Accounting Standard

**AASB 1005**
August 2000

# Segment Reporting

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Defined words are italicised each time they appear. The definitions are in Section 8. Standards are printed in **bold** type and commentary in light type.

# MAIN FEATURES OF THE STANDARD

The Standard is presented in a format that combines the formats previously used in Accounting Standards (AASB Standards) and Australian Accounting Standards (AAS Standards) in order to move towards the issue of a single series of standards. The Standard:

(a) requires information about business and geographical segments to be reported. It acknowledges that business and geographical segments of the entity will normally be identified on the basis of the internal organisational and management structure and internal reporting system to the chief executive officer and the governing body;

(b) requires entities to distinguish between primary and secondary segments determined by reference to whether the predominant source and nature of risks and rewards of the entity relate to business segments or geographical segments and requires more information to be disclosed for primary segments;

(c) specifies guidance for determining whether a segment qualifies as a reportable segment and for combining internally reported segments; and

(d) requires segment information to be prepared using the accounting policies adopted by the entity.

**ACCOUNTING STANDARD AASB 1005**

The Australian Accounting Standards Board makes Accounting Standard AASB 1005 “Segment Reporting” under section 334 of the Corporations Law.

Dated 21 August 2000

F. K. Alfredson
Chair – AASB

# ACCOUNTING STANDARD

# AASB 1005 “SEGMENT REPORTING”

## 1 Application

**1.1 Subject to paragraph 1.2, this Standard applies to:**

- **(a) each *entity* that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Law and that is a *reporting entity*;**
- **(b) *general purpose financial reports* of each other *reporting entity*; and**
- **(c) financial reports that are, or are held out to be, *general purpose financial reports.***

1.1.1 The standards specified in this Standard apply to the financial report where information resulting from their application is material, in accordance with Accounting Standard AASB 1031 and Australian Accounting Standard AAS 5 “Materiality”.

**1.2 This Standard does not apply to *general purpose financial reports* of *not-for-profit entities.***

1.2.1 This Standard does not apply to *not-for-profit entities,* which would include *reporting entities* to which Australian Accounting Standards AAS 27 “Financial Reporting by Local Governments”, AAS 29 “Financial Reporting by Government Departments”, and AAS 31 “Financial Reporting by Governments” apply. These Standards include requirements relating to the disclosure of disaggregated information.

1.3 **When the financial report of a *parent entity* is presented with the *economic entity's* financial report the *parent entity* need not disclose segment information. However, where segment information is provided for the *parent entity* in addition to consolidated segment information, the *parent entity*'s segment information is also subject to the requirements of this Standard.**

# 2 Operative Date

2.1 **This Standard applies to *annual reporting periods* beginning on or after 1 July 2001.**

2.2 **This Standard may be applied to *annual reporting periods* beginning before 1 July 2001. An *entity* that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Law may apply this Standard to *annual reporting periods* beginning before 1 July 2001, where an election has been made in accordance with subsection 334(5) of the Corporations Law.**

2.3 **When applied or operative this Standard supersedes:**

**(a) Accounting Standard AASB 1005 "Financial Reporting by Segments" approved by notice published in the *Gazette* No S 185, 29 April 1986 and amended by Accounting Standard AASB 1025 "Application of the Reporting Entity Concept and Other Amendments"; and**

**(b) Australian Accounting Standard AAS 16 "Financial Reporting by Segment" as issued in March 1984.**

2.3.1 Notice of this Standard was published in the *Commonwealth of Australia Gazette* on 22 August 2000.

# 3 Purpose of Standard

3.1 **The purpose of this Standard is to require disclosure of financial information about *business segments* and *geographical segments*. In particular, the Standard requires disclosure of information about the different types of products and services an *entity***

**provides and the different geographical areas in which it operates.**

3.1.1 Many *entities* provide groups of products and services or operate in geographical areas that are subject to differing rates of profitability, opportunities for growth and risks. Information about an *entity's* different types of products and services and operations in different geographical areas – often called segment information – is *relevant* to assessing the risks and returns of a diversified or multinational *entity* but may not be determinable from the aggregated data. The purpose of providing segment information is to achieve *comparability* with other *entities*, enhance the *understandability* of the resulting information, and meet the needs of investors, creditors and other users for *relevant* and *reliable* information about product/service-related and geographically-related risks and returns.

3.1.2 This Standard requires a primary reporting format for segment information about the predominant source and nature of the *entity's* risks and returns and a secondary reporting format for segment information about the non-predominant source and nature of the *entity's* risks and returns. The disclosures required for the primary reporting format are more detailed than those that are required for the secondary reporting format.

# 4 Identifying Reportable Segments and the Reporting Format

## Business and Geographical Segments

**4.1 The *entity* must report segment information for each *reportable segment*.**

**4.2 Where the *entity's* internal organisational and management structure and its system of internal financial reporting to the chief executive officer and the governing body are not based on *business* or *geographical segments*, the *entity's* segments must be determined in accordance with this Standard for the purposes of financial reporting.**

4.2.1 The predominant source of risks and returns typically determines how an *entity* is organised and managed. Accordingly, an *entity's* organisational and management structure and internal financial reporting system to the chief executive officer and the governing body normally provide the best evidence of whether the *entity's* predominant source of risks and returns relate to the products and services it provides or to the fact that it operates in different geographical areas. Therefore, an *entity* normally reports segment information in its financial reports on the same basis as it reports internally to top management.

