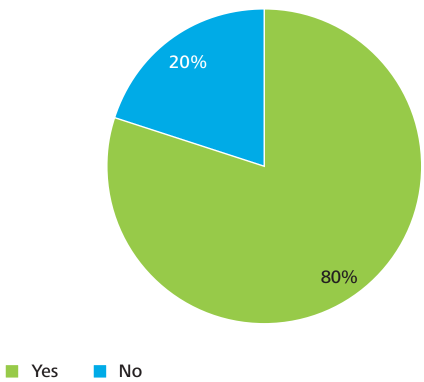
	Expected cash outflows USD millions
Due within two years	270
Due later than two years, but less than five years	377
Due later than five years but less than ten years	433
Due after ten years	40
Total environmental remediation liability provisions	**1 120**

Novartis, Annual report 2012

A good example of disclosure comes from Novartis's financial statements. The expected timing of any resulting outflows is clearly indicated.

80% (70% in 2011) of relevant companies disclosed the major assumptions concerning future events relating to provisions held at the year-end, as shown in figure 57 below. This disclosure is required by IAS 37 only where it is "necessary to provide adequate information". It seems that in recent years companies have become more transparent in this area as the proportion of companies providing such information has slightly increased.

Figure 57. Have major assumptions concerning future events been considered?



Overall, six companies complied with all of the IAS 37 requirements examined in this survey. A further eight companies complied with all requirements other than disclosing the expected timing of any resulting outflows of economic benefits. These findings are in line with last year's survey.

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

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

18. MOVEMENTS IN PROVISIONS

in CHF m	Environmental provisions	Personnel provisions	Restructuring provisions	Other provisions	**Total provisions 2012**	Total provisions 2011[1]
As per 1 January[1]	147	138	242	94	621	630
Additions	29	216	123	83	451	333
Effect of business combinations[1]	–	–	–	–	–	37
Reclassified to held for sale (see note 22)	–8	–15	–	–	–23	–
Amounts used	–41	–148	–176	–56	–421	–320
Unused amounts reversed	–1	–16	–21	–11	–49	–46
Changes due to the passage of time and changes in discount rates	3	1	–	1	5	6
Exchange rate differences	–3	–3	–2	–5	–13	–19
At 31 December	**126**	**173**	**166**	**106**	**571**	**621**
Of which						
– Current portion	25	146	143	51	365	364
– Non-current portion	101	27	23	55	206	257
Total provisions	**126**	**173**	**166**	**106**	**571**	**621**
Expected outflow of resources						
Within 1 year	25	146	143	51	365	364
Between 1 and 3 years	43	18	20	28	109	158
Between 3 and 5 years	16	2	3	5	26	32
Over 5 years	42	7	–	22	71	67
Total provisions	**126**	**173**	**166**	**106**	**571**	**621**

[1] restated – see note 1.03

Environmental provisions. Provisions for environmental liabilities are made when there is a legal or constructive obligation for the Group which will result in an outflow of economic resources. It is difficult to estimate the action required by Clariant in the future to correct the effects on the environment of prior disposal or release of chemical substances by Clariant or other parties and the associated costs, pursuant to environmental laws and regulations.

The material components of the environmental provisions consist of the costs to fully clean and refurbish contaminated sites and to treat and contain contamination at sites where the environmental exposure is less severe. The Group's future remediation expenses are affected by a number of uncertainties which include, but are not limited to, the method and extent of remediation and the percentage of material attributable to Clariant at the remediation sites relative to that attributable to other parties.

The environmental provisions reported in the balance sheet concern a number of different obligations, mainly in Switzerland, the United States, Germany, Brazil and Italy.

Clariant, Annual report 2012

Provisions are made for remedial work where there is an obligation to remedy environmental damage, as well as for containment work where required by environmental regulations. All provisions relate to environmental liabilities arising in connection with activities that occurred prior to the date when Clariant took control of the relevant site. At each balance sheet date, Clariant critically reviews all provisions and makes adjustments where required.

Personnel provisions. Personnel provisions include holiday entitlements, compensated absences such as sabbatical leave, jubilee, annual leave or other long-service benefits, profit sharing and bonuses. Such provisions are established in proportion to the services rendered by the employee concerned.

Restructuring provisions. Restructuring provisions are established where there is a legal or constructive obligation for the Group that will result in the outflow of economic resources. The term restructuring refers to the activities that have as a consequence staff redundancies and the shutdown of production lines or entire sites. When the Group has approved a formal plan and has either started to implement the plan or announced its main features to the public, a restructuring provision is created. The restructuring provisions newly added in 2012 concern site closures and headcount reductions in various countries with the largest amounts incurred in Germany, France, the United States and South Africa. For more information regarding the restructuring measures see also note 25.

Other provisions. Other provisions include provisions for obligations relating to tax and legal cases and other items in various countries and/or for which the amount can only be reliably estimated.

All non-current provisions are discounted to reflect the time value of money where material. Discount rates reflect current market assessments of the time value of money and the risk specific to the provisions in the respective countries.

Clariant, Annual report 2012

SIX Exchange Regulation insight

The SIX Exchange Regulation circular on IFRS reminds entities that, where the interest effect is significant, individual provisions should be recognised at the cash value of the anticipated expenditure. Furthermore, the interest effect should be disclosed separately. Very few of the companies in our sample provide such disclosures.

Additionally, the regulator notes that "allocating the bulk of provisions to the category 'other provisions' does not comply with the basic principle of IFRS".

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

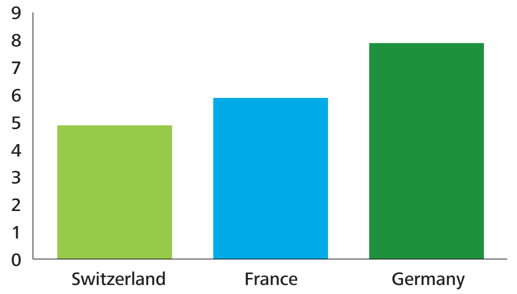
IAS 37 *Provisions, contingent liabilities and contingent assets* allows companies, in extremely rare circumstances, an exemption from disclosing some or all of the information required by the standard. These rare circumstances are where the required information is expected to prejudice seriously the position of a company in a dispute.

International comparison

Provisions: recognition and disclosures

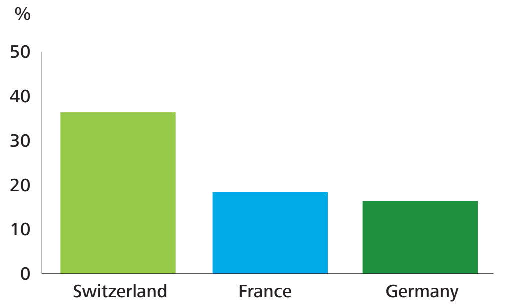
93% of Swiss companies which recognised provisions provided a description of the obligation for each category (excluding "other provisions") in the notes to the financial statements. This is broadly consistent with France and Germany where 100% of French companies and 80% of German companies described the nature of obligations for each category. On average, Swiss companies disclosed five types of provisions (excluding defined benefit obligation). This is lower than in France (six) and Germany (eight).

Figure 58. How many provisions are disclosed?



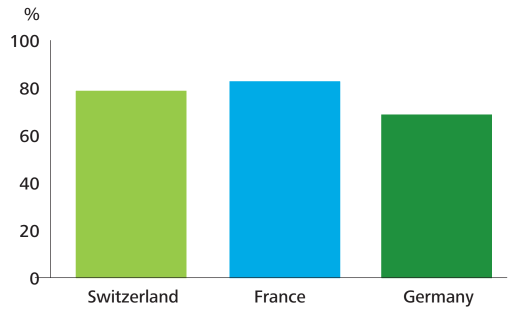
In Switzerland, 37% of relevant companies provided information on the expected timing of any resulting outflows for provisions. Swiss companies are more compliant in this respect than those in neighbouring countries, as the percentage is lower in both France (19%) and Germany (17%).

Figure 59. Disclosure of the expected timing of any resulting outflows of economic benefit



80% of Swiss companies which recognised provisions disclosed the major assumptions concerning future events relating to provisions held at the year-end. This is broadly in line with the results in France, with 84% and in Germany, with 70% of companies providing such information.

Figure 60. Have major assumptions concerning future events been considered?



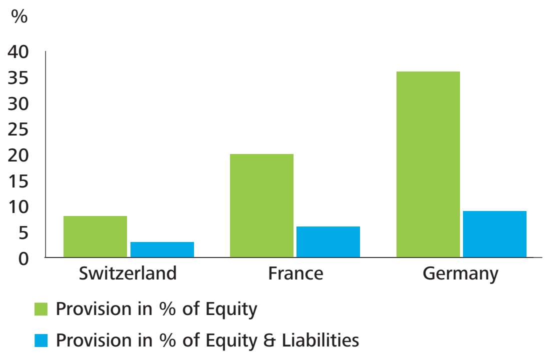
Provisions: significance and nature

Swiss companies sampled had the lowest level of provisions recognised on their balance sheet when compared to total equity or total equity and liability. Indeed, provisions represented only 8% of equity and 3% of equity and liabilities. In comparison, in France, provisions represented 20% of equity and 6% of equity and liabilities. For German companies, provisions represented 36% of equity in the balance sheet and 9% of equity and liabilities.

Restructuring provisions

Most companies disclosed restructuring provisions in the notes: 53% of Swiss companies, 75% of French companies and 46% of German companies. Quantitatively, restructuring provisions represented between 2% and 8% of the total provisions.

Figure 61. Significance of provisions on the balance sheet



Tax risks and litigation provisions

Most companies disclosed tax risks and litigation provisions in the notes: 40% of Swiss companies, 81% of French companies and 71% of German companies. Quantitatively, tax risks and litigation provisions represented between 11% and 20% of total provisions of these companies.

Asset retirement obligations and environmental provisions

Most of companies disclosed asset retirement obligations & environmental provisions in the notes: 43% of Swiss companies, 56% of French companies and 67% of German companies. Quantitatively, asset retirement obligations and environmental obligations represented the most important provisions for France companies (53% of total provisions) most likely as sampled companies in France are more present in the energy, industry and construction sectors.

Warranties and commercial provisions

Most of companies disclosed warranties and commercial provisions in the notes: 90% of Swiss companies, 66% of French companies and 96% of German companies. Quantitatively, warranties and commercial obligations represented the most important provisions for Swiss companies (32% of total provisions) and for German companies (26% of total provisions).

Personnel provisions

Personnel provisions are disclosed in the notes by 27% of Swiss companies, only 6% of French companies and 83% of German companies. Quantitatively, personnel provisions represent 14% of provisions of Swiss companies, 1% of provisions of French companies and 15% provisions of German companies.

