Applying IFRS

Enhancing communication effectiveness

February 2017
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1. Introduction

1.1 Background

Against the backdrop of recent calls for enhanced corporate reporting, this publication explores ways of making IFRS financial statements more effective in communicating relevant financial information and, therefore, improving their overall understandability for users.

Standard setters and regulators, such as the IASB and the FASB, have identified room for improvement in current financial reporting practices in three areas:

- In some instances, irrelevant information is being disclosed
- Not all relevant information is being provided in all circumstances
- Relevant information provided is not always effectively communicated

In announcing plans to prioritise “Better Communication” in the next five years, Hans Hoogervorst, the Chairman of the International Accounting Standards Board (IASB or the Board) identified a fourth challenge: the increasing use of alternative performance measures (APMs) in financial reports.

Standard setter and regulatory activity – IASB, FASB and ESMA

Under the central theme “Better Communication” the IASB is currently undertaking two main projects:

- Disclosure Initiative – The IASB explores how disclosures in IFRS financial reporting can be improved.
- Primary Financial Statements – The IASB examines possible changes to the structure and content of the primary financial statements.

The FASB has launched a Disclosure Framework project to improve the effectiveness of disclosures in the notes to financial statements.

The European Securities and Markets Authority (ESMA) published in 2015 a statement on improving the quality of disclosures in the financial statements.

Please refer to Chapter 1.3 for further details on these initiatives.

“Valuable information gets drowned out by ‘tick the box’ disclosures and voluminous, but poorly organised and presented financial data. Increasingly, preparers present their investors alternative performance measures, which are not based on IFRS Standards. (…) For the investor, it is often difficult to see the woods through the multitude of information trees.”1

For a number of years standard setters and regulators as well as preparers and users of financial statements have been discussing how to make financial statements more effective. The IASB is undertaking a broad-based initiative to explore how disclosures in IFRS financial reporting can be improved. The US Financial Accounting Standards Board (FASB) has engaged in similar projects, and regulators are turning their attention to disclosure effectiveness in their enforcement priorities.

Standard setter and regulatory activity - International Integrated Reporting Framework (IIRC)

The IIRC has published the International Integrated Reporting Framework (IIRF) which outlines a broader perspective of integrated corporate reporting on value creation over time and related communications. It promotes principles and concepts that are focused on greater cohesion and efficiency in the reporting process and adopting integrated thinking as a way of breaking down internal silos and reducing duplication. Furthermore, it aims to improve the quality of information available to providers of financial capital to enable more efficient and productive allocation of capital.

Standard setter and regulatory activity - Extensible Business Reporting Language (XBRL)

XBRL is an international standard for digital business reporting and provides a language in which reporting terms can be authoritatively defined. XBRL simplifies the data exchange between entities and its stakeholders (i.e., shareholders, lenders, analysts, regulators, tax authorities, etc.) by digitalising and standardising relevant data. It makes reporting faster and more accurate and thus more efficient. Several regulators already require issuers to file financial reports using XBRL, including the US Securities and Exchange Commission (SEC).

1.2 About the publication

This publication draws on recent discussions in the field of financial reporting as well as efforts made by reporting entities to try innovative ways to improve disclosure effectiveness. Interestingly, it seems that efforts to enhance communication through improved disclosure effectiveness tend to be jurisdiction-specific. In certain geographical areas, like Australia and some parts of Europe, disclosure effectiveness seems to be a higher priority than in other areas. The reasons for this may be manifold; in some jurisdictions entities seem to be primarily compliance focused whereas in other jurisdictions financial statements may be viewed more as a way to effectively communicate relevant financial information to users.

Extracts from financial reports presented in this publication are reproduced for illustrative purposes. They have not been subject to any review on compliance with IFRS or any other requirements such as local capital market rules. The publication documents different practices that entities have developed and adopted to “tell their story”. As such, the extracts presented in this publication are not intended to represent “best practice”. Rather, the extracts presented in this publication illustrate the diversity in practice, which reinforces the notion that the ongoing initiatives of standards-setters and regulators worldwide are necessary and timely. Readers are advised to carefully consider requirements in current IFRS, as well as any jurisdictional requirements and restrictions, before adopting any of the practices contained in extracts in this publication.

At the same time, there is also a debate on how to enhance the understandability of information in corporate reporting to facilitate the evaluation of entities’ long-term value creation. These efforts include, but are not limited to, initiatives by the International Integrated Reporting Council (IIRC). The focus of this debate is broader, encompassing other types of management reporting, such as environmental, social and governance reports.

We recognise that there is an overlap between the narrow debate on communication effectiveness in financial statements and the broader debate on corporate reporting quality, in terms of objectives, challenges and proposed solutions. We support a broad approach when addressing the effectiveness of corporate reporting practices and we acknowledge that technological developments (e.g., XBRL) enable new means of reporting and new ways of using the information in corporate reporting. These developments will lead to more cohesive and enhanced information in the future, clearly showing the links and interactions between all sources of corporate data. Nevertheless, the focus of this publication remains the general purpose financial statements as defined under IFRS.

2 See Appendix B.
Finally, we remind readers that the extracts presented should be read in conjunction with the rest of the information provided in the financial statements in order to understand their intended purpose.

Chapter 2, *Restructuring the financial statements*, focuses on how financial statement information is presented and disclosed. It explores a number of proposals relating to the structure and presentation of the financial statements. Many of these proposals require relatively modest efforts, but demonstrate that, sometimes, a few limited changes can make a big difference.

In Chapter 3, *Tailoring the financial statements*, the focus is on what information is presented and disclosed in the financial statements. It contains a number of examples that demonstrate the tailoring of financial statement information.

In Chapter 4, *Challenges in enhancing documentation effectiveness*, considers the importance of clear management vision in the restructuring and tailoring of financial statements, as well as the use of a variety of entity resources. Indeed, significant management judgement is required to identify which are the most effective measures to use.

Appendix A contains a list of standard-setter and regulatory financial statement communication initiatives. Appendix B lists the sources of the extracts included in the publication.

Applying the concept of materiality is critical in tailoring the financial statements. An inappropriate materiality assessment can lead to immaterial information cluttering financial statements, making them less understandable and obscuring material information. Nevertheless, this publication does not specifically address materiality. As explained above, the IASB is currently developing more detailed guidance on the application of materiality as part of its Disclosure Initiative project.

1.3 Initiatives by standard setters and regulators

In an attempt to seek ways to enhance disclosure effectiveness in both financial statements and corporate reporting, in general, standard setters and regulators have undertaken several initiatives. The IASB, for example, has begun a broad-based Better Communication project to explore options on how to improve disclosures in IFRS financial statements. This will include the work on the following initiatives:

- The IASB Disclosure Initiative aims to address how disclosures in IFRS financial statements can be improved. It began with a discussion forum in January 2013. Following this, a number of short and longer-term projects have been initiated. The major projects are, as follows:
  - Narrow-scope amendments to IAS 1 *Presentation of Financial Statements* – In 2014 the IASB made some narrow-scope amendments in IAS 1 to help entities with the application of judgement when preparing their financial statements.
  - Materiality – The IASB is developing guidance on the application of materiality. In 2015, an exposure draft of a Practice Statement on materiality was published. The Practice Statement is expected to discuss the general characteristics of materiality and provide guidance to help management make judgements about materiality when deciding how to present and disclose information in the financial statements. The IASB is expected to finalise it in 2017.

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5 A Practice Statement is not a standard and its application is not required to state compliance with IFRS.
**Standard setter and regulatory activity - IASB - Primary Financial Statements**

In the project on **Primary Financial Statements**, the IASB is conducting research in the following areas:

- The structure of the statement(s) of financial performance, including whether entities should be required to include defined subtotals for operating profit and the use of alternative performance measures;
- The merits of potential changes in the statement of cash flows and the statement of financial position; and
- Determining the implications of digital reporting for the structure and content of the primary financial statements.

**Standard setter and regulatory activity - FASB - Disclosure framework**

The following are the major elements of the FASB Disclosure Framework project:

- Assist the FASB Board in its considerations when developing new disclosure requirements and evaluating existing ones;
- Promote the use of discretion by reporting entities when evaluating the requirements as set forth by the FASB Board;
- Amend the US GAAP Conceptual Framework to clarify the concept of materiality; and
- Apply the proposed concepts in reviewing certain topic specific disclosures.

As mentioned above, regulators are turning their attention to disclosure effectiveness in their enforcement practices. For example, the European Securities and Markets Authority (ESMA) published a statement on **Improving the quality of disclosures in the financial statements** in October 2015. ESMA proposes the following principles/objectives for disclosures:

- Tell the entity’s own story
- Provide relevant information in the financial statements in an easily accessible way

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8 “Primary financial statements”, [IFRS website](http://www.ifrs.org/Current-Projects/IASB-Projects/Performance-Reporting/Pages/default.aspx).


Think about materiality

Promote readability of the financial statements

Provide consistency between information in the financial statements and information included in accompanying documents

The US Securities and Exchange Commission (SEC) is reviewing its disclosure requirements. Its disclosure effectiveness initiative is focused on evaluating existing disclosure rules to improve the communication of material information to investors.

For information on other standard setter and regulatory initiatives in the area of communication effectiveness, please see Appendix A.
2. Restructuring the financial statements

The conventional structure of financial statements has been identified as one of the root causes of the problems with financial reporting. As such, it has been suggested that communication effectiveness can be increased by restructuring the financial statements. This chapter explores some of these suggestions in five sections:

2.1 Improving navigation in financial statements
2.2 Re-ordering the notes
2.3 Improving disclosures of significant accounting policies
2.4 Strengthening the link with management commentary
2.5 Disclosing information outside of the financial statements

In considering these suggestions, and the examples provided, readers are advised to keep in mind that there is no single format that fits all. In developing an appropriate structure for the financial statements, entity-specific facts and circumstances should be considered. These include the entity’s business model, the characteristics of its primary users, as well as jurisdictional requirements and restrictions. Furthermore, because comparability across entities enhances the usefulness of financial statements, it is also appropriate to consider the reporting by relevant peers. This does not mean, however, that an entity should pursue uniformity with others for the mere sake of uniformity and, therefore, adopt a format that is not effective in “telling its own story”.

While efforts to enhance the communication effectiveness of the financial statements are encouraged, entities should also be mindful that consistency over time is another important quality of decision-useful financial information. This quality pertains not only to the information provided in the financial statements, but also to the way it is presented. Many users of financial statements know what information they are seeking and where to find it. Changes to the structure of the financial statements should, therefore, only be made if they improve the usefulness of the statements.

2.1 Improving navigation in financial statements

Financial statements are often used as a book of reference - the place to look for information to answer questions about an entity’s financial position and performance. An important aspect of usefulness of financial statements is thus the ease with which users can find the information they seek.

There are various means to assist users in identifying the information they need, including traditional cross references from the primary financial statements to the relevant notes. It has, for example, become common practice to provide a list of the various notes summarising the information and where it has been disclosed. The inclusion of navigation bars is another quite common feature.

In electronic versions of financial statements, it is useful if content listings, cross references and navigation bars are hyper-linked, making the information available at a click. While hyper-links have become quite common, it is not yet equally common to provide users with “take-me-back” features. See Extracts 2.1.1 and 2.1.2 for two examples.
Commentary

A type of navigation bar at the top of each page in the 2015 registration document for the Airbus Group provides the reader with quick links to various sections of the document. The first of these (the curved arrow) takes the reader back to the last page visited. The second and third take the reader one page back/forward. It is not a conventional navigation bar in the sense that the current section is highlighted. This information is instead conveyed by a separate rubric below the navigation bar.

Commentary

In the 2015 annual report for Poste Italiane, two icons provide the readers with quick-links to the content listing for the annual report and the directors’ report on operations, respectively.

While these measures can help users navigate within an entire document, other design features may help users identify information within the various sections of the document. For example, icons, callout boxes and highlighting may all be used to signal specific types of content. The following Extract 2.1.3 illustrates various means to help users navigate a lengthy note on financial risk management.

The strategic use of white space in a document can enhance the presentation of information, making it easier to identify. In this spirit, several entities have moved away from traditional notes sections populated with tables and small-font text. The use of illustrative photographs is still rare in financial statements, but various graphics illustrating information previously provided in text or tables are becoming commonplace. Examples include pie-charts (as in Extract 2.1.4), bar-charts (especially for maturity profiles as in Extract 2.1.5) and waterfall charts explaining year-to-year changes (Extract 2.1.6). As a result, a page in the notes section of the financial statements may today appear similar to other parts of the annual report, where the focus on communication effectiveness is, by tradition, stronger.
GOALS AND POLICIES IN FINANCIAL RISK MANAGEMENT

The Volvo Group’s global operations expose the Group to financial risks in the form of interest rate risks, currency risks, credit risks, liquidity risks and other price risks. Work on financial risks comprises an integrated element of the Volvo Group’s business. The Volvo Group strive to minimize these risks by optimizing the Group’s capital costs by utilizing economies of scale, minimize negative effects on income as a result of changes in currency or interest rates and to minimize risk exposure. All risks are managed pursuant to the Volvo Group’s established policies in these areas.

Read more about accounting principles for financial instruments in Note 36, Financial Instruments.

Read more about management of capital on page 101 and page 102.

Goals and policies in financial risk management (cont.)

Credit risks are defined as the risk that the Volvo Group does not receive payment for recognized accounts receivable and customer-financing receivables (commercial credit risk), that the Volvo Group’s investments are unable to be realized (financial credit risk) and that potential profit is not realized due to the counterparty not fulfilling its part of the contract when using derivative instruments (financial counterparty risk).

The objective of the Volvo Group Credit Policy is to define and measure the credit exposure and control the risk of losses deriving from credits to customers, credits to suppliers, counterparty risks and Customer Dealer Financing activities.
Commentary

Note 4 in Volvo’s 2015 annual report sets out goals and policies applicable to financial risk management. The introduction to the note includes explicit cross references to accounting policies on financial instruments in Note 30 and disclosures regarding the management of capital on pages 101 and 102 highlighted by “Read more” in bold red text. The introduction also includes an organisation chart of the note. This chart is repeated throughout the note, using shading to signal which section of the note one is currently reading (see Extract 2.1.3b). The second extract also illustrates the use of icons to signpost different types of content (disclosures on risk and risk policies).

Extract 2.1.4 AB SKF (2015)  Sweden

2 | Segment information

The SKF Group operates primarily through three business areas: Industrial Market, Automotive Market and Specialty Business. These business areas each focus on specific customer industries representing groups of related industrial and automotive products, worldwide. For more information on the Business areas and related products, see the Administration report pages 21-35.

Industrial Market serves the global industrial market directly and indirectly through SKF’s worldwide distributor network. Key customer industrial segments are heavy industry segments (such as metals, mining, cement, pulp and paper); general industry segments (such as automation, machine tools, industrial drives), railway, marine, energy (such as wind, oil and gas) and off-highway (construction, agriculture). These customer segments are served both directly to OEM’s and end-users as well as indirectly through SKF’s network of industrial distributors.

Aerospace Aircraft and helicopter builders, aero-engine, gearbox, and other aircraft systems manufacturers.

Energy Renewable energy and traditional energy.

Railway Passenger, locomotives and freight cars.