4.2.2 In some cases, an *entity's* organisation and internal reporting may have developed along lines unrelated either to differences in the types of products and services it provides or to the geographical areas in which it operates. For instance, internal reporting may be organised solely by legal entity, resulting in internal segments composed of groups of unrelated products and services. The terms *business segment* and *geographical segment* are defined in paragraph 8.1. Paragraphs 8.1.1 to 8.1.7 provide guidance on the application of these definitions. In some cases one or more of the segments reported internally to the chief executive officer and the governing body will satisfy the definitions of a *business segment* or a *geographical segment* but others will not. Where segments reported internally to the chief executive officer and the governing body are not *business* or *geographical segments*, the next lower level of internal segmentation that reports information along product and service lines or geographical lines, as appropriate, normally coincides with reportable *business* and *geographical segments*.

## Primary and Secondary Segments

**4.3 Where the *entity's* risks and returns are affected predominantly by differences in the products and services it provides compared to differences in the geographical areas in which it operates, it must use:**

**(a) *business segments* as its primary reporting format; and**

**(b) *geographical segments* as its secondary reporting format.**

**4.4 Where the *entity's* risks and returns are affected predominantly by differences in the geographical areas in which it operates compared to differences in the products and services it provides, it must use:**

**(a) *geographical segments* as its primary reporting format; and**

**(b) *business segments* as its secondary reporting format.**

**4.5 Where an *entity's* risks and returns are strongly affected both by differences in the products and services it provides and by**

**differences in the geographical areas in which it operates, the *entity* must use *business segments* as its primary segment reporting format and *geographical segments* as its secondary segment reporting format.**

4.5.1 A "matrix approach" to managing an *entity* and to reporting to the chief executive officer and the governing body is adopted by some *entities* where the risks and returns are strongly affected by differences in products and services and geographical factors. Presentation of both *business segments* and *geographical segments* as primary segment reporting formats with full segment disclosures on each basis often will provide useful information if the *entity's* risks and returns are strongly affected both by differences in the products and services it provides and by differences in the geographical areas in which it operates. This Standard does not require, but does not prohibit, such presentation.

## Reportable Segments

**4.6 A *business segment* or *geographical segment* must be identified as a *reportable segment* if a majority of its *segment revenues* arise from sales to external customers and:**

**(a) its *revenues* from sales to external customers and from sales to other segments is 10 per cent or more of the total *segment revenues* of all segments; or**

**(b) its *segment result,* whether profit or loss/result, is 10 per cent or more of the combined result of all segments that earned a profit or the combined result of all segments that incurred a loss, whichever is the greater in absolute amount; or**

**(c) its *assets* are 10 per cent or more of the total *segment assets* of all segments.**

4.6.1 By limiting *reportable segments* to those that derive a majority of their *revenues* from sales to external customers, this Standard does not require that the different stages of vertically integrated operations be identified as separate *business segments.* However, in some industries, current practice is to report certain vertically integrated activities as separate *business segments* even if they do not generate significant external sales *revenues*. For example, many oil companies report their upstream activities (exploration and production) and their downstream activities (refining and marketing) as separate *business segments* even if most or all of the upstream product (crude petroleum) is transferred internally to the *entity's* refining and marketing operation. This Standard encourages, but does not require, the reporting of vertically integrated activities as separate segments with appropriate description. Where reported as a separate segment, paragraph 6.8 requires disclosure of the basis of pricing inter-segment transfers.

4.6.2 The thresholds required to be applied by paragraph 4.6 are not intended to be a guide for determining *materiality* for any aspect of financial reporting other than identifying *reportable segments*.

**4.7 Two or more internally reported *business segments* or *geographical segments* that are substantially similar, and are separate *reportable segments* pursuant to paragraph 4.6, may be combined as a single reportable *business segment* or *geographical segment.* Two or more *business segments* or *geographical segments* are substantially similar when:**

**(a) they exhibit similar long-term financial performance; and**

**(b) they are similar in all of the factors identified in the appropriate definition in Section 8 of this Standard.**

**4.8 Where an internally reported segment is not a *reportable segment,* and it has not been combined with other internally reported segments as permitted by paragraph 4.7, it must be included as an unallocated reconciling item in the reconciliations prepared in accordance with paragraph 6.4.**

**4.9 Where total external *revenues* attributable to *reportable segments* constitute less than 75 per cent of the *entity's* total *revenues,* additional segments must be identified as *reportable segments,* even if they do not qualify as *reportable segments* pursuant to paragraph 4.6, until at least 75 per cent of the *entity's* total *revenues* are included in *reportable segments.***

4.9.1 To provide adequate insight into an *entity's* operations reported segments should represent a substantial proportion of the *entity's* total operations. In this regard, identification by the *entity* of sufficient segments such that the total *revenues* from sales to outside customers of all reported segments constitutes 75 per cent or more of the *entity's revenues* derived from customers outside the *entity* ensures that the reported segments constitute a substantial proportion of the *entity's* total operations.

**4.10 Where the *entity's* internal reporting system treats vertically integrated activities as separate segments and they are not**

**reported externally as separate *business segments,* the selling segment must be combined into the buying segment(s) in identifying *reportable segments* pursuant to paragraphs 4.6 and 4.9 unless there is no reasonable basis for doing so, in which case the selling segment must be included as an unallocated reconciling item in the reconciliations prepared in accordance with paragraph 6.4.**

**4.11 A segment that was disclosed as a *reportable segment* in the immediately preceding *annual reporting period* and which is of continuing significance to the *entity* must be treated as a *reportable segment* for the current reporting period notwithstanding that it no longer qualifies as a *reportable segment* pursuant to paragraphs 4.6 and 4.9.**

4.11.1 A previously *reportable segment* may cease to be a *reportable segment*, for example, because of a decline in demand or a change in management strategy or because a part of the operations of the segment has been sold or combined with other segments. An explanation of the reasons why a previously *reportable segment* is no longer reported may be useful to users.