Figure 62. Nature of provisions disclosed in the notes (% of companies)

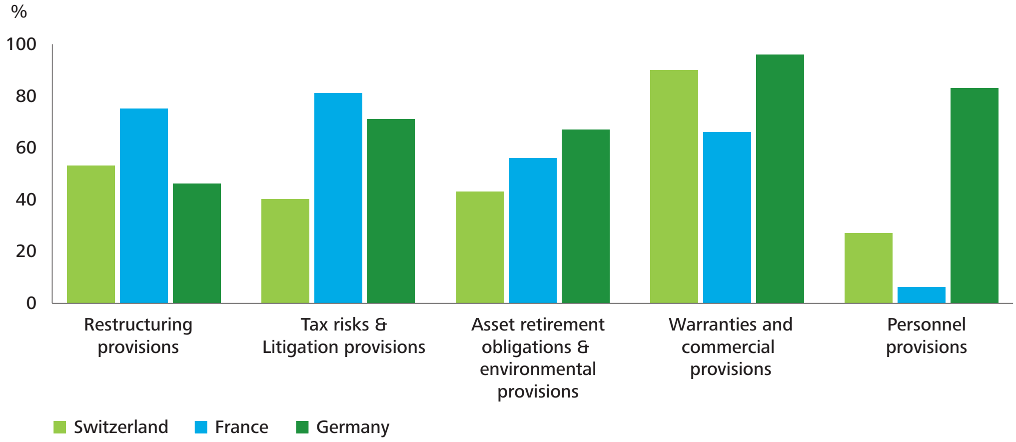
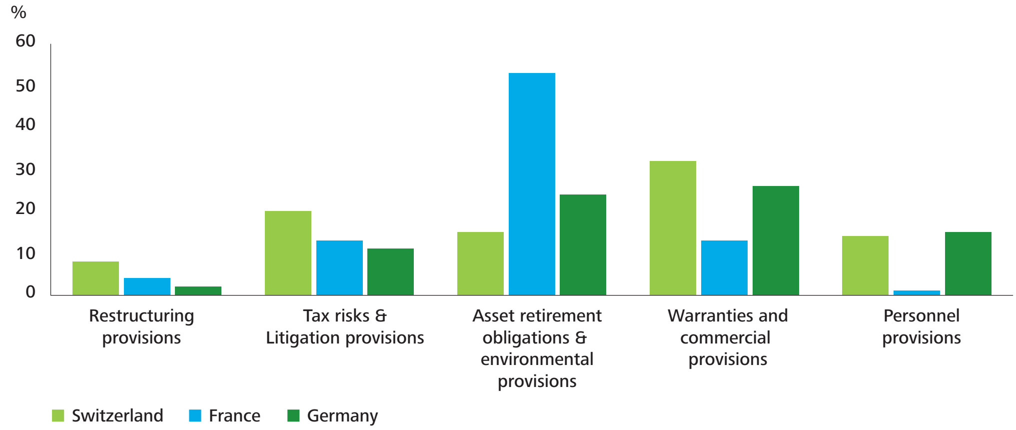


Figure 63. Nature of provisions (% of value)



14. Income Taxes

- Qualitative information in accounting policies and related notes can be further improved and this is likely to become more important due to recent development regarding tax transparency.

- In their tax reconciliation, 80% of companies started from the blended rate which ranged from 7.1% to 31%.

- Only 27% of companies clearly disclosed the aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures for which deferred tax liabilities had not been recognised.

Tax transparency: increasing expectations

It is safe to say that tax attracts the attention of more stakeholders than any other business expense. Transparency is key, whether you are a tax inspector trying to ensure that they receive their fair share of global profit, or a tax director explaining the group tax risk profile to management or the board of directors. In addition to this increasing pressure to provide more information on tax payments, the line between legitimate tax planning and perceived tax evasion is becoming increasingly blurred as a result of ethical pressure for businesses to be seen to be "doing the right thing". Businesses will not only be expected to provide more transparency on quantitative elements such as payments, but also qualitative information around the principles behind tax management in the business.

Companies may seek to maintain the status quo and continue with their current level of disclosure (both quantitatively and qualitatively), however given the multiple international initiatives currently underway in this area (EITI, Dodd-Frank Act, EU Transparency Directive, G20 initiatives), this option is not likely to be available for long.

Increased transparency means not only increased disclosure (particularly of cash tax) but also clear internal and external communication on how tax is managed in the business.

As the pressure mounts, we would fully expect Swiss businesses to focus on:

- developing a strong organisation framework, perhaps based on the advanced decentralised model which allows responsibility for taxes to be retained locally but with strong central oversight; and

- strengthening the tax policies within the organisation to ensure that, locally decisions and subsequent actions are taken in line with the risk appetite of the group.

Given the continuing pressure in this area, doing nothing to respond does not seem to be an option. Swiss businesses may therefore consider reviewing their current processes and systems to determine how ready they are to be transparent on tax.

Tax disclosures: qualitative review and related comments

Whilst the quantitative information required to be disclosed was largely completed by the groups analysed, there were a significant number of cases where inconsistency and imprecision was noted in the accompanying text. For example, in the case of several groups, the accounting policy described the policy around deferred tax on unremitted earnings; however the actual tax notes did not include any information at all related to this item. IAS 12 requires the disclosure of temporary differences in respect of unremitted earnings for which a deferred tax liability is not recognised. Due to the fact that many countries have participation regimes where, for example capital gains on disposals are not taxable, the Effective Tax Rate (ETR) applied to temporary differences of this nature is often very low. For readers of the financial statements who are not tax specialists the disclosed temporary difference may be misunderstood which could explain why some groups prefer to disclose the deferred tax liability. Some groups included within their accounting policy positions that were inconsistent with the requirements of IAS 12, for example in relation to withholding taxes and capital taxes. In other cases, the text did not stand up to scrutiny from a technical perspective, for example in relation to the use of language.

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

The percentage of companies using the blended rate is higher in Switzerland than in many other IFRS reporting jurisdictions where the statutory rate of the headquarter jurisdiction is often used.

Tax reconciliation

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

This reconciliation was prepared by all companies surveyed. 27 of 30 companies (90%) produced a numerical reconciliation between tax expense/ (income) and the product of accounting profit multiplied by the applicable tax rate(s) and the remaining 10% performed a percentage only reconciliation.

Under IAS 12 *Income Taxes*, a company has a choice to reconcile to a blended (or "weighted average") tax rate or headquarter/Swiss statutory tax rate. 80% of companies used a blended rate which ranged from 7.1% to 31%. 20% of companies used a headquarter tax rate which ranged from 21% to 25%.

For the companies that applied a weighted average tax rate, the median tax rate has been decreasing over recent years with a median rate of 20.5% in 2012 compared to 20.90% in 2011 and 21.4% in 2010. This is consistent with the global trend of decreasing corporate tax rates. Two companies disclosed the reason for changes in their blended tax rates which is useful to the reader of the accounts who otherwise has no visibility over how the blended rate is made up and how it varies from one reporting period to another (for example, is the change in rate due to rate reductions or changes in profit mix across jurisdictions?).

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

Below is an eample of the tax reconciliation from the annual report of the Novartis Group.

ANALYSIS OF TAX RATE

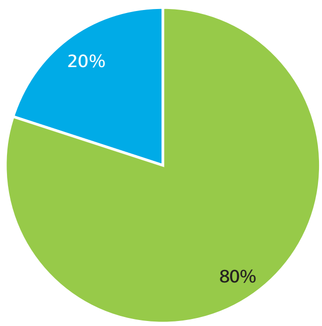
The main elements contributing to the difference between the Group's overall expected tax rate (which can change each year since it is calculated as the weighted average tax rate based on pre-tax income of each subsidiary) and the effective tax rate are:

	2012 %	2011 %
Expected tax rate	13.7	15.5
Effect of disallowed expenditures	2.9	2.5
Effect of utilization of tax losses brought forward from prior periods	-0.1	-0.1
Effect of income taxed at reduced rates	-0.3	
Effect of tax credits and allowances	-1.7	-2.4
Effect of tax benefits expiring in 2017	-0.8	-0.7
Effect of write-down of investments in subsidiaries		-0.5
Prior year and other items	0.8	-0.1
Effective tax rate	**14.5**	**14.2**

The utilization of tax-loss carry-forwards lowered the tax charge by USD 11 million in 2012 and by USD 6 million in 2011, respectively.

Novartis, Annual Report 2012

Figure 64. Do companies use a blended tax rate or a headquarter/Swiss tax rate for the tax reconciliation?



Blended tax rate
Headquarter/Swiss tax rate

Current and non-current taxes

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

IAS 1 *Presentation of Financial Statements* requires that liabilities are disclosed as current unless, amongst other requirements, the entity has an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. In many instances, it can be difficult to demonstrate this for tax liabilities hence there is an argument that tax liabilities should be current. In practice, some companies might set up provisions for uncertain tax positions and classify as non-current.

However, only one company disclosed non-current income tax liabilities. An analysis of the three year average current tax charge versus cash tax paid shows that 66% of the companies have a tax charge which exceeds cash tax paid. This implies that a large percentage of companies may have significant provisions for tax risk which are either included in current tax or elsewhere on the balance sheet and as such are not transparent to the reader of the accounts.

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

Deferred taxes assets

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

93% of companies clearly disclosed the amount of deductible temporary differences, unused tax credits for which no deferred tax asset had been recognised on the balance sheet. Most companies disclosed unused tax losses. Only one company did not disclose such information.

Deferred tax balances: offsetting

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

- the entity has a legal right to offset current assets against current liabilities; and

- the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either;

  – the same taxable entity,

  – different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

IAS 12 requires that deferred tax balances are disclosed by nature. In addition, to improve transparency for the reader of the accounts, it is best practice to disclose gross deferred tax assets and liabilities by nature (i.e. before offsetting). 29 companies (97%) conformed to this best practice indicating that companies have sufficiently detailed records to present in this manner.

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

Unremitted earnings

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

- the parent, investor or venturer is able to control the timing of the reversal of temporary difference; and

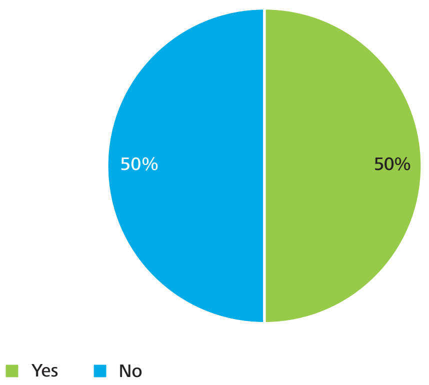
- it is probable that temporary differences will not reverse in the foreseeable future.

18 of 30 companies (60%) commented on the temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures as required by IAS 12. Of these, only one company recognised a deferred tax liability.

