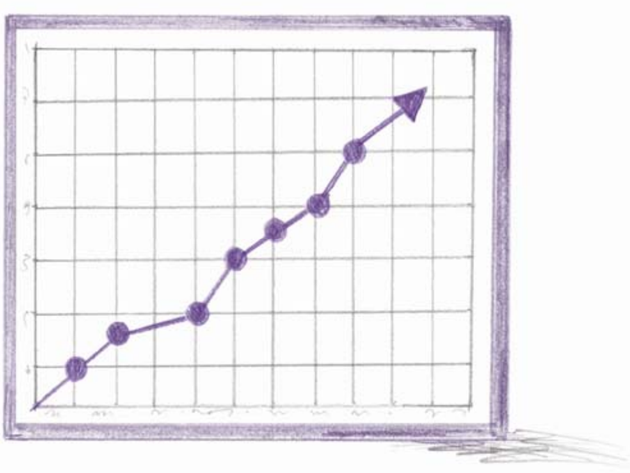
Grant Thornton

Operating Segments

Applying IFRS 8 in Practice
June 2009



Introduction

Operating Segments

The International Accounting Standards Board (IASB) published IFRS 8 *Operating Segments* to replace IAS 14 *Segment Reporting* for annual periods beginning on or after 1 January 2009 with earlier application permitted. IFRS 8 achieves close convergence with the requirements of the US Accounting Standard SFAS 131 *Disclosures about Segments of an Enterprise and Related Information*.

For entities that operate in a variety of classes of business, geographical locations, regulatory or economic environments or markets, segmental information is an essential management tool. It enables management to monitor performance, allocate resources and devise business and market strategies. IFRS 8 requires much of this management information to be published externally so that investors, analysts and other users of entities' financial statements can review an entity's operations from the same perspective as management.

This is a radically different approach from IAS 14 and has the potential to highlight sensitive information to competitors as well as other users of financial statements. Management need to understand the requirements of IFRS 8 and think carefully about what the required disclosures say about the way that they manage the business. There is no exemption from the disclosures on the grounds that management may consider the segment information sensitive or that its disclosure may cause 'competitive harm'.

This guide *Operating Segments - Applying IFRS 8 in Practice* (the guide) explains IFRS 8's key implementation issues and includes interpretational guidance in certain problematic areas. The guide also includes several examples illustrating the Standard's requirements.

The member firms of Grant Thornton International Ltd (Grant Thornton International) - one of the world's leading organisations of independently owned and managed accounting and consulting firms - have gained extensive insights into the more problematic aspects of IFRS 8. Grant Thornton International, through its IFRS team, develops general guidance that supports its member firms' commitment to high quality, consistent application of IFRS and is therefore pleased to share these insights by publishing this guide. The guide reflects the collective experience of Grant Thornton International's IFRS team and member firm IFRS experts.

Using this guide

The guide is organised as follows:

- **Section A** addresses the scope and objectives of IFRS 8 and provides an executive summary of the main principles of IFRS 8 and the main changes from its predecessor, IAS 14.
- **Section B** discusses the essential definitions of terms and their implications for identifying operating segments using the 'management approach' required by IFRS 8.
- **Section C** discusses the criteria for determining which operating segments need to be separately disclosed, illustrating the practical implications with several examples.
- **Section D** addresses the segmental information to be disclosed, including reconciliations of segment measures with amounts included in the primary financial statements.
- **Section E** highlights the entity-wide disclosures required to be given in addition to segment information.
- **Section F** outlines the requirements relating to comparative figures and the impact of changes to identified segments both for existing preparers and for first-time IFRS adopters.
- **Section G** highlights other standards that require consideration of operating segments, including those that apply to entities outside the scope of IFRS 8.
- **Appendices** include a flowchart for identifying reportable segments and example disclosures.

The guide is intended to assist companies and auditors in applying IFRS 8. We have not attempted to cover every aspect of applying IFRS 8. However, we believe this guide will help in addressing the problems most often encountered in practice.

Grant Thornton International Ltd
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IAS 1 Presentation of Financial Statements (Revised 2007)

IAS 1 (as revised in 2007) amended the terminology used throughout IFRSs. This revised IAS 1 becomes mandatory for all annual periods beginning on or after 1 January 2009, the same date that IFRS 8 becomes mandatory.

Therefore, all guidance in this publication is based on the 2007 version of IAS 1 and the related terminology amendments to IFRS 8.

Contents

A. IFRS 8 principles in brief

Summary of requirements

A. IFRS 8 requires an entity to disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

B. IFRS 8 requires an entity to report financial and descriptive information about its reportable segments.

- Reportable segments are operating segments or aggregations of operating segments that meet specified criteria.
- Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker (CODM) in deciding how to allocate resources and in assessing performance.

C. IFRS 8 specifies how an entity should report information about its operating segments in annual financial statements and, as a consequential amendment to IAS 34 *Interim Financial Reporting*, requires an entity to report selected information about its operating segments in interim financial reports.

D. Generally, financial information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. IFRS 8 requires reconciliations of total reportable segment revenues, total profit or loss, total assets, liabilities and other amounts disclosed for reportable segments to corresponding amounts in the entity's financial statements.

E. IFRS 8 sets out requirements for related entity-wide disclosures about products and services, geographical areas and major customers. It also requires an entity to report information about the revenues derived from its products or services (or groups of similar products and services), about the countries in which it earns revenues and holds assets, and about major customers, regardless of whether that information is used by management in making operating decisions.

F. IFRS 8 does not require an entity to report information that is not prepared for internal use if the necessary information is not available and the cost to develop it would be excessive.

G. IFRS 8 applies for annual periods beginning on or after 1 January 2009. Earlier application is permitted.

1 Objectives

The objective of IFRS 8 is set out in a core principle. This principle requires an entity to disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates (IFRS 8.1).

Operating segments are determined based on the structure of the organisation and how information is reported to management. IFRS 8 does not prescribe the measurement policies for the information to be disclosed. Instead the amounts disclosed are mainly based on the information presented to management. This is generally known as 'the management approach'.

1.1 The management approach

The IASB explain their decision to adopt the management approach in the Basis for Conclusions to IFRS 8 (IFRS 8.BC9-17). Reasons include:

- it gives consistency between what is reported to users and what is reported internally to management, enabling users to see how the entity is structured to reflect the risks and opportunities that management believe are important
- the ability to see segment information 'through the eyes of management' enhances users' ability to predict actions or reactions of management that can significantly affect the entity's prospects for future cash flows
- segment information is more consistent with information reported elsewhere in the annual report, for example in a management commentary
- the incremental cost of producing segment information is lower because it is based on the information already presented to management.

2 Scope of IFRS 8

The disclosure requirements of IFRS 8 are limited to entities within its scope (see Section A2.1 below). However, other entities may, in certain circumstances, need to identify operating segments in accordance with IFRS 8 in order to comply with the requirements of other standards (see Section A2.2 below).

2.1 Identifying entities within the scope of IFRS 8

The scope of IFRS 8 is generally similar to its predecessor IAS 14 *Segment Reporting*, but the wording has been clarified. IAS 14's scope was stated as:

"This Standard should be applied by enterprises whose equity or debt securities are publicly traded and by enterprises that are in the process of issuing equity or debt securities in public securities markets" (IAS 14.3).

IFRS 8 clarifies what is meant by a 'public' market and makes it clear that this includes 'over-the-counter' markets. As a result, the scope may capture a wider range of markets than some previous interpretations under IAS 14. It also makes clear that a parent entity that does not have publicly traded securities is not within the scope of IFRS 8, even if it has a subsidiary or investment in another entity that has issued listed securities (IFRS 8.BC23).

IFRS 8.2 states that:

"This IFRS shall apply to:

a) **the separate or individual financial statements of an entity:**
   - **i.) whose debt or equity instruments are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or**
   - **ii.) that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and**

b) **the consolidated financial statements of a group with a parent:**
   - **i.) whose debt or equity instruments are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or**
   - **ii.) that files, or is in the process of filing, the consolidated financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market. "**

IFRS 8.4 further clarifies:

"If a financial report contains both the consolidated financial statements of a parent that is within the scope of this IFRS as well as the parent's separate financial statements, segment information is required only in the consolidated financial statements."

Future developments

During their deliberations in finalising this IFRS, the Board decided that publicly accountable entities should be within the scope of IFRS 8. However, they also decided that the definition of 'public accountability' needed clarification and this is being developed in the context of the project on developing an IFRS for Small and Medium-sized Entities[1]. It is expected that a proposed amendment to the scope of IFRS 8 will be exposed in due course when the deliberations on the definition of publicly accountable are completed. (See IFRS 8.BC18-20.)

Some entities outside the mandatory scope of IFRS 8 may nonetheless decide to disclose such information. If such an entity chooses to disclose information about segments that does not comply fully with IFRS 8, it must not describe the information as segment information (IFRS 8.3). An alternative heading should be given to the disclosures.

2.2 Implications for all entities, including those outside the scope of IFRS 8

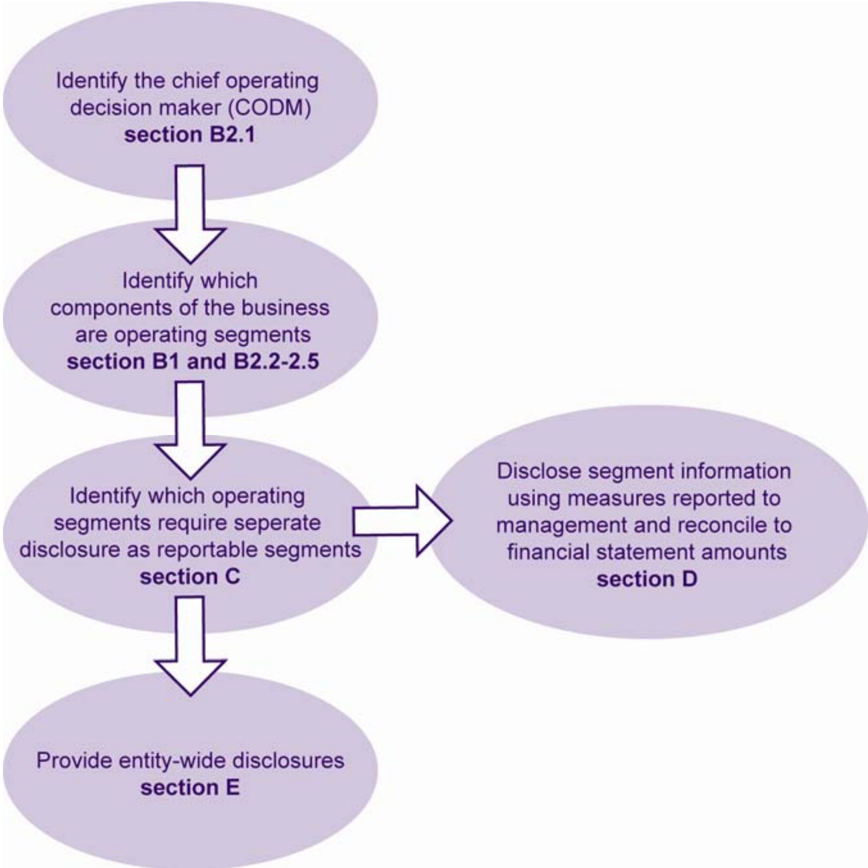
Although entities outside the scope of IFRS 8 are not subject to its disclosure requirements, they must still use the guidance in IFRS 8.5-10 (see section B of this guide) to identify operating segments when identifying cash generating units (CGUs) or groups of CGUs to which goodwill or mineral resource exploration and evaluation assets are allocated.

Section G of this guide outlines the interaction of IAS 36 *Impairment of Assets* and IFRS 6 *Exploration for and Evaluation of Mineral Resources* with IFRS 8. That section further highlights additional disclosure requirements of other IFRSs for entities within the scope of IFRS 8.

[1] This project has also been called the 'IFRS for Private Entities' and the 'IFRS for Non-Publicly Accountable Entities' at different times during its development. The IFRS for Small and Medium-sized Entities is expected to be published in mid-2009.

3 Steps to determine reportable segments - summary

The process for determining operating segments and identifying which of those are reportable separately is summarised in the flow chart below.



4 Main changes from IAS 14 Segment Reporting

Key differences between IFRS 8 and IAS 14 are:

	IAS 14	**IFRS 8**
Reporting segments	Risk and rewards approach Looks only to external revenue	Management approach Includes components that sell primarily to other components
Measurement	Measures used in financial statements	Measures reported to management
Disclosure	Primary and secondary formats	Extensive for segments and entity-wide

- IAS 14 required identification of segments based on industry types and geographical areas expected to have differing risks and rewards. IFRS 8 requires segments to be identified based on the manner in which management views the business.
- IFRS 8 requires entities to identify only one set of operating segments rather than the primary and secondary segments required by IAS 14.
- IAS 14 required the disclosure of secondary segment information for either industry or geographical segments, to supplement the information given for the primary segments. IFRS 8 requires similar information on an entity-wide basis. This requirement applies even in an entity with a single reportable segment.
- A component of an entity that sells primarily or exclusively to other operating segments is included in IFRS 8's definition of an operating segment if the entity is managed that way. IAS 14 limited reportable segments to those that earn a majority of their revenue from sales to external customers.
- IAS 14 defined the segmental measures to be reported in the financial statements and how the measures should be calculated. IFRS 8 requires the entity to report segmental measures on the basis of information reported to the chief operating decision maker (CODM). Consequently, IFRS 8 requires greater disclosure of how operating segments are determined and more extensive reconciliations from the segmental measures to those used in the primary financial statements.
- Entities outside the scope of IFRS 8 may present segment information on a voluntary basis but if the information does not comply fully with the requirements of IFRS 8, it should not describe the information as segment information. IAS 14 also permitted entities outside its scope to present voluntary segment information but that information had to comply fully with the requirements of IAS 14.

Many entities have disclosed in the period prior to adoption of IFRS 8 that they do not expect IFRS 8 to have a material impact on the entity's financial statements.
A number of early-adopters of IFRS 8 have stated in their first financial statements under IFRS 8 that their reporting segments are consistent with IFRS 8 and consequently the adoption of IFRS 8 has not resulted in any changes to the disclosures previously made under IAS 14.
We would question how many entities report internally using the same accounting policies as used for annual financial statements. Unless they do, the validity of these statements could be challenged.