# 5 Preparing Segment Information

## Segment Accounting Policies

**5.1 Segment information must be prepared in conformity with the *accounting policies* adopted for preparing and presenting the financial reports of the *entity*.**

5.1.1 Since the purpose of segment information is to provide information to enable users of financial statements to better *understand* and make more informed judgments about the *entity* as a whole, this Standard requires the use, in preparing segment information, of the *accounting policies* adopted for the *entity's* financial reports. However, that does not mean that *accounting policies* must be applied to *reportable segments* as if the segments were separate "stand-alone" *reporting entities.* The effects of applying a particular *accounting policy* at the entity-wide level may be allocated to segments if there is a reasonable basis for doing so. For example, superannuation *liabilities* and *expenses* often are calculated for an *entity* as a whole, but the entity-wide figures may be allocated to segments based on salary and demographic data for the segments.

5.1.2 Measurement of *segment assets* and *segment liabilities* include adjustments to the *carrying amounts* of the identifiable *segment assets* and *segment liabilities* as recorded by an *entity* which has been acquired, even if those adjustments are made only for the purpose of preparing consolidated financial reports and are not recorded in either the *parent entity's* or the *subsidiary entity's* separate financial reports. Similarly, if non-current assets have been revalued subsequent to acquisition in accordance with Accounting Standard AASB 1041 and Australian Accounting Standard AAS 38 "Revaluation of Non-Current Assets", then measurements of *segment assets* reflect those revaluations.

5.1.3 This Standard does not prohibit the disclosure of additional segment information that is prepared on a basis other than the *accounting policies* adopted for the *entity's* financial report. Paragraph 6.10 requires the basis of measurement of this additional information to be disclosed.

5.1.4 Whilst the *accounting policies* used in preparing and presenting the financial reports of the *entity* as a whole are also the *segment accounting policies*, *segment accounting policies* also include policies that relate specifically to segment reporting, such as identification of segments, method of pricing inter-segment transfers, and the bases for allocating *assets*, *liabilities*, *revenues* and *expenses* to segments.

## Allocation to Segments

**5.2 *Assets* and *liabilities* that are jointly used by two or more segments must be allocated to segments when, and only when, the *revenues* and *expenses* related to those *assets* and *liabilities* are allocated to those segments.**

5.2.1 The way in which *assets*, *liabilities*, *revenues* and *expenses* are allocated to segments depends on factors such as the nature of those items, the activities conducted by the segment, and the relative autonomy of that segment. It is not appropriate for this Standard to specify a single basis of allocation that should be adopted by all *entities*. Nor is it appropriate to force the allocation of *assets*, *liabilities*, *revenues* and *expenses* of the *entity* that relate jointly to two or more segments, if the only basis for making those allocations is arbitrary. The definitions of *segment revenues*, *segment expenses*, *segment assets* and *segment liabilities* are interrelated, and the resulting allocations would be consistent with those definitions. Therefore, jointly used *assets* are allocated to segments when, and only when, their related *revenues* and *expenses* are allocated to those segments. For example, a depreciable asset is included in *segment* *assets* when the related depreciation is included as a *segment expense* in measuring *segment result.*

5.2.2 *Segment revenues*, *segment expenses*, *segment assets* and *segment liabilities* include amounts that are directly attributable to a segment and amounts that can be allocated to a segment on a reasonable basis. The internal financial reporting system of the *entity* provides the starting point for identifying those items that can be directly attributed, or reasonably allocated, to segments. Normally the amounts that have been identified with segments for internal financial reporting purposes by an *entity* are considered as directly attributable or can be allocated to segments on a reasonable basis for the purpose of measuring the *segment revenues*, *segment expenses*, *segment assets* and *segment liabilities* of *reportable segments* of that *entity*.

5.2.3 In some cases *revenues*, *expenses*, *assets*, or *liabilities* may have been allocated to segments for internal financial reporting purposes on a basis that is understood by the chief executive officer and the governing body of the *entity* but that could be deemed subjective, or arbitrary. Such an allocation would not constitute a reasonable basis for external reporting purposes under the definitions of *segment revenues*, *segment expenses*, *segment assets* and *segment liabilities*. Conversely, the *entity* may not have allocated *revenues*, *expenses*, *assets* or *liabilities* for internal financial reporting purposes, even though a reasonable basis for doing so exists. Such items are allocated pursuant to the definitions of *segment revenues*, *segment expenses*, *segment assets* and *segment liabilities* for financial reporting purposes.

## Inter-Segment Transactions within the Economic Entity

**5.3** ***Segment revenues*, *segment expenses*, *segment assets* and *segment liabilities* must be determined before the effects of transactions within the *economic entity* are eliminated as part of the consolidation process, except to the extent that such transactions are between *entities* and a single segment.**

# 6 Disclosure of Segment Information

## Primary Segment Information

**6.1 The following information must be disclosed for each *reportable segment* that is required to be disclosed using the primary segment reporting format:**

**(a) *segment revenues* distinguishing between *revenues* from sales to external customers and *revenues* from transactions with other segments;**

**(b) *segment result*;**

**(c) *segment assets*;**

**(d) *segment liabilities*;**

**(e) the total amount *recognised* during the *annual reporting period* for the acquisition of *segment assets* that are expected to be used during more than one *annual reporting period*;**

**(f) the total amount of *expenses* included in *segment result* for depreciation and amortisation of *segment assets*;**

**(g) the total amount of non-cash *expenses*, other than those disclosed under paragraph 6.1(f), included in *segment expenses*;**

**(h) the aggregate of the *entity's* share of the *net profit or loss/result* of *associates* or other investees accounted for by the equity method of accounting if substantially all those *associates'* or other investees' operations are within the segment; and**

**(i) the aggregate *carrying amount* of investments in those *associates* and investees for which disclosure is made in accordance with paragraph 6.1(h).**

6.1.1 Where the *entity* can compute a measure of segment performance other than *segment result* without arbitrary allocations, reporting of such an amount is encouraged in addition to *segment result*. If that measure is prepared on a basis other than the *accounting policies* adopted in the *entity's* financial reports, paragraph 6.10 requires the basis of measurement to be disclosed. Examples of measures of segment performance other than *segment result* are gross margin on *segment revenues* and segment *net profit or loss/result*.