Off-highway construction, agriculture and forestry and fork lift trucks.

Cars and light trucks Cars and light truck manufacturers (OEMs) and their sub-suppliers.

Vehicle aftermarket Spare-part kits products for cars, trucks and two-wheelers.

Trucks Truck, trailer and bus manufacturers (OEMs) and their sub-suppliers.

Two-wheelers and Electrical Motorcycles, scooters and skates. Home appliances, portable power tools and electric motors.
Commentary

Note 2 “Segment information” in the 2015 annual report for SKF uses photographs, graphs and white space to enhance tabular quantitative disclosures, thus making it more user friendly.
**Commentary**

Danone's 2015 annual report and registration document uses graphs and charts in some notes, including this bar chart in Note 10 illustrating the timing of projected cash outflows relating to different types of financial debt.

**Extract 2.1.6a Teleperformance SE (2015)**

Group revenues amounted to €3,398.0 million in 2015, representing an increase (on the basis of published figures) of 23.2% compared to 2014.

At constant scope and exchange rates, the increase was 7.5%.
Commentary

Note C10 on “Income” in the 2015 annual financial report for Teleperformance includes a waterfall chart explaining the change in reported revenues in terms of “Currency effect”, “Like-for-like growth” and “Scope effect”. In Note H.4, another waterfall chart explains the year-to-year change in net debt.

Standard setter and regulatory activity - FRC Financial Reporting Lab (UK)

In Digital present\(^{12}\) (2015), the FRC Financial Reporting Lab considers various mechanisms for the digital communication of corporate reporting information to investors. The report notes that investors value PDF versions of annual reports for a variety of reasons and it presents a list of ways in which entities can improve PDF annual reports. One is to enhance the on-screen readability, for example, by presenting information in landscape format. Alternatively, the report suggests, entities should make sure the PDF works with the reflow tool\(^{13}\) built into some PDF readers.

2.2 Re-ordering the notes

Entities are required to disclose certain information in the notes to the primary financial statements. Currently, the predominant practice is to present the main body of notes following the order of the related line items in the primary financial statements.

As the notes sections have become progressively longer, the usefulness of this structure has been questioned and it has been suggested that alternative structures may enhance communication effectiveness.

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\(^{13}\) Reflow is a functionality which changes the PDF document format into a single column.
The persistence of the dominant practice has, in part, been attributed to the wording of IAS 1. Acknowledging this, the IASB has clarified that entities should consider understandability, as well as comparability, in determining the order of the notes.

**Extract from IAS 1**

113. An entity shall, as far as practicable, present notes in a systematic manner. In determining a systematic manner, the entity shall consider the effect on the understandability and comparability of its financial statements. An entity shall cross-reference each item in the statements of financial position and in the statement(s) of profit or loss and other comprehensive income, and in the statements of changes in equity and of cash flows to any related information in the notes.

In recent years, a number of entities have also started exploring new ways of ordering the notes. Two main approaches have emerged:

- Presenting the notes in order of importance
- Grouping the notes into themes

The first approach rests on the idea that communication effectiveness may be enhanced by directing the users of the financial statements to information of particular importance. The challenge with this approach lies in identifying an appropriate order, acknowledging that perceptions of importance may vary both across users and over time. There is also a concern that a structure based on importance may reduce comparability, both across entities and over time.

The second approach is to group disclosures by themes, often presented in sections (see Extracts 2.2.1 and 2.2.2 for two examples). This is based on the notion that communication effectiveness may be improved by helping users to connect different items of information. The challenge lies in identifying appropriate themes and, because different entities may adopt different themes, consistency and comparability across entities may suffer. As such the first approach, grouping the notes into themes requires judgement in striking a balance between relevance and comparability.

Often entities combine the grouping of notes into themes with other measures to enhance effective communication. In addition, some entities add an introduction to each section, explaining its content, thus, helping the reader navigate through the disclosures.¹⁴

In practice, the two approaches are often combined. Any effort to re-order the notes encourages entities to reconsider the relevance of the financial statements information. Such efforts therefore often result in some information being removed due to their lack of relevance. Furthermore, presenting the notes in the order of importance and grouping them into themes also have the advantage of allowing entities to communicate what management considers to be the most important aspects of the financial statements, or to tell “the entity’s story”.

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¹⁴ See also discussion in Section 2.4.
Commentary

In the 2016 financial statements for Amcor, the notes are grouped into six sections with the objective of assisting users to understand the Group’s performance. An introduction at the start of each section explains its purpose and contents as well as providing a summary on key developments (see for instance Extract 2.2.1b).
# Financial Statements

## Introduction

An explanation of the financial impacts of the key events during the year from our Finance Director, Daniel Shook, together with a more detailed index to the financial statements.

## Primary Statements

The primary statements for the Group, including the consolidated income statement, balance sheet and statement of cash flows.

## Section 1 - Basis of Preparation

A description of the key factors underpinning the Group financial statements and significant changes in comparison to the prior year.

## Section 2 - Results for the Year

Further information relating to the performance of the Group during the year, providing supporting analysis for items reported in the income statement.

## Section 3 - Operating Assets and Liabilities

Further information relating to the assets and liabilities of the Group at the year-end, providing supporting analysis for operating items reported in the balance sheet.

## Section 4 - Capital Structure and Financing Costs

Information relating to equity, debt and retirement benefit obligations in the year-end balance sheet, which together form our capital base.

## Section 5 - Other Notes

Other supporting notes to the Group financial statements, including the accounting policies.

## Company Financial Statements

The financial statements for the holding company of the Group, IMI plc.
Commentary

In the 2015 financial statements for IMI the notes are grouped into five sections. The purpose of each section is briefly explained both in the table of contents on page 72 (see the Extract 2.2.2a) and at the beginning of each section (e.g., see Extract 2.2.2b). A more detailed table of contents is also provided on page 75 of the financial statements.

2.3 Improving the disclosure of significant accounting policies

Entities are required to disclose a summary of their significant accounting policies and new accounting policies. Currently, the predominant practice is to present this disclosure in a lengthy note at the beginning of the notes section. While it is standard practice to identify new accounting policies separately, the bulk of these notes tends to follow the order of the line items as presented in the primary financial statements.

The notes on significant accounting policies has received much attention in discussions of how to improve the communication effectiveness of financial statements. This section addresses three suggestions relating to the format of these notes. Suggestions relating to the content of this note are separately discussed in the next chapter (Section 3.1).

Standard setter and regulatory activity - AMF-ANC

In 2015 the Autorité des Marchés Financiers (AMF) and the Autorité des Normes Comptables (ANC) in France published a guide to the relevance, consistency and readability of the financial statements providing practical suggestions for improving financial statements. One of the suggestions in the publication was to restructure the presentation of accounting policies using the following categories:

- Accounting policies that are new
- Accounting policies that require specific choices by management
- Accounting policies that are of critical nature in terms of the business or the entity's position
- Accounting policies that are more standard in their implementation

(i) Restructuring the note on significant accounting policies

Some suggestions focus on the basic structure of the notes (see for instance the information below on guidance from the French standard setter and the French regulator). It has, for example, been suggested that it may be more user-friendly to group the accounting policies in terms of relevance rather than the order of the line items. This is illustrated by Extracts 2.3.1 and 2.3.2 below.

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15 Guide to the relevance, consistency and readability of financial statements, Autorité des Marchés Financiers (AMF), 2015
Commentary

In Note 1.2 of the 2015 annual report for Orange, accounting policies chosen by management from a set of alternative policies are listed separately (see first bullet in Extract 2.3.1a, commenting on the application of IAS 2 Inventories, IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets).

In the following bullet, the note also identifies accounting policies for which there is no relevant standard in IFRS and where management has adopted an accounting policy applying the guidance in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. For example, at the end of Note 8.2 (see Extract 2.3.1b), Orange discloses the relevant accounting policies for income taxes as indicated in the second bullet of Note 1.2.
In the 2015 annual report for the Sligro Food Group, the section setting out the accounting policies is split into several parts, as outlined in the extract above, which is taken from a content listing on page 109 of the report. As in the previous extract, policies for which specific choices have been made are disclosed separately. Section F in Extract 2.3.2b focuses on policies relating to the measurement of fair value, property, plant and equipment, investment property and the presentation of the cash flow statement. Policies “of a more critical nature” are also separately disclosed (Section G) and include policies relating to sales, cost of sales, goodwill and other intangible assets and property plant and equipment.
(ii) Improving the link between significant accounting policies and other financial statement information

Another approach to improve the communication effectiveness of the note on significant accounting policies is to provide cross references from the accounting policies to relevant notes. See Extract 2.3.3 below for one example.

While this seems like a useful measure, it may be equally useful to include similar cross references from other notes to descriptions of relevant accounting policies and, where applicable, also the descriptions of significant judgements and sources of estimation uncertainty. Interestingly, such “link-backs” do not appear to be common.

Extract 2.3.3 Securitas AB (2015) Sweden

Commentary
In the 2015 annual report for Securitas, accounting principles are presented in Note 2. Cross references to relevant notes are provided and clearly distinguished using a bright blue font.

(iii) Repositioning information on significant accounting policies

An approach that appears to be gaining popularity in practice is to split the notes by moving descriptions of significant accounting policies to the relevant notes. This approach is believed to improve communication effectiveness by making it easier for users to find and connect related information.
Because this approach involves combining different types of information in the notes, entities need to consider carefully both the structure of each note and how to help users navigate within the combined notes. In practice, various visual approaches are used. Common approaches include using boxes, shading and/or different colour font (see Extract 2.3.4 below) as well as icons (see Extract 2.1.3b).

An added benefit of splitting the disclosure of significant accounting policies between different notes is that this requires entities to revisit the relevance of each policy. This can also help to identify irrelevant disclosures as well as areas where more information is required.

**Standard settter and regulatory activity - ANC, AMF, FRC and EFRAG**

- The ANC and the AMF in their guide to the relevance, consistency and readability of the financial statements suggest to enhance readability by structuring each note as follows:
  a) Applicable accounting policies
  b) Detailed figures and narrative explanations of the main changes
  c) Significant items
- The European Financial Reporting Advisory Group (EFRAG), the ANC, and the FRC in their discussion paper *Towards a Disclosure Framework for the Notes* highlighted a number of alternative approaches with respect to presentation of accounting policies:
  - Flexible approach - prioritising disclosures
  - Grouping information with similar characteristics
  - Display of information in the notes

**Extract 2.3.4 Casino, Guichard-Perrachon S.A. (2015) France**

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6.7. Trade receivables

Accounting principle
Trade receivables are current financial assets [see Note 11] initially recognised at fair value and subsequently amortised cost less any impairment losses. The fair value of trade receivables usually corresponds to the amount on the invoice. An impairment loss is recognised for trade receivables as soon as a probable loss emerges. Trade receivables can be sold to banking institutions. They are kept as assets in the statement of financial position for as long as all the related risks and rewards are not transferred to a third party.