Surprisingly, 40% of companies did not provide this disclosure. It has to be assumed therefore that these companies did not have deferred tax liabilities, fell within the exemptions in the standard or took advantage of the carve out in paragraph 87 which states, where it is impracticable to compute the amount of unrecognised deferred tax liability it need not be disclosed.

However, irrespective of whether a company takes advantage of paragraph 87, the standard requires companies to disclose the aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures, for which deferred tax liabilities have not been recognised. 15 out of 30 (50%) companies disclosed the aggregate amount of underlying temporary differences, often referred to as "unremitted earnings". This is a marked increase compared to 9 (27%) companies in previous year.

Figure 65. Have the unrecognised temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures been disclosed?



SIX Exchange Regulation insight and recent sanction proposal

The SIX Exchange Regulation circular on financial reporting specifically deals with the issue of unrecognised deferred tax assets, stating that "it is relevant to the investor whether the loss carryforward has been allocated to a subsidiary with a high tax rate or instead to a holding company that is subject to a lower tax rate". A meaningful grouping of losses, together with disclosure of applicable tax rates for significant amounts, is recommended.

With regard to the tax reconciliation, the SIX Exchange Regulation states that, if the applicable tax rate represents a weighted average of tax rates in different jurisdictions (as is the case for a number of companies in our sample), then both the effect of changes to tax rates and the impact of changes to the structural composition of results in the different jurisdictions must be explained to permit a better assessment of the future average tax burden.

As evidence that the SIX Exchange Regulation is focussing on tax reporting, it issued in June 2013 a sanction proposal on a company reporting under US GAAP. SIX Exchange Regulation stated that weakness of the internal controls resulted in understated income tax expenses of more than USD 50 million and as consequence, an overstated net income for the year by 20%. The company subsequently corrected the error.

The allegations of SIX Exchange Regulation are partially disputed by the company. The length of the sanction proceedings is not defined. SIX Exchange Regulation will inform the public about the outcome of the sanction proceedings. Until that time no further information will be provided about the ongoing sanction proceedings.

16. Pensions

- Despite favourable market conditions in 2012, the average funding status of post-employment defined benefit plans stood unchanged compared to prior year at 80% on average versus 95% six years ago.
- Actual returns on plan assets achieved by the companies surveyed are below the expectations set at beginning of the reporting period by an average of 2.5% over the last six years.
- Application of IAS 19R will have major impact on pension costs, we estimated an increase of 56% on average.
- The majority of Swiss companies is still applying the corridor approach, whereas French and German companies tend to apply immediate recognition through OCI.
- Immediate recognition of unrecognised actuarial losses will have a much greater impact on equity of German companies than Swiss or French ones.
- Funding status of Swiss companies is higher (80%) than those of German (62%) or French (57%) companies.

The areas surveyed this year focused on the funding status of the defined benefit plans, the return on assets, and considered the implications of the revised IAS 19 *Employee Benefits* ('IAS 19R'). We also introduced an international comparison at the end of the section.

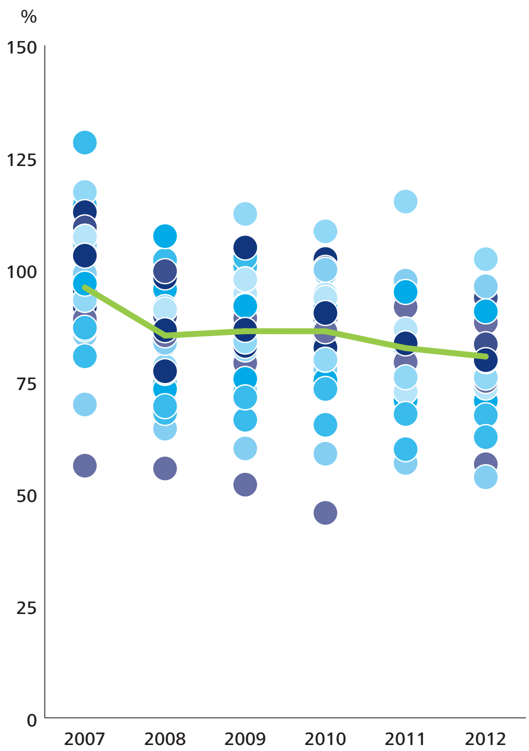
Funding status of the employee benefits: declining trend has stabilised in 2012

We analysed the evolution of the funding status of the plan assets as compared to the defined benefit obligations. While the declining trend stabilised in 2012 at the level of 80% observed in 2011, the long-term decrease of the average funding status does not seem to have reverted. From 95% in 2007, it has decreased consistently over the years to reach 80% at the end of 2012.

The differences between the companies are significant as shown in figure 66.

Figure 66. Average funding status

Coverage ratio



The reasons for this declining funding status are a combination of bad market conditions during the observed period, in particular in 2008, and the continuously decreasing discount rates.

The same trend on a mid-term basis has been observed in the Swiss pension environment, despite the fact that the calculation is performed on a 'static' basis compared to a 'dynamic' methodology under IAS 19.

The trend of declining coverage ratios between plan assets and pension liabilities is continuing despite good market conditions observed in 2012.

Return on plan assets

Until the end of 2012, companies were required to recognise an expected return on plan assets as a component of pension cost, with direct impact on profit and loss. The expected return on plan assets is based on market expectations, at the beginning of the period, for returns over the entire life of the related obligation. The future rate of return assumptions should be based on a coherent methodology that is prudent and reasonable.

We analysed, over the past six years, the difference between the expectations set at the beginning of the year and the actual return on assets achieved by the companies – the 'Experience adjustments on plan assets'.

Four companies showed a positive average experience adjustment over the six-year period due to the very good financial performance in 2012. However, for all companies surveyed, the average missed return amounts to 2.5%, with a maximum of 7.4% per year.

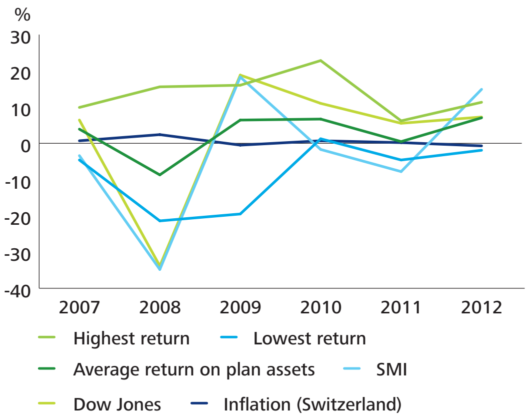
These results showed that companies have overestimated their expected return on plan assets at beginning of years, however, some may say this statement is unfair. Indeed, if we exclude the 2008 crisis year from our calculation, the ratio of positive result increases to 20 companies out of 30 surveyed, with an accuracy of expected return very close to the actual returns, with less than 1% difference in average.

A five-year summary of the Group's defined benefit plans is shown in the table below:

in thousand CHF	2012	2011	2010	2009	2008
DBO	281,335	258,676	248,015	232,899	256,441
Plan assets	(231,706)	(211,525)	(217,656)	(208,217)	(213,520)
Net liability recognised in statement of financial position	49,629	47,151	(30,359)	(24,682)	(42,921)
Experience adjustments arising on:					
plan liability	(2,007)	8,974	(2,858)	3,149	(7,692)
plan asset	9,484	(12,510)	1,042	20,539	(40,859)

Panalpina, Annual Report 2012

Figure 67. Historic comparison actual return on plan assets, selected stock market performance and inflation



The results from this analysis confirm the decision of the IASB to eliminate the expected return on pension assets in IAS 19R seems reasonable.

Other assumptions used in the measurement of pension liabilities

Pension assumptions are one of the most critical areas of management estimate and judgment disclosed by 29 companies in our survey (Refer to chapter 10 Accounting policies).

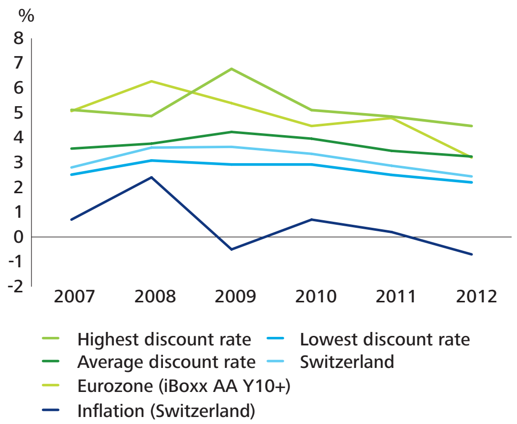
In addition to the expected return on plan assets, the other important assumptions in the measurement of pension liabilities are:

- discount rate;
- future salary increase; and
- mortality tables.

In the past years, the discount rate had an important impact on the pension liabilities for Swiss companies. The average discount rate used decreased from 4.2% in 2009 to 3.2% in 2012, which represents a 24% decrease. The average discount rate was lower in Switzerland compared to European companies, which disclosed discount rates below 2% at 31 December 2012. This trend had a severe impact on the measurement of pension liabilities which were at their highest at 31 December 2012.

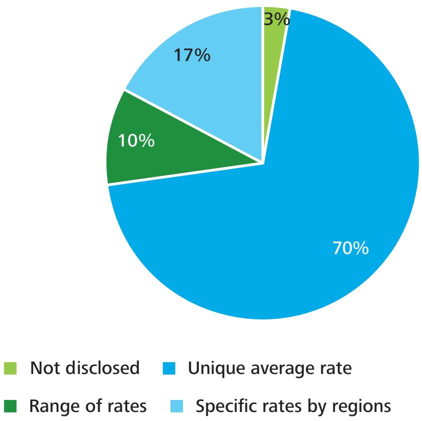
This trend seemed now to revert, the discount rates for Switzerland have increased by 35 basis points as at 30 June 2013.

Figure 68. Historic discount rate evolution



The expected salary increase is usually not discussed extensively by readers of IFRS financials. However, it does represent an important assumption as 97% of the surveyed companies have disclosed this assumption in their 2012 financial statements. Depending on the regions and countries were they operate, the expected salary increase was set between 1%, usually for Switzerland, to over 5% in regions with higher inflation rates.

Figure 69. Detail of expected salary increase



Finally, we reviewed the mortality tables used for Swiss plans. Only 15 companies disclosed this information. Four gave general information without mentioning the tables used, eight used the LPP 2010 tables and three the LPP 2010 generational tables. 50% of the companies did not disclose any information about the mortality tables.

Generational tables were used by 10% of the companies surveyed, but should become more popular in future as those tables integrate the expected future increases in life expectancy. For those which used the traditional periodic tables, specific provision were made to consider the increase in longevity. While Swiss pension funds have been reluctant to adopt the generational mortality tables, they bring more transparency and better reflect the requirements of IAS 19 and are considered as best practice.