6.1.2 Paragraph 6.1(e) requires *entities* to disclose the amount *recognised* in the reporting period for the acquisition of non-current assets such as property, plant and equipment, goodwill, patents and franchise and licence rights. This amount, which is sometimes referred to as capital expenditure or capital additions, provides users of the financial reports with information about the allocation of resources to different *business segments* and *geographical segments*. Such *assets* include *assets* acquired under *finance leases* and exclude investments.

6.1.3 Accounting Standard AASB 1018 and Australian Accounting Standard AAS 1 "Statement of Financial Performance" require disclosure of *revenues* and *expenses* from *ordinary activities* for the reporting period, where their size, nature and incidence is *relevant* in explaining the financial performance of the *entity*. AASB 1018 and AAS 1 provide a number of examples, including write-downs of inventories or non-current assets, and, where applicable, the reversal of such write-downs, disposals of non-current assets and litigation settlements. Items of this nature that are disclosed at the *entity* level are normally included in *segment expenses* and *segment revenue*s of the relevant segments. This Standard encourages the disclosure of these items attributable to each *reportable segment*. This Standard also encourages disclosure of those items of *segment revenues* and *segment expenses*, the size, nature and incidence of which are *relevant* in explaining the *segment result* for the reporting period. Disclosure of these items at the segment level changes the level at which the significance of such items is evaluated for disclosure purposes in respect of segment reporting from the *entity* level to the segment level.

6.1.4 While paragraphs 6.1(f) and 6.1(g) require disclosure of depreciation and amortisation and other non-cash *expenses*, this Standard encourages disclosure of cash flow information prepared in accordance with Accounting Standard AASB 1026 and Australian Accounting Standard AAS 28 "Statement of Cash Flows" for each *reportable segment* in order to enhance the *understanding* of an *entity's* overall financial position, liquidity, and cash flows. In addition, this Standard encourages disclosure of significant non-cash *revenues* that are included in *segment revenues* and, therefore, included in determining *segment result*.

6.1.5 Accounting Standard AASB 1006 and Australian Accounting Standard AAS 19 "Interests in Joint Ventures" require the equity method of accounting to be applied in respect of *joint venture* *entities*. *Joint venture entities* include partnerships and other types of *entities*. Where a single aggregate amount is disclosed pursuant to paragraph 6.1(h), each *associate* or other investee for which the equity method of accounting is applied is assessed individually to determine whether its operations are substantially all within a segment.

6.2 **Where the *entity's* primary format for reporting segment information is *geographical segments* that are based on location of *assets*, and if the location of its customers is different from the location of its *assets*, then the *entity* must disclose *revenues* from sales to external customers for each customer-based *geographical segment* where the total *revenues* from sales to external customers is 10 per cent or more of total *entity revenues* from sales to all external customers.**

6.3 **Where the *entity's* primary format for reporting segment information is *geographical segments* that are based on location of customers, and the *entity's assets* are located in different geographical areas from its customers, then the *entity* must disclose the following for each asset-based *geographical segment* where total *revenues* from sales to external customers is 10 per cent or more of total *entity revenues* from sales to all external customers or where *segment assets* is 10 per cent or more of the total *assets* of all reportable *geographical segments*:**

**(a) the total *carrying amount* of *segment assets* by geographical location of the *assets*; and**

**(b) the total amount *recognised* during the *annual reporting period* for the acquisition of *segment assets* that are expected to be used during more than one *annual reporting period* by geographical location of the *assets*.**

6.4 **The following reconciliations must be disclosed:**

**(a) total *segment revenues* reconciled to total *entity revenues* from external customers (*revenues* from external customers that are not included in the *revenues* of any segment must be separately disclosed as a reconciling item);**

**(b) total *segment result* reconciled to a *comparable* measure of *entity* profit/result from *ordinary activities* before income tax expense (income tax revenue) as well as to the *entity's net profit or loss/result*;**

**(c)** **total *segment assets* reconciled to total *entity assets*; and**

**(d)** **total *segment liabilities* reconciled to total *entity liabilities*.**

## Secondary Segment Information

**6.5** **Where the *entity's* primary format for reporting segment information is *business segments*, then the *entity* must disclose the following for each *geographical segment* where the total *revenues* from sales to external customers is 10 per cent or more of total *entity revenues* from sales to all external customers or whose total *segment assets* is 10 per cent or more of the total *assets* of all *geographical segments*:**

**(a)** ***segment revenues* from external customers by geographical area based on the geographical location of its customers;**

**(b)** **the total *carrying amount* of *segment assets* by geographical location of *assets*; and**

**(c)** **the total amount *recognised* during the *annual reporting period* for the acquisition of *segment assets* that are expected to be used during more than one *annual reporting period* by geographical location of *assets*.**

**6.6** **Where the *entity's* primary format for reporting segment information is *geographical segments* (whether based on location of *assets* or location of customers), then the *entity* must disclose the following for each *business segment* where the total *revenues* from sales to external customers is 10 per cent or more of total *entity revenues* from sales to all external customers or whose total *segment assets* is 10 per cent or more of the total *assets* of all *business segments*:**

**(a)** ***segment revenues* from external customers;**

**(b)** **the total *carrying amount* of *segment assets*; and**

**(c)** **the total amount *recognised* during the *annual reporting period* for the acquisition of *segment assets* that are expected to be used during more than one *annual reporting period*.**