6.7.1. Breakdown of trade receivables

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade and other receivables</td>
<td>1,005</td>
<td>977</td>
</tr>
<tr>
<td>Accumulated impairment losses on trade receivables</td>
<td>[95]</td>
<td>[95]</td>
</tr>
<tr>
<td>Trade receivables from credit activity (Via Varejo)</td>
<td>63%</td>
<td>70%</td>
</tr>
<tr>
<td>Accumulated impairment losses on trade receivables from credit activity (Via Varejo)</td>
<td>[99]</td>
<td>[73]</td>
</tr>
<tr>
<td>Net trade receivables</td>
<td>1,287</td>
<td>1,513</td>
</tr>
</tbody>
</table>
```

**Commentary**

In the 2015 annual report for the Casino Group, descriptions of significant accounting policies have been integrated in the relevant notes. To facilitate identification, these descriptions are presented in a separate box, marked by grey shading.

Since some accounting policies relate to the financial statements as a whole, entities may still retain a note summarising such accounting policies (e.g. the basis of consolidation and foreign currency translation). In many cases, entities also choose to provide a list of, and cross references to, significant policies described elsewhere. See Extract 2.3.5 for one example. Often, this note is presented early in the notes section, similar to the traditional note on significant accounting policies. However, some entities place it more towards the end of the notes section of the financial statements.
**Extract 2.3.5 Bulten AB (2015)**

**Commentary**

Note 2 in the 2015 annual report for Bulten lists and cross-references to significant accounting policies. It also lists and cross-refers to various notes with information on critical accounting estimates.
2.4 Strengthening the link with management commentary

Standard setter and regulatory activity - IASB - Practice Statement on Management Commentary

While IFRS apply only to financial statements, the IASB has published a Practice Statement suggesting a framework for the presentation of narrative reporting accompanying financial statements prepared in accordance with IFRS.

This statement defines management commentary as a narrative report that provides a context within which to interpret the financial position, financial performance and cash flows of an entity. It also provides management with an opportunity to explain its objectives and its strategies for achieving those objectives.

The statement addresses the following topics:
- Purpose
- Principles
- Management’s view
- Supplement and complement the financial statement information
- Forward-looking information
- Qualitative characteristics of useful information in the management commentary
- Materiality to assess relevant information to include in the management commentary
- Presentation
- Elements of management commentary

Management commentaries should be clear and straightforward. The form and content of management commentaries will vary between entities, reflecting the nature of their business, the strategies adopted by management, and the regulatory environment in which they operate.

Extract from IAS 1

49. An entity shall clearly identify the financial statements and distinguish them from other information in the same published document.

50. IFRSs apply only to financial statements, and not necessarily to other information presented in an annual report, a regulatory filing, or another document. Therefore, it is important that users can distinguish information that is prepared using IFRSs from other information that may be useful to users but is not the subject of those requirements.

Bearing in mind these concerns, some entities have explored ways of strengthening the link between the financial statements and the management commentary. An entity should ensure consistency in terms of wording, definitions, segment disclosures, etc., between management financial statements and management commentary to improve the understanding of financial performance. Three overall approaches have been identified in practice:

i) Embedding the primary financial statements within the management commentary
ii) Presenting elements of the management commentary next to the financial statements
iii) Presenting elements of the management commentary in the notes

In many jurisdictions it is common for the financial statements to be accompanied by a narrative report from management, commenting on the entity’s financial performance, financial position and liquidity. Different concepts are used for these reports, including Management’s Discussion and Analysis (MD&A), (Board of) Directors’ Report and Financial Review. While included in the same overall document, such narratives are usually presented separately from the financial statements, reflecting the fact that they are encompassed by national regulation and not by IFRS. The IASB has, however, issued a Practice Statement Management Commentary.

It is sometimes suggested that communication effectiveness of the overall report may be enhanced by strengthening the links between financial statements and management commentary. However, such suggestions raise concerns about maintaining a clear distinction between the financial statement information and other information (see requirement to clearly distinguish financial statement information in IAS 1 below). For instance, a user should be able to distinguish audited information from non-audited information.
These approaches are explained and illustrated below. As already mentioned, integrating management commentaries and the IFRS information may be challenged on technical grounds, as well as its practical merits. In addition, as there may be jurisdictional concerns with such approaches, entities are advised to carefully consider whether any form of integration of non-IFRS information and the IFRS financial statements is accepted by local regulators, before adopting any of the approaches.

(i) **Embedding primary financial statements within the management commentary**
Some entities have sought to strengthen the link between the financial statements and management commentary by embedding the primary financial statements in the management commentary. See Extract 2.4.1 for one example.

*Extract 2.4.1 AB Volvo (2015)*

**Commentary**

In Volvo’s annual report for 2015, the four primary financial statements are embedded within the Board of Directors’ Report (pages 76-109). The notes to the financial statements, however, are presented outside the Director’s Report (pages 110-157). Within the Directors’ Report, the primary financial statements are presented on separate pages and the notes section is preceded by an overview clearly identifying where each primary statement can be found (see extract above).
(ii) Presenting management commentary next to the financial statements

Another approach is to present elements of the management commentary next to the primary financial statements. See Extract 2.4.2 for one example.

While retaining some of the communicative benefits of embedding the financial statements in the management commentary, a potential drawback of this approach is that the communication effectiveness of the management commentary may suffer from being split into sections. Alternatively, as is often the case in practice, some information may be duplicated in various parts of the overall report, which may, in some circumstances, be perceived as “cluttering” the report.

Extract 2.4.2 National Grid plc (2015/2016)

Commentary

In the 2015/2016 annual report for National Grid, management commentary is presented on the pages following the primary financial statements, in a separate box marked “Unaudited commentary”. The fact that the commentary has not been audited is also noted in the introduction to the financial statements. Clearly identifying which information is audited and which is not, assists users in understanding the assurance accompanying the different pieces of information.
(iii) Presenting management commentary in the notes

Some entities highlight key developments during the reporting period in a separate, often first, note. This may be useful if the financial statements are considered on a stand-alone basis (see Extract 2.4.3 for an example).

However, if the financial statements are accompanied by a management report in which key developments are summarised and discussed (management commentary), a note on key developments in the financial statements may contribute to unnecessary duplications and clutter rather than enhancing communication effectiveness. Therefore, in determining whether a key developments note is helpful, it is important to consider the context in which the financial statements are presented.

Other entities embed (unaudited) management commentary in the notes (e.g., see Extract 2.4.4). Another approach, adopted by entities that have re-ordered the notes into sections based on themes (as described in Section 2.2), is to introduce each section with a summary, highlighting key developments. Rather than repeating information from the management commentary, this may allow management to present a more detailed level of analysis. See Extract 2.4.5 for one example.

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**Extract 2.4.3 Flight Centre Travel Group Limited (FLT) (2016)**

**SIGNIFICANT MATTERS IN THE CURRENT REPORTING PERIOD**

The following significant events and transactions occurred during or after the end of the reporting period:

**IMPAIRMENT**

- On 23 May 2016, FLT announced non-cash write-downs to United States brand names, other intangibles and property, plant and equipment of USD19,073,000 ($23,666,000). The write-down relates to the Liberty (leisure) and GOOGO (wholesale) businesses in the US which have not performed to expectations. Refer to notes A5 and F4 for further details.

**ACQUISITIONS**

- On 21 December 2015, FLT acquired a 98.66% interest in StudentUniverse.com (SU). Upon successful completion of the statutory squeeze-out in Ireland, FLT now holds 100% interest for consideration of USD23,077,000 (AUD$46,340,000). SU is a Boston-based business with a strong technology platform and is a leading online travel booking service dedicated to the student and youth sector. The business offers its targeted demographic exclusive deals, including specially negotiated student airfares and experiences via its websites and mobile apps. Refer to Note A6 for further details.

- Other smaller acquisitions that occurred during the period include Koch Overseas, AVMIN Pty Ltd, Worldwide Avionics Services (WAS), BTOJet, Mayra Events, and Business Travel Development (FCM Netherlands). Refer to note A6 for further details.

**OTHER MATTERS**

- During the year FLT sold the New Zealand head office building for fair market value of NZD $17,201,000 ($18,883,000) resulting in a gain of $6,264,000. FLT will continue to operate from these premises under normal market lease terms. Refer to note A3 and F4 for further details.

- On 31 July 2015, FLT won its appeal in the long running competition law test case initiated against it by the ACCC in relation to alleged breaches of the Trade Practices Act 1974. The Full Court of the Federal Court of Australia overturned the judgment that was handed down against FLT in December 2013 and the ACCC was ordered to pay FLT’s legal costs for both the initial case and for the subsequent appeal. The judgment in FLT’s favour meant the $1,000,000 in penalties were repaid to the company (interest and costs yet to be paid), and the penalties are included in the financial results for the half year ended 31 December 2015.

On 28 August 2015, the ACCC launched a further appeal announcing that it would seek special leave from the High Court to appeal the decision of the Full Court of the Federal Court of Australia. The special leave application for the appeal was heard on 11 March 2016 and special leave was granted. On 27 July 2016 the further appeal was heard by the High Court and judgment is anticipated by the end of the 2016 calendar year.

**Background**

The case was initially heard in October 2012 and judgment was delivered in the ACCC’s favour in December 2013. A subsequent penalty hearing concluded in February 2014, with $11,000,000 in penalties imposed by the Federal Court, that FLT paid in May 2014, and this was reflected in the 2013/14 results. Refer to note H2 for further details.

**Commentary**

FLT presents a summary note of significant events and transactions occurred in the current period on the first page of the notes section in its 2016 financial statements.
The 2015/2016 annual report for National Grid contains 34 notes to the consolidated financial statements. Some of these also include “Unaudited management commentary”. This information is clearly separated by a box and a bright blue heading identifying the information as “Unaudited commentary”.

Commentary

The Directors are proposing a final dividend for the year ended 31 March 2016 of 28.34p per share that will absorb approximately £1,058m of shareholders’ equity (assuming all amounts are settled in cash). It will be paid on 10 August 2016 to shareholders who are on the register of members as at 3 June 2016 (subject to Shareholders’ approval at the AGM). A scrip dividend will be offered as an alternative.

The Directors propose a final dividend for the year ended 31 March 2016 of 28.34p per share that will absorb approximately £1,058m of shareholders’ equity (assuming all amounts are settled in cash). It will be paid on 10 August 2016 to shareholders who are on the register of members as at 3 June 2016 (subject to Shareholders’ approval at the AGM). A scrip dividend will be offered as an alternative.

The Directors propose a final dividend for the year ended 31 March 2016 of 28.34p per share that will absorb approximately £1,058m of shareholders’ equity (assuming all amounts are settled in cash). It will be paid on 10 August 2016 to shareholders who are on the register of members as at 3 June 2016 (subject to Shareholders’ approval at the AGM). A scrip dividend will be offered as an alternative.

The Directors propose a final dividend for the year ended 31 March 2016 of 28.34p per share that will absorb approximately £1,058m of shareholders’ equity (assuming all amounts are settled in cash). It will be paid on 10 August 2016 to shareholders who are on the register of members as at 3 June 2016 (subject to Shareholders’ approval at the AGM). A scrip dividend will be offered as an alternative.

The Directors propose a final dividend for the year ended 31 March 2016 of 28.34p per share that will absorb approximately £1,058m of shareholders’ equity (assuming all amounts are settled in cash). It will be paid on 10 August 2016 to shareholders who are on the register of members as at 3 June 2016 (subject to Shareholders’ approval at the AGM). A scrip dividend will be offered as an alternative.

The Directors propose a final dividend for the year ended 31 March 2016 of 28.34p per share that will absorb approximately £1,058m of shareholders’ equity (assuming all amounts are settled in cash). It will be paid on 10 August 2016 to shareholders who are on the register of members as at 3 June 2016 (subject to Shareholders’ approval at the AGM). A scrip dividend will be offered as an alternative.

The Directors propose a final dividend for the year ended 31 March 2016 of 28.34p per share that will absorb approximately £1,058m of shareholders’ equity (assuming all amounts are settled in cash). It will be paid on 10 August 2016 to shareholders who are on the register of members as at 3 June 2016 (subject to Shareholders’ approval at the AGM). A scrip dividend will be offered as an alternative.
Commentary

The 2015 annual report for Dong Energy presents the notes in eight sections. Each section is introduced with a separate content listing and summary commentary highlighting key developments.
2.5 Disclosing information outside of the financial statements

The disclosure of required information outside IFRS financial statements, is not acceptable, unless specifically allowed by the relevant standard. Such instances are rare and limited to certain disclosures relating to financial instruments and condensed interim financial statements, which may be incorporated in the financial statements by cross-reference to another report if that report is available on the same terms, and at the same time, as the financial statements.

Standard setter and regulatory activity - IASB - Discussion of cross-referencing

In developing its initial tentative decisions on proposals to be included in the forthcoming DP, the IASB has identified the following principles on cross-referencing:

- Include general principle for disclosing information required by IFRS outside of financial statements and incorporating such information into financial statements by cross-referencing; and
- Limit the application of the cross-referencing principle to situations in which:
  - An entity places information required by IFRS outside of its financial statements but within its annual report
  - Applying the general principle would make the annual report as a whole more understandable
  - The financial statements remain understandable and fairly presented

To ensure that users are able to locate the disclosures, the information should be clearly cross-referenced. Clear and unambiguous cross references are essential to articulate which information is covered by assurances from external parties (typically the external auditor).

Disclosure of certain information outside the financial statements does not necessarily reduce the volume or increase the effectiveness of disclosures. However, if the information is already provided elsewhere in a report, cross-referencing might be an efficient tool to reduce duplication. This may be particularly helpful in jurisdictions where other reporting requirements overlap the financial reporting requirements. For example, many jurisdictions have extensive management remuneration disclosure requirements, which may overlap with the requirements of IAS 24 Related Party Disclosures.

At the moment, the IASB is exploring the use of cross-referencing in the Principles of Disclosure project.

2.6 Summary

Many entities have made significant efforts to enhance the communication effectiveness of their financial statements by various restructuring measures over the last few years. Some are exploring alternative ways of presenting the entity’s “story” by using digital developments (i.e., digital navigation enhancements), while others have restructured the notes to ensure more prominence to relevant information, using graphics and/or by re-ordering the content of the notes to be better aligned with the entity’s business model. This chapter has presented illustrations of these measures as well as other ways to restructure the financial statements, all with the objective of enhancing the communication effectiveness.

3. Tailoring the financial statements