Amendments of IAS 19R will have significant implications for Swiss companies

The objective of the amendments to IAS 19 *Employee benefits* ('IAS 19R') is to improve comparability. Indeed, IAS 19 was often criticised for permitting deferred recognition of actuarial gains and losses and its ambiguity in other areas which has resulted in a lack of transparency and diversity in practice.

The amendments are effective for annual periods beginning on or after 1 January 2013.

Elimination of the corridor method

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

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

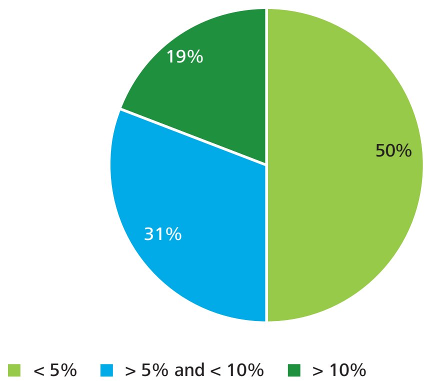
- Going forward, there will be a greater volatility on the statement of financial position and in OCI.

Generalisation tables were used by 10% of the companies surveyed, but should become more popular in future as those tables integrate the expected future increases in life expectancy.

This change is particularly relevant in the Swiss context where 16 of the companies surveyed (or 53%) will be impacted. This ratio has slightly decreased compared to prior year due to the early adopters of 19R in 2012.

More significantly, 50% (or eight companies) will see their reported equity decreased by more than 5% on transition.

Figure 70. Elimination of the "corridor method" and corresponding decrease on reported equity



Elimination of expected return on plan assets

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

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

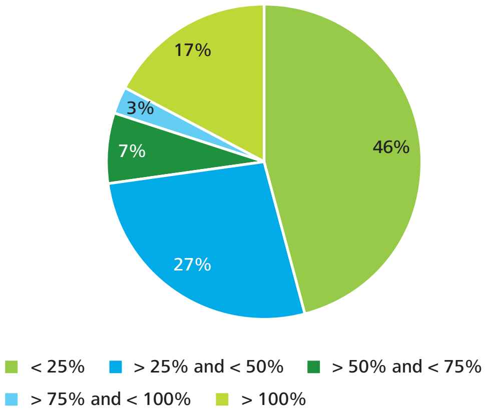
In many cases, using the discount rate to calculate the interest income on the plan assets will reduce net profit, since the interest component from plan assets will not reflect the benefit from the expectation of higher returns on riskier investments. Instead, the inherent rate now used will reflect the return on high quality corporate bonds.

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

As already commented above, in the sample of companies surveyed, the expected return usually exceeds the discount rate. We estimate that Swiss companies may see their pension costs increasing by 56% on average versus the reported 2012 numbers. Five companies out of the 30 surveyed may see their pension cost more than double.

This increase in pension costs recognised in profit or loss will impact Swiss companies' operating profitability.

Figure 71. Elimination of the "expected return on assets" and corresponding increase on reported pension cost



Presentation of net interest expenses

Contrary to the Exposure Draft, which proposed to present service cost under 'Employment expense' and net interest under 'Finance costs' in profit or loss, the final standard, IAS 19R and IAS 1 remain silent on where in profit and loss the various elements of the pension cost should be presented (service cost, net interest cost, curtailments or settlements).

Out of the 30 companies surveyed, only seven (or 23%) presented an allocation of the pension cost between salaries and finance costs. 77% of companies attributed the pension costs to staff costs alone. 23% allocated the pension costs to both staff costs and finance costs (slightly above prior year survey where 17% of the companies presented a split of pension expense).

We anticipate that several companies will elect to present the net interest component under finance result as this element represents the main driver of the increase of the overall pension cost. Presenting the finance component within finance costs will, in many cases, increase the operating result.

Two early adopters of IAS 19R in 2012

The option given by IAS 19R to early adopt was only used by two of the companies surveyed. This low number does not come as a surprise as the implications are significant and present a real challenge, in particular for larger groups. Finance teams and actuaries will have to invest considerable effort to prepare the new required disclosures.

The impact of the immediate recognition of actuarial losses was significant compared to the reported benefit obligations; however, the effect on equity was less than 3% for both companies.

The pension expense recorded in the income statement increased by 25% and > 100% respectively. One company clearly disclosed the fact that the net interest component will now be presented under finance costs, whereas it was unclear from the second company's disclosures.

In terms of qualitative information in the notes, one company significantly extended the information related to the employee benefits, specially the descriptions of the plans. The second company limited its disclosures to facts and financial related data. An example of early adopter's impact is Schindler as shown below.

Income statement 2011

In CHF million	Reported	Adjustment	Restated
Personnel expenses	2 965	–3	2 962
Total operating expenses	7 064	–3	7 061
Operating profit	790	3	793
Financial income	62	1	63
Financial expenses	61	17	78
Profit before taxes	790	–13	777
Income taxes	214	–3	211
Net profit	611	–10	601
Net profit attributable to:			
The owners of Schindler Holding Ltd.	586	–10	576
Non-controlling interests	25	–	25
Earnings per share and participation certificate in CHF			
Undiluted	4.98	–0.09	4.89
Diluted	4.94	–0.08	4.86

Statement of comprehensive income 2011

In CHF million	Reported	Adjustment	Restated
Net profit	611	–10	601
Other comprehensive income:			
Remeasurements employee benefits	–	–110	–110
Taxes on other comprehensive income	–25	28	3
Comprehensive income	661	–92	569
Attributable to:			
The owners of Schindler Holding Ltd.	636	–88	548
Non-controlling interests	25	–4	21

Balance sheet as of January 1, 2011

In CHF million	Reported	Adjustment	Restated
Long-term financial assets	329	45	374
Deferred taxes	131	37	168
Employee benefits	131	–102	29
Total non-current assets	2 028	–20	2 008
Employee benefits	298	54	352
Total non-current liabilities	940	54	994
Total equity	2 819	–74	2 745
The owners of Schindler Holding Ltd.	2 715	–74	2 641
Non-controlling interests	104	–	104

Schindler, Annual Report 2012

Disclosed expected impact on adoption of IAS 19R

In the section on 'Standards issued but not yet effective', the 28 companies surveyed which have not early adopted discussed the implications of first-time application of IAS 19R in 2013. 23 companies disclosed detailed information about impact on transition, such as increase of the pension liability in the balance sheet, decrease in equity or impact on the income statement. The presented facts were quite neutral for the remaining five companies or §18%. In prior year, over 50% of the companies did not disclose those impacts.

> › Amendments to IAS 19 "Employee Benefits" (effective as from 1 January 2013): as a result of the amendments to IAS 19, actuarial gains and losses in future must be recorded directly under other comprehensive income. The previous accounting option to either record them immediately in the income statement or under other comprehensive income or defer recording them in accordance with the so-called corridor method is eliminated. In addition, in future management shall no longer estimate the return on the pension fund's assets in accordance with anticipated income interest on the basis of the allocation of assets, but the return on the fund's assets may only be recorded to the extent of the discounting rate. In addition, the amended IAS 19 requires more extensive note disclosures. In future, entities must provide disclosures as to the financing strategy of their pension plans and not only describe but also quantify the financing risks inherent in their pension plans. Amongst other things, a sensitivity analysis is required showing to what degree pension obligations fluctuate depending on changes in significant measurement assumptions. In future, the average remaining duration of employment benefit obligations must also be disclosed. If the amendments had already been adopted in the 2012 consolidated financial statements, it is estimated that the costs of defined-benefit pension plans in the income statement would have amounted to CHF 251 million, ignoring any changes to the pension plan. The amendments to the pension plan decided upon in 2012 would have reduced pension expense by CHF 140 million, with the result that the pension expense including pension plan amendments would have amounted to CHF 111 million.

Swisscom, Annual Report 2012

Introduction of new risk-based disclosures

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

The revised standard outlines the following disclosure objectives:

- Explain the characteristics and related risks of defined benefit plans.
- Identify and explain the amounts in the financial statements arising from defined benefit plans.
- Describe how benefit plans may affect the amount, timing, and uncertainty of future cash flows.

Many of the disclosure requirements of the current IAS 19 standard have been carried forward into 19R.

The requirement to disclose information about the characteristics of defined benefit plans with them is not new.

However, the revised standard requires more information on certain characteristics, for example:

- description of the regulatory framework in which the plan operates, for example the level of any minimum funding requirements, and any effect of the regulatory framework on the plan, such as the asset ceiling;
- description of any other entity's responsibilities for the governance of the plan, for example responsibilities of plan trustees or of board members;
- description of risks to which the plan exposes the entity, focused on any unusual, entity-specific or plan-specific risks, and of any significant concentrations of risk,
- description of any plan amendments, curtailments and settlements.

Although the above new disclosures may sound like narrative only, some additional quantitative information is also required. The requirement to provide a rollforward reconciliation for plan assets and the defined benefit obligation is not new, but the items required to be presented separately in the reconciliations have been expanded. For example, in the past actuarial gains and losses were disclosed in the aggregate.

The requirement to separately disclose actuarial gains and losses from changes in demographic assumptions and those from changes in financial assumptions is a significant new requirement, which may require additional information to be provided by the entity's actuary.

An important note is that retrospective application is required, and so it will be important to consider IAS 1's requirements around the presentation of a statement of financial position as of the beginning of the comparative period in case of retrospective change in accounting (see chapter 7).

There are two exceptions to this retrospective application:

- When benefit costs are included in the carrying amount of assets outside the scope of IAS 19 (e.g., inventories), these assets are not required to be adjusted before the date of initial application (the beginning of the earliest comparative period).

- In financial statements for periods beginning before 1 January 2014, comparative information does not need to be presented for the disclosures on the sensitivity of the defined benefit obligation.

23.8 Actuarial assumptions

	Switzerland		USA	
In %	**2012**	2011	**2012**	2011
Discount rate	**2.00**	2.50	**4.26**	5.40
Increase in salaries/wages	**2.00**	2.00	**4.00**	4.00
Mortality table	**BVG GT 2010**	BVG PT 2005	**RP-2000 GT**	RP-2000 GT

The present value of the defined benefit obligation is determined annually by independent actuaries using the projected unit credit method. Actuarial assumptions are required for this purpose.

All mortality tables take account of expected changes in mortality.

Sensitivities of significant actuarial assumptions

The discount rate and the future increase in salaries/wages were identified as significant actuarial assumptions. The following impacts on the defined benefit obligation are to be expected:

– A 0.25% increase/decrease in the discount rate would lead to a decrease/increase of 3% in the defined benefit obligation.
– A 0.25% increase/decrease in the expected increase in salaries/wages would lead to an increase/decrease of less than 1% in the defined benefit obligation.