5 Transition and effective date

An entity applies IFRS 8 in its annual financial statements for periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies IFRS 8 in its financial statements for a period beginning before 1 January 2009, it must disclose that fact.

Segment information for prior years that is reported as comparative information for the initial year of application is restated to conform to the requirements of IFRS 8, unless the necessary information is not available and the cost to develop it would be excessive (see Section F for more details).

There is no exemption from the disclosures on the grounds that management may consider the segment information sensitive or that its disclosure may cause 'competitive harm'.

B. Identifying Operating Segments

Summary of requirements

A. The entity identifies its chief operating decision maker (CODM). The term 'chief operating decision maker' identifies a function, not necessarily an executive with a specific title. That function is to allocate resources to and assess the performance of the components of an entity.

B. The entity applies a 'management approach' to identifying its operating segments, based on the information presented to the CODM.

C. Operating segments are components of an entity with the following three characteristics:

   a. the component engages in business activities from which it may earn revenues and incur expenses

   b. the component's operating results are regularly reviewed by the CODM to make decisions about resources to be allocated to the segment and assess its performance

   c. discrete financial information is available for the component.

In many cases identifying operating segments will be straightforward. However, in some situations the above guidance may not give a clear answer. For example the CODM may use more than one set of segment information or the segment characteristics may apply to two or more overlapping sets of components. In these and other situations judgement is required to determine how best to meet IFRS 8's core principle.

1 Definition of an operating segment

IFRS 8.5 defines an operating segment as follows:

"An operating segment is a component of an entity:

(a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),

(b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and

(c) for which discrete financial information is available.

An operating segment may engage in business activities for which it has yet to earn revenues, for example, start-up operations may be operating segments before earning revenues."

This approach focuses on how management has organised the entity to make key operating decisions and to assess performance. Using the above criteria to identify operating segments may be straightforward for many entities. However, in less obvious situations each aspect of the definition needs careful consideration. A number of the practical issues are discussed below.

2 Practical issues in identifying operating segments

The following sections look at some of the most common difficulties in identifying operating segments seen in practice, taking each characteristic in turn. Before applying each characteristic, it is important to be clear as to the identity of the chief operating decision maker (CODM).

2.1 Chief Operating Decision Maker (CODM)

A key aspect in determining an entity's operating segments is to identify its CODM. IFRS 8 explains that the term 'chief operating decision maker' is intended to mean a function rather than an executive with a specific title. The function is that of allocating resources to operating segments and assessing their performance.

In many entities it will be clear that the CODM is the chief executive. Identifying the CODM can however be more problematic because the applicable function depends on the entity's management structure and processes. The CODM function may for example be carried out by the entity's chief executive, chief operating officer, senior management team or the board of directors (IFRS 8.7). Typically the CODM will be the highest level of management at which decisions are made, but if a supervisory body is required to provide approval for those decisions then judgement is needed as to whether this supervisory body is the CODM.

IFRS 8.7:
"The term 'chief operating decision maker' identifies a function, not necessarily a manager with a specific title. That function is to allocate resources to and assess the performance of the operating segments of an entity. Often the chief operating decision maker of an entity is its chief executive officer or chief operating officer but, for example, it may be a group of executive directors or others."

2.1.1 Segment managers

Certain decisions about resource allocation are inevitably delegated by the CODM and are made at a lower level, by a segment manager for instance. The term 'segment manager' is used to describe a function rather than a specific person. The segment manager is responsible for maintaining direct communication with the CODM to discuss operating activities, financial results, forecasts, or plans for the segment. In certain instances, the CODM may also be the manager for a particular segment (IFRS 8.9).

The relationship between the roles of CODM and segment managers needs to be reviewed carefully to identify when a segment manager is included within the function of CODM. If the CODM is a group of individuals, including segment managers, the identification of operating segments is typically made at a lower level, resulting in the identification of additional operating segments.

Example - Identifying the CODM

Entity A's management organisation consists of a Chief Executive Officer (CEO) who oversees two Chief Operating Officers (COOs) that are responsible for two separate continental regions, each consisting of multiple countries. Each country engages in revenue-generating business activities and discrete financial information is available for each country.

The identification of the CODM either as the individual CEO or as the group consisting of the CEO and COOs in this example rests on whether the CEO individually makes the decisions about resource allocation and performance assessment or whether this is done by the management group.

Scenario 1: CEO is identified as CODM

The COOs regularly review operating results for the individual countries within their respective regions to assess performance and to decide how to allocate their regional resources to individual countries. The COOs report regularly to the CEO, providing summaries of their regional operating results and other financial information but reporting individual country information only by exception (ie when outside defined parameters or when requested by the CEO). The CEO then makes decisions as to how to allocate resources to the two continental regions managed by the two COOs.

In this case, the CEO is identified as the CODM. The operating segments are identified as the two continental regions overseen by the two Chief Operating Officers (segment managers).

Scenario 2: CEO plus COOs are identified as CODM

The COOs regularly review operating results for the individual countries within their respective regions to assess performance. The COOs report regularly to the CEO, providing summaries of their regional operating results and other financial information, supported by an analysis of results broken down by country. The CEO and the COOs then negotiate together to agree how to allocate resources to the regions and countries.

In this case, the CODM is identified as a group consisting of the CEO and the two COOs. The operating segments would be identified at the country - not the continental - level, resulting in a larger number of operating segments.

2.1.2 Review for changes to the identity of the CODM

Once the CODM has been identified, it is important to reconsider the identification when appropriate and following any business re-organisations, acquisitions or disposals. A change to the function that is the CODM may affect the identification of the operating segments. The implications of a change in operating segments are considered in Section F later in this Guide.

2.2 Components engaged in business activities

IFRS 8.5 makes clear that it is not necessary for a component of a business to actually earn revenues in order to be identified as an operating segment. The component merely needs to be capable of earning revenues or incurring expenses either currently or in the future. Consequently, the following components of the business may be identified as operating segments if discrete financial information is available and the operating results are regularly reviewed by the CODM.

2.2.1 Pre-operating activities

IFRS 8 includes, as an example of a possible operating segment, start-up operations which may engage in business activities for some time before they generate revenues (IFRS 8.5).

2.2.2 Corporate functions

A head office or other corporate function may be an operating segment. An example is a head office function that undertakes business activities (such as a treasury operation that earns significant investment income and incurs expenses), if the revenues earned are more than incidental (IFRS 8.6) to the activities of the entity.

In contrast, a head office function that undertakes activities such as finance and accounting, information technology and human resources (which are normally non-revenue generating, or earn only incidental revenues) would not usually be an operating segment. Examples of incidental revenues include interest income and expenses, and realised and unrealised foreign exchange gains and losses.

The distinction between the two situations is not always clear-cut and so requires management judgement. Even if the revenues are considered incidental, IFRS 8 does not preclude a corporate function or other similar segment from being a reportable segment if management believes the additional information may contribute to a better understanding of the entity.

2.2.3 Components with outputs transferred exclusively to other segments

Some entities may be managed on the basis of cost centres or have vertically integrated activities where the output from the cost centre or from one stage of production is used as the input to another business component or production stage. For example, in the oil industry, most or all of the crude oil production of an entity may be transferred internally to the entity's refining and retailing operations. In some such businesses, information about the components engaged in each stage of production may be useful for the users of the financial statements, as different activities within the entity might have significantly different prospects for future cash flow. The definition of operating segments in IFRS 8 includes components of an entity that sell primarily or exclusively to other operating segments of the entity.

Even if a component transfers all of its output to another entity without charging any transfer price, this does not preclude the component from being identified as an operating segment, as long as the other criteria are met.

Example - R&D cost centre with no reported revenue

Entity A has a research and development (R&D) department that is managed as a cost centre and for which discrete financial information is regularly presented to the chief operating decision maker (CODM). The R&D activities are not incidental to the activities of the entity. The R&D department provides an important service to two different manufacturing segments, which would otherwise have to pay external suppliers for similar services. The costs of the R&D department are not recharged to the manufacturing segments but the CODM reviews its operating results to assess whether to continue to perform the R&D activities in-house or to outsource them.

The R&D department satisfies the conditions to be identified as an operating segment.

2.2.4 Interests in joint ventures

Joint venture (JV) arrangements take many different forms and structures and the level of management involvement by an investor can also vary widely. In some situations, particularly in jointly controlled operations, the CODM of the investor regularly reviews the results and performance of the JV to decide what resources to allocate to the JV and how they should be managed. Consequently, the JV may be identified as an operating segment when applying the criteria in IFRS 8.5. This assessment will apply regardless of whether the JV is accounted for in the financial statements using the equity method or the proportionate consolidation method permitted by IAS 31 *Interests in Joint Ventures*.

2.2.5 Interests in associates

The investor in an associate does not control the way that resources are used within that associate (although it has significant influence). However, the investor's CODM may review the associate's operating results and performance to assess whether to sell or hold the investment (for example). It could be argued that this sell or hold decision meets the resource allocation part of the definition of an operating segment in IFRS 8.5(b). Under this view, an investment in an associate may be an operating segment (provided the other criteria are met).

Our view is that an associate is usually classed as an investment, rather than a component of the reporting entity, and is not generally identified as an operating segment for IFRS 8 purposes. We also note that information regarding associates is more specifically required by IAS 28 *Investments in Associates*.

2.2.6 Discontinued operations

A discontinued operation can meet the IFRS 8 definition of an operating segment, if it continues to engage in business activities during the period it is classified as held for sale.

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* sets out the disclosure requirements where a non-current asset (or disposal group) has, during the period, either been classified as held for sale or has been sold. When the entity reports segmental information in accordance with IFRS 8, the entity discloses the reportable segment in which the non-current asset (or disposal group) classified as held for sale or sold is presented (IFRS 5.41).

If a reportable segment is classed as discontinued, the combined disclosure requirements of IFRS 5 and IFRS 8 are extensive. However, the recent development highlighted below will help to reduce this disclosure.

Future development

In April 2009 the IASB published Improvements to IFRSs, which amends IFRS 5 to clarify that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. Disclosures in other IFRSs do not apply to such assets (or disposal groups) unless those IFRSs specifically require disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations.

In future, if an operating segment is classified as held for sale or discontinued, then the disclosures required by IFRS 8 for reportable segments will no longer apply and instead only those disclosures required by IFRS 5 need be given. Consequently, the measures for this segment will be aggregated with other non-reportable segments in the 'all other segments' category (see Section D).

The amendment is effective for annual periods beginning on or after 1 January 2010 but early adoption is permitted.

2.2.7 Post-employment benefit schemes

Post employments benefits schemes are specifically excluded from being identified as operating segments.

IFRS 8.6 states:

"Not every part of an entity is necessarily an operating segment or part of an operating segment. For example, a corporate headquarters or some functional departments may not earn revenues or may earn revenues that are only incidental to the activities of the entity and would not be operating segments. For the purposes of this IFRS, an entity's post-employment benefit plans are not operating segments."

2.3 Operating results regularly reviewed

An important criterion for identifying operating segments is that the operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. IFRS 8 does not define 'regularly' so judgment may be needed to decide if this condition is met. In practice, if the CODM reviews information on a quarterly or more frequent basis, this is expected to satisfy the condition.

2.3.1 Data available at different levels

A CODM may receive a monthly reporting pack containing high level information on the major business lines or geographical areas, with more detailed information on individual businesses or cash generating units (CGUs) available on request (a 'drill down by exception' approach). IFRS 8.5(b) looks to the level regularly reviewed by the CODM. In this case, the monthly reporting pack would then be the basis to identify segments rather than the drill down data.

In practice care will be needed to assess factors such as the frequency of review at the more detailed level. For example, the CODM may decide that a long-term, regular review of specific, underperforming components is needed.

2.3.2 Important information not reported to the CODM

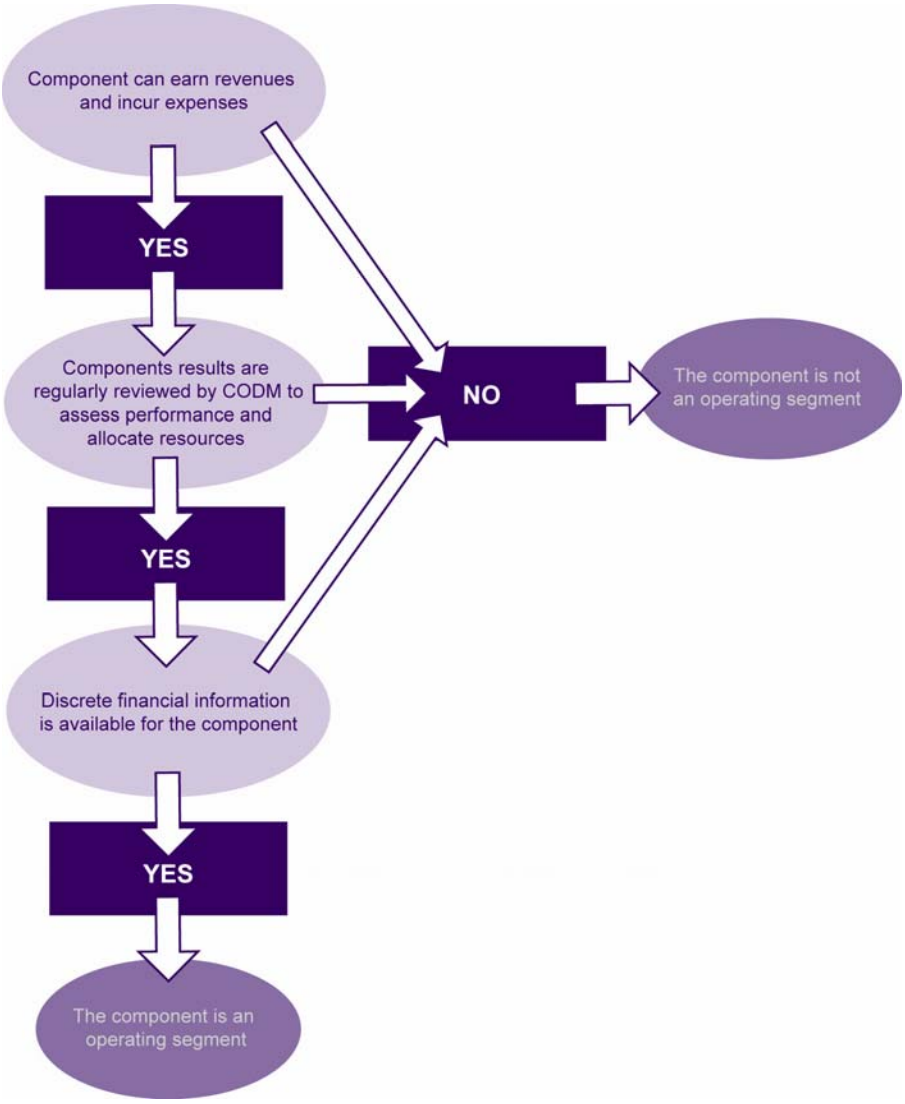
In some situations, significant management information that could affect decision-making is not reviewed by the CODM (effectively a corporate governance weakness). IFRS 8 bases segments on what is actually reviewed, not what ought to be reviewed in accordance with best practice. In an extreme scenario the resulting reduction in the segment disclosures may alert financial statement users to possible weaknesses in the internal reporting systems.