Investors, analysts and other users of financial statements often find that disclosures in the notes to financial statements are generic, rather than entity-specific, and therefore do not provide decision-useful information. Boilerplate disclosures may not only fail to add value to the financial statements, but may also reduce the overall transparency of the statements by drawing attention away from entity-specific information.

“Tailoring” the financial statements is about telling the entity’s own story, and usually requires consideration of how that story is presented in other contexts, including other reports within the same document, for example, press releases and press conferences. Tailoring the financial statements to entity-specific facts and circumstances may not reduce their length, but it has the potential to enhance communication effectiveness by ensuring that the relevant disclosures are provided, and by reducing “clutter”.

While it is appropriate to tailor all parts of the financial statements, this chapter addresses tailoring in the following contexts:

3.1 Significant accounting policies
3.2 New accounting policies
3.3 Critical judgements and sources of estimation uncertainty
3.4 APMs in the financial statements
3.5 APMs outside the financial statements

As noted in Chapter 1, applying the concept of materiality is a critical element of tailoring. The IASB has responded to increasing concerns for the negative impacts of disclosing immaterial information by adding a requirement the understandability of financial statements must not be reduced by obscuring material information with immaterial information. The IASB is also working to develop guidance on the application of materiality. However, the application of materiality as a means to achieve tailored information is beyond the scope of this publication.

Extract from IAS 1

30A. When applying this and other IFRSs an entity shall decide, taking into consideration all relevant facts and circumstances, how it aggregates information in the financial statements, which include the notes. An entity shall not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.

3.1 Significant accounting policies

The disclosure of significant accounting policies is intended to provide users of the financial statements with an understanding of the measurement bases and other policies applied in preparing the financial statements.

As noted in Section 2.3, the practice of disclosing significant accounting policies in a single lengthy note has been central to the debate on disclosure effectiveness. Section 2.3 addresses issues relating to the structure of the note, whereas this section addresses its content, focusing on two related concerns:

- Identification of significant accounting policies
- Entity-specific descriptions of the policies
(i) Disclosing only accounting policies that are significant for the entity

It is surprisingly common for notes to include descriptions of accounting policies for transactions and events that are not relevant to the reporting entity. As a result, recently, enforcers have started addressing such practices, requesting entities to remove descriptions of non-relevant policies and policies regarding immaterial items. The objective aims to provide a note that allows the readers to focus more easily on the policies that affect the entity's financial position and performance. Non-applicable policies can obscure relevant information and could potentially confuse the users, either by simply cluttering the report or because their disclosure suggests that transactions (events or conditions) have occurred, when they have not, or a combination of the two.

Extract from IAS 1

119. In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in reported financial performance and financial position. Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in IFRSs. An example is disclosure of whether an entity applies the fair value or cost model to its investment property (see IAS 40 Investment Property). Some IFRSs specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. For example, IAS 16 Property, Plant and Equipment requires disclosure of the measurement bases used for classes of property, plant and equipment.

(ii) Disclosing entity-specific descriptions of significant accounting policies

A second concern is the tendency for the descriptions of significant accounting policies to, more or less, only repeat the wording from relevant standards, lacking entity-specific information. By tailoring the disclosure of significant accounting policies the wording would be confined to aspects only relevant to the entity rather than reproduce the wording from the standard. See, for example, the UK FRC Financial Reporting Lab guidance on how to tailor descriptions of significant accounting policies.

Standard setter and regulatory activity - FRC Financial Reporting Lab (UK)

In a report on Accounting policies and integration of related financial information (July 2014), the FRC Financial Reporting Lab proposes the following considerations in determining the relevance of policy disclosures:

- Materiality of transaction classes and amounts, and importance to the nature of the business
- Policies for all distinct revenue streams
- Where there is a choice of policy under IFRS, or significant judgement in selecting the policy
- Where there is a need for management to apply significant levels of estimation or judgement in applying the policy

Although preparers are encouraged to remove the disclosure of accounting policies that are not relevant for the current period from its financial statements, entities should maintain internal records of all previously applied accounting policies to ensure their consistent application in future periods.

Entity-specific descriptions of policies for revenue recognition

Revenue represents a crucial performance measure in most entities. Recognition of revenue is often highly judgemental. Therefore, the disclosure of relevant revenue recognition policies is essential.

Tailoring the description of an entity’s policy for recognising revenue entails moving beyond merely repeating the text in the applicable standard, stating for instance that, “Revenue on the sale of goods is recognised when significant risks and rewards of ownership have been transferred to the buyer in accordance with IAS 18 Revenue.” In some cases, it may be sufficient to explain when the significant risks and rewards of ownership have been considered to have been transferred to buyers. In other cases, a substantial amount of information may be required to allow users of the financial statements to understand when the entity recognises revenue. Having more than one type of revenue stream usually calls for more information.

Extract 3.1.1 Amcor Limited (2016)

14 Income and Expenses

Revenue from sale of goods

Revenue from sale of goods is recognised when risks and rewards of ownership transfer to the customer. Depending on customer terms, this can be at the time of despatch, delivery or upon formal customer acceptance. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is risk of return of goods or there is continuing management involvement with the goods.

Commentary

The 2016 annual report for Amcor explains that revenue from the sale of goods is recognised at different times reflecting the terms of sale. The note also identifies which alternatives commonly occur.
Commentary

ITV’s annual report for 2015 provides fairly detailed information about when different classes of revenue are recognised. The information is provided in a tabular format, making it easy for the reader to identify both the different types of revenue the entity reports and the recognition criteria applied. The table also specifies which segments are affected by the different streams, something that may facilitate users’ understanding of revenue reported by segment.
For entities that produce and sell equipment, it is sometimes relevant to explain the distinction between revenue from the sale of goods and services (see Extract 3.1.3 below).

**Extract 3.1.3 IMI plc (2015)**

**UK**

C. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and that the revenue can be reliably measured. The nature of the equipment, sales and contracts into which the Group enters means that:

- the contracts usually contain discrete elements, each of which transfers risks and rewards to the customer. Where such discrete elements are present, revenue is recognised on each element in accordance with the policy on the sale of goods.
- the service element of the contract is usually insignificant in relation to the total contract value and is often provided on a short-term or one-off basis. Where this is the case, revenue is recognised when the service is complete.

As a result of the above, the significant majority of the Group's revenue is recognised on a sale of goods basis. The specific methods used to recognize the different types of revenue earned by the Group are set out below:

l. Sale of goods

Revenue from the sale of goods is recognized in the income statement net of returns, trade discounts and value added tax when the significant risks and rewards of ownership have been transferred to the buyer and reliable measurement is possible. No revenue is recognized when recovery of the consideration is not probable or if there are significant uncertainties regarding associated costs, or the possible return of goods.

Transfers of risk and rewards vary depending on the nature of the products sold and the individual terms of the contract of sale. Sales made under internationally accepted trade terms, Incoterms 2010, are recognized as revenue when the Group has completed the primary duties required to transport the goods as defined by the International Chamber of Commerce Official Rules for the Interpretation of Trade Terms. Sales made outside Incoterms 2010 are generally recognized on delivery to the customer.

**Commentary**

IMI manufactures and services products that control the movement of fluids. The section on revenue recognition in the 2015 annual report describes policies for recognising revenue from the sale of goods, rendering of services and construction contracts. The introduction first explains why a significant majority of the Group's revenue is recognised on a sale-of-goods basis. The text goes on to explain - for contracts involving goods and significant services - when revenue is recognised separately for these deliveries and when the contract is treated as a construction contract. A detailed explanation on when revenue is recognised from the sale of goods is also provided.

For entities that operate in specific industries, it is sometimes relevant to explain how standards are applied to their specific facts and circumstances (e.g., see Extract 3.1.4).

**Extract 3.1.4 ENI SpA (2015)**

**Italy**

Revenues and costs

Revenues associated with sales of products and rendering services are recognized when significant risks and rewards of ownership have passed to the customer or when the transaction can be considered settled and the associated revenue can be reliably measured. In particular, revenues are recognized for the sale of:

- crude oil, generally upon shipment;
- natural gas, upon delivery to the customer;
- petroleum products sold to retail distribution networks, generally upon delivery to the service stations, whereas all other sales of petroleum products are generally recognized upon shipment; and
- chemical products and other products, generally upon shipment.

Revenues are recognized upon shipment when, at that date, significant risks are transferred to the buyer. Revenues from crude oil and natural gas production from properties in which ENI has an interest together with other producers are recognized on the basis of ENI's net working interest in those properties (entitlement method). Higher lower production volume withdrawal as compared to ENI's net working interest volume is recognized at current prices at the balance sheet date.
Commentary

ENI is an oil and gas company with several revenue streams. The annual report for 2015 first explains when revenue is recognised for different streams. It then explains the accounting for revenue from joint interests in crude oil and natural gas production facilities. Since two methods are commonly used in the sector for revenues from such facilities, the section identifies the chosen approach (i.e., the “entitlement method”).

There may also be other business or entity-specific factors and circumstances that are relevant to describe, e.g., prevalent discounts or particular sources of estimation uncertainty (see Extract 3.1.5).

Extract 3.1.5 Wesfarmers Limited (2016)

Australia

Commentary

Wesfarmers is a company with very diverse operations. Nevertheless, the annual report for 2016 explains that a majority of reported revenue derives from the sale of finished goods and that, for such goods, revenue is generally recognised upon delivery to the customer. Information on the accounting for loyalty programmes and gift cards, especially on the estimates made in this context, is highlighted using both separate rubrics and coloured boxes. The remaining sources of revenue disclosed in the annual report (i.e., “Rendering of services”, “Interest”, “Dividends” and “Operating lease rental revenue”) are not presented in the extract above.

Generally, more complex transactions require longer explanations. Entities in the technology, telecom and media sectors, for example, tend to have more detailed disclosures on how their numerous revenue streams are recognised.
3.2 New accounting policies

IFRS requires entities to disclose the expected effects of the implementation of new or revised standards and interpretations that have not yet been applied.

**Extract from IAS 8**

30. When an entity has not applied a new IFRS that has been issued but is not yet effective, the entity shall disclose:

a) This fact; and

b) Known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application.

31. In complying with paragraph 30, an entity considers disclosing:

a) The title of the new IFRS;

b) The nature of the impending change or changes in accounting policy;

c) The date by which application of the IFRS is required;

d) The date as at which it plans to apply the IFRS initially; and

e) Either:

   i) A discussion of the impact that initial application of the IFRS is expected to have on the entity's financial statements; or

   ii) If that impact is not known or reasonably estimable, a statement to that effect.

The objective of these disclosures is to enable the users of the financial statements to understand the impacts of the new policies on the entity's financial statements. In practice, however, disclosures about the effects of new IFRSs tend to be lengthy and standardised to the point of providing very little entity-specific information. As a consequence, users are not provided with the information they need to assess the effects of new standards on an entity's financial position, performance and the prospect of future cash flows.

Tailoring the disclosures about the effect of new standards may mean that disclosures about new or revised IFRSs that are not relevant, or that are immaterial for the entity, are toned down, or even left out. It also means providing specific, sufficiently granular, information on the expected impact of initial application on the entity's financial statements.

Many entities present the information relating to new and revised IFRSs in tabular format. While this format is often perceived as useful, the usefulness of the disclosure provided is ultimately determined by its content.

At the end of 2015, two major new IFRSs were due to come into effect in the near future: IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from contracts with customers*. However, the fact that entities provided very little, if any, information about the expected impact of these standards in their 2015 financial statements was widely commented on. Instead, these statements generally included brief comments suggesting that the impact was not expected to be material, and that the entity was yet to finalise the assessment of the full impact of the standards. While most entities did not, for instance, disclose the intended method of transition, there were some exceptions. These were notably, but not exclusively, from the telecoms industry (see Extracts 3.2.1 and 3.2.2).
Commentary

Although BT Group has not yet finalised its analysis of the expected impact of the transition to IFRS 15 Revenue from contracts with customers, it disclosed qualitative information on the planned transition in its annual report for 2016. The disclosure contains the planned transition date, as well as a qualitative description of expected accounting implications for several industry-specific revenue transactions.
Commentary

Similar to Extract 3.2.1 from BT Group's annual report for 2016, Vodafone describes the expected accounting implications without quantifying the effects. Additionally, the intention to apply the "modified retrospective transition approach" by reflecting the cumulative impact in equity on the date of adoption is disclosed at the end of the note.

Standard setter and regulatory activity - ESMA - Public statements on disclosures relating to the implementation of IFRS 15 and IFRS 9

In July and November 2016, ESMA published two statements emphasising the need for entities to disclose the expected effects of two major standards not yet effective (i.e. IFRS 15 Revenue from contracts with customers and IFRS 9 Financial Instruments)\(^ {18} \). Within these statements, ESMA presents expectations about what entities should disclose about the impact of the new standards in the 2016 financial statements, and the 2017 interim and annual financial statements. The ESMA statements illustrate the importance of tailored disclosures in general, and more specifically in the context of the impact of new standards.

In response to these observations, some regulators have stressed the importance of entities providing relevant disclosures. ESMA has, for example, published statements emphasising the need for transparency on the impact of new standards. These statements also provides guidance on what ESMA considers "good practices of disclosures" on the effects of new standards.

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3.3 Critical judgements and sources of estimation uncertainty

Preparing financial statements for an entity requires the exercise of judgement in applying accounting policies as well as in determining reasonable estimates. Assessing whether an entity has control or significant influence over another entity are examples of judgement in applying accounting policies. Determining the expected useful lives of property, plant and equipment and intangible assets and resources required to complete projects for which revenues are recognised over time, are examples of estimates being made when applying accounting policies.

Because judgements and estimates can have a major impact on the financial statements, IFRS requires entities to provide users with qualitative and quantitative information about the judgements that have the most significant effects on the financial statements and on those estimates where there is a significant risk of material adjustments to the carrying amounts of assets and liabilities in future financial statements. Unless users are provided with sufficient information about these matters, they may not be able to make informed decisions based on the financial statements.