### Other Disclosures

**6.7 Where a *business segment* or *geographical segment* is not a *reportable segment* but nonetheless its total *revenues* from sales to external customers is 10 per cent or more of total *entity revenues* from sales to all external customers, the *entity* must disclose that fact and the amounts of *segment revenues* from:**

**(a) sales to external customers; and**

**(b) internal sales to other segments.**

**6.8 In measuring and disclosing *segment revenues* from transactions with other segments, inter-segment transfers must be measured on the basis that the *entity* used to price those transfers. The basis of pricing inter-segment transfers and any change therein must be disclosed.**

**6.9 Changes in *segment accounting policies* that have a *material* effect on segment information must be disclosed, and prior period segment information presented for comparative purposes must be restated unless it is impracticable to do so. Such disclosure must include:**

**(a) the nature of the change;**

**(b) the reasons for the change;**

**(c) whether comparative information has been restated; and**

**(d) the financial effect of the change, if it is reasonably determinable.**

**If the *entity* changes the basis for identifying its segments and it does not restate prior period segment information on the new basis because it is impracticable to do so, the *entity* must disclose segment information for both the old and the new bases of segmentation in the reporting period in which it changes the basis for identifying its segments.**

6.9.1 Some changes in *segment accounting policies* relate specifically to segment reporting. Examples include changes in the basis for identifying segments and changes in the basis for allocating *revenues* and *expenses* to segments. Such changes can have a significant impact on the segment information reported but will not change aggregate financial information reported for the *entity*. To enable users to *understand* the changes and to assess trends, prior period segment information that is included in the financial reports for comparative purposes is restated, if practicable, to reflect the new *accounting policies.*

6.9.2 If the *entity* changes the method that it uses to price inter-segment transfers, that is not a change in *accounting policy* for which prior period segment information should be restated pursuant to paragraph 6.9.

**6.10 The basis of measurement of additional segment information reported by the *entity* must be disclosed if that information is prepared on a basis other than the *accounting policies* adopted in the *entity's* financial reports.**

**6.11 The *entity* must disclose the types of products and services included in each reportable *business segment* and indicate the composition of each reported *geographical segment,* both primary and secondary.**

6.11.1 To assess the impact of such matters as shifts in demand, changes in the price of inputs or other factors of production, and the development of alternative products and processes on a *business segment*, it is *relevant* to know the activities encompassed by that segment. Similarly, to assess the impact of changes in the economic and political environment on the risks and returns of a *geographical segment*, the composition of that *geographical segment* is *relevant*.

**6.12 Where an *entity* operates predominantly in one *business* or *geographical segment,* that circumstance must be disclosed together with a general description of the *entity's* types of products and services.**

# 7 Comparative Information

**7.1 Where a segment is identified as a *reportable segment* in the current reporting period, prior period segment information that is presented for comparative purposes must be restated to reflect the newly *reportable segment* as a separate segment, even if that segment was not a *reportable segment* in the prior period, unless it is impracticable to do so. If it is impracticable to restate the comparative information for each prior reporting period presented, that fact must be disclosed.**

# 8 Definitions

**8.1 In this Standard:**

***accounting policies*** **means the specific accounting principles, bases or rules adopted in preparing and presenting the financial report**

***annual reporting period*** **means the** ***financial year*** **or similar period to which the financial report relates**

***assets*** **means future economic benefits controlled by the** ***entity*** **as a result of past transactions or other past events**

***associate*** **means an investee, not being:**

**(a) a** ***subsidiary*** **of the investor; or**

**(b) a partnership of the investor; or**

**(c) an investment acquired and held exclusively with a view to its disposal in the near future**

**over which the investor has** ***significant influence***

***business segment*** **means a distinguishable component of an** ***entity*** **and that component is engaged in providing an individual product or service or a group of related products or services and is subject to risks and returns that are different from those of other distinguishable components of the** ***entity*****. Factors to be considered in determining whether products and services are related include:**

**(a) the nature of the products or services;**

**(b) the nature of the production processes;**

**(c) the type or class of customer for the products or services;**

**(d) the methods used to distribute the products or provide the services; and**

**(e) if applicable, the nature of the regulatory environment, for example, banking, insurance, or public utilities**

***carrying amount*** **means, in relation to an** ***asset*****, the amount at which the** ***asset*** **is recorded in the accounting records as at a particular date**

***comparability*** **means that quality of financial information which exists when users of that information are able to discern and evaluate similarities in, and differences between, the nature and effects of transactions or other events, at one time and over time, either when assessing aspects of a single** ***reporting entity*** **or of a number of** ***reporting entities***

***control*** **means the capacity of an** ***entity*** **to dominate decision-making, directly or indirectly, in relation to the financial and operating policies of another** ***entity*** **so as to enable that other** ***entity*** **to operate with it in pursuing the objectives of the controlling** ***entity***

***economic entity*** **means a group of** ***entities*** **comprising the** ***parent entity*** **and each of its** ***subsidiaries***

***entity*** **means any legal, administrative, or fiduciary arrangement, organisational structure or other party (including a person) having the capacity to deploy scarce resources in order to achieve objectives**

***equity*** **means the residual interest in the** ***assets*** **of the** ***entity*** **after deduction of its** ***liabilities***

***expenses*** **means consumptions or losses of future economic benefits in the form of reductions in** ***assets*** **or increases in** ***liabilities*** **of the** ***entity*****, other than those relating to distributions to owners, that result in a decrease in** ***equity*** **during the reporting period**

***extraordinary items*** **means items of** ***revenue*** **and** ***expense*** **that are attributable to transactions or other events of a type that are outside the** ***ordinary activities*** **of the** ***entity*** **and are not of a recurring nature**

***finance lease*** **means a lease under which the lessor effectively transfers to the lessee substantially all the risks and benefits incident to ownership of the leased** ***asset*** **and where legal ownership may or may not eventually be transferred**