The sensitivity analysis is based on realistically possible changes as of the end of the reporting year. Each change in a significant actuarial assumption was analyzed separately as part of the test. Interdependencies were not taken into account.

Schindler, Annual Report 2012

International comparison

Early adopters of IAS 19R in 2012

Among the Swiss companies surveyed, 7% early adopted IAS 19R in 2012. This is consistent with the other countries in Europe with 9% of French and 7% of German companies that early adopted IAS 19R in 2012.

Recognition of actuarial gains and losses

In Switzerland, the "corridor approach" was still used by 53% of companies. This is a very different result from other countries in Europe were 69% of French companies and 64% of German companies applied the immediate recognition of actuarial gains and losses in OCI.

Elimination of the corridor method

50% of Swiss companies using the "corridor approach" will see their reported equity decrease by more than 5% on transition. Only 11% of French companies using the "corridor approach" will see their reported equity decrease by more than 5% on transition; explained by a higher level of equity and a lower average of unrecognised actuarial losses.

For German companies using the "corridor approach", 84% of these companies will see their reported equity decrease by more than 5% on transition, 67% of these companies will even see their reported equity decrease by more than 10% on transition. This reflects the fact that German companies using the "corridor approach" have a smaller level of equity whereas the average unrecognised actuarial losses was relatively significant.

Elimination of expected return on plan assets

Pension costs of Swiss companies will increase on average by 56%. This is in line with estimated impact of 53% for French companies. In Germany, the estimated increase of pension costs is only 11%, as the expected return on plan assets rate is lower in Germany (4.9% in average) compared to France (5.6% in average) and the difference between the expected return on plan assets rate and the average discount rate is lower in Germany (0.3% in average) than in France (1% in average).

Funding of the employee benefits

In Switzerland, the level of the funding status is 80%. It is lower in France and Germany with only 57% and 62%.

Funding status for Swiss companies ranged from 54% to 102% which is higher than French and Germany companies with ranges starting with lower values: 18%-96% and 19%-94%, respectively.

Figure 72. Recognition of actuarial gains and losses

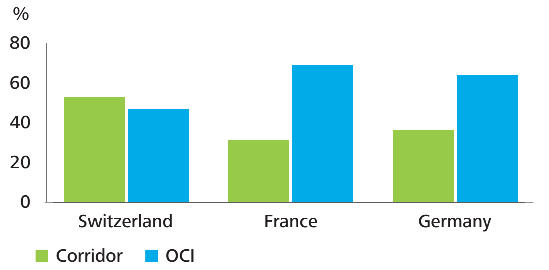


Figure 73. Elimination of the "corridor method" and corresponding decrease on reported equity

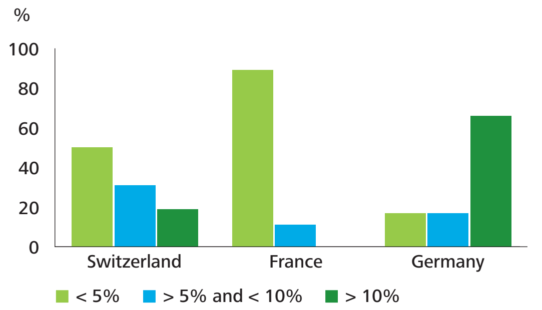


Figure 74. Elimination of the "expected return on assets" and corresponding increase on reported pension cost

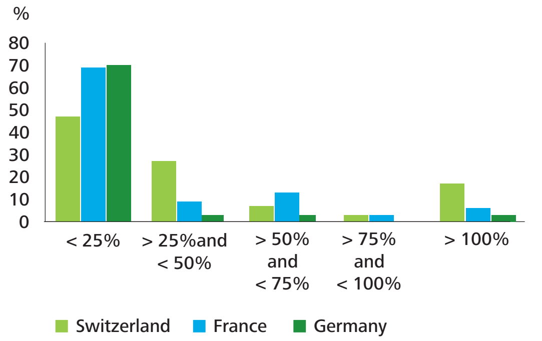
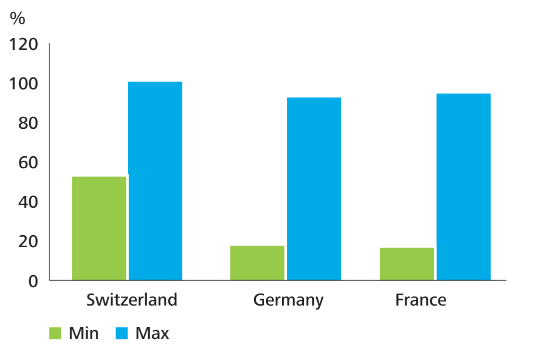


Figure 75. Level of funding status of the plan assets



17. Emergence of Swiss GAAP FER in Switzerland

- Swiss GAAP (French term is Swiss GAAP RPC) was developed and introduced in the 80s in Switzerland.

- Primary objective was to support transparency and comparability of financial statements.

- Accounting framework: "True and Fair" view principles in accordance with Swiss GAAP FER.

- Swiss GAAP FER can be used by companies listed on the "Domestic Segment" of the SIX Stock Exchange.

- Impacts related to a transition from IFRS to Swiss GAAP FER are significant.

Which companies can apply SWISS GAAP FER?

Swiss GAAP FER is a standard primarily aimed at companies and groups of small or medium size with activities predominantly in Switzerland.

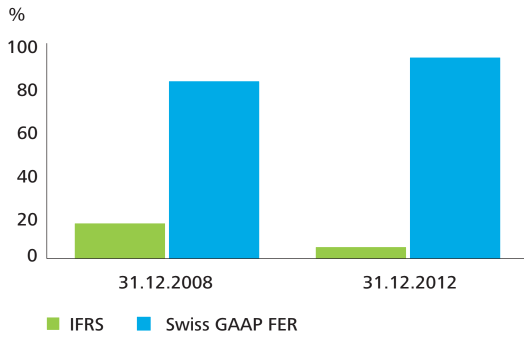
Swiss GAAP FER also includes specific requirements and therefore this standard can also be appropriate for charitable, social no-for-profit organisations, real estate insurers and health insurers.

As of 1 January 2005, IFRS and US GAAP remained the only two authorised accounting standards for companies listed on the "Main Segment" of the SIX Exchange Regulation, Swiss GAAP FER being no longer acceptable. However, Swiss GAAP FER remained applicable as the minimal standard for companies listed on the "Domestic Segment "of the SIX Stock Exchange and for companies listed on the "Real Estate Companies" segments.

Application of SWISS GAAP FER in Switzerland

At 31 December 2012, the vast majority (94%) of the companies listed on the "Domestic Segment" applied Swiss GAAP FER as shown in figure 76.

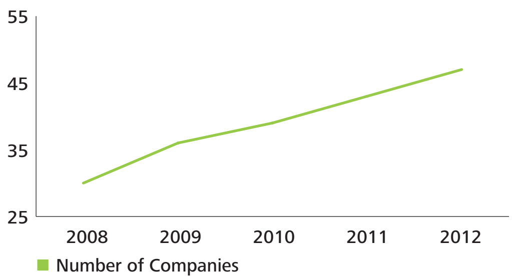
Figure 76. Standards applied on the "Domestic Segment" (expect financial institutions)



Source: http://www.fer.ch/fileadmin/downloads/news/Swiss_GAAP_RPC-Information_brochue.pdf and http://www.six-swiss-exchange.com/shares/companies/issuer_list_fr.html

Since 2008, the number of companies adopting Swiss GAAP FER has increased. In general, in order to adopt Swiss GAAP FER, these companies moved from the "Main Segment" to the "Domestic Segment". In 2012, additional companies switched from IFRS to Swiss GAAP FER such as Siegfried Holding, Mobilzone Holding and PubliGroup. In addition, Inficon AG switched from US GAAP to Swiss GAAP FER.

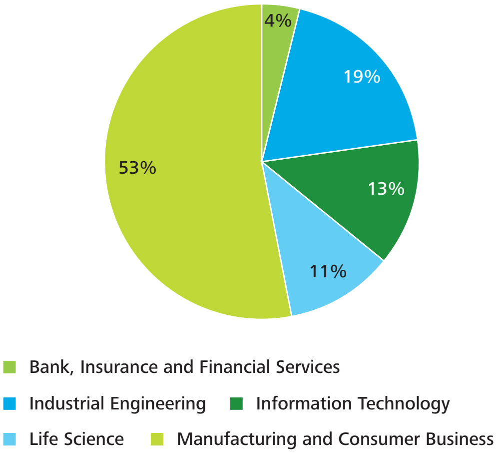
Figure 77. Evolution of the number of companies of the "Domestic Segment" applying Swiss GAAP FER



Source: http://www.six-swiss-exchange.com

Companies applying Swiss GAAP FER covered a wide range of activities. The activity mainly represented in the "Domestic Segment" is "Manufacturing and Consumer business" with 25 companies, representing 53% of total companies.

Figure 78. Activities of companies listed on the "Domestic Segment" and applying Swiss GAAP FER



Source: http://www.six-swiss-exchange.com/shares/companies/issuer_list_fr.html

On 3 October 2012, Swatch Group announced that it will change from 2013 its accounting standards from IFRS to Swiss GAAP FER. This announcement was groundbreaking as Swatch Group was the first company listed on the Swiss Market Index (SMI) to announce such as change. In the past, companies switching from IFRS to Swiss GAAP FER were primarily small to medium-size listed groups.

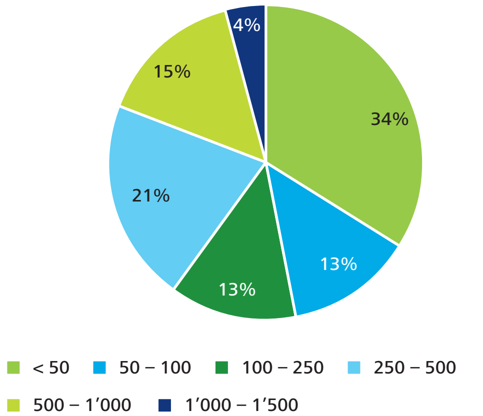
On 28 January 2013, the SIX Exchange Regulation launched a consultation to consider whether companies listed on the Swiss Market Index (SMI) are obliged to apply IFRS or US GAAP.

The outcome of the consultation, released on 28 February 2013, was that there was no immediate need for additional regulation and that it was the decision of the company to choose its accounting standards.

Since the beginning of 2013, two additional companies, Bachem Holding and Georg Fischer announced that they will switch to Swiss GAAP FER as of 2013.

As per figure 79, we can see that Swiss GAAP FER is primarily applied by small or medium-sized companies even if we recently noted an evolution with the conversion to Swiss GAAP FER of high profile companies.