2.3.3 Press releases and other publicly available information

In some cases, an entity may provide regular press releases, analysts reports or other publicly available information relating to components of the business (for example management commentaries on components within quarterly trading updates or accompanying the annual financial statements). This type of information at least suggests that the results of these components are likely to be reviewed by the CODM and are considered significant by senior management. Consequently, regulators or other users of the financial statements may raise questions if the segments identified in the financial statements do not align readily with those identified for other reporting purposes.

Regulators may ask 'can you please explain why your management commentary on the way you manage your business does not align with your financial statements?'

Characteristics that identify operating segments - summary



2.4 Level of discrete information available for CODM review

The definition of an operating segment requires discrete financial information to be available to the CODM. The level of detail needed by the CODM to assess performance and allocate resources to segments is considered to determine whether this condition is met.

2.4.1 Only gross profit margin data is available

The definition of a segment in IFRS 8.5(b) uses the phrase 'operating results' but it is not clear whether this means net operating result or can be taken to mean gross operating result. As IFRS 8 takes a 'management approach' to identifying operating segments, then if the CODM decides that gross margin information is sufficient to use for performance measurement and resource allocation decisions then this is the level of operating results that is used to identify segments.

2.4.2 Only revenue data is available

In some entities, the CODM will review data on the revenues earned by a component but does not review cost or profitability data. For most entities, the review of revenue-only data is not sufficient for decision-making related to resource allocation or performance evaluation of a segment, unless the costs needed to generate such revenues is insignificant or is so stable that it does not vary significantly with the level of revenue generated. Consequently, components are unlikely to be identified as operating segments based on only revenue information.

2.4.3 Only cash flow data is available

In some circumstances, the CODM may only receive information with respect to the cash flows of components of the business, rather than profit figures. In our view, the cash flow information may provide management with a sufficient proxy for profitability. If so, this would be sufficient to satisfy the requirement for discrete financial information.

2.4.4 No segment statement of financial position data is available

A review by the CODM of the operating results of a component is one of the criteria for identifying segments in IFRS 8.5. In many cases, this requirement can be met with operating performance information only, such as revenue and gross profit by product line. The allocation of assets is not a criterion for the component to be considered an operating segment.

Indeed, IFRS 8 envisages that in some situations an entity might allocate depreciation expense to a segment without allocating the related depreciable assets (IFRS 8.27(f)). Similarly, IFRS 8 also acknowledges that in some situations the CODM will often not review segment liabilities and may not review segment asset data (see Section E3.2-3).

2.5 Matrix organisations

The approach for identifying an operating segment in IFRS 8 focuses on how management has organised the entity to make key operating decisions and to assess performance. Based on the above criteria, identifying operating segments may be obvious for many entities. However, a number of companies produce multiple sets of reports detailing business activities in different ways, representing a matrix-management approach.

In a matrix form of organisation, components of an entity may overlap with different aspects of components for which managers are responsible, with both being reported to the chief operating decision maker. For example, some regional managers may be responsible for product and service lines worldwide and others may be responsible for different geographical areas. The CODM regularly reviews the operating results of both sets of components and financial information is available for both. In this sort of situation it is more difficult to determine clearly which set of components should be identified as the entity's operating segments. Previously, IAS 14 required the products and service lines to be disclosed as primary segments with the geographical areas presented as secondary segments. However, under IFRS 8, the management approach requires the entity to determine which set of components represent the operating segments by reference to the standard's core principle. This core principle requires the entity to disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates (IFRS 8.1)

Consequently, when the CODM reviews more than one set of information, other factors should be considered in identifying the components that constitute operating segments. In particular, factors such as the nature of the business activities of each component, the existence of managers responsible for them, and how information is presented to the board of directors may aid in the operating segment identification (IFRS 8.8).

Example - Identifying segments in a matrix organisation

An entity sells food and grocery products through wholesale and retail operations in two geographical markets in Europe and North America. There is discrete financial information available for each selling activity for each product in each country in each geographical region.

The CODM reviews a monthly management pack that contains a summary of the wholesale and retail operating results in each region. More detailed breakdowns of the sales and operating results by product-line and by country is available but is only reviewed by the CODM by exception.

For each of the wholesale and retail operations, there is a global sales director who is responsible for all worldwide sales and to whom each regional sales manager reports. There are also global operating directors responsible for each of the wholesale and retail activities worldwide. The sales directors report to these operating directors, who in turn report directly to the CODM, which in this case is the chief executive officer.

The management reporting structure reflects the entity's priority to improve the profitability of individual product-lines. The CODM believes that improving and maintaining product quality is the key to achieving this and that different geographical markets will respond similarly to product improvements, but the wholesale and retail sales will react differently.

In this situation, both the sales markets and the geographic areas may meet the criteria for operating segments set out in IFRS 8.5: they are components of the entity that engage in business activities for which there is discrete financial information available and whose operating results are reviewed regularly by the CODM. Therefore, other factors need to be taken into account and judgement applied to determine which components should be reported as operating segments.

In this case, the management structure reflects the CODM's emphasis on product-lines (or business units responsible for those products) rather than geographical locations. The wholesale and retail operating directors report directly to the CODM, and are likely to be classed as 'segment managers'. The regional sales managers and global sales directors do not report direct to the CODM so would probably not be regarded as segment managers. Changes in product quality are not expected to result in different reactions in different geographic regions, suggesting the economic environment in the wholesale and retail markets are more significant than those of the geographic regions.

Therefore, it is likely that for this entity, the operating segments would be identified as the wholesale and retail segments.

The process described (applying the core principle and professional judgement as necessary) will result in the identification of the operating segments. Entities are of course able to report additional segmental information if they choose. For example, in the scenario above the operating segments are business units and management may elect to provide additional information on a geographic basis. Although not required by IFRS 8, a matrix presentation can be very useful to users of the financial statements.

IFRS 8 also requires some entity-wide disclosures which are described in Section E.

C. Reportable Segments

Summary of requirements

A. IFRS 8 requires an entity to identify its operating segments, as already discussed in the previous section of this Guide. From these identified segments, the entity identifies its 'reportable segments'.

B. Prior to determining its reportable segments, an entity is permitted to aggregate segments with similar economic characteristics that meet certain criteria.

C. Reportable segments are then identified as single operating segments or an aggregation of operating segments that meet certain quantitative thresholds set out in IFRS 8.

D. If the total external revenue reported by operating segments constitutes less than 75% of the entity's revenue, additional operating segments are identified as reportable segments until the 75% level is met.

E. If the number of reportable segments identified exceeds ten, the entity may consider combining segments to reduce the number of reported segments.

F. Reportable segments are the basis for disclosure of segment information in the financial statements. Disclosure requirements are dealt with in the next section of this Guide.

1 Introduction

The balance between presenting enough information to users of the financial statements and presenting too much information so that the overall picture is masked by detail is a fine one. For some large or complex entities, the number of operating segments identified may be excessive and the benefit of disclosing segmental information for each separate segment may be insufficient to justify the cost.

Consequently, IFRS 8 generally does not require disclosure of each separate operating segment. Instead, quantitative thresholds are set to select the more significant segments requiring separate disclosure. Some aggregation is permitted where segments have similar economic characteristics or fall below the quantitative thresholds. However, IFRS 8 also sets a minimum level for separate segment disclosure, based on external revenue levels.

The process for determining reportable segments can be confusing. The IASB has included a flow chart in the Implementation Guidance to IFRS 8 to assist. This is reproduced in Appendix 1 to this Guide. The process may be summarised as follows:

a) Identify operating segments, as discussed in section B.

b) (Optional step): Determine whether any operating segments meet all the aggregation criteria in IFRS 8.12 (see section C2 below) and if so aggregate them.

c) Review the identified operating segments and aggregated groups of operating segments to see if they meet the quantitative thresholds and so need to be treated as reportable segments (see section C3 below).

d) (Optional step - may be done here or after step e): For the remainder, determine whether any of the identified operating segments or aggregated groups of operating segments meet a majority of the aggregation criteria in IFRS 8.12. If they do, aggregate them and treat as reportable segments if they meet the quantitative thresholds (see section C6 below).

e) Test whether the external revenues of reportable segments identified so far represent 75% or more of the entity's external revenue. If not, additional reportable segments must be identified (either individual segments or aggregations of segments identified using step d), until the total of reportable segments reaches the 75% point (see section C4 below).

f) Aggregate the remaining segments not identified as reportable segments into an 'all other segments' category (see section C5 below).

2 Aggregation of operating segments prior to identifying reportable segments

As noted above, IFRS 8 permits (but does not require) operating segments to be aggregated for reporting purposes if and only if certain criteria are satisfied. Aggregation often improves the usefulness of the disclosures by avoiding excessive detail and focusing more readily on the overall trends and key information. The criteria (discussed below) ensure that only segments with similar economic risks and opportunities are aggregated.

IFRS 8 permits aggregation of operating segments for reporting purposes. The rules for aggregation differ at different stages. A diagram in section C6 below summarises the process.

Once aggregation has been considered, single operating segments or groups of operating segments (where permitted) are reportable segments if they exceed certain quantitative thresholds. The thresholds are based on a comparison of segment revenues, profit or loss and assets with the equivalent amounts for all the operating segments.

Any identified segments or groups of segments that do not meet the criteria for separate disclosure as reportable segments may nonetheless need to be reported to meet the 75% revenue test noted above. The remaining operating segments or groups are combined and disclosed in an 'all other segments' category (IFRS 8.16). However, an entity is allowed to report segment information for any of these smaller operating segments or aggregations of operating segments if it is considered useful to users of the financial statements (IFRS 8.13).

2.1 Criteria for aggregation

IFRS 8.12 states:

"Two or more operating segments may be aggregated into a single operating segment if aggregation is consistent with the core principle of this IFRS, the segments have similar economic characteristics, and the segments are similar in each of the following respects:
(a) the nature of the products and services;
(b) the nature of the production processes;
(c) the type or class of customer for their products and services;
(d) the methods used to distribute their products or provide their services; and
(e) if applicable, the nature of the regulatory environment, for example, banking, insurance or public utilities."

IFRS 8.12 notes that operating segments often exhibit similar long-term financial performance (eg similar long-term average gross margins) if they have similar economic characteristics. It may be difficult to assert similar economic characteristics if gross margins differ significantly but other performance factors such as trends in sales growth, returns on assets employed and operating cash flow may also be considered in making this decision. Differences in current-year margins may not preclude aggregation if the segments are expected to have similar long-term average gross margins and other trends over the long-term. Similarly, two operating segments that have similar gross margins in the current year, but are expected to have dissimilar gross margins in the future, should not be aggregated.

Regulators or other users of financial statements may take a different view as to what they consider to be 'similar economic characteristics'. If an entity wishes to aggregate segments then they should clearly document their justification.

Example - Consideration of long-term gross profit margins

Entity A is a retail chain that operates ten stores, each of which meets the definition of an operating segment. Seven of the stores are long-established in two geographic regions - Europe and the USA. The long-term average gross profit margin of stores is 20% in Europe and 25% in the USA.

The remaining three stores opened in European cities during the current year. Two of these achieved gross profit margins of approximately 17% due to initial sales promotions but indications are that profitability will increase to an average of 20% within the next two years. The third achieved a gross profit margin of 14% which, due to economic and cultural conditions in the country, is only expected to increase to 16% in the foreseeable future.

The difference in gross margins between Europe and the USA is not 5% (25% - 20% = 5%), but is 25% [(25% - 20%) ÷ 20% = 25%]. This suggests that the geographic regions do not meet the aggregation criteria, so must be viewed separately. However, the similarity of gross margins for the established stores indicate that the economic characteristics within each region are sufficiently similar that the stores can be aggregated with others in the same region.

Although two of the newly opened stores currently have different gross profit margins, the expected trend is an increase to the long-term average for other established stores in Europe and so, assuming other aggregation criteria are met, these two new stores can be aggregated with the established European stores to form a single operating segment for IFRS 8 purposes. The third new store is clearly subject to different economic conditions and these differences are expected to continue so the aggregation criteria are not met.

Consequently, entity A can identify three operating segments or groups of segments against which it will test the reportable segment quantitative thresholds (see below) as follows: American stores; the atypical single new European store; and all other new and established European stores.

3 Quantitative thresholds for reportable segments

Once the entity's operating segments have been identified, the entity must then determine which operating segments are reportable. Reportable segments are those operating segments, or groups of operating segments, that meet the quantitative thresholds for separate disclosure. Quantitative thresholds are included in IFRS 8 so as to limit the disclosures to a reasonable level.

3.1 The thresholds

IFRS 8.13 states:

An entity shall report separately information about an operating segment that meets any of the following quantitative thresholds:

a) **Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments.**

b) **The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of**
   - **i.) the combined reported profit of all operating segments that did not report a loss and**
   - **ii.) the combined reported loss of all operating segments that reported a loss.**

c) **Its assets are 10 per cent or more of the combined assets of all operating segments.**

The amounts considered when looking at the thresholds are the amounts reported to the CODM, before elimination of any intersegment transactions.