***general purpose financial report*** **means a financial report intended to meet the information needs common to users who are unable to command the preparation of reports**

**tailored so as to satisfy, specifically, all of their information needs**

***geographical segment*** **means a distinguishable component of an *entity* and that component is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of components operating in other geographical areas. Factors to be considered in identifying geographical segments include:**

**(a) similarity of economic and political conditions;**

**(b) relationships between operations in different geographical areas;**

**(c) proximity of operations;**

**(d) special risks associated with operations in a particular area;**

**(e) exchange control regulations; and**

**(f) the underlying currency risks**

***joint control*** **means the contractually agreed sharing of *control* over an economic activity. Joint control over an economic activity exists when two or more parties *(venturers*) must consent to all major decisions**

***joint venture*** **means a contractual arrangement whereby two or more parties undertake an economic activity which is subject to *joint control***

***joint venture entity*** **means a *joint venture* that is in the form of an *entity* and does not include an *entity* that:**

**(a) is acquired and held exclusively with a view to its disposal in the near future; or**

**(b) operates under severe long-term restrictions which impair significantly its ability to make distributions to the *venturer***

***joint venture operation*** **means a *joint venture* that is not a *joint venture entity* and does not include an *entity* that:**

**(a) is acquired and held exclusively with a view to its disposal in the near future; or**

**(b) operates under severe long-term restrictions that impair significantly its ability to make distributions to the *venturer***

***liabilities* means the future sacrifices of economic benefits that the *entity* is presently obliged to make to other *entities* as a result of past transactions or other past events**

***materiality* means, in relation to information, that information which if omitted, misstated or not disclosed has the potential to adversely affect decisions about the allocation of scarce resources made by users of the financial report or the discharge of accountability by the management or governing body of the *entity***

***net profit or loss/result* means**

**(a) in the case of an *entity* that is not an *economic entity*, profit or loss/result after income tax expense (income tax revenue) from *ordinary activities* and *extraordinary items*; and**

**(b) in the case of an *entity* that is an *economic entity*, profit or loss/result after income tax expense (income tax revenue) from *ordinary activities* and *extraordinary items* before adjustment for that portion that can be attributed to outside equity interest**

***not-for-profit entity* means an *entity* whose financial objectives do not include the generation of profit**

***ordinary activities* means activities that are undertaken by an *entity* as part of its business or to meet its objectives and related activities in which the *entity* engages in furtherance of, incidental to, or arising from activities undertaken to meet its objectives**

***parent entity* means an *entity* which *controls* another *entity***

***recognised* means reported on, or incorporated in amounts reported on, the face of the *statement of financial performance* or of the *statement of financial position***

**(whether or not further disclosure of the item is made in notes)**

***relevance*** **means that quality of financial information which exists when that information influences decisions by users about the allocation of scarce resources by:**

**(a) helping them form predictions about the outcomes of past, present or future events; or**

**(b) confirming or correcting their past evaluations**

**and which enables users to assess the discharge of accountability by the management or governing body of the *entity***

***reliability*** **means that quality of financial information which exists when that information can be depended upon to represent faithfully, and without bias or undue error, the transactions or other events that either it purports to represent or could reasonably be expected to represent**

***reportable segment*** **means a *business segment* or a *geographical segment* for which segment information is required to be disclosed by this Standard**

***reporting entity*** **means an *entity* (including an *economic entity*) in respect of which it is reasonable to expect the existence of users dependent on *general purpose financial reports* for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources, and includes but is not limited to the following:**

**(a) a *disclosing entity*; or**

**(b) a *company* which is not a *subsidiary* of a *holding company* incorporated in Australia and which is a *subsidiary* of a foreign company where that foreign company has its securities listed for quotation on a *stock market* or those securities are traded on a *stock market***

***revenues*** **means inflows or other enhancements, or savings in outflows, of future economic benefits in the form of increases in *assets* or reductions in *liabilities* of the *entity*, other than those relating to contributions by owners, that result in an increase in *equity* during the reporting period**

***segment accounting policies*** **means the *accounting policies* adopted for preparing and presenting the financial report of the *entity* as well as those *accounting policies* that relate specifically to segment reporting**

***segment assets*** **means those *assets* that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis**

***segment expenses*** **means *expenses recognised* in the *entity's* profit (loss)/result from *ordinary activities* before income tax expense (income tax revenue) resulting from the operating activities of a segment that are directly attributable to the segment and the relevant portion of other *expenses* that can be allocated on a reasonable basis to the segment, including *expenses* relating to sales to external customers and *expenses* relating to transactions with other segments of the same *entity*. *Segment expenses* do not include:**

**(a)** ***extraordinary items*;**

**(b) interest, including interest incurred on advances or loans from other segments, unless the segment's operations are primarily of a financial nature;**

**(c) losses on sales of investments or losses on extinguishment of debt unless the segment's operations are primarily of a financial nature;**

**(d) an *entity's* share of losses of *associates* or other investees accounted for under the equity method;**

**(e) income tax expense; and**

**(f) general administrative *expenses*, head-office *expenses*, and other *expenses* that arise at the *entity* level and relate to the *entity* as a whole**

***segment liabilities*** **means those *liabilities* that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis**

***segment result*** **is *segment revenues* less *segment expenses*. Segment result is determined before any adjustments for outside equity interest**

***segment revenues* means operating *revenues recognised* in the *entity's* profit (loss)/result from *ordinary activities* before income tax expense (income tax revenue) resulting from the operating activities of a segment that are directly attributable to a segment and the relevant portion of other *revenues* that can be allocated on a reasonable basis to the segment, whether from sales to external customers or from transactions with other segments of the same *entity*. *Segment revenues* do not include:**

**(a) *extraordinary items*;**

**(b) interest or dividend income, including interest earned on advances or loans to other segments, unless the segment's operations are primarily of a financial nature; and**

**(c) gains on sales of investments or gains on extinguishment of debt unless the segment's operations are primarily of a financial nature**

***significant influence* means the capacity of an *entity* to affect substantially (but not *control*) either, or both, of the financial and operating policies of another *entity***

***subsidiary* means an *entity* which is *controlled* by a *parent entity***

***understandability* means that quality of financial information which exists when users of that information are able to comprehend its meaning**

***venturer* means a party to a *joint venture* that has *joint control* over that *joint venture.***

## Business Segments

8.1.1 The factors to be considered in determining whether products and services are related are not listed in any particular order.