Figure 79. Market Capitalisation of companies applying Swiss GAAP FER (in Mio of CHF as at 31.12.2012)



Source : http://www.six-swiss-exchange.com/indices/shares/swiss_all_shares_fr.html

Announced adoption of Swiss GAAP FER accounting standards

The Board of Directors has decided in October 2012 to switch its accounting standards as of 1 January 2013 from IFRS to Swiss GAAP FER. Swiss GAAP FER is a recognized, comprehensive and straightforward set of accounting standards which will allow the Group to continue publishing high quality and transparent financial reports in compliance with the requirement to present a true and fair view.

The conversion from IFRS to Swiss GAAP FER will impact the consolidated financial statements mainly in the following areas:

- Goodwill identified in business combinations will either be offset directly with equity, or capitalized and amortized over a period of 5 - 20 years. The impairment test remains. Under IFRS, goodwill was capitalized and not amortized but tested annually for impairment.
- Goodwill included in the cost value of associates and joint ventures will be separated and either offset directly with equity or capitalized and amortized over a period of 5 - 20 years.
- According to Swiss GAAP FER 16 "Pension benefit obligations", the existing economic obligations or benefits relating to the Swiss pension fund are measured based on the pension fund's financial statements in accordance with Swiss GAAP FER 26 "Accounting of pension plans". It will be a matter of judgment to determine if an economic benefit or obligation exists. Under IFRS, defined benefit plans were measured using the projected unit credit method and recognized in accordance with IAS 19.

The Swiss GAAP FER restatement as of 1 January 2012 will be published in the Group's half-year report as at 30 June 2013.

Swatch, Annual report 2012

Main differences between SWISS GAAP FER and IFRS in relation with the presentation of financial statements

	IFRS	SWISS GAAP FER
Financial statements and disclosures notes	IFRS provides guidance regarding the minimum information that should be disclosed in a complete set of financial statements. Additional information can be provided on a voluntary basis. Disclosure notes included in the financial statements are relatively detailed. There is a specific requirement to disclose information on risk management and financial exposures. [IAS 1 – IAS 7 – IAS 8 – IFRS 7]	Swiss GAAP FER provides guidance regarding the minimum information that should be disclosed within financial statements. Main differences compared to IFRS are: • balance sheet might be a bit more detailed; • in the income statement, distinction between operating, non-operating and exceptional activities is required; • other comprehensive income does not exist under Swiss GAAP FER; • disclosure notes are a less detailed. [Swiss GAAP FER 3 – 4 – 6]
Segment information	Segment information is based on "management approach", both for the identification of operating segments and the measurement of segment information. Segment information disclosed in the financial statement includes information about the operating segments, products and services, the geographical areas in which the company operates, and its major customers. [IFRS 8]	There is limited segment information required under Swiss GAAP FER. The only information required is segment revenues that can be presented either by businesses or geographic regions. [Swiss GAAP FER 31]
Discontinued operations	Disclosures related to discontinued operations require the followings: • Separate presentation in the statement of other comprehensive income and the statement of cash-flows. • Additional disclosures have to be added to the notes of the financial statements. [IFRS 5]	This subject is covered by Swiss GAAP FER but applicable only to listed companies: • Separate disclosure in the notes of the net sales from goods and services, the operating result and the cash flows from operation activities related the discontinued activity. • Additional explanations on the geographical markets, business segments or subsidiaries impacted by this decision have to be disclosed. [Swiss GAAP FER 31]

Main differences between SWISS GAAP FER and IFRS in relation with recognition and measurement requirements

	IFRS	SWISS GAAP FER
Goodwill	Goodwill is accounted for as an intangible asset with indefinite useful life and consequently is not amortised. It has to be tested at least annually for impairment [IAS 36]. Negative goodwill must be recognized as a bargain purchase in profit or loss after management has identified and evaluated recognisable items resulting from the acquisition and the cost of the business. combination. [IFRS 3R]	Goodwill can be accounted in 2 different ways: • Goodwill is accounted for as an intangible asset and is amortised over its estimated useful life (usually 5 years, but possibility to extent to a maximum of 20 years). In this case, goodwill is also tested annually for impairment. • Goodwill can be recorded against equity at the date of acquisition. Negative Goodwill is not specifically addressed in Swiss GAAP FER but the treatment chosen has to be disclosed in the financial statements, as part of the consolidation principles. [Swiss GAAP FER 30]

	IFRS	SWISS GAAP FER
Pension	Post-employment benefits – retirement benefits plans are classified in 2 categories under IAS 19: • Defined contribution plans are defined as plans for which the entity has only the obligation to pay fixed contribution to a separate entity. The paying entity is not responsible if the plan assets are not sufficient to pay all employee benefits. For this type of plans, the entity has to recognize the amount of the contribution for the period as a liability less the amounts already paid. Future contributions (due date in more than 12 months) are discounted. • Defined benefit plans are all the post-employment plans which are not defined contribution plans. Swiss pension plans qualify as defined benefit plans under IAS 19. For this type of plan, the entity has several obligations: – calculation of the fair value of the pension plan assets; – evaluation of the present value of the defined benefit plan obligation; – the service costs, the contributions for the period and the results of the calculation of the capitalisation of the plan assets and obligations are recognised in the P&L; – the revaluation differences are recorded immediately in OCI. [IAS 19]	There is no definition of the type of retirement benefit plan. As per Swiss GAAP FER the company only assess its pension obligations based on the financial statements of the pension fund, prepared in accordance with Swiss GAAP FER 26. [Swiss GAAP FER 16]
Accounting for jointly controlled entities	IFRS 11 distinguished 2 categories of jointly controlled entities with specific consolidation rules: • joint ventures are consolidated using the equity method; • joint operations are consolidated using the proportionate consolidation. [IFRS 11]	In Swiss GAAP FER there are 2 ways: • recognition using the equity method; • proportionate consolidation. [Swiss GAAP FER 30]
Hedge accounting	IAS 39 hedge accounting principles are very detailed. Hedge accounting is permitted under certain circumstances provided that the hedging relationship is: • formally designated and documented; • expected to be highly effective; • assessed on an on-going basis and determined to be highly effective. An assessment of the hedge effectiveness is required both prospectively and retrospectively. [IAS 39]	Fair value hedge and cash flow hedge are authorised. In Swiss GAAP FER there is no specific requirement regarding the hedging risks that can be hedged or the hedging instruments that can be used. There is no requirement for hedge effectiveness tests or documentation. [Swiss GAAP FER 27]

Pros and cons of a transition to the SWISS GAAP FER

Pros	Cons
Communication with Swiss investors and financial institutions. Swiss GAAP FER is well known in Switzerland and as a "true and fair view" principles-based standard; it is considered as reliable and transparent accounting framework.	Swiss GAAP FER has influence nationally but is not known or recognised internationally. It can be more difficult to attract international investors or to obtain financing outside Switzerland.
Swiss GAAP FER standards are very stable. There is limited uncertainty on the future developments that may have an impact on the financial statements.	Considering the size or activities of large listed companies, the information provided in the financial statements prepared under Swiss GAAP FER can be considered as not sufficient for the readers of the financial statements.
Swiss GAAP FER is in general less complex than IFRS and therefore easier to implement. Disclosure notes required are less extensive and detailed compared to IFRS.	Swiss GAAP FER may have limited or no guidance in certain areas. This lack of guidance may introduce additional difficulty as the company need to determine its own accounting treatment, impacting the transparency and the comparability of financial statements between different companies.

Impacts on the financial statements of a conversion from IFRS to Swiss GAAP FER

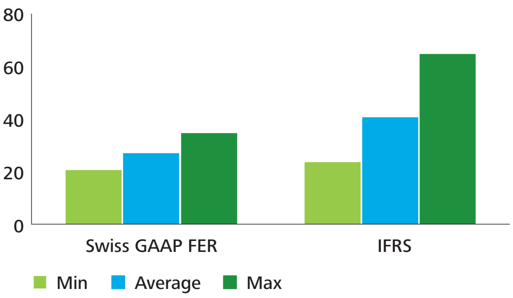
We analysed the financial statements of the seven listed companies[1] which switched from IFRS to Swiss GAAP FER in 2011 and 2012.

The activities of these seven companies are quite diverse. Two companies are active in the "Manufacturing and Consumer Business" activity, two in the "Life Science", two in the "Information Technology" and the last one "Industrial Engineering".

When these companies published their first financial statements or key figures in accordance with Swiss GAAP FER, their stock price decreased by 1.19% to 4.48% on the day of publication for three of them, whereas the stock price increase by 0.62% to 3.60% for the three others.

Following on the transition to Swiss GAAP FER, these seven companies were able to reduce on average by 33% the length of the consolidated financial statements. The average number of page was 27 in their first Swiss GAAP FER financial statements compared to 41 pages in their last set of IFRS financial statements. This confirmed the possibility to communicate more concisely as less information and disclosure notes are required under Swiss GAAP FER. In our sample, all but one company reduced the length of the financial statements, with a minimum decrease of 31% and maximum decrease of 48%. For the remaining company the length remained stable at 24 pages.

Figure 80. Comparison of the length of financial statements



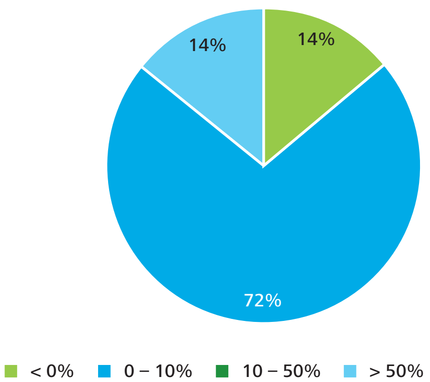
On first-time adoption of Swiss GAAP FER, these companies had to restate their prior year financial statements. Furthermore, they also clearly disclosed the implications in the notes to the financial statements. One of these seven companies stated that the transition had no impact on its financial statement.

For the six other companies, we noted, based on a high level analysis of the financial statements previously prepared under IFRS and the restated financial statements under Swiss GAAP FER that the transition had several implications.

First of all, we noted a decrease in total equity reported after the conversion to Swiss GAAP FER. For three companies, a decrease of less than 10% was noted, whereas, for the other three companies it ranged between 50% – 61%. This decrease was primarily due to the offset in equity of the goodwill previously recognised as a separable intangible asset on the balance sheet.

As for the impact on the net result, only one company disclosed a decrease of 9% of its net result. Five other companies presented an increase in net result of less than 10%, while one company presented an increase of more than 50%.

Figure 81. Impact on the company's net result



1 Siegfried, Zwahlen and Mayr, Ypsomed Holding, Kardex Group, PubliGroup, Mobilezone Group, Orell Füssli Group

A transition from IFRS to Swiss GAAP FER could therefore significantly impact the equity and net result reported by a company, mainly due to the differences between the standards we listed above. Based on information communicated by the companies, the main differences were summarised in figure 82.