Extract from IAS 1

122. An entity shall disclose, along with its significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity’s accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

125. An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

a) Their nature, and
b) Their carrying amount as at the end of the reporting period.

A general observation is that many entities seem to comply with the form, but not the substance, of these disclosure requirements. For instance, it is not uncommon for entities to list a large number of sources of estimation uncertainty, without distinguishing which are more significant. Rather than providing decision-useful information, such disclosures may clutter the financial statements.

Tailoring disclosures of key judgements and sources of significant estimation uncertainty means identifying which judgements and sources of estimation uncertainty should be disclosed considering the objectives of general purpose financial statements.

Regulators have found that often too generic disclosures are provided, in that entities do not identify the specific judgements they have made or they fail to explain the extent to which the changes in value of assets and liabilities could have a material effect on the following year’s financial statements.
A general observation is that many entities seem to comply with the form, but not the substance, of these disclosure requirements. For instance, it is not uncommon for entities to list a large number of sources of estimation uncertainty, without distinguishing which are more significant. Rather than providing decision-useful information, such disclosures may clutter the financial statements.

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Regulators have found that often too generic disclosures are provided, in that entities do not identify the specific judgements they have made or they fail to explain the extent to which the changes in value of assets and liabilities could have a material effect on the following year's financial statements.

Entities that have chosen to split the disclosure of significant accounting policies (see Section 2.3) usually do the same thing for the disclosures on key judgements and sources of estimation uncertainty, presenting this information in the relevant notes rather than in a lengthy first note. Sometimes, the disclosures are then marked by icons, or highlighted by other means in the relevant notes. Even so, the challenge remains to provide information that helps users of financial statements to understand the judgements that management has made about the future and the sources of estimation uncertainty. See the following extracts in this section for examples of more tailored disclosures. We note, however, that on a general basis, there is significant room for improvement when making relevant disclosures on the assumptions made about future developments impacting the current accounting estimates. See Extract 3.3.2 for an example where information is provided on the sensitivity of reported amounts to the estimates underlying their calculation.

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In its 2015 annual report, Amcor reports on key judgements and estimates in the context of each note by using an icon, light blue shading and text. For example, Note 2.6 on provisions first provides a summary of how the group accounts for provisions. It then provides a more detailed description for five types of provisions using a tabular format. Three of these are shown in the extract above; with key judgements and estimates highlighted separately.
In its 2015/2016 annual report, National Grid provides some introductory comments on judgements and sources of estimation in Note 1 on the basis of preparation and recent accounting developments. Note 1 refers the reader to a number of notes where more detailed information is provided, including a sensitivity analysis in Note 33. This analysis shows the potential impact on both the income statement and net assets of changes to a range of variables including assumptions of useful lives, fair values of derivatives, discount rates, salary changes and commodity prices.
 Extract 3.3.3a AB Volvo (2015) Sweden

NOTE 2 KEY SOURCES OF ESTIMATION UNCERTAINTY

The Volvo Group’s most significant accounting policies are described together with the applicable note. Read more in Note 1, Accounting Policies for a specification. The preparation of AB Volvo’s Consolidated Financial Statements requires the use of estimates and assumptions that may affect the recognized amounts of assets and liabilities at the date of the financial statements. In addition, the recognized amounts of net sales and expenses during the periods presented are affected. In preparing these financial statements, management has made its best judgments of certain amounts included in the financial statements, materially taken into account. Actual results may differ from previously made estimates. In accordance with IAS 1, the company is required to disclose the assumptions and other major sources of estimation uncertainties that, if actual results differ, may have a material impact on the financial statements.

The sources of uncertainty which has been identified by the Volvo Group and which are considered to fulfill these criteria are presented in connection to the items considered to be affected. The table discloses where to find these descriptions.

Extract 3.3.3b AB Volvo (2015) Sweden

NOTE 21 OTHER PROVISIONS

ACCOUNTING POLICY

Provisions are recognized when a legal or constructive obligation exists as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

SOURCES OF ESTIMATION UNCERTAINTY

Legal proceedings

Provisions for legal disputes are included within Other provisions in the table below, except the provision related to the EU antitrust investigation and the provision related to the engine emission case in the U.S. that are separately specified.

The Volvo Group recognizes obligations as provisions or other liabilities only in cases where Volvo has a present obligation from a past event, where a financial responsibility is probable and the Volvo Group can make a reliable estimate of the amount. When these criteria are not met, a contingent liability may be recognized.

The Volvo Group regularly reviews the development of significant outstanding legal disputes in which the Volvo Group companies are parties, both regarding civil law and tax disputes, in order to assess the need for provisions and contingent liabilities in the financial statements. Among the factors that the Volvo Group considers in making decisions on provisions and contingent liabilities are the nature of the dispute, the amount claimed, the progress of the case, the opinions or views of legal counsel and other advisers, experience in similar cases, and any decision of the Volvo Group’s management as to how the Volvo Group intends to handle the dispute. The actual outcome of a legal dispute may deviate from the expected outcome of the dispute. The differences between actual and expected outcome of a dispute might materially affect future financial statements, with an adverse impact upon the Volvo Group’s operating income, financial position and liquidity.

In the disputes between Volvo Powertrain Corporation and the U.S. Environmental Protection Agency (EPA) regarding a Consent Decree on emission compliance of diesel engines, the U.S. Court of Appeals for the District of Columbia Circuit rendered a ruling on July 18, 2014, affirming the District Court’s ruling of 2012 ordering Volvo Powertrain to pay penalties and interest of approximately USD 72 M. In the second quarter 2015, the Supreme Court of the United States announced that a review of the EPA case will not be granted. Volvo Powertrain has paid the penalties and interest of approximately USD 72 M in the third quarter 2015. The cost has been fully provided for since the third quarter 2014.

In January 2011, the Volvo Group and a number of other companies in the truck industry became part of an investigation by the European Commission regarding a possible violation of EU antitrust rules. On November 20, 2014 the European Commission issued a Statement of Objections stating its preliminary view that the Volvo Group and several other European Truck companies may have violated the European Competition rules. After a resolution of the Statement of Objections, the Volvo Group decided to recognize a provision of EUR 400 M (SEK 3.7 billion as of December 31, 2010) which impacted the Volvo Group’s operating income in the fourth quarter of 2014 negatively with the amount. The proceeds are still on-going and there are a number of uncertainties associated with the final outcome of the European Commission’s investigation as well as the amount of a potential fine. The Volvo Group will reassess the size of the provision regularly following the development of the proceedings.

Read more in Note 24 Contingent liabilities.

<table>
<thead>
<tr>
<th>Description</th>
<th>Carrying value at Dec 31, 2015</th>
<th>Provisions</th>
<th>Reserve</th>
<th>Utilisation</th>
<th>Acquisition of acquired and sale of divested companies</th>
<th>Translation differences</th>
<th>Other reclassifications</th>
<th>Cancellation of value as at Dec 31, 2016</th>
<th>Of which due in 12 months</th>
<th>Of which due after 12 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision related to EU antitrust investigation</td>
<td>3,810</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-152</td>
<td>3,658</td>
<td>3,658</td>
<td>-</td>
<td>-163</td>
<td>-16</td>
</tr>
<tr>
<td>Provision related to engine emission case in the U.S.</td>
<td>560</td>
<td>1</td>
<td>-</td>
<td>-61</td>
<td>-</td>
<td>50</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other provisions</td>
<td>3,440</td>
<td>4,356</td>
<td>-620</td>
<td>-2,606</td>
<td>-</td>
<td>-163</td>
<td>-</td>
<td>-16</td>
<td>3,605</td>
<td>2,154</td>
</tr>
<tr>
<td>&lt;br/&gt;Total</td>
<td>26,213</td>
<td>21,816</td>
<td>-2,692</td>
<td>-17,867</td>
<td>-</td>
<td>3</td>
<td>-2,763</td>
<td>23,712</td>
<td>14,176</td>
<td>4,536</td>
</tr>
</tbody>
</table>

43 February 2017 - Enhancing communication effectiveness
Commentary

In Volvo's 2015 annual report, some general information is provided on key sources of estimation uncertainty in Note 2, with cross references to relevant notes where further relevant information is provided (see Extract 3.3.3a). For example, Note 2 identifies legal proceedings as one source of estimation uncertainty, referring the reader to further information in Note 21 “Other Provisions”. Note 21 starts with a section on accounting policies, followed by a section on sources of estimation uncertainty (see Extract 3.3.3b). This information is highlighted using both a rubric and an icon. In a subsection towards the end of the note, sources of estimation uncertainty relating to legal proceedings are described separately. The information is general at first, but moves on to describe specific proceedings, including an EU anti-trust investigation. The note briefly describes relevant events and the Group’s decision to recognise a provision. Some quantitative information is provided in the text and more is provided in a table identifying changes in the carrying amounts as well as expected timing of future cash flows. A useful detail is that the table provides information on the balance sheet total, for the benefit of the reader’s ease of access. Note 21 also cross-references to Note 24 “Contingent Liabilities”, which also describes this and other legal proceedings (see Extract 3.3.3c).
Commentary
Iberdrola’s 2015 annual report provides disclosures about the use of estimates and sources of uncertainty in Note 6 to the financial statements. The subsection on the use of estimates identifies, inter alia, two estimates relating to revenue recognition. In addition to these types of qualitative disclosures on estimation uncertainties, entities often provide quantitative sensitivity disclosures on the key estimates.

3.4 APMs in the primary financial statements
IFRS contains only a few requirements regarding the format of the primary financial statements. A few line items are specifically required, but only if material. Instead entities are required to use judgement in including additional line items and subtotals that are relevant to an understanding of the entity’s financial performance and position.

Extract from IAS 1
55. An entity shall present additional line items (including by disaggregating the line items listed in paragraph 54), headings and subtotals in the statement of financial position when such presentation is relevant to an understanding of the entity’s financial position.

55A. When an entity presents subtotals in accordance with paragraph 55, those subtotals shall:

a) Be comprised of line items made up of amounts recognised and measured in accordance with IFRS;

b) Be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable;

c) Be consistent from period to period, in accordance with paragraph 45; and

d) Not be displayed with more prominence than the subtotals and totals required in IFRS for the statement of financial position.
Extract from IAS 1 (Cont’d)

85. An entity shall present additional line items (including by disaggregating the line items listed in paragraph 82), headings and subtotals in the statement(s) presenting profit or loss and other comprehensive income when such presentation is relevant to an understanding of the entity’s financial performance.

85A. When an entity presents subtotals in accordance with paragraph 85, those subtotals shall:

a) Be comprised of line items made up of amounts recognised and measured in accordance with IFRS;

b) Be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable;

c) Be consistent from period to period, in accordance with paragraph 45; and

d) Not be displayed with more prominence than the subtotals and totals required in IFRS for the statement(s) presenting profit or loss and other comprehensive income.

One practice adopted by a number of entities to improve the communication effectiveness of their financial reporting is to tailor the IFRS financial statements by incorporating line items and/or subtotals that facilitate reconciliation between reported numbers and key performance indicators used by management. Such measures are sometimes referred to as non-IFRS information, non-GAAP information or Alternative Performance Measures (APMs). APMs are often useful for investors for the purpose of providing relevant input in predicting future cash flows and valuing entities20.

However, regulators have identified a number of problematic practices which can make APMs in the primary financial statements misleading:21

• The lack of equal or greater prominence for GAAP measures
• Exclusion of normal, recurring cash operating expenses
• Individually tailored non-GAAP revenues
• Lack of consistency
• Cherry-picking
• The use of cash per share data

Full disclosure and transparency is key when using APMs. Therefore, the above-mentioned potentially misleading practices should be avoided.

The following sub-sections present some examples observed in practice: the reporting of EBITDA and other sub-totals in the statement of profit or loss; the disclosure of net debt measures in the notes to the statement of financial position; and the presentation of management accounts alongside IFRS financial statements.

(i) EBITDA in the statement of profit and loss

Management of many entities monitor earnings before interest, taxes, depreciation and amortisation (EBITDA) or variations thereof. Some entities also present this measure in the statement of profit or loss (see Extracts 3.4.1 and 3.4.2).

---

20 CFA Institute, Investor Uses, Expectations, and Concerns on Non-GAAP Financial measures, September 2016.
### Extract 3.4.1 Flughafen München GmbH (2015) - Germany

**Consolidated income statement**

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>1,248,306</td>
</tr>
<tr>
<td>Changes in inventories and work in progress</td>
<td>-225</td>
</tr>
<tr>
<td>Work performed and capitalized</td>
<td>21,722</td>
</tr>
<tr>
<td><strong>Other income</strong></td>
<td>38,764</td>
</tr>
<tr>
<td><strong>Total income</strong></td>
<td>1,308,867</td>
</tr>
<tr>
<td>Raw materials and consumables used</td>
<td>-326,599</td>
</tr>
<tr>
<td>Employee benefit expense</td>
<td>-400,342</td>
</tr>
<tr>
<td><strong>Operating profit before depreciation and amortization (EBITDA)</strong></td>
<td>489,117</td>
</tr>
<tr>
<td>Depreciation and amortization expense</td>
<td>-214,278</td>
</tr>
<tr>
<td><strong>Operating profit (EBIT)</strong></td>
<td>274,839</td>
</tr>
</tbody>
</table>

### Extract 3.4.2a Inditex SA (2015) - Spain

**1. Consolidated income statement**

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>20,900,439</td>
<td>18,116,534</td>
</tr>
<tr>
<td>Cost of merchandise</td>
<td>8,911,139</td>
<td>7,547,637</td>
</tr>
<tr>
<td><strong>GROSS PROFIT</strong></td>
<td>12,089,300</td>
<td>10,568,897</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>(7,391,622)</td>
<td>(6,447,541)</td>
</tr>
<tr>
<td><strong>GROSS OPERATING PROFIT (EBITDA)</strong></td>
<td>4,699,159</td>
<td>4,103,073</td>
</tr>
<tr>
<td>Amortization and depreciation</td>
<td>(1,021,717)</td>
<td>(904,307)</td>
</tr>
<tr>
<td><strong>NET OPERATING PROFIT (EBIT)</strong></td>
<td>3,677,442</td>
<td>3,198,186</td>
</tr>
<tr>
<td><strong>NET PROFIT</strong></td>
<td>2,882,201</td>
<td>2,510,151</td>
</tr>
<tr>
<td><strong>NET PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS</strong></td>
<td>7,817</td>
<td>9,403</td>
</tr>
<tr>
<td><strong>NET PROFIT ATTRIBUTABLE TO THE PARENT</strong></td>
<td>2,874,584</td>
<td>2,500,548</td>
</tr>
<tr>
<td><strong>EARNINGS PER SHARE, euro cents</strong></td>
<td>(0.923)</td>
<td>0.803</td>
</tr>
</tbody>
</table>
Flughafen München (Extract 3.4.1) and Inditex (Extract 3.4.2a) both present EBITDA and EBIT in their profit and loss statements for 2015. Whereas Flughafen München presents operating expenses by nature on the face of the statement, Inditex provides this information in Note 6.4 as shown in Extract 3.4.2b.

If operating expenses are primarily presented by function on the face of the statement of profit and loss, the inclusion of an EBITDA measure in the statement means that the format mixes functions and expenses. A mixed presentation on the face of the statement of profit and loss is permitted under current IFRS as long as the entity discloses an analysis of expenses by nature in the notes. Alternatively, EBITDA may simply be reported below the statement of profit or loss, similar to how earnings per share (EPS) measures are presented. Extract 3.4.3 provides an example of this.
Extract 3.4.3 Valeo Group (2015) France

1 Consolidated statement of income