8.1.2 A single *business segment* does not include products and services with differing risks and returns. While there may be dissimilarities with respect to one or several of the factors in the definition of a *business segment*, the products and services included in a single *business segment* are expected to be similar with respect to a majority of the factors identified in the definition in paragraph 8.1.

## Geographical Segments

8.1.3 The factors to be considered in identifying *geographical segments* are not listed in any particular order.

8.1.4 A *geographical segment* does not include operations in economic environments with differing risks and returns. A *geographical segment* may be a region within a country, a single country, or a group of two or more countries.

8.1.5 The sources of risk affect how most *entities* are organised and managed. This Standard acknowledges that the *entity's* organisational structure and its internal financial reporting system is likely to be the basis for identifying its segments (see paragraph 4.1.1). The risks and returns of the *entity* are influenced both by the geographical location of its operations (where its products are produced or where its service delivery activities are based) and also by the location of its markets (where its products are sold or services are rendered). The definition allows *geographical segments* to be based on either:

(a) the location of an *entity's* production or service facilities and other *assets*; or

(b) the location of its markets and customers.

8.1.6 The *entity's* organisational and internal reporting structure will normally provide evidence of whether its predominant source of geographical risks arises from the location of its *assets* (the origin of its sales) or from the location of its customers (the destination of its sales). Accordingly, this structure helps determine whether the *entity's geographical segments* are based on the location of its *assets* or on the location of its customers.

8.1.7 Determining the composition of a *business* or *geographical segment* involves the exercise of judgement. In making that judgement, consideration is given to the purpose of reporting financial information by segments as set forth in this Standard and the qualitative characteristics of financial information as identified in Statement of Accounting Concepts SAC 3 "Qualitative Characteristics of Financial Information". Those qualitative characteristics include the *relevance*, *reliability*, *understandability* and *comparability* over time of financial information that is reported about an *entity's* different groups of products and services and about its operations in particular geographical areas, and the usefulness of that information for assessing the risks and returns of the *entity* as a whole.

### Segment Assets

8.1.8 Examples of *segment assets* include current assets that are employed in the operating activities of the segment, property, plant and equipment, *assets* that are the subject of *finance leases* and intangible assets. If depreciation or amortisation is included in *segment expenses*, the related *asset* is also included in *segment assets*. For example, *segment assets* include goodwill that is directly attributable to a segment or that can be allocated to a segment on a reasonable basis, and *segment expenses* includes related amortisation of goodwill. Similarly, if the *segment result* includes interest or dividend income, then *segment assets* include the related receivables, loans, investments, or other income-producing *assets*.

8.1.9 *Segment assets* also include investments accounted for under the equity method of accounting only if the *entity's* share of *net profit or loss/result* from such investments is included in *segment revenues*. *Segment assets* may include a *venturer's assets* attributable to *joint venture operations* that are accounted for in accordance with Accounting Standard AASB 1006 and Australian Accounting Standard AAS 19 "Interests in Joint Ventures". *Segment assets* do not include *assets* employed for general *entity* or head-office purposes and income tax assets.

8.1.10 *Segment assets* are determined after deducting related items such as accumulated depreciation from depreciable assets and doubtful debts from accounts receivable *recognised* in the *entity's statement of financial position.*

### Segment Expenses

8.1.11 Costs are sometimes incurred at the *entity* level on behalf of a segment. Such costs are *segment expenses* if they relate to the segment's operating activities and they can be directly attributed or allocated to the segment on a reasonable basis.

8.1.12 *Segment expenses* may include a joint *venturer's expenses* relating to the operations of *joint venture operations* that are accounted for in accordance with AASB 1006 and AAS 19.

### Segment Liabilities

8.1.13 Examples of *segment liabilities* include trade and other payables, accrued liabilities, customer advances, product warranty provisions and other claims relating to the provision of goods and services. *Segment liabilities* of segments whose operations are not primarily of a financial nature do not include borrowings, *liabilities* related to *assets* that are the subject of *finance leases*, and other *liabilities* that are incurred for financing rather than operating purposes. The *liabilities* of segments whose operations are not primarily of a financial nature do not include borrowings and similar *liabilities* because *segment result* represents an operating, rather than a net-of-financing, profit or loss/result.

8.1.14 *Segment liabilities* may include a joint *venturer's liabilities* attributable to *joint venture operations* that are accounted for in accordance with AASB 1006 and AAS 19.

8.1.15 *Segment liabilities* do not include income tax liabilities.

## Segment Revenues

8.1.16 Accounting Standard AASB 1004 and Australian Accounting Standard AAS 15 "Revenue" require separate disclosure of *revenue* arising from operating activities. This is because information about the *revenues* of an *entity* that arise from its operating activities, which are those activities that relate to its core operations, are *relevant* to users of *general purpose financial reports*. In this Standard the term operating activities is used in the same sense as AASB 1004 and AAS 15.

8.1.17 *Segment revenues* include the *entity's* share of the net profit or loss/result of *associates* or *joint venture entities* accounted for under the equity method only if those items are included in total *revenues* of the *entity*. *Segment revenues* may also include a *joint venturer's revenues* from its share of the output of *joint venture operations* that are accounted for in accordance with AASB 1006 and AAS 19.