Example - Application of quantitative thresholds

Segment	**Segment Revenue CU**	**Segment profit / (loss) CU**	**Segment Assets CU**
Wholesale	900	100	80
Retail	1,400	200	750
Transport	200	(35)	70
Total	2,500	265	900

Further information:
The wholesale segment includes internal sales to the retail segment of CU600.

The transport segment derives revenue of CU160 from internal services provided to both the wholesale and retail segments.

Threshold amounts (calculated before any intersegment eliminations):
Total revenue: CU250 (2,500 x 10%)

Operating results: CU30 (300 x 10%), being 10% of the greater of the absolute amount of all operating segments not reporting a loss (100 + 200) and all operating segments reporting a loss (35)

Total assets: CU90 (900 x 10%)

Considering each of the operating segments in turn:
Wholesale segment exceeds the revenue threshold (900 > 250) and the result threshold (100 > 30); but not the assets threshold (80 < 90)

Retail segment exceeds the revenue threshold (1,400 > 250); the result threshold (200 > 30); and the assets threshold (750 > 90)

Transport segment exceeds the result threshold (35 > 30); but not the revenue threshold (200 < 250), nor the assets threshold (70 < 90).

Accordingly, all three segments meet at least one threshold and therefore all are reportable.

3.2 Impact of aggregating segments prior to consideration of quantitative thresholds for reportable segments

IFRS 8.11 provides the order in which the steps for identifying reportable segments are performed. That process is summarised in section C1 above and is also illustrated in IFRS 8.Illustrative Guidance IG7 (reproduced in Appendix 1 to this guide).

In summary:

- identify operating segments in accordance with IFRS 8.5-10 (as described in section B)
- aggregate identified operating segments with similar economic characteristics in accordance with IFRS 8.12 (see section C2 above)
- measure identified operating segments (or groups of aggregated segments, if applicable) against the IFRS 8.13 quantitative thresholds for reportable segments (see section C3.1 above)
- consider further aggregation of identified segments or groups of segments (see section C6 below).

If one or more of the aggregated segments has reported a profit but another has reported a loss, the net profit or loss is considered for the purpose of determining the reportable threshold for segment results. In some cases, this can change the number of reportable segments identified. However, the fact that one segment did not meet the quantitative thresholds prior to the aggregation of other segments does not preclude it from being considered a reportable segment subsequent to that aggregation.

Example - Impact of aggregation on quantitative threshold test

An entity has identified six operating segments, for which the operating profit (loss) is as follows:

	Operating profit (loss) CU
Segment A	10
Segment B	(50)
Segment C	20
Segment D	90
Segment E	90
Segment F	(10)
Total net profit	150

Based on the above information (and an evaluation of revenues and assets), Segments A, C and F do not meet any of the quantitative threshold criteria.
Segments B and E are economically similar and meet all of the aggregation criteria in IFRS 8.12. The entity chooses to aggregate them into a single operating segment.

Threshold calculations are as follows:

	Prior to Aggregation	**Subsequent to Aggregation**
Combined reported profits of segments not reporting a loss	210	160
Combined reported losses of segments reporting a loss	(60)	(10)
Greater absolute amount	210	160
10 per cent threshold	21	16

When the segments are evaluated against the post-aggregation quantitative thresholds, Segment C (which previously did not meet any of the quantitative thresholds) now meets the 10% of segment profit or loss criterion and so is reportable as well as Segment D and Segment B+E (aggregated).

4 Minimum number of reportable segments - the 75% revenue test

IFRS 8 does not explicitly require a minimum number of reportable segments but it does contain a requirement that may result in the identification of additional reportable segments after performing the quantitative threshold tests.

External revenue of reportable segments must constitute at least 75% of total consolidated revenue (IFRS 8.15). Consolidated revenue for the purpose of this comparison would, by definition, mean external revenue, as inter-segment revenue would be eliminated on consolidation. Identification of additional reportable segments is not required if this minimum threshold is met.

If this minimum external revenue threshold is not met, additional operating segments or aggregated operating segments must be identified as reportable segments until at least 75% of the entity's revenue is included in reportable segments. IFRS 8 does not prescribe which additional segments should be included to reach the 75% threshold. Consequently, entities are not required to identify the additional reportable segments in order of size.

However, we believe that entities should consider both quantitative and qualitative factors when determining for which additional segment disclosure would be most useful to users of financial statements.

Example - Identifying additional reportable segments to achieve the 75% external revenue requirement (significance of segments)

Entity X has identified seven operating segments. Segments A and C exceed at least one of the quantitative thresholds and are identified as reportable segments. However, the total external revenues generated by these two segments represent only 73% of the entity's total external revenues, as indicated below.

	External revenue CU
Segment A	40
Segment B	9
Segment C	33
Segment D	7
Segment E	6
Segment F	3
Segment G	2
Total net profit	100

None of the five remaining segments is individually large enough to constitute a reportable segment. Segment F is a new business unit that began contributing to revenue only two months before the end of the year. Management expect this segment to make a significant contribution to external revenue in the coming years. The remaining segments are expected to remain stable. Consequently, the entity designates this start-up segment as a reportable segment, making the total external revenues attributable to reportable segments 76% of total entity revenues.

5 Reporting segments that do not meet the reportable thresholds

An entity may identify one or more operating segments that do not exceed any of the quantitative thresholds for reportable segments but management believes that information about the segment(s) would be useful to users of the financial statements. For example, there may be a start-up segment that is expected to exceed the thresholds in the future and make a significant contribution to the future success of the entity. An entity may therefore choose to consider such a segment as reportable and so disclose it separately.

6 Aggregation of operating segments after identifying reportable segments

Once the reportable segments have been identified (including segments that are reported to meet the 75% revenue test - see Section C4 above), information about all remaining non-reportable operating segments is combined and disclosed in an 'all other segments' category. The sources of revenue included in this 'all other segments' category is disclosed (IFRS 8.16).

The totals for all segments are then used as the basis for the reconciliations required by IFRS 8.28 (see Section D for details).

Some entities may decide that this approach does not provide the most useful information to users. This may be for example because the total number of reportable segments is considered excessive or because disaggregated information for 'all other segments' is considered more useful. Such entities may then wish to combine various segments together into desirable reporting segments. The following paragraphs discuss some areas where IFRS 8 either permits or prohibits additional flexibility. This is followed by a flowchart that summarises the steps.

6.1 Combining operating segments that individually do not meet the quantitative thresholds

Once the first stage aggregation permitted by IFRS 8.12 has been considered (see section C2.1 above) and the reportable segments or groups identified, an entity has a limited further opportunity to aggregate some segments that are not individually reportable. An entity may combine information about operating segments that do not meet the quantitative thresholds for reportable segments with information about other operating segments of the same status if and only if the operating segments concerned have similar economic characteristics and share a majority of the aggregation criteria listed in IFRS 8.12 (see section C2.1 above). This new aggregation may be used to identify additional reportable segments.

As noted, for the purpose of combining segments in these circumstances only a majority of the aggregation criteria need to be met (IFRS 8.14). This is slightly less restrictive than the first stage aggregation described in section C2.1 above, for which all the criteria must be met.

6.2 Combining a reportable segment with a segment that does not meet the quantitative thresholds

In some cases, the external revenue of reportable segments is below the 75% of total revenue threshold required (see section C4 above) and so additional segments need to be identified as reportable. An entity may wish to aggregate another operating segment with an existing reportable segment to satisfy the 75% test rather than report another segment separately.

This is not permissible unless aggregation is consistent with the core principle, the segments are economically similar, and meet all of the aggregation criteria in IFRS 8.12 (see section C2.1 above).

Example - Identifying reportable segments to achieve the 75% external revenue requirement (combining segments)

Entity X has identified seven operating segments. Segments A and C exceed at least one of the quantitative thresholds and are identified as reportable segments. None of the five remaining segments is individually large enough to constitute a reportable segment.

However, the total external revenues generated by Segments A and C represent only 73% of the entity's total external revenues, as indicated below.

	External revenue CU
Segment A	40
Segment B	9
Segment C	33
Segment D	7
Segment E	6
Segment F	3
Segment G	2
Total net profit	100

Segment B has some similar economic characteristics to Segment C and to Segment G. B shares the majority but not all of the aggregation criteria in IFRS 8.12 in either case. Segments C and G share with each other the majority but not all of the criteria in IFRS 8.12.

In order to satisfy the requirement for the external revenue of reportable segments to represent at least 75% of the entity's external revenue (see Section C4 above), Entity X would like to aggregate Segments B and C.

Entity X cannot aggregate Segments B and C for this purpose because only some, not all, of the aggregation criteria in IFRS 8.12 are met.

Another segment must be identified as a reportable segment to reach the 75% threshold, as discussed in section 2.6 above. This may be any other individual segment or it may be Segments B and G combined, as neither individually exceeds the quantitative thresholds (IFRS 8.14) (see Section C6.1 above).

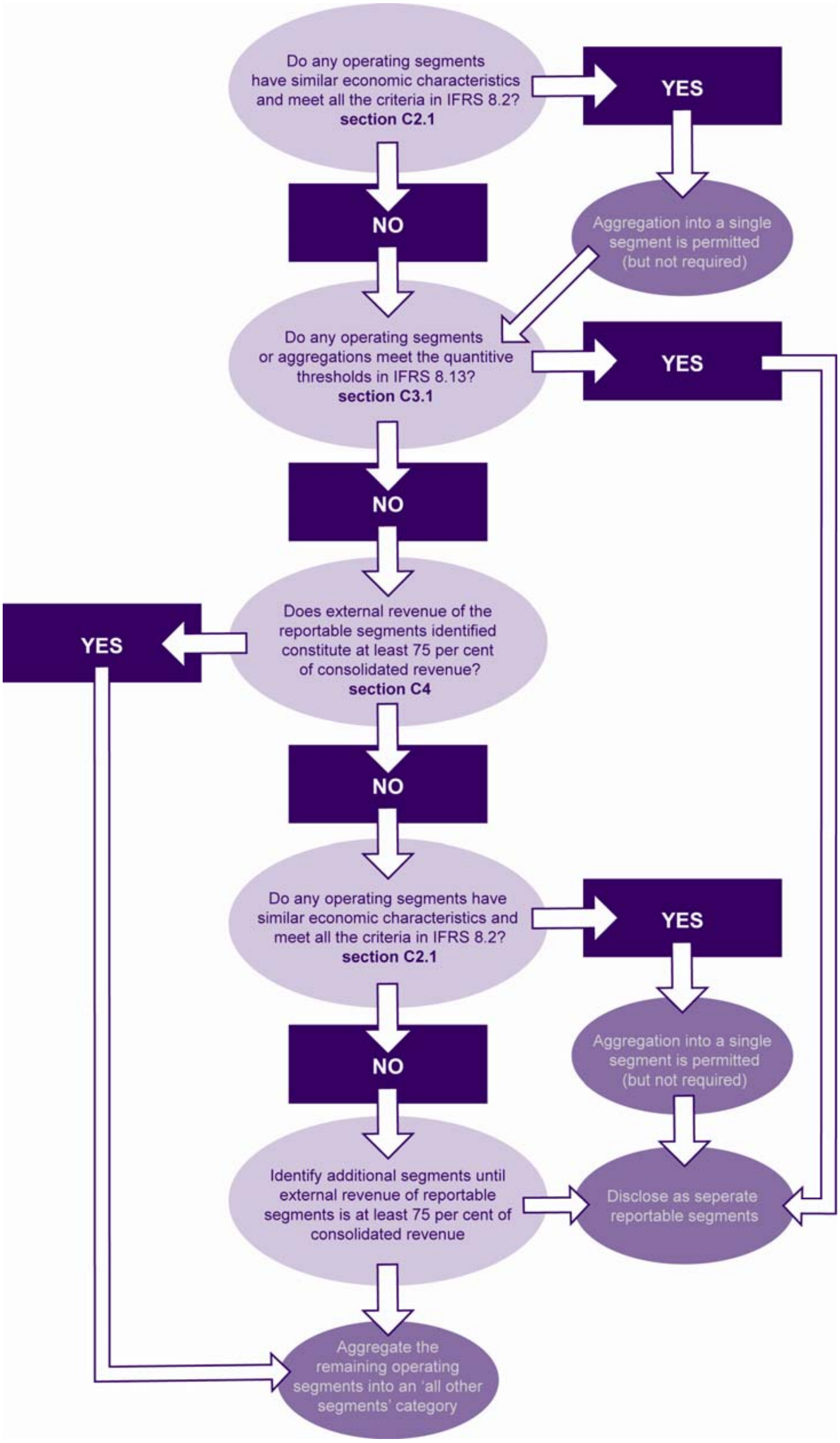
6.3 Combining reportable segments

Generally, reportable segments cannot be combined. In large and diverse groups however, the CODM may regularly review information about every subsidiary. If the subsidiaries have different economic characteristics then aggregation may not be permitted by IFRS 8.12. This may result in a large number of reportable segments.

IFRS 8.19 notes that there may be a practical limit to the number of reportable segments that an entity separately discloses beyond which segment information may become too detailed. IFRS 8 does not set a precise limit but does suggest that if the number of reportable segments increases above ten, the entity should consider whether a practical limit has been reached.

IFRS 8 does not provide any guidance as to the actions to be taken if a practical limit has been reached. In our view, entities should exercise caution in aggregating segments in these circumstances. If aggregation is needed at this stage, only segments that have a majority of the criteria listed in IFRS 8.12 should be aggregated. In addition, the disclosure of the factors used to identify the entity's reportable segments (see disclosure requirements in Section D2) should explain that the reportable segments formed as a result of this aggregation process only share a majority of the criteria for aggregation but have been combined in order to reduce the number of reportable segments to a practical level.

Aggregation of operating segments



7 Further practical application issues

7.1 Single customer satisfies thresholds for a reportable segment

Information may be separately reported to the CODM for the business conducted with a major customer. If the customer qualifies as a reporting segment using the normal IFRS 8 criteria described above, then the segment information for this customer should be separately disclosed. The identity of the customer need not be given but the segment should be appropriately described (IFRS 8.34).