Pensions was an area with significant implications with all six companies restating the related balances. Another main impact reported by all companies was goodwill for which the implications are twofold; firstly, companies can recognise goodwill directly as a reduction in equity on initial recognition. Secondly, goodwill recognised on the balance sheet is no longer tested for impairment but amortised over a maximum period of 20 years.

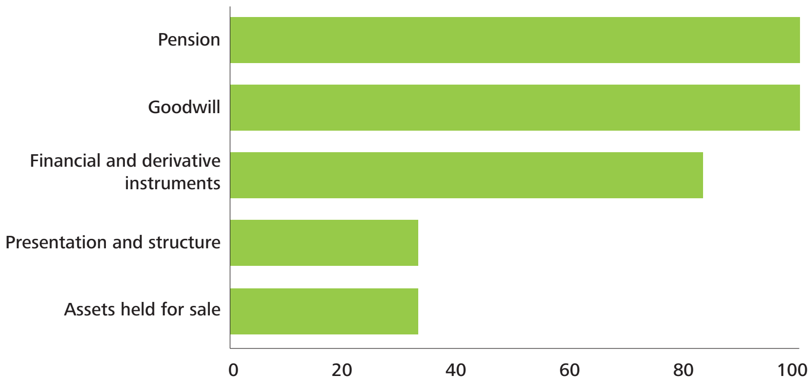
Adoption of Swiss GAAP FER will have implications on the financial statements and financial results. The extend and significance of these implications will depend on the company activity, the transactions entered into and the accounting policies previously applied, it is therefore critical to complete a detailed "GAAP assessment" of the key changes and implications in order for management and the board to take an informed decision.

High equity ratio despite offset goodwill

Even with the switch in reporting standards from IFRS to Swiss GAAP FER, Ypsomed has maintained an extremely solid balance sheet. Cash and cash equivalents increased from CHF 5.0 million to CHF 9.7 million in the 2011/12 business year, while trade receivables fell from CHF 32.2 million to CHF 24.5 million. At CHF 50.1 million, inventories dipped only slightly below the previous year's level of CHF 51.6 million. Financial assets fell in the past business year from CHF 13.1 million to CHF 9.1 million due to the sale of the stake in Insulet Corp. at a profit. With depreciation remaining at the same level as the previous year but investment lower, fixed assets declined from CHF 179.1 million to CHF 166.4 million. When the reporting standards were switched, capitalized goodwill was offset in full against equity and thus eliminated from the balance sheet. The Ypsomed Group's equity ratio increased by 3.0% in the 2011/12 business year from 63.6% to 66.6%. On the liabilities side of the balance sheet, the shareholder loan was reduced from CHF 34.5 million to CHF 24.5 million, while bank loans increased from CHF 40.0 million to CHF 46.5 million. Overall, the balance sheet total decreased in the 2011/12 business year from CHF 353.8 million to CHF 327.3 million as of the reporting date, 31 March 2012.

Ypsomed, Annual report 2012

Figure 82. Percentage of companies reporting impact on the following categories



Looking forward: the future of Swiss GAAP FER

The attraction for Swiss GAAP FER is likely to continue in the future in particular for small and mid-sized group for which IFRS may considered as too burdensome.

In this context, with an increasing number of listed companies reporting under Swiss GAAP FER, the Swiss GAAP FER Foundation issued in January 2013 a complementary recommendation applicable only to listed companies.

This recommendation includes additional requirements which are deemed relevant for financial statements of listed companies with public accountability. It includes amongst other new requirements on first-time adoption of Swiss GAAP FER, share-based payments, discontinued operations, earnings per share, financial assets and liabilities, segment reporting and interim reporting.

It is anticipated that this new recommendation will be firstly applicable for annual period beginning on or after 1 January 2015.

SIX Exchange Regulation Sanction

In 2013, SIX Exchange Regulation sanctioned a company that switched from IFRS to Swiss GAAP FER in 2012.

After completion of its investigation the SIX Exchange Regulation was of the opinion that the company interim financial statements failed to disclose in sufficient detail the offsetting of goodwill from associates against equity as well as its accounting treatment of associates.

Appendix 1 – List of companies surveyed

Company	Activity	Location
Aryzta	Food producers	Zurich (ZH)
Barry Callebaut	Food producers	Zurich (ZH)
Clariant	Chemicals	Muttenz (BL)
Galenica	Pharmaceuticals	Berne (BE)
Geberit	Construction & materials	Jona (SG)
Georg Fischer	Manufacturing engineering	Schaffhausen (SC)
Givaudan	Chemicals	Vernier (GE)
Holcim	Construction & materials	Jona (SG)
Kaba	Security equipment	Rumlang (ZH)
Kuehne + Nagel	Transportation	Schindellegi (SZ)
Kuoni	Travel	Zurich (ZH)
Lindt & Sprungli	Food producers	Kilchberg (ZH)
Lonza	Biotechnology	Basel (BS)
Meyer Burger	Industrial machinery	Baar (ZG)
Nestlé	Food producers	Vevey (VD)
Novartis	Pharmaceuticals	Basel (BS)
OC Oerlikon	Industrial machinery	Pfäffikon (SZ)
Panalpina	Transportation	Basel (BS)
Richemont	Personal goods	Bellevue (GE)
Roche	Pharmaceuticals	Basel (BS)
Romande Energie	Electricity	Morges (VD)
Schindler	Industrial machinery	Ebikon (LU)
SGS	Inspection services	Geneva (GE)
Sika	Construction & materials	Baar (ZG)
Sonova	Medical equipment	Stäfa (ZH)
Sulzer	Industrial machinery	Winterthur (ZH)
Swatch	Personal goods	Biel/Bienne (BE)
Swisscom	Telecommunications	Warblaufen (BE)
Syngenta	Chemicals	Basel (BS)
Temenos	Financial institutions software	Geneva (GE)

Appendix 2 – New standards and interpretations

This section provides a high level summary of the new and revised IFRSs that are effective for 2013 and beyond (issued by IASB until end of July 2013).

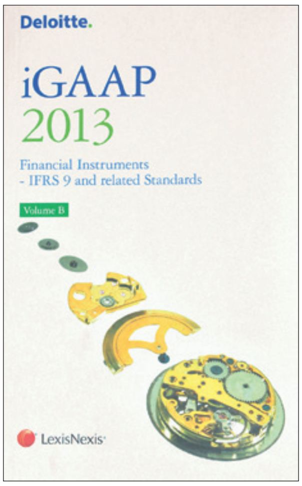
New standard/ interpretation	The Bottom Line
IFRS 10 *Consolidated financial statements*	• The objective of IFRS 10 is to have a single basis for consolidation for all entities, regardless of the nature of the investee, and that basis is control. • The definition of control includes three elements: power 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 returns. • IFRS 10 provides detailed guidance on how to apply the control principle in a number of situations, including agency relationships and holdings of potential voting rights. • An investor would reassess whether it controls an investee if there is a change in facts and circumstances. • IFRS 10 replaces those parts of IAS 27 that address when and how an investor should prepare consolidated financial statements and replaces SIC-12 in its entirety. • Amendment issued on Investment Entities. • The effective date of IFRS 10 is 1 January 2013, with earlier application permitted under certain circumstances.
IFRS 11 *Joint arrangements*	• IFRS 11 classifies joint arrangements as either joint operations (combining the existing concepts of jointly controlled assets and jointly controlled operations) or joint ventures (equivalent to the existing concept of a jointly controlled entity). – Joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. – Joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. • IFRS 11 requires the use of the equity method of accounting for interests in joint ventures, thereby eliminating the proportionate consolidation method. • The determination of as to whether a joint arrangement is a joint operation or a joint venture is based on the parties' rights and obligations under the arrangement, with the existence of a separate legal vehicle no longer being the key factor. • Transitional provisions vary depending on how an interest is classified under IAS 31. • The effective date of IFRS 11 is 1 January 2013, with early application permitted in certain circumstances.
IFRS 12 *Disclosure of interests in other entities*	• IFRS 12 applies to entities that have an interest in subsidiaries, joint arrangements, associates or unconsolidated structured entities. • It establishes disclosure objectives and specifies minimum disclosures that an entity must provide to meet those objectives. • An entity should disclose information that helps users of its financial statements evaluate the nature of and risks associated with its interests in other entities and the effects of those interests on its financial statements. • The disclosure requirements are extensive and significant effort may be required to accumulate the necessary information. • The effective date is 1 January 2013, but entities are permitted to incorporate any of the new disclosures into their financial statements before that date.
IFRS 13 *Fair value measurement*	• IFRS 13 establishes a single framework for measuring fair value where that is required by other Standards. The Standard applies to both financial and non-financial items measured at fair value. • Fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" (i.e., an exit price). • Effective for annual periods beginning on or after 1 January 2013, with early adoption permitted, and applies prospectively from the beginning of the annual period in which the Standard is adopted.
IAS 1 (amendment) *Presentation of financial statements*	• Items of other comprehensive income are required to be grouped into those that will and will not subsequently be reclassified to profit or loss. • Tax on items of other comprehensive income is required to be allocated on the same basis. • The measurement and recognition of items of profit or loss and other comprehensive income are not affected by the amendments, which are applicable for reporting periods beginning on or after 1 July 2012 with earlier application permitted.
IAS 19 (revised) *Employee benefits*	• The amendments to IAS 19 require the recognition of changes in the defined benefit obligation and in plan assets when those changes occur, eliminating the corridor approach and accelerating the recognition of past service costs. • Changes in the defined benefit obligation and plan assets are disaggregated into three components: service costs, net interest on the net defined benefit liabilities (assets) and remeasurements of the net defined benefit liabilities (assets). • Net interest is calculated using a high quality corporate bond yield. This may be lower than the rate currently used to calculate the expected return on plan assets, resulting in a decrease in net income. • The amendments are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. • Retrospective application is required with certain exceptions.
IAS 27 (revised) *Separate financial statements*	• The parts of IAS 27 which dealt with the preparation of consolidated financial statements have been replaced by IFRS 10 and parts of IFRS 12. • The requirements of the amended standard with regard to separate financial statements are generally consistent with the equivalent requirements in IAS 27 (2008). • The effective date of IAS 27 is 1 January 2013, with early application permitted in certain circumstances.
IAS 28 (revised) *Investment in associates*	• The scope of IAS 28 is extended to accounting for joint ventures. • The effective date of IAS 28 is 1 January 2013, with early application permitted in certain circumstances.