<table>
<thead>
<tr>
<th>(in millions of euros)</th>
<th>Notes</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SALES</strong></td>
<td>4.1</td>
<td>14,544</td>
</tr>
<tr>
<td>Cost of sales(^h)</td>
<td>4.3</td>
<td>(11,971)</td>
</tr>
<tr>
<td>GROSS MARGIN</td>
<td>4.3</td>
<td>2,573</td>
</tr>
<tr>
<td>as a % of sales</td>
<td></td>
<td>17.7%</td>
</tr>
<tr>
<td>Research and Development expenditure, net</td>
<td>4.5.1</td>
<td>(797)</td>
</tr>
<tr>
<td>Selling expenses</td>
<td></td>
<td>(230)</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td></td>
<td>(486)</td>
</tr>
<tr>
<td><strong>OPERATING MARGIN</strong></td>
<td></td>
<td>1,060</td>
</tr>
<tr>
<td>as a % of sales</td>
<td></td>
<td>7.3%</td>
</tr>
<tr>
<td>Share in net earnings of equity-accounted companies</td>
<td>4.5.31</td>
<td>56</td>
</tr>
<tr>
<td><strong>OPERATING MARGIN INCLUDING SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES</strong></td>
<td>4.5</td>
<td>1,116</td>
</tr>
<tr>
<td>as a % of sales</td>
<td></td>
<td>7.7%</td>
</tr>
<tr>
<td>Other income and expenses</td>
<td>4.6.2</td>
<td>(117)</td>
</tr>
<tr>
<td>OPERATING MARGIN INCLUDING SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES</td>
<td>4.6.1</td>
<td>999</td>
</tr>
<tr>
<td>Interest expense</td>
<td>8.2.1</td>
<td>(92)</td>
</tr>
<tr>
<td>Interest income</td>
<td>8.2.1</td>
<td>8</td>
</tr>
<tr>
<td>Other financial income and expenses</td>
<td>8.2.2</td>
<td>(35)</td>
</tr>
<tr>
<td><strong>INCOME BEFORE INCOME TAXES</strong></td>
<td></td>
<td>880</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>9.7</td>
<td>(106)</td>
</tr>
<tr>
<td><strong>NET INCOME FOR THE YEAR</strong></td>
<td></td>
<td>774</td>
</tr>
</tbody>
</table>

Attributable to:

- Owners of the Company
  - 729
- Non-controlling Interests
  - 45

Earnings per share:

- Basic earnings per share (in euros)
  - 10.2
- Diluted earnings per share (in euros)(\(^2\))
  - 10.2

\(^1\) Cost of sales shown for 2014 differs from the amount presented in the 2014 consolidated financial statements published in February 2015, as it reflects the impacts of the first-time application of IFRS 21 - “Taxes as from January 1, 2015” on a retrospective basis (see Notes 1.1.1 and 1.3).

\(^2\) Diluted earnings per share shown for 2014 differs from the amount presented in the 2014 consolidated financial statements published in February 2015, as it reflects the impacts of dilutive equity instruments.

Operating performance indicator

<table>
<thead>
<tr>
<th>(in millions of euros)</th>
<th>Notes</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EBITDA</strong></td>
<td>3.2</td>
<td>1,847</td>
</tr>
<tr>
<td>(as a % of sales)</td>
<td></td>
<td>12.7%</td>
</tr>
</tbody>
</table>

Commentary

Valeo Group presents operating expenses by function in its 2015 financial statements. While EBITDA has not been included in the statement of income, it is separately disclosed below.
(ii) Special, unusual and non-recurring items in the statement of profit or loss

To assess trends, investors as well as management are often primarily interested in an entity’s underlying performance, i.e., the performance excluding the effect of period-specific “special”, “unusual” and/or “non-recurring” items.

Users of the financial statements often rely on such adjusted numbers in their analysis of the financial information. Sometimes APMs are included within the financial statements.

Disclosure of what management views as special, unusual and/or non-recurring items is controversial in some jurisdictions. Discussions generally revolve around definitions and classifications, in particular, whether certain items (e.g., restructuring expenses and impairment expenses) can be characterised as special/unusual/non-recurring. One view, however, is that as long as the definitions are clear and unambiguous, applied consistently, and there is transparency with regard to items included, disclosure of APMs may be appropriate.

Some entities, however, choose to present this information on the face of the profit or loss rather than disclose it in the notes. While the objective may be to increase the prominence of the information, it may, in some instances, be at odds with the requirement to ensure fair presentation.

Various practices exist across different jurisdictions; sometimes these reporting practices are affected by local regulations and guidance issued by regulators. The following extracts represent an inventory of such practices. Accordingly, in considering whether the practices illustrated in the extracts may be used in enhancing communication effectiveness of financial statements, readers are advised to carefully consider specific facts and circumstances, including jurisdictional requirements.

In the UK it is not uncommon to apply a column approach to highlight items that management believes are of a particular nature (e.g., “special”, “specific” “exceptional”). See Extract 3.4.4 for one example. While this format may be seen to address some concerns relating to prominence, the use of more than one column for each period can be perceived as impractical, often requiring separate tables for comparative information. Furthermore, some believe the column approach makes comparisons more difficult. Extracts 3.4.5 and 3.4.6 below provide two examples where two and three periods are presented, respectively, in the same table.

Extract 3.4.4a BT Group plc (2016) UK

<table>
<thead>
<tr>
<th>Year ended 31 March 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before specific items</td>
</tr>
<tr>
<td>Revenue</td>
</tr>
<tr>
<td>(14,959)</td>
</tr>
<tr>
<td>Operating costs</td>
</tr>
<tr>
<td>(520)</td>
</tr>
<tr>
<td>Operating profit (loss)</td>
</tr>
<tr>
<td>Finance expense</td>
</tr>
<tr>
<td>Finance income</td>
</tr>
<tr>
<td>Net finance expense</td>
</tr>
<tr>
<td>Share of post tax profit of associates and joint ventures</td>
</tr>
<tr>
<td>Profit (loss) before taxation</td>
</tr>
</tbody>
</table>

Earnings per share
- Basic: 29.9p
- Diluted: 29.6p

*For a definition of specific items, see page 240. An analysis of specific items is provided in note 8.*
Commentary

In BT Group’s 2016 annual report, it uses a column approach to present “specific items” on the face of the profit and loss statement as shown in Extract 3.4.4a. A footnote below the statement contains cross references to an analysis of specific items in Note 8 and to a definition presented outside the financial statements on page 240. In Note 8 (Extract 3.4.4b), BT Group discloses the amount per line item and provides qualitative information (e.g., “Retrospective regulatory matters”) of individual “specific items”. The definition of “specific items” is reproduced in Extract 3.5.4.
In its 2015 annual report, IMI uses a column approach to present “Exceptional items” on the face of the profit and loss statement. Note 2.2 explains that the group uses this category for items “which are sufficiently large, volatile or one-off in nature to assist the reader of the financial statements to gain a better understanding of the underlying performance of the group”. The note further identifies and explains seven types of exceptional items (two are presented in Extract 3.4.5b above): (1) reversal of net economic hedge contract losses/gains; (2) restructuring costs; (3) gains on special pension events; (4) impairment losses and acquired intangible amortisation; (5) losses on disposal of subsidiaries (with a cross reference to a specific note on this); (6) acquisition and disposal costs; and (7) taxation (the tax effects of the other items).
Commentary

In National Grid’s 2015/2016 annual report, the effects of “exceptional items and remeasurements” are identified separately on the face of the statement of profit and loss in a separate column (see Extract 3.4.6a). In contrast to the previous examples, however, this format requires only two columns per year. The categorisation of certain items as “exceptional” is identified as an area of judgement that has a significant effect on the financial statements in Note 1 with a cross reference to Notes 4 and 7.

Exceptional items are defined and specified in Note 4 as shown in Extract 3.4.6c. Here it is also explained that these items are excluded from measures of business performance, “… because, if included, these items could distort understanding of our performance for the year and the comparability between periods.”

In Note 7 (Extract 3.4.6d) information on EPS is disclosed separately for exceptional items.
Extract 3.4.6c National Grid plc (2015/2016)

4. Exceptional items and remeasurements

To monitor our financial performance, we use a profit measure that excludes certain income and expenses. We call that measure ‘business performance’ or ‘adjusted profit’. We exclude items from business performance because, if included, these items could distort understanding of our performance for the year and the comparability between periods. This note analyses these items, which are included in our results for the year but are excluded from business performance.

Our financial performance is analysed into two components: business performance, which excludes exceptional items and remeasurements; and exceptional items and remeasurements. Business performance is used by management to monitor financial performance as it is considered that it improves the comparability of our reported financial performance from year to year. Business performance subtotals are presented on the face of the income statement or in the notes to the financial statements.

Management utilises an exceptional items framework that has been developed and approved by the Group Audit Committee. This follows a three-step process which considers the nature of the event, the financial materiality involved and any particular facts and circumstances. In considering the nature of the event, management focuses on whether the event is within the Group’s control and how frequently such an event typically occurs. In determining the facts and circumstances management considers factors such as ensuring consistent treatment between favourable and unfavourable transactions, precedent for similar items, number of periods over which costs will be spread or gains earned and the commercial context for the particular transaction.

Items of income or expense that are considered by management for designation as exceptional items include such items as significant restructurings, write-downs or impairments of non-current assets, significant changes in environmental or decommissioning provisions, integration of acquired businesses, gains or losses on disposals of businesses or investments and significant debt redemption costs as a consequence of transactions such as significant disposals or issues of equity.

Costs arising from restructuring programmes include redundancy costs. Redundancy costs are charged to the income statement in the year in which a commitment is made to incur the costs and the main features of the restructuring plan have been made to affected employees.

Remeasurements comprise gains or losses recorded in the income statement arising from changes in the fair value of commodity contracts and of derivative financial instruments to the extent that hedge accounting is not achieved or is not effective. These fair values increase or decrease because of changes in commodity and financial indices and prices over which we have no control.

<table>
<thead>
<tr>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total included within profit before tax</td>
<td>(110)</td>
<td>(248)</td>
</tr>
<tr>
<td>Included within tax</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exceptional items:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transaction costs</td>
<td>(22)</td>
<td></td>
</tr>
<tr>
<td>Restructuring costs</td>
<td></td>
<td>(136)</td>
</tr>
<tr>
<td>Gas holder demolition costs</td>
<td></td>
<td>(79)</td>
</tr>
<tr>
<td>LIPA MSA transition</td>
<td></td>
<td>(254)</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>16</td>
</tr>
<tr>
<td>Remeasurements - commodity contracts</td>
<td></td>
<td>(92)</td>
</tr>
<tr>
<td>Included within finance costs</td>
<td></td>
<td>(11)</td>
</tr>
<tr>
<td>Exceptional items:</td>
<td></td>
<td>(63)</td>
</tr>
<tr>
<td>Debt redemption costs</td>
<td></td>
<td>(63)</td>
</tr>
<tr>
<td>Remeasurements - net (losses)/gains on derivative financial instruments</td>
<td></td>
<td>(71)</td>
</tr>
<tr>
<td>Total included within profit before tax</td>
<td>(110)</td>
<td>(248)</td>
</tr>
</tbody>
</table>

Extract 3.4.6d National Grid plc (2015/2016)

7. Earnings per share (EPS)

EPS is the amount of post-tax profit attributable to each ordinary share. Basic EPS is calculated on profit for the year attributable to equity shareholders divided by the weighted average number of shares in issue during the year. Diluted EPS shows what the impact would be if all outstanding share options were exercised and treated as ordinary shares at year end. The weighted average number of shares is increased by additional shares issued as scrip dividends and reduced by shares repurchased by the Company during the year.

Adjusted earnings and EPS, which exclude exceptional items and remeasurements, are provided to reflect the business performance subtotals used by the Company. We have included reconciliations from this additional EPS measure to earnings for both basic and diluted EPS to provide additional detail for these items. For further details of exceptional items and remeasurements, see note 4.

(a) Basic earnings per share

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings per share</td>
<td>2.386</td>
<td>63.5</td>
<td>2.489</td>
</tr>
<tr>
<td>Adjusted earnings</td>
<td>2.296</td>
<td>62.1</td>
<td>2.015</td>
</tr>
<tr>
<td>Exceptional items after tax</td>
<td></td>
<td>74.7</td>
<td>53.1</td>
</tr>
<tr>
<td>Remeasurements after tax</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
In other jurisdictions it is common to present special, unusual and/or non-recurring items as a separate line item in the statement of profit or loss, sometimes disclosing the allocation of these items per function or type in the notes.

**Extract 3.4.7 Brunello Cucinelli SpA (2016 interim)  Italy**

<table>
<thead>
<tr>
<th>Item</th>
<th>Note</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net revenues</td>
<td>24</td>
<td>219,840</td>
</tr>
<tr>
<td>Other operating income</td>
<td>24</td>
<td>493</td>
</tr>
<tr>
<td>Revenues from sales and services</td>
<td></td>
<td>220,333</td>
</tr>
<tr>
<td>Costs for raw materials and consumables</td>
<td>25</td>
<td>(33,336)</td>
</tr>
<tr>
<td>Costs for services</td>
<td>26</td>
<td>(108,383)</td>
</tr>
<tr>
<td>Payroll costs</td>
<td>27</td>
<td>(40,539)</td>
</tr>
<tr>
<td>of which non-recurring costs</td>
<td></td>
<td>(1,293)</td>
</tr>
</tbody>
</table>

**Commentary**

In the interim financial report for 2016 Brunello Cucinelli discloses a portion of payroll expenses as non-recurring on the face of its income statement. Notably, non-recurring expenses are not presented as a separate line item, only separately disclosed.

**Extract 3.4.8a Svenska Cellulosa Aktiebolaget SCA (2015)  Sweden**

**Consolidated income statement**

<table>
<thead>
<tr>
<th>Group</th>
<th>Note</th>
<th>2015</th>
<th>EURm(1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>B1</td>
<td>115,316</td>
<td>12,334</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>B2</td>
<td>-65,476</td>
<td>-9,142</td>
</tr>
<tr>
<td>Gross profit</td>
<td></td>
<td>29,840</td>
<td>3,192</td>
</tr>
<tr>
<td>Sales, general and administration</td>
<td>B2</td>
<td>-17,025</td>
<td>-1,821</td>
</tr>
<tr>
<td>Items affecting comparability</td>
<td>B2</td>
<td>-2,067(2)</td>
<td>-221</td>
</tr>
<tr>
<td>Share of profits of associates and joint ventures</td>
<td></td>
<td>199</td>
<td>21</td>
</tr>
<tr>
<td>Operating profit</td>
<td></td>
<td>10,947(3)</td>
<td>1,171(2)</td>
</tr>
<tr>
<td>Financial income</td>
<td>E7</td>
<td>205(4)</td>
<td>22(4)</td>
</tr>
<tr>
<td>Financial expenses</td>
<td>E7</td>
<td>-1,160</td>
<td>-124</td>
</tr>
<tr>
<td>Profit before tax</td>
<td></td>
<td>9,992</td>
<td>1,069</td>
</tr>
<tr>
<td>Taxes</td>
<td>B4</td>
<td>-2,540</td>
<td>-272</td>
</tr>
<tr>
<td>Profit for the period</td>
<td></td>
<td>7,452</td>
<td>797</td>
</tr>
</tbody>
</table>

(1) Translation to EUR is recognized for the convenience of the reader. An average exchange rate of 9.35 (9.09; 8.65) was used.
(2) Includes the sale of securities, SEK 970m.
(3) Excludes the sale of securities, SEK 970m.
Commentary

In its 2015 annual report, SCA presents “items affecting comparability” as a separate line item in the statement of profit or loss. The allocation of these expenses to different functions as well as by type of cost, is disclosed in Note B2 as shown in Extract 3.4.8b.

The terminology used to identify the “special” items varies. In some jurisdictions they are identified with the somewhat more neutral caption of “Other income and expenses” (e.g., see Extract 3.4.9).
Commentary
The consolidated statement of profit and loss presented in Danone’s 2015 report presents both “Trading operating income” and “Operating income”. The difference is made up of “Other operating income (expenses)”, defined as “significant items that, because of their exceptional nature, cannot be viewed as inherent to its recurring activities”. Refer to Extract 3.5.2 for definitions of the various concepts.
Standard setter and regulatory activity - FRC Financial Reporting Lab (UK)

In 2012 the FRC Financial Reporting Lab published a report22 promoting net debt reconciliations, noting that there are two typical uses of such reconciliations:

- Equity valuation – the enterprise value attributable to net debt
- Investigating perceived problems with debt or liquidity

The report contains a number of observations on investor use of net debt and views of net debt disclosures emphasising the importance of showing how each component relates to the corresponding amount on the balance sheet.

(iii) Reporting net debt in the financial statements

A non-IFRS measure pertaining to the statement of financial position that has gained prominence in some jurisdictions is “net debt”.

Net debt reconciliations are often found in the notes to the financial statements. The level of detail and the line items included are usually entity-specific. The following extracts provide some examples:

Extract 3.4.10 Akzo Nobel N.V. (2015) Netherlands

Commentary

Net debt/EBITDA is one of three financial performance indicators that are highlighted throughout the 2015 annual report for Akzo Nobel. It is, for example, explained that the measure reflects the entity’s strategy to maintain a strong investment grade rating and the outcome is compared to a specific target. The term net debt does not appear on the face of the financial statements. It does, however, appear in the notes to the financial statements. Note 5 identifies net interest on net debt and Note 16 provides an analysis of the components of net debt.

---

Extract 3.4.11a Casino, Guichard-Perrachon S.A. (2015)