7.2 CODM is presented with more than one measure for segment profitability and/or assets

The quantitative thresholds refer to internally reported profit (or loss) and internally reported assets when considering the 10% test. However, in some cases, different measures of profit and of assets are used by management so a consistent measure should be used for the purposes of assessing the 10% test.

IFRS 8 is not explicit as to which measure of profitability or of assets should be used for the purpose of the threshold test. However, using the management approach, it would seem logical to use the measure most relied upon by the CODM for assessing performance and deciding on the allocation of resources. If this does not give a clear answer we recommend the use of the measure that is most consistent with the measurement principles used elsewhere in the entity's financial statements.

Example - Selecting an operating profit measure to identify segments when more than one measure is used by the CODM

Each segment manager in entity A provides the CODM with two measures of profitability: operating profit and profit before income tax. Both measures are used by the CODM for profitability assessment and resource allocation decisions.

Segment operating profit is determined based on similar measurement principles to those used in the preparation of consolidated operating profit.

However, segment profit before income tax expense includes certain internal recharges and adjustments, such as corporate cost centre recharges; cost-of-capital charges; and elimination of fair value changes in financial instruments that are adjusted in determining consolidated profit before income tax reported in the financial statements.

In this case, segment operating profit would be the measure reported externally because this measure is the most consistent with its corresponding amount in the entity's financial statements. This would also be the measure used for determining the 10% threshold.

7.3 CODM uses different profitability or asset measures for different segments

The measure of segment profitability or segment assets may differ for each operating segment, as different operating segments may report different measures of profitability to the CODM. IFRS 8 does not contain any specific guidance in such circumstances. In our view, management should determine a reasonable and consistent basis to compare segments for the 10% result or asset test.

Example - Selecting a measure to identify reportable segments when the CODM uses different measures for different segments

An entity has three operating segments, none of which can be combined under the aggregation criteria. The following is reported to the chief operating decision maker:

- Segment 1 measures profitability based on net profit after pension cost allocations and internal cost-of-capital recharges. Asset information includes inventory, accounts receivable, tangible and intangible assets.

- Segment 2 measures profitability based on net profit after internal cost-of-capital recharges but excluding pension cost allocations. Asset information includes inventory, accounts receivable and tangible assets but excludes intangible assets.

- Segment 3 measures profitability based on net profit before any internal cost-of-capital recharges or pension cost allocations. Asset information is limited to accounts receivable.

Management have concluded that the most appropriate measure for determining the 10% threshold is the lowest level of profitability and assets reported to the CODM for all segments, as this provides the most consistent comparison.

The profit measure used for the quantitative threshold test is therefore the net profit before any internal cost-of-capital recharges or pension cost allocations. The asset measure used is accounts receivable.

D: Segment information to be disclosed

Summary of requirements

A. Segmental information is disclosed to enable users of the financial statements to evaluate the nature and financial effects of the business activities in which the entity engages and about the economic environments in which it operates (IFRS 8.20).

B. An entity discloses the following for each period for which a statement of comprehensive income is presented (IFRS 8.21):

   a. general information regarding the factors used to identify the entity's reportable segments and the types of products and services from which each reportable segment derives its revenues

   b. information about reported segment profit or loss, including specified revenues and expenses, segment assets, segment liabilities and the basis of measurement

   c. reconciliations of the totals of segment revenues, reported segment profit or loss, segment assets, segment liabilities and other material segment items to corresponding entity amounts as presented in the primary financial statements

   d. reconciliations of the amounts in the statement of financial position for reportable segments to the amounts in the entity's statement of financial position are required for each date at which a statement of financial position is presented.

C. The amount of each segment item reported is the measure reported to the chief operating decision maker for the purposes of making decisions about allocating resources to the segment and assessing its performance.

   - Adjustments and eliminations made in preparing an entity's financial statements and allocations of revenues, expenses, and gains or losses are included in determining reported segment amounts only if they are included in the measure used by the chief operating decision maker.

D. In addition to detailed segment information, some entity-wide information is disclosed (see section E).

1 General requirements

IFRS 8's 'management approach' has the effect that reportable segments and segment information will vary according to the information used by the CODM. As a result, disclosures will not be consistent between entities, even those operating in similar industries. It is therefore important that users are provided with an explanation of how management have identified the entity's operating segments and how the information reported to the CODM reconciles to the primary financial statements and therefore to normal IFRS principles.

The disclosures required include both narrative and quantitative information.

2 Disclosure of the factors used to identify segments

IFRS 8.22 requires an entity to disclose the following general information:

(a) factors used to identify the entity's reportable segments, including the basis of organisation, and

(b) types of products and services from which each reportable segment derives its revenues.

The factors disclosed under (a) above provide the user with information as to how management has organised the entity. This should clearly indicate whether segments are based on products and services, geographical areas, regulatory environments or a combination of factors. It should also indicate whether different operating segments have similar economic characteristics and have therefore been aggregated (see Section C).

3 Quantitative information about profit or loss, assets and liabilities

The amount of each segment item reported is the measure reported to the chief operating decision maker for the purposes of making decisions about allocating resources to the segment and assessing its performance (IFRS 8.25). This will often be different from the measures used in the primary financial statements. Further disclosures are therefore needed to reconcile the segment measures to the primary statements (see section D5 below).

IFRS 8.25 requires quantitative information to be disclosed using the amounts presented to the CODM. This will often be different to the amounts reported under IFRS policies in the financial statements.

Although IFRS 8 generally requires disclosure on the basis of information used in the business, there are limited circumstances in which entities may need to obtain additional information to meet the requirements of IFRS 8. This is particularly the case for segment asset information. The current version of the standard is inconsistent in this area and has been amended in the latest round of annual 'Improvements to IFRSs', published in April 2009 (see section D3.2 below).

3.1 Measure of segment profit or loss

The IASB anticipate that some sort of measure of segment profit or loss will be regularly reported to the CODM and so IFRS 8.23 requires that an entity reports a measure of segment profit or loss in all cases.

In practice, the measure used by the CODM is likely to vary significantly between entities. Clear disclosure of the measurement basis will therefore be very important (see section D4 below).

3.2 Measure of segment assets

Where a measure of segment assets is reported to the CODM, that measure is required to be disclosed (IFRS 8.23). In accordance with IFRS 8.25, the disclosure is based on what is reported to the CODM. If the internal reporting includes, say, cash, inventory and accounts receivables the sum of those items is disclosed.

IFRS 8.23 requires disclosure of a measure of segment assets. However, the IASB acknowledge that, whilst a measure of segment profit or loss is expected in every entity's internal reporting, there may be circumstances where a measure of segment assets is not included (IFRS 8.BC34). IFRS 8.BC35 confirms that a measure of segment assets should still be disclosed for all segments. Consequently, this information will need to be generated for the purposes of IFRS 8 if not included in internal reporting. However, see 'Recent development' below.

Recent development
This requirement was amended in the annual 2009 'Improvements to IFRSs'[2]. As a result, a measure of segment assets should only be disclosed when such information is provided to the CODM. This is consistent with the management approach and with the requirement for disclosure of a measure of segment liabilities only when such a measure is reported to the CODM (see below).

Until this change becomes effective[3], entities should disclose segment assets as required by IFRS 8.23, as confirmed by IFRS 8.BC35. Although mandatory adoption of this change is not required until accounting periods beginning on or after 1 January 2010, it may be advantageous to adopt this amendment early if a measure of segment assets is not already reported to the CODM. If this amendment is adopted early then the entity must disclose that fact.

3.3 Measure of segment liabilities

IFRS 8.23 requires that an entity reports a measure of liabilities for each reportable segment if, and only if, such an amount is regularly provided to the CODM.

3.4 Other specified segment measures

IFRS 8.23 requires disclosure of some items if they are either included in the measure of segment profit or loss reviewed by the CODM or are otherwise regularly provided. This means that the management reports presented to the CODM must be reviewed to identify whether these items are either included as separately disclosed amounts or have been charged/credited in arriving at segment results. If so, they must be disclosed. The specified amounts to be disclosed in these circumstances are:

(a) revenues from external customers

(b) revenues from transactions with other operating segments of the same entity

(c) interest revenue

(d) interest expense

(e) depreciation and amortisation

(f) material items of income and expense disclosed in accordance with paragraph 97 of IAS 1 *Presentation of Financial Statements* (revised 2007)

(g) the entity's interest in the profit or loss of associates and joint ventures accounted for by the equity method

[2] This version of Improvements to IFRSs was published in April 2009.
[3] This amendment is effective for periods beginning 1 January 2010, although early adoption permitted.

(h) income tax expense or income

(i) material non-cash items other than depreciation and amortisation.

An entity reports interest revenue separately from interest expense for each reportable segment unless a majority of the segment's revenues are from interest and the CODM relies primarily on net interest revenue to assess performance and make decisions. In that situation, an entity may report that segment's interest revenue net of its interest expense and disclose that it has done so (IFRS 8.23).

Example - Disclosure of depreciation and amortisation expense when the CODM uses EBITDA to assess segment results

The CODM evaluates the performance of the entity's segments based on earnings before interest, income taxes, depreciation and amortisation (EBITDA).

Included in the management reports reviewed by the CODM are summaries of depreciation and amortisation expense related to each of the segments, even though these amounts are not allocated within the segment results reported.

No allocations of interest or income taxes are made and only entity-wide amounts for these items are reported to the CODM.

Should the segment amounts for interest, income taxes, depreciation and amortisation be separately disclosed in accordance with IFRS 8.23?

Although in this example, depreciation and amortisation expense is not included in the measure of segment profit or loss that is reviewed by the CODM, such amounts are included in the information pack. Therefore, disclosure of depreciation and amortisation expense by each reportable segment is required.

However, as no segment analysis of interest or income taxes is provided to the CODM, no amounts for these items need be disclosed.

3.5 Disclosures for non-reportable segments

Information about other business activities and operating segments that are not separately reportable (after all preceding stages of aggregation and identification of reporting segments have been performed) is then combined and disclosed in an 'all other segments' category. A description of the sources of revenue included in this category is required (IFRS 8.16).

4 Disclosure of measurement policies

As noted in section D3 above, IFRS 8 requires disclosure of segment information based on amounts reported to the CODM. Information used for internal management reporting purposes varies widely from entity to entity. For example, the CODM may use profit figures that exclude certain items such as reorganisation costs, non-recurring or unusual items and fair value changes. CODMs in some entities may rely primarily on cash flow-based results.

In developing IFRS 8, the IASB decided that the cost of reduced comparability of information between entities was outweighed by the benefits of increased relevance of the management approach (IFRS 8.BC.Appendix A.86). They also recognised that, in view of the diversity of disclosure bases that arises under a management approach, some explanation and reconciliation of the segmental information would be necessary.

In addition to a numerical reconciliation between the segment measures reported and those used in the primary financial statements (see section D5 below), IFRS 8 requires an entity to disclose an explanation that enables users to understand the basis on which segmental information is measured.

The explanation should cover as a minimum (IFRS 8.27):

- The basis of accounting for transactions between reportable segments, including transfer pricing policies (eg market prices, cost, or cost-plus).
- Description of the measurement basis for each reported measure of segment profit or loss, segment assets and segment liabilities, in particular the nature of any differences between these measurements and those used for the entity's reported profit or loss before income tax expense or income and discontinued operations, or assets and liabilities in the entity's statement of financial position (unless apparent from the reconciliations described below).
- The nature of any changes from prior periods in the measurement methods used and the effect of the changes.
- The nature and effect of any asymmetrical allocations to reportable segments, for example an entity might allocate depreciation expense to a segment without allocating the related depreciable assets to the segment.

The numerical reconciliations described below may be sufficient to explain some of the more obvious reconciling items, such as inclusion of non-segment revenue from corporate functions that are not operating segments and exclusion of inter-segment revenue in the entity total. The narrative explanation described above may then focus on a description of other differences such as differences in accounting policies and policies for allocating centrally incurred costs or central assets and liabilities.

5 Reconciliation to IFRS primary financial statements

In addition to the narrative explanations described above, IFRS 8 requires disclosures to reconcile the segment items with the equivalent entity amounts (IFRS 8.28).

5.1 Segment measures to be reconciled

IFRS 8.28 requires reconciliations of:

(a) the total of the reportable segments' revenues to the entity's revenue

(b) the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations. However, if an entity allocates to reportable segments items such as tax expense (tax income), the entity may reconcile the total of the segments' measures of profit or loss to the entity's profit or loss after those items

(c) the total of the reportable segments' assets to the entity's assets[4]

[4] IFRS 8 originally required disclosure of a segment asset measure even if no such measure was disclosed to the CODM. An amendment to this requirement, published in April 2009, changed this to require disclosure of a segment asset measure only if disclosed to the CODM. Consequently, once this amendment is applied, the reconciliation of total reportable segment assets to the entity's assets will only be required if segment assets are reported to the CODM. See section D3.2 above for details of the amendment and its effective date.

(d) the total of the reportable segments' liabilities to the entity's liabilities (if segment liabilities are reported)

(e) the total of the reportable segments' amounts for every other material item of information disclosed to the corresponding amount for the entity.

Examples of reconciling items include: conversion of segment information reported on a local GAAP basis for segments; inclusion of activities of corporate functions that are not identified as operating segments; and elimination of intra-segment amounts.

The actual amount of each material adjusting item should be disclosed as well as a description.

Amounts relating to the 'all other segments' category are disclosed separately from other reconciling items (IFRS 8.16).

See Appendix 2 for example disclosures.

See Appendix 2 for example disclosures.

6 Further practical application issues

6.1 Management reports include more than one measure of segment results, assets or liabilities

As noted in Section C7, the CODM sometimes uses more than one measure of profit, assets or liabilities. In these circumstances the segment measures to be reported should be those that are determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the entity's financial statements (IFRS 8.26). For example, if the CODM uses both net profit before tax, interest, depreciation and fair value changes, and also net profit before tax but after these items, the latter measure would be used for IFRS 8 purposes. The basis of measurement of this profit would also be disclosed (see Section D4 above).