New standard/ interpretation	The Bottom Line
IAS 32 (amendment) and IFRS 7 (amendment)	• The amendments to IAS 32 are intended to clarify existing application issues relating to the offsetting rules and reduce the level of diversity in currently practice. • The new disclosures are required for annual or interim periods beginning on or after 1 January 2013 and the clarifying amendments to IAS 32 are effective for annual periods beginning on or after 1 January 2014. Both require retrospective application for comparative periods.
IFRIC 20 *Stripping costs in the production phase of a surface mine*	• The costs from a stripping activity which provide improved access to ore should be recognised as a non-current asset ("stripping activity asset") when certain criteria are met, whereas the costs of normal on-going operational stripping activities should be accounted for in accordance with the principles of IAS 2 Inventories. • The stripping activity asset should be accounted for as an addition to, or as an enhancement of, an existing asset and classified as tangible or intangible according to the nature of the existing asset of which it forms part. • The stripping activity asset should be initially measured at cost and subsequently carried at cost or its revalued amount less depreciation or amortisation and impairment losses. • Entities will need to consider carefully the identification of the ore body or component of ore body to which capitalised costs relate as this will determine how the asset is depreciated. • The interpretation is effective for annual periods beginning on or after 1 January 2013, with early application permitted.
IFRIC 21 *Levies*	• A levy is a payment to a government for which an entity receives no specific goods or services. • The obligating event is the activity that binds the entity to pay the levy which is typically specified in legislation enacting the levy. • A liability to pay a levy to a government should only be recognised when an obligating event has occurred. While levies may be calculated based on past performance (such as generating revenue) that itself is a necessary, but not sufficient, condition to recognise a liability. • The interpretation is effective from 1 January 2014.

The Annual improvements to IFRSs 2009-2011 Cycle include amendments to five IFRS. All of the amendments have a mandatory effective date of annual periods beginning on or after 1 January 2013. They have been summarised below:

New standard/ interpretation	The Bottom Line
IFRS 1 *First time adoption of IFRS*	• **Repeated application of IFRS 1:** The amendments clarify that an entity may apply IFRS 1 if its most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with IFRSs, even if the entity applied IFRS 1 in the past. An entity that does not elect to apply IFRS 1 must apply IFRSs retrospectively as if there was no interruption. An entity should disclose: the reason why it stopped applying IFRSs, the reason why it is resuming the application of IFRSs and the reason why it has elected not to apply IFRS 1, if applicable. • **Borrowing costs:** the amendments clarify that borrowing costs capitalised under previous GAAP before the date of transition to IFRSs may be carried forward without adjustment to the amount previously capitalised at the transition date. Borrowing costs incurred on or after the date of transition to IFRSs that relate to qualifying assets under construction at the date of transition should be accounted for in accordance with IAS 23 Borrowing costs. The amendments also state that a first-time adopter can choose to apply IAS 23 as of a date earlier than the transition date.
IAS 1 *Presentation of financial statements*	• **Clarification of the requirements for comparative information:** The amendments clarify that an entity is required to present a statement of financial position as at the beginning of the preceding period (third balance sheet) only when the retrospective application of an accounting policy, restatement or reclassification has a material effect on the information in the third balance sheet and that the related notes are not required to accompany the third balance sheet. • The amendments also clarify that additional comparative information is not necessary for periods beyond the minimum comparative financial statement requirements of IAS 1. However, if additional comparative information is provided, the information should be presented in accordance with IFRSs, including related note disclosure of comparative information for any additional statements. Presenting additional comparative information voluntarily would not trigger a requirement to provide a complete set of financial statements. However, the entity should present related note information for those additional statements.
IAS 16 *Property, Plant and Equipment*	• **Classification of servicing equipment:** The amendments clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise.
IAS 32 *Financial instruments*	• **Tax effect of distribution to holders of equity instruments:** The amendments clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with IAS 12 Income taxes.
IAS 34 *Interim Financial reporting*	• **Interim financial reporting and segment information for total assets and liabilities:** The amendments clarify that the total assets and total liabilities for a particular reportable segment would be separately disclosed in interim financial reporting only when amount are regularly provided to the chief operating decision maker and there has been a material change from the amounts disclosed in the last annual financial statements for that reportable segment.

Appendix 3 – Other Deloitte IFRS publications

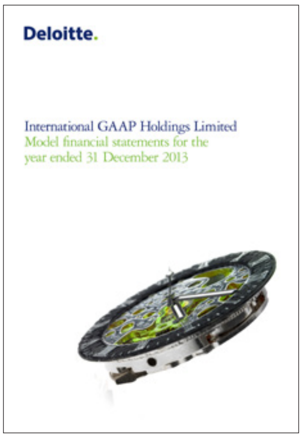


Deloitte iGAAP 2013 – A Guide to IFRS Reporting

The latest edition of Deloitte's iGAAP sets out comprehensive guidance by (1) focusing on the practical issues faced by reporting entities, (2) explaining clearly the requirements of IFRS, (3) adding interpretation and commentary when IFRS are silent, ambiguous or unclear and (4) providing many illustrative examples.

New material includes:

- IFRS 10 *Consolidated Financial Statements.*
- IFRS 11 *Joint Arrangements.*
- IFRS 12 *Disclosure of Interests in Other Entities.*
- IFRS 13 Fair *Value Measurement.*
- *the revised versions of* IAS 27 *Separate Financial Statements and* IAS 28 *Investments in Associates and Joint Ventures* issued as a consequence of IFRSs 10 to 12.
- the revised version of IAS 19 *Employee Benefits*.
- the amendments to IFRSs 10, 11 and 12, *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (June 2012).
- *Annual Improvements to IFRSs: 2009-2011 Cycle* (May 2012).
- the amendment to IFRS 1, *Government Loans* (March 2012).
- additional examples and guidance on issues arising in practice.



Deloitte IFRS model financial statements 2013

Deloitte released *International Financial Reporting Standards – Model financial statements for the year ended 31 December 2013.*

These financial statements illustrate the presentation and disclosure requirements of IFRS for the year ended 31 December 2013 by an entity that is not a first-time adopter of IFRS. They illustrate the impact of the application of IFRS that are mandatorily effective for the annual period beginning on 1 January 2013.

The publication includes:

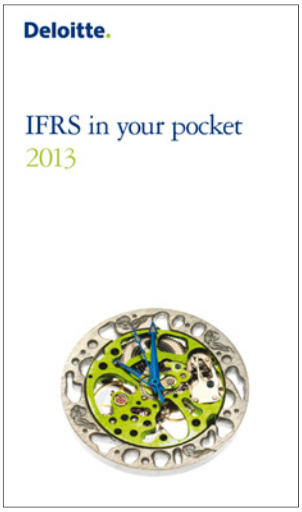
- Section 1 – Overview of new and revised International Financial Reporting Standards (IFRSs).
  - An overview of new and revised International Financial Reporting Standards (IFRSs) that are mandatorily effective for the year ended 31 December 2013.
  - An overview of new and revised IFRSs that are not yet mandatorily effective but allow early application for the year ended 31 December 2013.
- Section 2 – Model financial statements of International GAAP Holdings Limited for the year ended 31 December 2013.

The 2013 *IFRS Compliance, Presentation and Disclosure Checklist* is available on IAS Plus.

A closer look – Fair value measurement of financial instruments under IFRS 13
This publication considers both practical and technical aspects of applying IFRS 13 *Fair Value Measurement* to four specific areas affecting financial instrument valuations and disclosures:

- Including an own credit risk adjustment in fair valuing financial liabilities.
- Fair valuing portfolios of financial assets and financial liabilities with offsetting risks.
- Using quoted mid-market prices to derive fair value.
- Additional disclosures.

This publication also addresses important aspects of the transition requirements which will have an impact when the fair values determined under IFRS 13 are different to those determined under previous requirements that are now replaced by IFRS 13.



IFRS in your Pocket 2013
We have published the twelfth edition of our popular guide to IFRS – *IFRS In Your Pocket 2013*.
This publication provides an update of developments in IFRSs through the first quarter of 2013.

This 116-page guide includes information about:

- The IASB organisation – its structure, membership, due process, contact information, and a chronology.

- Use of IFRSs around the world, including updates on Europe, United States, Canada and elsewhere in the Americas, and Asia-Pacific.

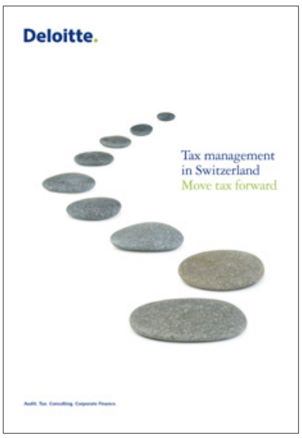
- Recent pronouncements – those which are effective and those which can be early adopted.

- Summaries of current Standards and related Interpretations, as well as the Conceptual Framework for Financial Reporting and the Preface to IFRSs.

- IASB agenda projects and active research topics.

- IFRS Interpretations Committee current agenda topics.

- Other useful IASB-related information.



Tax management in Switzerland – Move tax forward
This publication presents a detailed picture on how Swiss businesses organise their tax function. Today tax represents a significant cost to the business. Despite this the management of the risks and opportunities around tax processes is largely unchartered territory. This report provides a detailed picture of how Swiss businesses organise their tax function to respond to the increasing number of competing opportunities and challenges in tax.

This publication is available at http://www.deloitte.com/view/en_CH/ch/services/tax/business_tax_services/tax_mngmnt_compliance_and_reporting/a5ededfb4339a310VgnVCM1000003156f70aRCRD.htm

How can we help? – Your IFRS contacts

Zurich
Martin Welser
Partner
Manufacturing & Consumer Business
058 279 62 53
mwelser@deloitte.ch

Rolf Schönauer
Partner
Financial Services Industry
058 279 63 18
rschoenauer@deloitte.ch

Oliver Köster
Director
Manufacturing & Consumer Business
058 279 61 23
okoester@deloitte.ch

Basel
Christophe Aebi
Senior Manager
Manufacturing & Consumer Business
058 279 90 10
caebi@deloitte.ch

Lugano
Luciano Monga
Partner
Manufacturing & Consumer Business
058 279 94 22
imonga@deloitte.ch

Geneva/Lausanne
Fabien Bryois
Director
Manufacturing & Consumer Business
058 279 80 48
fbryois@deloitte.ch

Alexandre Buga
Partner
Financial Services Industry
058 279 80 49
abuga@deloitte.ch

Chris Jones
Partner
Energy & Resources
058 279 81 57
chrispjones@deloitte.ch

Lesley Griffiths
Senior Manager
Manufacturing & Consumer Business
058 279 81 35
legriffiths@deloitte.ch

Sophie Ganière
Senior Manager
Manufacturing & Consumer Business
058 279 92 30
soganiere@deloitte.ch

Designed and produced by The Creative Studio at Deloitte, Zurich. 28658A