### 4.4. Reconciliation between change in cash and cash equivalents and change in net debt

<table>
<thead>
<tr>
<th></th>
<th>2015 (X millions)</th>
<th>2014 (X millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in cash and cash equivalents</td>
<td>(2,563)</td>
<td>2,087</td>
</tr>
<tr>
<td>Additions to financial debt</td>
<td>(3,201)</td>
<td>(3,616)</td>
</tr>
<tr>
<td>Repayments of financial debt</td>
<td>4,911</td>
<td>1,348</td>
</tr>
<tr>
<td>Non-cash changes in debts</td>
<td>172</td>
<td>[104]</td>
</tr>
</tbody>
</table>
  - Change in net assets held for sale attributable to owners of the parent | 229               | [53]               |
  - Change in other financial assets | 88                | -                 |
  - Financial debt related to changes in scope of consolidation | (121)             | (17)              |
  - Trade payables – structured program (see Note 11.2) | (285)             | -                 |
  - Change in cash flow and fair value hedge | 70               | (11)              |
  - Others                          | 32               | (23)              |
| Effect of changes in foreign currency translation adjustments | 4,900             | (101)             |
| **CHANGE IN NET FINANCIAL DEBT (SEE NOTE 11.2)** | **(1,140)**      | **(386)**         |
| Net financial debt at beginning of period | 5,733             | 5,356             |
| Net financial debt at end of period (see Note 11.2) | 6,071             | 5,733             |


**NOTE 11. FINANCIAL STRUCTURE AND FINANCE COSTS**

**Accounting principle**

**Definition of net financial debt**

Net financial debt corresponds to loans and other borrowings including derivatives designated as hedges (liabilities) and trade payables – structured program, less (i) cash and cash equivalents, (ii) financial assets held for cash management purposes and financial investments, (iii) derivatives designated as hedges (assets), (iv) financial assets arising from a significant disposal of non-current assets and (v) net assets held for sale attributable to owners of the parent.

In 2015, the Group revised the definition of net debt, primarily with respect to net assets held for sale under its deleveraging plan and put options granted to owners of non-controlling interests.
Commentary

Both Net debt and Net debt/EBITDA are identified in the Financial Highlights section of Casino Group's 2015 registration document. Net debt does not appear on the face of the financial statements, but the notes to the statements provide both a reconciliation between changes in cash and cash equivalents and change in net debt (Note 4.4 in Extract 3.4.11a) and a reconciliation of net debt to items in the statement of financial position (Note 11.2 in Extract 3.4.11b). There is also a definition of net debt in the accounting policy section of Note 11.
### Extract 3.4.12 ENEL SpA (2015) Italy

#### 39. Net financial position and long-term financial receivables and securities - €37,545 million

The following table shows the net financial position and long-term financial receivables and securities on the basis of the items on the consolidated balance sheet.

<table>
<thead>
<tr>
<th></th>
<th>Notes at Dec. 31, 2015</th>
<th>at Dec. 31, 2014</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Long-term borrowings</strong></td>
<td>41</td>
<td>44,872</td>
<td>48,656</td>
</tr>
<tr>
<td></td>
<td>41</td>
<td>2,156</td>
<td>3,252</td>
</tr>
<tr>
<td><strong>Current portion of long-term borrowings</strong></td>
<td>41</td>
<td>6,733</td>
<td>6,125</td>
</tr>
<tr>
<td><strong>Non-current financial assets included in debt</strong></td>
<td>24</td>
<td>(2,335)</td>
<td>(2,701)</td>
</tr>
<tr>
<td></td>
<td>28</td>
<td>2,241</td>
<td>3,960</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents</strong></td>
<td>(10,639)</td>
<td>(13,098)</td>
<td>2,449</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>37,545</td>
<td>37,383</td>
</tr>
</tbody>
</table>

Pursuant to the CONSOB instructions of July 28, 2006, the following table reports the net financial position at December 31, 2015, and December 31, 2014, reconciled with net financial debt as provided for in the presentation methods of the Enel Group.

<table>
<thead>
<tr>
<th></th>
<th>at Dec. 31, 2015</th>
<th>at Dec. 31, 2014</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash and cash equivalents on hand</strong></td>
<td>582</td>
<td>758</td>
<td>(176)</td>
</tr>
<tr>
<td><strong>Bank and post office deposits</strong></td>
<td>10,067</td>
<td>12,330</td>
<td>(2,273)</td>
</tr>
<tr>
<td><strong>Securities</strong></td>
<td>1</td>
<td>140</td>
<td>(139)</td>
</tr>
<tr>
<td><strong>Liquidity</strong></td>
<td>10,640</td>
<td>12,229</td>
<td>(1,588)</td>
</tr>
<tr>
<td><strong>Short-term financial receivables</strong></td>
<td>1,324</td>
<td>1,977</td>
<td>(653)</td>
</tr>
<tr>
<td><strong>Factoring receivables</strong></td>
<td>147</td>
<td>177</td>
<td>(30)</td>
</tr>
<tr>
<td><strong>Short-term portion of long-term financial receivables</strong></td>
<td>769</td>
<td>1,566</td>
<td>(797)</td>
</tr>
<tr>
<td><strong>Current financial receivables</strong></td>
<td>2,240</td>
<td>3,720</td>
<td>(1,480)</td>
</tr>
<tr>
<td><strong>Short-term bank debt</strong></td>
<td>160</td>
<td>(150)</td>
<td>-150</td>
</tr>
<tr>
<td><strong>Commercial paper</strong></td>
<td>(213)</td>
<td>(2,599)</td>
<td>2,386</td>
</tr>
<tr>
<td><strong>Short-term portion of long-term bank debt</strong></td>
<td>(644)</td>
<td>(824)</td>
<td>(180)</td>
</tr>
<tr>
<td><strong>Bonds issued (short-term portion)</strong></td>
<td>(4,570)</td>
<td>(4,056)</td>
<td>(514)</td>
</tr>
<tr>
<td><strong>Other borrowings (short-term portion)</strong></td>
<td>(319)</td>
<td>(245)</td>
<td>(74)</td>
</tr>
<tr>
<td><strong>Other short-term financial payables</strong></td>
<td>(1,762)</td>
<td>(1,139)</td>
<td>-623</td>
</tr>
<tr>
<td><strong>Total short-term financial debt</strong></td>
<td>(7,966)</td>
<td>(8,377)</td>
<td>411</td>
</tr>
<tr>
<td><strong>Net short-term financial position</strong></td>
<td>4,992</td>
<td>8,571</td>
<td>(3,579)</td>
</tr>
<tr>
<td><strong>Debt to banks and financing entities</strong></td>
<td>6,863</td>
<td>(7,022)</td>
<td>159</td>
</tr>
<tr>
<td><strong>Bonds</strong></td>
<td>(35,967)</td>
<td>(39,749)</td>
<td>3,762</td>
</tr>
<tr>
<td><strong>Other borrowings</strong></td>
<td>(2,022)</td>
<td>(1,884)</td>
<td>(138)</td>
</tr>
<tr>
<td><strong>Long-term financial position</strong></td>
<td>(44,872)</td>
<td>(48,655)</td>
<td>3,783</td>
</tr>
<tr>
<td><strong>NET FINANCIAL POSITION as per CONSOB instructions</strong></td>
<td>(39,880)</td>
<td>(40,084)</td>
<td>204</td>
</tr>
<tr>
<td><strong>Long-term financial receivables and securities</strong></td>
<td>2,335</td>
<td>2,701</td>
<td>(366)</td>
</tr>
<tr>
<td><strong>NET FINANCIAL DEBT</strong></td>
<td>(37,545)</td>
<td>(37,383)</td>
<td>162</td>
</tr>
</tbody>
</table>

There are no transactions with related parties for these items.

**Commentary**

The 2015 annual report for Enel Group discloses a reconciliation of “net financial position” to items reported in the consolidated statement of financial position. The same note also provides a reconciliation of this measure to net financial position as defined by the Italian regulator (CONSOB).
(iv) Reporting non-IFRS statements alongside the IFRS statements

In certain jurisdictions, some entities present alternative (management) financial statements alongside the IFRS financial statements (e.g., see Extract 3.4.13). However, when non-IFRS statements are presented, it is more common to present them outside the IFRS financial statements.

**Extract 3.4.13 Securitas AB (2015)**

<table>
<thead>
<tr>
<th>Supplementary information</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>MSEK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>80,590.2</td>
</tr>
<tr>
<td>Sales, acquired business</td>
<td>269.9</td>
</tr>
<tr>
<td><strong>Total sales</strong></td>
<td><strong>80,860.1</strong></td>
</tr>
<tr>
<td>Organic sales growth, %</td>
<td>5</td>
</tr>
<tr>
<td>Production expenses</td>
<td>-66,743.2</td>
</tr>
<tr>
<td><strong>Gross income</strong></td>
<td><strong>14,116.9</strong></td>
</tr>
<tr>
<td>Gross margin, %</td>
<td>17.5</td>
</tr>
<tr>
<td>Expenses for branch offices</td>
<td>-4,429.9</td>
</tr>
<tr>
<td>Other selling and administrative expenses</td>
<td>-5,633.3</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td><strong>-10,063.2</strong></td>
</tr>
<tr>
<td>Other operating income</td>
<td>177</td>
</tr>
<tr>
<td>Share in income of associated companies</td>
<td>17.3</td>
</tr>
<tr>
<td><strong>Operating Income before amortization</strong></td>
<td><strong>4,088.7</strong></td>
</tr>
<tr>
<td>Operating margin, %</td>
<td>5.1</td>
</tr>
<tr>
<td>Amortization of acquisition related intangible assets</td>
<td>-274.5</td>
</tr>
<tr>
<td>Acquisition related costs</td>
<td>-29.5</td>
</tr>
<tr>
<td><strong>Operating Income after amortization</strong></td>
<td><strong>3,784.7</strong></td>
</tr>
<tr>
<td>Financial income and expenses</td>
<td>-308.3</td>
</tr>
<tr>
<td><strong>Income before taxes</strong></td>
<td><strong>3,476.4</strong></td>
</tr>
<tr>
<td>Net margin, %</td>
<td>4.3</td>
</tr>
<tr>
<td>Taxes</td>
<td>-1,032.5</td>
</tr>
<tr>
<td><strong>Net Income for the year</strong></td>
<td><strong>2,443.9</strong></td>
</tr>
</tbody>
</table>

Securitas’ financial model is described on pages 46–47.
Commentary

In its annual report for 2015, Securitas presents alternative primary financial statements adjacent to, but on separate pages from, the IFRS financial statements. For example, the (IFRS) “consolidated statement of income” is presented on page 58 and the alternative income statement is presented on page 59. Page 59 is marked as “Supplementary information” and it is indicated by a different colour. Below the statement there is a cross reference to a section of the report where the colour scheme is explained.
Standard setter and regulatory activity - IASB

**Principles of Disclosure project**

The forthcoming DP is expected to include the IASB’s preliminary views that:

- IFRS should include additional guidance on the depiction of non-recurring, unusual or infrequently occurring items in the statement of comprehensive income.
- The presentation of EBIT and EBITDA in the statement of profit or loss complies with IFRS, provided that the statement is presented “by nature” and such subtotals are in accordance with paragraphs 85-85B of IAS 1 Presentation of Financial Statements.

Regarding other non-IFRS information that are gaining more importance in the light of current developments in the integrated reporting space, the IASB decided that the DP should include its preliminary views that:

- IFRS should not prohibit the placement of information that an entity has identified as non-IFRS in its financial statements.
- IFRS should provide guidance about the presentation of information identified as non-IFRS in an entity’s financial statements in a new disclosure standard.

**Project on Primary Financial Statements**

In 2015 the IASB initiated a project\(^{23}\) to improve the structure and content of the primary financial statements. The project is still in an early stage, but it is expected to address issues such as:

- The use of “EBIT” / “operating profit” subtotals.
- The use of “recurring operating profit” subtotals.
- Introducing a new category that reduces the need for OCI.
- Introducing alternative earnings per share measures.
- Revision of the definition of “operating cash flows”.
- Alignment across the different primary financial statements.
- Illustrative examples for the primary financial statements.
- Segment reporting and a revised performance statement.
- “Discontinued operations” as only a segment reporting classification issue.


(v) **Concerns regarding APMs in the financial statements**

On the one hand, the usefulness of APMs is widely acknowledged. Reporting on APMs may provide insight into the management of the entity and management’s views on performance. Including the APMs in the primary statements may also make it easier for users to reconcile management commentary with reported figures in the IFRS financial statements.

On the other hand, including APMs within the financial statements could increase clutter, reduce comparability across entities and potentially confuse users. Another concern that has recently received renewed attention is related to the potential for misuse of APMs, in that APMs sometimes seem to be designed to detract attention from bad news.

Some regulators have already responded to these concerns by issuing guidance on the use of APMs outside the financial statements. This topic is addressed separately in the next section. The IASB is also addressing the APM issue in its two currently active projects on *Principles of Disclosure* and *Primary Financial Statements*. 
3.5 APMs outside the financial statements

Following widespread concern about the increasing use and potential misuse of APMs in corporate reporting, several regulators have recently published new or revised guidance on APMs.

The ESMA in October 2015, and the International Organization of Securities Commissions (IOSCO) in June 2016, published separate guidelines on non-GAAP financial measures in regulated financial information. These two sets of guidelines are generally aligned in terms of scope and content. Local regulators across many jurisdictions have issued similar guidelines. Annual reports and half-year interim reports are encompassed by the statement, as are any voluntary interim reports. However, the guidelines do not apply to the financial statements of these reports, only to information reported outside of the financial statements.

While acknowledging the usefulness of APMs, some expect tougher and more-observable actions from regulators. Accordingly, readers should consider their specific facts and circumstances together with requirements in their applicable regulations in order to understand if those practices could be used in enhancing their communication effectiveness. Interestingly, some preparers are concerned that the guidelines on APMs are too strict, in that rigidity is at odds with the purpose of APMs and that standardisation of APMs is reducing the relevance of financial reports.

European regulators have already taken decisions to enforce these guidelines. For instance, certain European regulators have uncovered the following unacceptable practices:

- The definition of measures used in the financial report (e.g., “items affecting comparability” or “one-off items”) were not disclosed or disclosures were not sufficiently precise.
- Items presented as “one-off effects” appear to be recurring items based on other information provided in the financial report.

---

25 CFA Institute, Bridging the Gap: Ensuring Effective Non-GAAP and Performance Reporting, November 2016.
Also, the US SEC has questioned the exclusion of individual items (e.g., acquisition-related expenses) in prominently presented non-GAAP measures where it does not seem to be appropriate. These examples demonstrate that it is even more important for entities to ensure transparency on APMs and to avoid misleading labels that do not reflecting the content.

The extracts presented below were prepared and presented before the IOSCO guidelines had become effective. More representative examples are expected to be published in the near future. However, examples of reporting practices reflecting the principles on which the guidelines are based have already been observed in practice. For example, some entities provide detailed reconciliations of key APMs with reported IFRS figures (e.g., see Extract 3.5.1).

---

**Extract 3.5.1a ARM Holdings plc (2015)**

*An explanation of “normalised” can be found at the beginning of the section “Our financial strategy” page 55.*
Commentary

Page 5 of ARM Holdings’ 2015 Strategic Report summarises eight performance indicators, including normalised profits before tax, normalised diluted earnings per share and normalised net cash generated as presented in Extract 3.5.1a. There is a clear cross reference to page 55 (see Extract 3.5.1b), where the concept of “normalised” is explained in terms of excluding various items that are reported under IFRS. On the same page, there is also a detailed reconciliation to corresponding IFRS measures.
Some entities explicitly identify and explain the use of APMs, at least, on a general level. To align with the above mentioned guidelines, however, there should be an explanation of why each APM provides useful information, as well as the purposes for which the specific APM is used (see Extracts 3.5.2 to 3.5.5 for some examples of explanations of APMs provided in annual reports).

**Extract 3.5.2 Danone (2015)**

**France**

3.6 Financial indicators not defined by IFRS

Information published by Danone uses the following financial indicators that are not defined by IFRS:

*Trading operating income* is defined as Danone’s operating income excluding Other operating income and expenses. Other operating income and expenses is defined under Recommendation 2013-03 of the French CNC (format of consolidated financial statements for companies reporting under international reporting standards), and comprises significant items that, because of their exceptional nature, cannot be viewed as inherent to its recurring activities. These mainly include capital gains and losses on disposals of fully consolidated companies, impairment charges on goodwill, significant costs related to strategic restructuring and major external growth transactions, and costs related to major crisis and major litigations. Furthermore, in connection with of IFRS 3 [Revised] and IAS 27 [Revised] relating to business combinations, the Company also classifies in Other operating income and expenses [i] acquisition costs related to business combinations, [ii] revaluation profit or loss accounted for following a loss of control, and [iii] changes in earn-outs relating to business combinations and subsequent to acquisition date.

*Recurring net income (or Recurring net income – Group Share)* corresponds to the Group share in the Total Recurring net income. Total Recurring net income measures Danone’s recurring performance and excludes significant items that, because of their exceptional nature, cannot be viewed as inherent to its recurring performance. Such non-recurring income and expenses mainly include capital gains and losses on disposals and impairments of investments in associates and in other non-fully-consolidated entities and tax income and expenses related to non-recurring income and expenses. Such income and expenses excluded from Net income are defined as Total Non-recurring net income and expenses.

**Commentary**

In its 2015 annual report, Danone presents a one page section on “Financial indicators not defined by IFRS”. The section lists and explains in some detail nine APMs, including “Trading operating income” and “Recurring net income”. Both are measures of income before “Other operating income and expenses” and both thus exclude “Significant items that, because of their exceptional nature, cannot be viewed as inherent to its recurring activities”.