IFRS 8 sets out the minimum disclosure requirements and the basis of measurement for those disclosures. An entity may wish to disclose both measures but it must be clear which is most consistent with the figures used in the primary financial statements. Each amount disclosed must be reconciled to the entity-wide figures (as described in Section D5 above).

6.2 Ratios are reported to the CODM but not the underlying asset or liability amounts

In some entities, the CODM uses ratios derived from asset and liability balances (such as liquidity and working capital ratios) rather than the asset and liability amounts directly. This raises a question as to what asset or liability disclosure is needed.

In our view, the ratio is not a measure of the underlying asset or liability amounts so the ratio does not need to be disclosed. Similarly, the underlying components of liabilities do not need to be disclosed because this is not information used by the CODM. However, a measure of segment assets must be identified and disclosed unless the 2009 amendment is adopted early as described in Section D3.2 above.

6.3 Allocations of central costs and assets/liabilities

Centrally managed borrowings and interest costs may or may not be allocated to individual segments for the purpose of reporting to the CODM. Practices on allocation or non-allocation of other central costs, assets and liabilities also vary. IFRS 8 makes clear that these types of item are allocated in the segment disclosures only if they are included in the measures reported to the CODM. However, there is an additional requirement that any such allocations to reported segment amounts should be made on a reasonable basis (IFRS 8.25). In rare cases this may lead to questions as to how to address a situation in which allocations made for internal reporting are not 'reasonable'.

6.4 Adjustments to segment measures

Typically, adjustments are made to segment figures in preparing the entity's annual (and any interim) financial statements. These adjustments typically include the elimination of intra-segment transactions, the recognition of fair value changes and the correction of any errors in the segment amounts previously reported to the CODM. These items would normally not be adjusted for at the segment level but instead an adjustment would be made in total in order to reconcile the segment information with that reported for the consolidated entity as a whole.

Inclusion of error corrections in the reconciliation may highlight weaknesses in the internal reporting system.

Such adjustments are disclosed as reconciling items at this entity-wide level. Similar to central allocations, such adjustments are incorporated into the disclosed segment measures only if this is consistent with the reporting to the CODM (IFRS 8.25).

E: Entity-wide disclosures

Summary of requirements

IFRS 8 requires entities within its scope (including those entities with only one reportable segment) to make certain product and service and geographical disclosures for the entity as a whole rather than by reportable segment. These are referred to as entity-wide disclosures. Entity-wide disclosures are particularly useful when the segment disclosures do not otherwise include total revenues by product, service or revenue stream. This will be the case when different reportable segments sell the same product or service, and when reportable segments are not organised by geographic area. These disclosures are based on amounts incorporated in the primary financial statements rather than a management basis.

1 Exemptions from entity-wide disclosures

Before looking at the disclosures required in more detail, it is worth noting that separate disclosure is not required if the information is otherwise provided as part of the reportable segment information (IFRS 8.31).

Additionally, the entity-wide disclosures are not required where the necessary information is not available and the cost to develop it would be excessive. However, because the information is on an entity basis, it is not expected that this exemption will be invoked often. Most entities are likely to collect and retain information about their geographical operations and products and services. If the exemption is taken, that fact must be disclosed (IFRS 8.32-33).

Disclosure is not required where the information is not available to management. However, lack of disclosure may raise questions about the quality of the information used to manage the business.

2 Information about products and services

In addition to revenue-related disclosures required by other standards such as IAS 18 *Revenue*, IFRS 8 requires entities to disclose the revenues from external customers for each product and service or each group of similar products and services. Revenues disclosed should be based on the financial information used to produce the entity's financial statements (IFRS 8.32).

3 Information about geographical areas

Entities disclose the following geographical information, based on financial information used to produce the entity's financial statements (IFRS 8.33):

- Revenues from external customers attributed to:
  (a) the entity's country of domicile
  (b) all foreign countries in total from which the entity derives revenues.
- The basis for attributing revenue from external customers to individual countries (see section E3.1 below).
- Non-current assets (see section E3.3 below), other than financial instruments, deferred tax assets, post employment benefit assets and rights arising under insurance contracts located in:
  (a) the entity's country of domicile
  (b) all other foreign countries in total in which the entity holds assets.
- If revenues attributable to and/or assets located in an individual foreign country are material those revenues and/or assets should be separately disclosed.

Sub-totals may be given on a voluntary basis for groups of countries.

3.1 Basis for attributing revenues to countries

IFRS 8 is not specific as to how revenues are attributed to individual countries, but does require disclosure of the basis for this attribution. This would commonly be based on the location of the customer but may be on any other reasonable basis.

3.2 Impact of the European Economic and Monetary Union (EMU)

Some commentators have raised a question regarding the allocation of revenues to customers within the 'euro-zone' of the European Economic and Monetary Union (EMU). The euro-zone has seventeen member countries that share a common currency (the Euro)[5]. Is geographical information required for individual countries where applicable or can the entire euro-zone be treated as a single geographic unit?

The geographical information required by IFRS 8.33 is required, if material, by country. Consequently, in our view each country should be treated as a separate geographical unit for the purposes of this disclosure. However, IFRS 8.33 also allows voluntary disclosure of sub-totals for groups of countries so a euro-zone grouping may be provided as supplemental information.

3.3 Non-current assets

Non-current assets (as classified in accordance with IAS 1 *Presentation of Financial Statements*) identified for the purpose of IFRS 8 disclosure include tangible and intangible assets, but exclude financial instruments, deferred tax assets, post employment benefit assets and rights arising under insurance contracts. Where an entity classifies assets in its statement of financial position using a liquidity presentation, non-current assets are assets that include amounts expected to be recovered more than 12 months after the reporting date (IFRS 8.33(b)).

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[5] More details about the Euro, including a list of euro-zone countries can be found on the European Commission website at http://ec.europa.eu/economy_finance/the_euro/

4 Information about major customers

IFRS 8 requires disclosure of an entity's reliance on its major customers (IFRS 8.34). If revenues from transactions with a single external customer amount to 10% or more of an entity's revenues, the entity should disclose:

- that fact;
- the total amount of revenues from each such customer; and
- the identity of the segment or segments that report the revenues.

There is no need to disclose the amount of revenues that each segment reports from that customer or customers or the identity of the customer(s).

For the purpose of this disclosure, a group of entities known by the reporting entity to be under common control should be considered to be a single customer. A government (national, state, provincial, territorial, local or foreign) and entities known to the reporting entity to be under the control of that government should be considered to be a single customer[6].

[6] The IASB are currently considering proposals to amend IAS 24 *Related Party Disclosures* to relax the requirements relating to state-controlled entities. (Amended proposals were re-exposed in December 2008. A revised standard is expected before the end of 2009.) A consequential amendment to IFRS 8 might result from those proposals.

F: Restatement of previously reported segment information

Summary of requirements

A. Generally, any changes in the identity of reportable segments result in the restatement of comparative figures to reflect the reportable segments identified at the reporting date.

B. If the information required to restate comparative figures is not available and the cost to develop it is considered to be excessive, restatement is not required. However, the management approach to identifying reportable segments under IFRS 8 should reduce the likelihood that this exemption would be available.

1 First time application of IFRS 8

IFRS 8 is effective for annual periods beginning on or after 1 January 2009. Earlier adoption is permitted. The scope of IFRS 8 is similar to that of its predecessor standard IAS 14 *Segment Reporting*.

Segment information for prior years that is reported as comparative information for the initial year of application of IFRS 8 is restated to conform to the new requirements, unless the necessary information is not available and the cost to develop it would be excessive (IFRS 8.36). This applies whether an entity is required to report segment information for the first time or is transitioning from the application of IAS 14.

1.1 Transition from IAS 14

As noted in Section A, the IFRS 8 approach to the identification of operating segments and the measurement of segment items has changed significantly from the requirements of its predecessor standard IAS 14.

IAS 14 required two sets of reportable segments; one based on products and services and the other on geographical segments (but restricted reportable segments to those that earned their revenues from external customers). Operating segments are identified under IFRS 8 based on the way that an entity is managed and using the information regularly provided to the CODM in assessing performance and allocating resources to segments.

The measurement of disclosable items reported under IAS 14 was based on the IFRS accounting policies used in the primary financial statements. IFRS 8 requires disclosable items to be reported using the internal measures provided to management.

Consequently, there may be significant changes to the segments and amounts reported on first time application of IFRS 8. These changes must be applied retrospectively and so comparative information should be restated to conform with the requirements of IFRS 8. However, an entity need not restate comparative information if the information necessary to do so is not available and the cost to develop it would be excessive (IFRS 8.36). Use of this exemption is expected to be rare due to the long period between IFRS 8's publication (November 2006) and its mandatory effective date (annual periods commencing 1 January 2009).

2 Changes to reportable segments after initial application of IFRS 8

IFRS 8's management approach to identifying operating segments, and its requirements on identifying the reportable segments, have the effect that the reporting segments can change from one year to the next. IFRS 8 requires an ongoing assessment of which segments are reportable. Changes can occur in two ways:

- operating segments change in size or significance compared to the quantitative thresholds
- operating segments are created or eliminated due to changes in the structure of the entity and/or the information reported to the CODM.

The impact of such changes on the disclosures required by IFRS 8 is discussed below.

2.1 Operating segments change in size or significance compared to the quantitative thresholds

2.1.1 A previously reportable segment no longer exceeds the quantitative thresholds in the current period

A previously reportable segment may no longer exceed the quantitative thresholds in the current period because its size relative to the other segments has reduced. In such circumstances, management need to decide whether the particular segment is of continuing significance. If it is, perhaps because it contributes to the 75% external revenue total (see Section C4) or because it is likely to exceed the quantitative thresholds in the next period, information about that segment continues to be reported separately in the current period (IFRS 8.17).

Alternatively, if management decide that the particular segment is not of continuing significance, then it need not be reported separately in the current period. In this case, the comparative figures will need to be restated to eliminate the separate disclosure of this segment and include it within the 'all other segments' category.

2.1.2 A previously non-reportable segment exceeds the quantitative thresholds in the current period

If an operating segment that was not previously reportable is identified as a reportable segment in the current period because it now exceeds the quantitative thresholds, comparative segment data for the prior period is restated to reflect the newly reportable segment as a separate segment (IFRS 8.18).

This comparative information need not be given if it is not available and the cost to develop it would be excessive. However, as segments are identified using a management approach, the comparative information should usually be available at a reasonable cost.

2.2 Operating segments are created or eliminated due to changes in the structure of the entity and/or the information reported to the CODM

At each reporting date management should consider whether the previous period's operating segment structure continues to apply. The operating segments change when the components reported to the CODM change. This may occur as a result of (for example):

- changes to the operational structure such as acquisitions, disposals; new product introductions and entry into different geographical markets
- internal reorganisations and restructurings
- changes to the information reviewed by the CODM, which may occur if there is a change in the CODM (a new appointment or reassignment of functions)
- changes to an entity's management information systems.

2.2.1 Changes in reportable segments due to changes in structure or reporting pack detail

If an entity changes the information reviewed and used by the CODM in a manner that causes the composition of its reportable segments to change, the corresponding information for earlier periods, including interim periods, is restated (unless the information is not available and the cost to develop it would be excessive (IFRS 8.29)).

If the comparative segment information for earlier periods, including interim periods, is not restated to reflect the change, additional disclosure is needed for the period in which the change occurred. In such cases, the entity discloses segment information for the current period on both the old basis and the new basis of segmentation, again unless the necessary information is not available and the cost to develop it would be excessive (IFRS 8.30).

The determination of whether the information is not available and the cost to develop it would be excessive is made for each individual item of disclosure. For example, information might be available for revenue on the new basis, but not for the level of profit reported to the CODM. Accordingly, the entity should restate individual items that it can practicably restate.

2.2.2 Changes to segment measures

If an entity changes the measure of segment revenue, results or assets reported to the CODM without changing the structure or identity of existing operating segments, IFRS 8 does not specifically require restatement of the segment information (unless this change has resulted in a change to the reportable segments identified, as described in section F2.1 above).

However, details of any such change in the measurement basis should be given, together with the effect of the change on the measure of segment profit or loss (IFRS 8.27 - see section D4).

3 Interaction with IAS 1's requirement for a third statement of financial position

IAS 1 *Presentation of Financial Statements* sets out general requirements for comparative information to be disclosed. Specifically, IAS 1.39 requires, as a minimum, three statements of financial position along with related notes (as at the end of the current period, the end of the previous period and the beginning of the earliest comparative period) when an entity applies an accounting policy retrospectively, or makes a retrospective restatement of items or when it reclassifies items in its financial statements.

Consequently, any restatement of segment information for prior periods triggers the IAS 1 requirement for a comparative statement of financial position and related notes (including segment information relating to statement of financial position amounts) at the beginning of the earliest comparative period, even if there is no change to the overall entity figures used in that statement.

Restatement of segment information comparatives will trigger the IAS 1 disclosure of a third statement of financial position. This in turn triggers the requirement for additional comparatives for segment information relating to statement of financial position amounts.

4 First time adoption of IFRSs

There are no specific exemptions from the requirements of IFRS 8 on the first time adoption of IFRSs. Consequently, the requirements of IFRS 8 are applied retrospectively to comparative information in the first IFRS annual financial statements. The segments reported should be those identified as reportable segments at the end of the first IFRS reporting period.

If an entity produces any interim financial statements in accordance with IAS 34 *Interim Financial Reporting* during the period covered by its first IFRS annual financial statements, then segmental information is included in those interim financial statements (see Section G6). The segments reported should be those identified as reportable segments at the end of the interim IFRS reporting period and any changes to reportable segments will be reflected as discussed above.

G. Other standards involving consideration of operating segments

Summary of requirements

When IFRS 8 was published consequential changes were made to several other IFRSs and IASs. Some of these changes may affect entities that are not required to apply IFRS 8.

1 Introduction

A number of other standards refer to segment information or the identification of segments in accordance with IFRS 8. In some circumstances, additional disclosures relating to segments are only required for entities within the scope of IFRS 8 (see Section A). However, in some situations, the requirements of other standards relating to segments apply to all entities, including those outside the scope of IFRS 8.