“Trading operating income” and “Other operating income (expenses)” are both line items in the consolidated income statement. Details on “Other operating income (expenses)” are provided in a note to the financial statements (see Extract 3.4.9 to view Danone’s consolidated income statement and the relevant disclosure).
While the abovementioned guidelines were primarily prompted by the use of performance measures “adjusted” for (i.e., excluding the effect of) special items, the guidelines apply to all APMs including common measures such as EBIT and EBITDA (see Extracts 3.5.3 and 3.5.4 for two examples. See also Extract 3.5.5 for an example of explanations of several different APMs provided in an interim report).

**Extract 3.5.3 Orange SA (2015)**

### 4.3.5.2 Reported EBITDA and restated EBITDA

**Reported EBITDA**

Reported EBITDA is the operating income before depreciation and amortization, before remeasurement resulting from business combinations, before impairment of goodwill and fixed assets and before share of profits (losses) of associates and joint ventures.

Reported EBITDA is one of the key measures of operating profitability used by the Group to manage and assess the results of its operating segments, and implement its investments and resource allocation strategy. Orange’s management believes that Reported EBITDA is meaningful for investors because it provides an analysis of its operating results and segment profitability using the same measure used by management. As a consequence and in accordance with IFRS 8 provisions, Reported EBITDA is included in the analysis by operating segment, in addition to operating income.

Reported EBITDA, or similar management indicators used by Orange’s competitors, are indicators that are often disclosed and widely used by analysts, investors and other players in the telecommunications industry.

The reconciliation between Reported EBITDA and consolidated net income after tax as presented in the Consolidated income statement in the consolidated financial statements is shown below.

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td></td>
<td></td>
</tr>
<tr>
<td>External purchases</td>
<td>17,697</td>
<td>17,251</td>
</tr>
<tr>
<td>Other operating income</td>
<td>585</td>
<td>674</td>
</tr>
<tr>
<td>Other operating expense</td>
<td>1,069</td>
<td>856</td>
</tr>
<tr>
<td>Labor expenses</td>
<td>9,032</td>
<td>9,066</td>
</tr>
<tr>
<td>Operating taxes and levies</td>
<td>1,763</td>
<td>1,765</td>
</tr>
<tr>
<td>Gains (losses) on disposal</td>
<td>235</td>
<td>430</td>
</tr>
<tr>
<td>Restructuring costs and similar items</td>
<td>198</td>
<td>469</td>
</tr>
<tr>
<td><strong>Reported EBITDA</strong></td>
<td><strong>11,277</strong></td>
<td><strong>11,112</strong></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>(6,465)</td>
<td>(6,038)</td>
</tr>
<tr>
<td>Remeasurement resulting from business combinations</td>
<td>(6)</td>
<td>(5)</td>
</tr>
<tr>
<td>Impairment of goodwill</td>
<td>(28)</td>
<td>(59)</td>
</tr>
<tr>
<td>Impairment of fixed assets</td>
<td>(38)</td>
<td>(215)</td>
</tr>
<tr>
<td>Share of profits (losses) of associates and joint ventures</td>
<td>(38)</td>
<td>(215)</td>
</tr>
<tr>
<td><strong>Operating income</strong></td>
<td><strong>4,742</strong></td>
<td><strong>4,571</strong></td>
</tr>
<tr>
<td>Finance costs, net income tax</td>
<td>(1,583)</td>
<td>(1,639)</td>
</tr>
<tr>
<td>Income tax</td>
<td>(649)</td>
<td>(1,573)</td>
</tr>
<tr>
<td><strong>Consolidated net income after tax of continuing operations</strong></td>
<td><strong>2,510</strong></td>
<td><strong>1,360</strong></td>
</tr>
<tr>
<td>Consolidated net income after tax of discontinued operations</td>
<td>(448)</td>
<td>(135)</td>
</tr>
<tr>
<td><strong>Consolidated net income after tax</strong></td>
<td><strong>2,958</strong></td>
<td><strong>1,225</strong></td>
</tr>
<tr>
<td>Net income attributable to owners of the parent</td>
<td>2,652</td>
<td>925</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>306</td>
<td>300</td>
</tr>
</tbody>
</table>

Reported EBITDA is not a financial aggregate defined by IFRS as a means of measuring financial performance and cannot be compared with similarly titled indicators from other companies. Reported EBITDA represents supplementary information and should not be considered a substitute for operating income.

**Commentary**

The 2015 annual report of Orange contains eight pages on “Financial aggregates not defined by IFRS”. “Data on comparable basis” takes up much of this space. Another section covers “Reported EBITDA and restated EBITDA”. The section explains these measures, their use by management and why Orange’s management believes that investors may find the measures useful. The section also provides reconciliation to net income as presented in the financial statements.
Commentary

One part of the BT Group’s 2016 Strategic Report (part of its annual report for the financial year ending March 2016) focuses on the Group's performance in terms of a number of key performance measures. The first page of this section (page 93) includes a general discussion on the use of APMs, explains that the prefix “adjusted” denotes “before specific items” and also cross-references to a specification of these items. The text also emphasises that the measures are consistent with how management measures the Group’s financial performance and includes cross references to definitions and reconciliations which are provided in a separate section after the financial statements. The introduction to that section explains that management principally looks at “adjusted” figures and that management believes that this is relevant as “specific items are identified by virtue of their size, nature or incidence”, and also in reference to qualitative factors such as the frequency and predictability of occurrences.

The section on EBITDA explains the use of this measure in terms of it being a common measure among investors and analysts to evaluate operating financial performance, particularly in the telecommunications sector. It also explains why management considers it to be a useful measure of operating performance.
While information on APMs is generally found at the back of most annual reports, after the financial statements, some entities integrate some of the information in the sections where the APMs are presented, for example, in the management commentary preceding the financial statements. This may enhance communication efficiency by enabling users to link the information to the APM, thus enhancing their understanding of the measures. Others find that an appendix of the APMs is the most efficient way of communicating the relevant information as grouping all the APM information in one place makes the navigation easier from a user perspective.

### Extract 3.5.5
Svenska Cellulosa Aktiebolaget SCA (Q3 2016)

<table>
<thead>
<tr>
<th><strong>Non-IFRS performance measure</strong></th>
<th><strong>Description</strong></th>
<th><strong>Reason for use of the measure</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Organic sales growth</td>
<td>Sales growth that excludes exchange rate effects, acquisitions and divestments</td>
<td>This measure is of major importance for management in its monitoring of underlying sales growth driven by changes in volume, price and product mix for comparable units between different periods</td>
</tr>
<tr>
<td>Gross profit</td>
<td>Net sales less the cost of goods sold</td>
<td>For a manufacturing company, gross profit is an important measure for showing the margin before selling and administrative costs</td>
</tr>
<tr>
<td>Adjusted gross profit</td>
<td>Net sales less the cost of goods sold excluding items affecting comparability</td>
<td>Adjusted gross profit is stripped of items affecting comparability and is thus a better measure for showing the company’s margins before the effect of costs such as selling and administrative costs.</td>
</tr>
<tr>
<td>Operating surplus</td>
<td>Calculated as operating profit before depreciation and amortization of tangible and intangible assets, and share of profits from associates</td>
<td>This measure is a good complement to operating profit, as it shows the cash surplus from operations</td>
</tr>
<tr>
<td>Operating profit</td>
<td>Calculated as operating profit before financial items and taxes</td>
<td>Operating profit provides an overall picture of profit generation in the operating activities</td>
</tr>
<tr>
<td>Adjusted operating profit</td>
<td>Calculated as operating profit before financial items, excluding items affecting comparability</td>
<td>Adjusted operating profit is a key ratio for control of the Group’s profit centers and provides a better understanding of earnings performance of the operations than the non-adjusted operating profit</td>
</tr>
<tr>
<td>Adjusted profit before tax</td>
<td>Calculated as operating profit before tax, excluding items affecting comparability</td>
<td>This is a useful measure for showing total profit for the company including financing, but not affected by taxes and items that affect comparability with previous periods</td>
</tr>
<tr>
<td>Operating cash surplus</td>
<td>Calculated as profit before tax after adding back depreciation, amortization and impairment of tangible and intangible assets, share of profits in associates, items affecting comparability, and excluding income taxes paid</td>
<td>This measure shows the cash flow generated by profit and is part of the follow-up of cash flow</td>
</tr>
<tr>
<td>Items affecting comparability</td>
<td>Under items affecting comparability, SCA includes costs in connection with acquisitions, restructuring, impairment and other specific events</td>
<td>Separate reporting of items affecting comparability, SCA includes costs in periods provides a better understanding of the company’s operating activities</td>
</tr>
</tbody>
</table>

### Commentary
Following the effective date of the ESMA guidelines, SCA provided the following table in the 2016 Q3 report with information on a number of APMs.
3.6 Summary

We identified tailoring as the way entities select information that is relevant to tell their “story”. Tailored information often allows users to look at the entity “through the eyes of management”; hence, the focus is on areas such as significant judgements and estimates, accounting policies, performance indicators, unusual transactions, and the net financial position. The extracts presented in this chapter illustrate the attempts by entities to achieve the objective described above.

Entities that are about to embark on a project to tailor the information in their financial statements should always consider the key qualitative characteristics, such as completeness and neutrality, to avoid presenting information that one way or another is biased, and therefore misleading.

As discussed, tailoring financial information by way of APMs is common in practice. However, regulators are concerned that APMs may be misleading, especially if presented without sufficient transparency.

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**Standard setter and regulatory activity - SEC (US)**

The SEC in the US has suggested that the following questions should be considered by entities when introducing APMs:

- Why are you using the non-GAAP measure, and how does it provide investors with useful information?
- Are you giving non-GAAP measures no greater prominence than the GAAP measures, as required under the rules?
- Are your explanations of how you are using the non-GAAP measures - and why they are useful for your investors - accurate and complete, drafted without boilerplate?
- Are there appropriate controls over the calculation of non-GAAP measures?

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4. Challenges in enhancing communication effectiveness

There is a perception that current financial reporting practices could be improved. This publication explores some ways to make IFRS financial statements more effective by discussing alternative ways to structure and tailor these statements.

While we strongly encourage preparers to identify ways to enhance the communication effectiveness of their financial statements, entities should be aware that such measures usually give rise to a number of challenges, including, for example:

- Many measures involve making difficult judgement; what one sees as less important, another might find highly relevant.
- Restructuring and tailoring the financial statements may result in making them less comparable over time, as well as across entities. Comparability is an important enhancing characteristic of decision-useful financial information.
- Entities need to assess how to comply with existing cultural and regulatory constraints.
- All measures to improve communication effectiveness come at a cost. While these costs are often observable, related benefits to the reporting entities are often less direct.

The objective of financial reporting is to provide decision-useful information to the stakeholders of the entity. Measures that enhance the communication effectiveness of the financial statements can improve decision-usefulness by, for example, allowing users easier access to the key factors determining the entity’s financial position and performance and tailoring the information to better reflect entity-specific circumstances. The ultimate goal is to decrease the cost of capital. As such, continually assessing how to improve communication effectiveness is, despite the challenges outlined above, worthwhile. Accordingly, entities would be required to strike the balance between relevance of information, the corresponding cost to prepare it, and comparability.

Reporting entities may approach the objective of enhancing the communication effectiveness of their financial statements in many different ways. Instead of aiming to make all improvements at one point in time, it is sometimes advisable to adopt an incremental approach. Entities may, for example, choose to target one topic area at a time. This may reduce the costs and may also serve to more effectively educate interested parties throughout the improvement process.

While this publication does not address the challenges in undertaking a project to improve communication effectiveness of financial statements, we note that it is generally advisable to:

- Define overall objectives and specific areas that may need improvements
- Develop an overall plan with a clear timeline
- Focus on corporate reporting as a whole, not just the financial statements or investor communication
- Enroll not only management support, but employee support across the organisation

An entity should engage with all internal and external interested parties during the process to ascertain that the relevance of the enhanced communication achieved and its costs remain balanced.

To ensure not only that the initiative is successful, but also sustainable, it is important to embed the objective of communication effectiveness into the reporting entity’s financial reporting “DNA”. In other words, to achieve the objective of decision-useful information, it is essential that reporting entities have a process in place to regularly review and improve the communication effectiveness of their financial reporting.

We hope the discussions in this publication will inspire preparers to undertake efforts to enhance the communication effectiveness of the financial statements. We believe that entities that embark on a communication effectiveness project will realise a variety of benefits, including more efficient reviews by executives and directors and greater investor confidence.
## Appendix A – Current initiatives on enhancing communication effectiveness

A number of standard setters and regulators are currently undertaking projects on enhancing communication effectiveness, including the following (in alphabetical order):

<table>
<thead>
<tr>
<th>Standard setter / Regulator</th>
<th>Project / Publication</th>
<th>Website</th>
</tr>
</thead>
<tbody>
<tr>
<td>Autorité des normes comptables (ANC)</td>
<td>Proposal to simplify accounting obligations for “small listed companies” in Europe</td>
<td><a href="http://www.ifrs.org/Meetings/Documents/46/02/128.pdf">http://www.ifrs.org/Meetings/Documents/46/02/128.pdf</a></td>
</tr>
<tr>
<td>Institute of Chartered Accountants of Scotland (ICAS) and New Zealand Institute of Chartered Accountants (NZICA)</td>
<td>Losing the Excess Baggage</td>
<td><a href="https://www.icas.com/_data/assets/pdf_file/001/22985/losing-the-excess-baggage-icas.pdf">https://www.icas.com/_data/assets/pdf_file/001/22985/losing-the-excess-baggage-icas.pdf</a></td>
</tr>
<tr>
<td>Standard setter / Regulator</td>
<td>Project / Publication</td>
<td>Website</td>
</tr>
<tr>
<td>-------------------------------------------------</td>
<td>------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------</td>
</tr>
<tr>
<td></td>
<td>Primary Financial Statements</td>
<td><a href="http://www.ifrs.org/Current-Projects/IASB-Projects/Performance-Reporting/Pages/default.aspx">http://www.ifrs.org/Current-Projects/IASB-Projects/Performance-Reporting/Pages/default.aspx</a></td>
</tr>
<tr>
<td></td>
<td>Louder than Words</td>
<td><a href="https://www.frc.org.uk/Our-Work/Codes-Standards/Accounting-and-Reporting-Policy/Cutting-Clutter/Background.aspx">https://www.frc.org.uk/Our-Work/Codes-Standards/Accounting-and-Reporting-Policy/Cutting-Clutter/Background.aspx</a></td>
</tr>
</tbody>
</table>
## Appendix B - Table of extracts

A complete inventory of all extracts used in this publication is presented in the table below in alphabetical order of the reporting entity. All references to the websites are hyperlinked in the electronic version.

<table>
<thead>
<tr>
<th>Entity</th>
<th>Reporting Year</th>
<th>Country</th>
<th>Extract No.</th>
<th>Website/Hyperlink</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARM Holdings plc</td>
<td>2015</td>
<td>UK</td>
<td>3.5.1</td>
<td><a href="https://www.arm.com/company/investors/legacy-financials">https://www.arm.com/company/investors/legac y-financials</a></td>
</tr>
<tr>
<td><a href="#">Bulten AB</a></td>
<td>2015</td>
<td>Sweden</td>
<td>2.3.5</td>
<td><a href="http://mb.cision.com/Main/405/9955992/501237.pdf">http://mb.cision.com/Main/405/9955992/501237.pdf</a></td>
</tr>
<tr>
<td>Entity</td>
<td>Reporting Year</td>
<td>Country</td>
<td>Extract No.</td>
<td>Website/Hyperlink</td>
</tr>
<tr>
<td>------------------------------</td>
<td>----------------</td>
<td>---------</td>
<td>-------------</td>
<td>----------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Sligro Food Group N.V.</td>
<td>2015</td>
<td>Netherlands</td>
<td>2.3.2</td>
<td><a href="http://www.sligrofoodgroup.nl/upload/133bf1f7-7cf7-a4bc-9627-33a907f6300a_Annual%20report%202015%20EN.pdf">http://www.sligrofoodgroup.nl/upload/133bf1f7-7cf7-a4bc-9627-33a907f6300a_Annual%20report%202015%20EN.pdf</a></td>
</tr>
</tbody>
</table>
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