2 IAS 36 Impairment of Assets

IAS 36 *Impairment of Assets* requires goodwill acquired in a business combination to be allocated to the cash-generating units (CGUs) or groups of CGUs of the acquiring entity expected to benefit from the synergies of the combination. Each CGU (or group of CGUs) should not be larger than an operating segment determined in accordance with IFRS 8 (IAS 36.80). Previously, this allocation threshold was based on primary or secondary segments as defined in IAS 14. IAS 36.80's reference to operating segments for goodwill allocation purposes is a reference to operating segments not to reportable segments. This requirement was clarified by an amendment in the annual 'Improvements to IFRSs (April 2009)'.[7] This confirmed that the operating segments identified for the purpose of this test are those defined by IFRS 8.5 before any aggregation permitted by IFRS 8.12 or 8.14.

Consequently, all entities that have goodwill should consider whether their allocation to CGUs (or groups of CGUs) is consistent with this requirement. Any changes to the allocation should be in place for the purpose of goodwill impairment testing for the first period in which IFRS 8 is applied or for periods beginning on or after 1 January 2009 for entities that are not within the scope of IFRS 8.

[7] This version of Improvements to IFRSs was published in April 2009. This amendment is effective for periods beginning 1 January 2010, although early adoption permitted.

2.1 Impact of segment structure on goodwill allocation

The segment structure acts as an upper limit on aggregation for goodwill allocation purposes and will not therefore affect impairment testing if goodwill is allocated at a lower level. For example, if an entity has allocated goodwill to individual CGUs which are smaller than segments (as defined in both IFRS 8 and IAS 14) the segment limit has no effect.

2.2 Prospective or retrospective application of changes to segments for impairment testing

If implementation of IFRS 8 requires a new or more detailed goodwill allocation, this raises the question as to whether this should be done retrospectively or prospectively.

We consider that the effect of IFRS 8 on goodwill impairment (if any) should be dealt with prospectively. We do not consider that testing goodwill at a lower level of allocation is a change of accounting policy. Rather, the accounting policy is the requirement for goodwill to be tested annually and carried at no more than its recoverable amount.

Example - Reallocation of goodwill to segments due to change from IAS 14 to IFRS 8

Company S provides professional services via two main service lines: Consultancy Services and IT Services. The business is conducted in six offices, three of which provide Consultancy Services and three provide IT Services. Each office is considered to be a separate CGU. The IT Services business was acquired several years ago in a business combination in which goodwill of CU10m arose. This created cross-selling opportunities, such that the Consultancy Services line was expected to benefit from the synergies of acquiring the IT Services business.

Company S originally applied IAS 14 and determined that its primary segments are its two services lines. It has no secondary segments. Management monitor goodwill at the segment level. Each segment comprises a group of three CGUs (ie the three offices in each segment). Therefore, the original allocation exercise using IAS 14 segments resulted in goodwill of CU4m being allocated to Consultancy Services and CU6m to IT Services.

Company S is implementing IFRS 8 for the first time in the current annual period. Its CODM regularly monitors operating results for each of the six offices meaning that segments are now set at office level. The existing goodwill allocation to Consultancy Services and IT Services is therefore to groups of CGUs that are larger than operating segments, which is not permitted by IAS 36.80 (as revised). Management must reallocate the goodwill to each of the six CGUs in order to comply with IAS 36.

The goodwill of CU4m previously allocated to Consultancy Services is therefore reallocated amongst the three CGUs. This reallocation can be based on the relative value of the three CGUs unless another approach better reflects how each CGU benefits from the synergies of the combination (see IAS 36.87). A similar reallocation is required for the goodwill of CU6m previously allocated to IT Services.

Impairment testing is then performed on each segment. Any impairment loss recognised as a result of this testing at the more detailed level may result in part from current period developments and in part from the change in the approach to the impairment test. However, in our view the entire impairment loss should be recorded in the current period income statement.

2.3 Additional impairment disclosures for entities within the scope of IFRS 8

In addition to the general impairment disclosures required by IAS 36, an entity within the scope of IFRS 8 (see Section A2.1) gives additional segmental information relating to impairment. The specific segmental information required is contained in IAS 36.129-130.

- The entity discloses the amounts recognised in profit or loss and in other comprehensive income during the period for each reportable segment for the following items:
  - impairment losses
  - reversals of impairment losses (IAS 36.129).

- If an impairment loss on an individual asset (including goodwill) is recognised or reversed in the period and is material to the entity's financial statements as a whole, the reportable segment to which the asset belongs is disclosed (IAS 36.130(c)).

- If the material impairment loss or reversal relates to a cash generating unit rather than individual asset, the entity should give a description of the unit (such as whether it is a product line, a plant, a business operation, a geographical area, or a reportable segment as defined in IFRS 8) and also disclose the amount of the impairment loss recognised or reversed by class of assets and by reportable segment (IAS 36.130(d)).

3 IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* sets out the disclosure requirements where a non-current asset (or disposal group) has, during the period, either been classified as held for sale or has been sold. When the entity reports segmental information in accordance with IFRS 8, the entity shall disclose the reportable segment in which the non-current asset (or disposal group) classified as held for sale or sold is presented (IFRS 5.41).

4 IFRS 6 Exploration for and Evaluation of Mineral Resources

IFRS 6 *Exploration for and Evaluation of Mineral Resources* requires that an entity determines an accounting policy for allocating exploration and evaluation assets to cash-generating units or groups of cash-generating units for the purpose of assessing such assets for impairment.

Consistent with the requirements of IAS 36 discussed in Section G2.1 above, the cash-generating unit or group of units to which an exploration and evaluation asset is allocated is not larger than an operating segment determined in accordance with IFRS 8 (IFRS 8.21).

5 IAS 34 Interim Financial Statements

For entities within the scope of IFRS 8 (see Section A2.1), IAS 34 *Interim Financial Reporting* also requires segment disclosures in interim financial statements (IAS 34.16(g)).

If an entity publishes an interim financial report in accordance with IAS 34, it may choose to present either a complete set or a condensed set of financial statements.

IAS 34 requires disclosure of some segmental information in interim financial statements. See Appendix 3 for example disclosures.

A complete set of financial statements published in an interim report conform to the requirements of IAS 1 *Presentation of Financial Statements*, which requires compliance with all the requirements of IFRSs (IAS 1.16 (2007)). Consequently, if an entity presents a complete set of financial statements as interim financial statements, the full requirements of IFRS 8 described in the earlier sections of this Guide apply.

Alternatively, an entity may elect to present condensed financial statements and selected notes in its interim report. IAS 34 sets out the minimum contents of such condensed financial statements (see Section G5.2 below) but does not prohibit or discourage entities from disclosing more than the minimum required. In some jurisdictions, additional items may be required to be disclosed but such local requirements are outside the scope of this Guide.

5.1 Identification of reportable segments in interim periods

IAS 34 sets out the minimum segment information to be disclosed but does not discuss the identification of reportable segments in interim periods. This raises a question as to whether entities are required to apply the quantitative tests to their operating segments for each interim period when determining their reportable segments for the interim period?

Interim information is intended to be an update of the information that was presented in the most recent annual financial statements (IAS 34.6). Generally, therefore, an entity need not apply the quantitative tests in each interim period.

However, if facts and circumstances change that would suggest that application of the quantitative tests in an interim period would reveal a change in reportable segments, for example a change in the structure of an entity's internal organisation or a substantial change in the significance of a segment that is expected to persist at the next annual reporting date, then segment information should be provided based on the assessment of quantitative thresholds at the interim date. This conclusion is consistent with the basic principle of interim financial reporting in IAS 34.28, which states:

"An entity shall apply the same accounting policies in its interim financial statements as are applied in its annual financial statements, except for **accounting policy changes made after the date of the most recent annual financial statements that are to be reflected in the next annual financial statements"** (emphasis added)**.**

The conclusion is also supported by the requirement in IAS 34.16(g) (see Section G5.2 below) to disclose a description of any differences from the last annual financial statements in the basis of segmentation.

If a change in the reporting segments is recognised in the interim period, then comparative figures should be restated as discussed in section F2.2.1.

5.2 Minimum content of segment information in condensed interim financial statements

Entities should disclose the information listed below, as a minimum, in the notes to their condensed interim financial statements, if material and if not disclosed elsewhere in the interim financial report. The information is normally reported on a financial year-to-date basis, but the entity should also disclose any events or transactions that are material to an understanding of the current interim period. For example, if an entity reports on a quarterly basis the segment information for the second quarter should cover the six months of the financial year to date, but any significant events or transactions in the second quarter should be disclosed.

The following segment information should be disclosed (IAS 34.16(g)):

- segment external revenues, if included in the measure of segment profit or loss reviewed by the chief operating decision maker (CODM) or otherwise regularly provided to the CODM
- inter-segment revenues if included in the measure of profit or loss reviewed by the CODM or otherwise provided to the CODM
- a measure of segment profit or loss
- total assets for which there has been a material change from the amount disclosed in the last annual financial statements

- a description of any differences from the last annual financial statements in the basis of segmentation or in the basis of measurement of segment profit or loss
- a reconciliation of the total reportable segments' measure of profit or loss to the entity's profit or loss before tax and discontinued operations; unless the entity allocates tax or discontinued operations to segments, in which case the reconciliation is to the entity's profit after such items. The reconciliation should identify and describe separately each material reconciling item.

See Appendix 3 for example disclosure.

See Appendix 3 for example disclosures.

6 IAS 7 Statement of Cash Flows

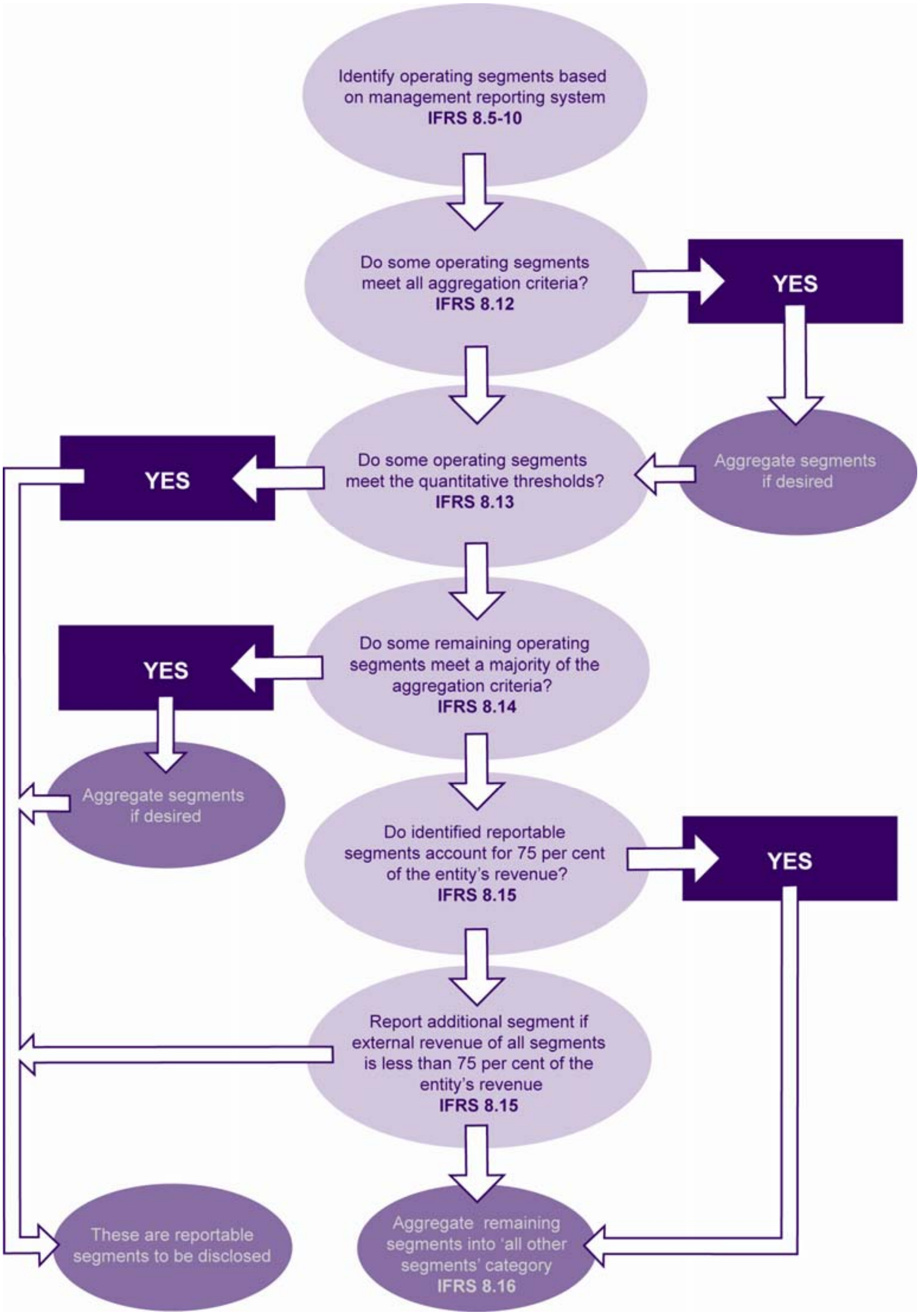
In addition to the disclosure of material non-cash items required by IFRS 8.23(i) (see Section D3.4 above), IAS 7 *Statement of Cash Flows* encourages, but does not mandate, disclosure of additional cash flow information for entities reporting in accordance with IFRS 8.

IAS 7.50 notes that additional information about cash flows may be relevant to users in understanding the financial position and liquidity of an entity. Disclosure of this information, together with a commentary by management, is encouraged. The additional information to be disclosed may include the amount of cash flows arising from the operating, investing and financing activities of each segment reported in accordance with IFRS 8.

As disclosure of this information is encouraged rather than required, the extent of the disclosure varies widely. We suggest that if it is included it should reflect the segment information presented to management and need not be specifically generated for the purpose of this disclosure (consistent with the management approach of IFRS 8).

Appendix 1: Identifying reportable segments - process flowchart

The following chart reflects that provided in the 'Guidance on Implementing IFRS 8'.



Appendix 2: Example disclosures of segmental information

This Appendix sets out illustrative disclosures under IFRS 8 for a fictional entity, Granthor Corporation (the Group) in the first year the standard is applied. The form and content of IFRS financial statements of course depends on the reporting entity's activities and transactions. IFRS 8's management approach has the effect that each entity's disclosures will be unique.

Notes to the financial statements

Reference	1.1 Adoption of IFRS 8 Operating Segments
IFRS 8.35 IAS 8.28(a) IAS 8.28(c) IAS 8.28(f)	This year the Group adopted IFRS 8 *Operating Segments*,[8] which replaces IAS 14 *Segment Reporting*. The standard is applied retrospectively. The accounting policy for identifying segments is now based on internal management reporting information that is regularly reviewed by the chief operating decision maker. In contrast, IAS 14 required the Group to identify two sets of segments (business and geographical) based on risks and rewards of the operating segments. This change has resulted in the Service activities being identified as a separate operating segment for the Group instead of being reported as part of the Consulting segment. Refer to note 1.2 for further information about the entity's segment reporting accounting policies under IFRS 8. The new format can be found in note 2.

8 The discussion of the initial application of IFRSs needs to be disclosed only in the first financial statements after the new or revised rules have been adopted by the entity.

1.2 Segment reporting

IFRS 8.22(a)

In identifying its operating segments, management generally follows the Group's service lines, which represent the main products and services provided by the Group.

IFRS 8.22(b)

The Group operates three main business segments: Consulting; Service and Retail. The activities undertaken by the Consulting segment includes the sale, customisation and integration of IT and telecommunication systems. Maintenance of these systems is undertaken by the Service segment. The Retail segment includes the entire Group's internet based selling activities of hardware and software products.

IFRS 8.27(a)

Each of these operating segments is managed separately as each of these service lines requires different technologies and other resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

IFRS 8.27(b-d)

The measurement policies the Group uses for segment reporting under IFRS 8 are the same as those used in its financial statements, except that:

- post-employment benefit expenses;
- expenses relating to share-based payments;
- research costs relating to new business activities; and
- revenue, costs and fair value gains from investment property

are not included in arriving at the operating profit of the operating segments.

In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment. In the financial periods under review, this primarily applies to the Group's headquarters and the Granthor Research Lab in Greatville.

IFRS 8.27(e)
IFRS 8.27(f)

In prior periods, the measurement methods used to determine reported segment profit or loss included allocations of the amounts described immediately above. This change of policy results from the application of IFRS 8 for the first time in the current year. Comparative figures have been restated to reflect this change.

2 Segment reporting

Management currently identifies the Group's three service lines as operating segments as further described in note 1.2. These operating segments are monitored and strategic decisions are made on the basis of segment operating results.

IFRS 8.16 In addition, two minor operating segments, for which IFRS 8's quantitative thresholds have not been met, are currently combined below under 'other'. The main sources of revenue for this operating segment is sale and disposal of used IT equipment that the Group collects from its customers. Segment information can be analysed as follows for the reporting periods under review[9]

		Consulting 2009 CU000	Service 2009 CU000	Retail 2009 CU000	Other 2009 CU000	Total 2009 CU000
	Revenue					
IFRS 8.23(a)	From external customers	110,810	18,140	72,098	4,079	205,127
	Discontinued operations	-	-	9,803	-	9,803
IFRS 8.23(b)	From other segments	231	-	-	-	231
	Segment revenues	111,041	18,140	81,901	4,079	215,161
	Changes in inventories	(4,694)	-	(3,129)	-	(7,823)
IFRS 8.23(f)	Costs of material	(17,468)	(5,442)	(22,040)	(1,397)	(46,347)
	Employee benefits expense	(54,224)	(10,863)	(46,359)	(2,447)	(113,893)
IFRS 8.23(e)	Depreciation and amortisation of non-financial assets	(3,388)	(555)	(2,205)	(125)	(6,273)
IAS 36.129(a)	Impairment of non-financial assets	(1,669)	-	-	-	(1,669)
	Other expenses	(9,446)	(30)	(1,110)	(10)	(10,596)
IFRS 8.23	Segment operating profit	20,152	1,250	7,058	100	28,560
IFRS 8.23	Segment assets	67,864	11,110	44,155	2,498	125,627

[9] IFRS 8 requires the amount of each operating segment item reported using the measures reported to the chief operating decision maker (ie based on internal management information). These example disclosures are therefore based on substantial assumptions, and cannot be viewed as a template for providing segment disclosures. It is therefore important to emphasise that segment reporting should be tailored on the basis of the entity's internal management reporting.

		Consulting 2008 CU000	Service 2008 CU000	Retail 2008 CU000	Other 2008 CU000	Total 2008 CU000
	Revenue					
IFRS 8.23(a)	From external customers	109,302	17,832	59,310	4,121	190,565
	Discontinued operations	-	-	11,015	-	11,015
IFRS 8.23(b)	From other segments	110	-	-	-	110
	Segment revenues	109,412	17,832	70,325	4,121	201,690
	Changes in inventories	(3,344)	-	(2,229)	-	(5,573)
IFRS 8.23(f)	Costs of material	(18,516)	(5,350)	(19,197)	(1,319)	(44,382)
	Employee benefits expense	(56,277)	(10,498)	(38,997)	(2,473)	(108,245)
IFRS 8.23(e)	Depreciation and amortisation of non-financial assets	(3,585)	(587)	(2,332)	(132)	(6,636)
IAS 36.129(a)	Impairment of non-financial assets	(190)	-	-	-	(190)
	Other expenses	(9,203)	(100)	(1,761)	(20)	(11,084)
IFRS 8.23	Segment operating profit	18,297	1,297	5,809	177	25,580
IFRS 8.23	Segment assets 2008	51,591	8,446	33,567	1,899	95,503
IFRS 8.23	Segment assets 2007[10]	45,550	7,457	29,637	1,677	84,321

The Group's revenues from external customers and its non-current assets (other than financial instruments, investments accounted for using the equity method, deferred tax assets and post-employment benefit assets) are divided into the following geographical areas:

		2009 CU000		2008 CU000		2007[10] CU000
	Geographic area	**Revenue**	**Non-current assets**	**Revenue**	**Non-current assets**	**Non-current assets**
IFRS 8.33(a) IFRS 8.33(b)	Euroland (domicile)	164,102	43,406	152,452	40,179	36,005
	United Kingdom	20,513	5,426	19,057	5,022	4,501
	USA	18,461	4,883	17,151	4,520	4,051
	Other countries	2,051	543	1,905	503	449
	Total	205,127	54,258	190,565	50,224	45,006

IFRS 8.33(a) Revenues from external customers in the Group's domicile, Euroland, as well as its major markets, the United Kingdom and the USA have been identified on the basis of the internal reporting systems, which is also used for VAT purposes. The above table does not include discontinued operations (disposal groups), for which revenue and assets can be attributed to Euroland.

IFRS 8.34 During 2009, CU24,744,000 or 12% of the Group's revenues depended on a single customer in the consulting segment (2008: CU21,076,000 or 11%).

[10] IAS 1 (revised 2007) Presentation of Financial Statements (paragraph 39) introduced a requirement to disclose a third statement of financial position (and related notes) whenever an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements (see section F3). Consequently, on the first time adoption of IFRS 8, disclosures related to items in the statement of financial position (assets, liabilities or equity) require an additional set of comparative figures.

The totals presented for the Group's operating segments reconcile to the entity's key financial figures as presented in its financial statements as follows:

		2009	2008
IFRS 8.28(a)	**Segment revenues**	**CU000**	**CU000**
	Total segment revenues	215,161	201,690
	Rental income from investment property	1,066	1,028
	Discontinued operations	(9,803)	(11,015)
	Elimination of intersegment revenues	(231)	(110)
	Group revenues	206,193	191,593

		2009	2008
IFRS 8.28(b)	**Segment profit or loss**	**CU000**	**CU000**
	Segment operating profit	28,560	25,580
	Rental income from investment property	1,066	1,028
	Change in fair value of investment property	310	175
	Share-based payment expenses	(298)	(466)
	Post-employment benefit expenses	(6,099)	(6,373)
	Research and development costs	(1,690)	(1,015)
	Other income not allocated	427	641
	Other expenses not allocated	(303)	(286)
	Operating profit of discontinued operations	(73)	(106)
	Elimination of intersegment profits	(58)	(27)
	Group operating profit	21,842	19,151
	Result from equity accounted investments	60	12
	Finance costs	(3,533)	(3,672)
	Finance income	994	793
	Other financial items	3,388	3,599
	Group profit before tax	22,751	19,883

		2009	2008	2007[10]
IFRS 8.28(c)	**Segment assets**	**CU000**	**CU000**	**CU000**
	Total segment assets	125,627	95,503	84,321
	Group headquarters	3,943	2,070	1,386
	Investment property	12,662	12,277	12,102
	Granthor Research Lab	5,070	2,661	1,782
	Other assets	3,380	1,774	1,188
	Consolidation	(1,126)	(591)	(397)
	Group assets	149,556	113,694	100,382

IFRS 8.28 In the periods under review, unallocated operating income and expense mainly consist of research expenditure as well as post-employment benefits expenses. The Group's headquarters, its investment property and its main research facility, Granthor Research Lab, are considered corporate assets and are not allocated to any segment's assets.

IFRS 8.32
IAS 18.35(b) The Group's revenue may be analysed as follows for each major product and service category (excluding revenue from discontinued operations):

Analysis of revenue		2009	2008
		CU000	**CU000**
IFRS 8.32	Sale of hardware	47,585	39,145
	Sale of software	24,513	20,165
	Other	4,079	4,121
IAS 18.35(b)(i)	Sale of goods	76,177	63,431
	After-sales service and maintenance	18,140	17,832
	Consulting	59,837	60,116
IAS 11.39(a)	Construction contracts for telecommunication solutions	50,973	49,186
IAS 40.75(f)	Rental income	1,066	1,028
IAS 18.35(b)(ii)	Rendering of services	130,016	128,162
	Group revenue	206,193	191,593

Appendix 3: Example disclosures in condensed interim financial statements

This Appendix sets out illustrative disclosures under IFRS 8 and IAS 34 for a fictional entity, Granthor Corporation (the Group) that presents half-yearly condensed interim financial statements. The form and content of IFRS financial statements of course depend on the reporting entity's activities and transactions. IFRS 8's management approach has the effect that each entity's disclosures will be unique.

Segment analysis

In identifying its operating segments, management generally follows the Group's service lines, which represent the main products and services provided by the Group. Each of these operating segments is managed separately as each of these service lines requires different technologies and other resources as well as marketing approaches. The adoption of IFRS 8 has resulted in the Service activities being identified as a separate operating segment for the Group instead of being reported as part of the Consulting segment. This is because reported segments and their results are now based on internal management reporting information that is regularly reviewed by the chief operating decision maker. In the previous annual and interim financial statements, segments were identified by reference to the dominant source and nature of the Group's risks and returns with results reported based on the IFRS accounting policies used in the financial statements.[11]

The measurement policies the Group uses for segment reporting under IFRS 8 are the same as those used in its financial statements, except that certain items are not included in arriving at the operating profit of the operating segments (post-employment benefit expenses, expenses relating to share-based payments, research costs and items relating to investment property). In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment, which primarily applies to the Group's headquarters and the Granthor Research Lab in Greatville.

The requirements of IFRS 8 are applied retrospectively and comparative figures restated.

[11] In this example, the entity is adopting IFRS 8 for the first time in annual financial statements for the year that these interim accounts are produced. The last annual financial statements produced prior to these interims applied IFRS 8's predecessor, IAS 14. IAS 34.16(a) requires disclosure of a statement that the same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements or, if those policies or methods have been changed, a description of the nature and effect of the change.

The Group operates three main business segments: Consulting, Service and Retail. The activities undertaken by the Consulting segment includes the sale, customisation and integration of IT and telecommunication systems. Maintenance of these systems is undertaken by the Service segment. The retail segment includes the entire Group's internet based selling activities of hardware and software products. In addition, two minor operating segments, for which the quantitative thresholds have not been met, are currently combined below under 'other'. The main sources of revenue for this category is sale and disposal of used IT equipment that the Group collects from its customers.

The revenues and profit generated by each of the Group's business segments together with the total asset measure for each segment are summarised as follows:

	Consulting CU000	**Services CU000**	**Retail CU000**	**Other CU000**	**Total CU000**
6 months to 30 June 2009					
Revenue from external customers	48,178	7,887	31,347	1,773	89,185
Inter-segment revenues	100	-	-	-	100
Segment operating profit	8,762	543	3,069	43	12,417
Total assets	62,260	10,193	40,509	2,292	115,254
6 months to 30 June 2008					
Revenue from external customers	46,511	7,588	25,238	1,754	81,091
Inter-segment revenues	49	-	-	-	49
Segment operating profit	7,786	552	2,472	75	10,885
Total assets	48,533	7,945	31,578	1,786	89,842
Year to 31 December 2008					
Revenue from external customers	109,302	17,832	59,310	4,121	190,565
Inter-segment revenues	110	-	-	-	110
Segment operating profit	18,297	1,297	5,809	177	25,580
Total assets	51,591	8,446	33,567	1,899	95,503

Segment operating profit can be reconciled to Group profit or loss as follows:

	6 months to 30 June 2009 CU000	6 months to 30 June 2008 CU000	Year to 31 December 2008 CU000
Segment operating profit	12,051	9,509	25,580
Reconciling items:			
Rental income from investment property	450	382	1,028
Change in fair value of investment property	131	65	175
Share-based payment expense	(126)	(173)	(466)
Post-employment benefit expenses	(2,573)	(2,369)	(6,373)
Research and development costs	(713)	(377)	(1,015)
Other income not allocated	180	238	641
Other expenses not allocated	(128)	(106)	(286)
Elimination of operating profit of discontinued operations	(31)	(39)	(106)
Elimination of intersegment profits	(24)	(10)	(27)
Group operating profit	9,216	7,119	19,151
Share of profit from equity accounted investments	25	4	12
Finance costs	(1,491)	(1,365)	(3,672)
Finance income	419	295	793
Other financial items	1,259	1,338	3,599
Group profit before tax and discontinued operations	9,430	7,391	19,883

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