## Corporations Law Definitions

**8.2 In this Standard, the following definitions apply to each *entity* that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Law:**

***company* is defined in the Corporations Law**

***disclosing entity* is defined in the Corporations Law**

***financial year* is defined in the Corporations Law**

***holding company* is defined in the Corporations Law**

***statement of financial performance*** **means profit and loss statement as required by the Corporations Law**

***statement of financial position*** **means balance sheet as required by the Corporations Law**

***stock market*** **is defined in the Corporations Law.**

# APPENDIX 1

# SUMMARY OF REQUIRED DISCLOSURES

This Appendix forms part of the commentary and is provided for illustrative purposes only. Its purpose is to summarise the disclosures required by paragraphs 6.1 to 6.11 for each of the three possible primary segment reporting formats.

[¶xx] refers to paragraph xx in the Standard.

| **PRIMARY FORMAT IS BUSINESS SEGMENTS** | **PRIMARY FORMAT IS GEOGRAPHICAL SEGMENTS BY LOCATION OF ASSETS** | **PRIMARY FORMAT IS GEOGRAPHICAL SEGMENTS BY LOCATION OF CUSTOMERS** |
|---|---|---|
| ***Required Primary Disclosures*** | ***Required Primary Disclosures*** | ***Required Primary Disclosures*** |
| Revenues from sales to external customers by business segment [¶6.1(a)] | Revenues from sales to external customers by location of assets [¶6.1(a)] | Revenues from sales to external customers by location of customers [¶6.1(a)] |
| Revenues from transactions with other segments by business segment [¶6.1(a)] | Revenues from transactions with other segments by location of assets [¶6.1(a)] | Revenues from transactions with other segments by location of customers [¶6.1(a)] |
| Segment result by business segment [¶6.1(b)] | Segment result by location of assets [¶6.1(b)] | Segment result by location of customers [¶6.1(b)] |
| Carrying amount of segment assets by business segment [¶6.1(c)] | Carrying amount of segment assets by location of assets [¶6.1(c)] | Carrying amount of segment assets by location of customers [¶6.1(c)] |
| Carrying amount of segment liabilities by business segment [¶6.1(d)] | Carrying amount of segment liabilities by location of assets [¶6.1(d)] | Carrying amount of segment liabilities by location of customers [¶6.1(d)] |
| Total amount recognised for the acquisition of segment non-current assets by business segment [¶6.1(e)] | Total amount recognised for the acquisition of segment non-current assets by location of assets [¶6.1(e)] | Total amount recognised for the acquisition of segment non-current assets by location of customers [¶6.1(e)] |

| PRIMARY FORMAT IS BUSINESS SEGMENTS | PRIMARY FORMAT IS GEOGRAPHICAL SEGMENTS BY LOCATION OF ASSETS | PRIMARY FORMAT IS GEOGRAPHICAL SEGMENTS BY LOCATION OF CUSTOMERS |
|---|---|---|
| ***Required Primary Disclosures*** | ***Required Primary Disclosures*** | ***Required Primary Disclosures*** |
| Depreciation and amortisation expense by business segment [¶6.1(f)] | Depreciation and amortisation expense by location of assets [¶6.1(f)] | Depreciation and amortisation expense by location of customers [¶6.1(f)] |
| Non-cash expenses other than depreciation and amortisation expense by business segment [¶6.1(g)] | Non-cash expenses other than depreciation and amortisation expense by location of assets [¶6.1(g)] | Non-cash expenses other than depreciation and amortisation expense by location of customers [¶6.1(g)] |
| Share of net profit or loss of [¶6.1(h)] and carrying amount of investments in [¶6.1(i)] associates and other investees accounted for by the equity method by business segment (if substantially all of the associate's or other investee's activities are within the segment) | Share of net profit or loss of [¶6.1(h)] and carrying amount of investments in [¶6.1(i)] associates and other investees accounted for by the equity method by location of assets (if substantially all of the associate's or other investee's activities are within the segment) | Share of net profit or loss of [¶6.1(h)] and carrying amount of investments in [¶6.1(i)] associates and other investees accounted for by the equity method by location of customers (if substantially all of the associate's or other investee's activities are within the segment) |
| Reconciliations of segment revenues, result, assets, and liabilities to relevant entity totals [¶6.4] | Reconciliations of segment revenues, result, assets, and liabilities to relevant entity totals[¶6.4] | Reconciliations of segment revenues, result, assets, and liabilities to relevant entity totals[¶6.4] |

| PRIMARY FORMAT IS BUSINESS SEGMENTS | PRIMARY FORMAT IS GEOGRAPHICAL SEGMENTS BY LOCATION OF ASSETS | PRIMARY FORMAT IS GEOGRAPHICAL SEGMENTS BY LOCATION OF CUSTOMERS |
|---|---|---|
| ***Required Secondary Disclosures*** | ***Required Secondary Disclosures*** | ***Required Secondary Disclosures*** |
| Revenues from external customers by location of customers [¶6.5(a)] | Revenues from external customers by business segment [¶6.6(a)] | Revenues from external customers by business segment [¶6.6(a)] |
| Carrying amount of segment assets by location of assets [¶6.5(b)] | Carrying amount of segment assets by business segment [¶6.6(b)] | Carrying amount of segment assets by business segment [¶6.6(b)] |
| Total amount recognised for acquisition of segment assets by location of assets [¶6.5(c)] | Total amount recognised for acquisition of segment assets by business segment [¶6.6(c)] | Total amount recognised for acquisition of segment assets by business segment [¶6.6(c)] |
| | Revenues from sales to external customers by location of customers where different from location of assets [¶6.2] | |
| | | Carrying amount of segment assets by location of assets where different from location of customers [¶6.3(a)] |
| | | Total amount recognised for acquisition of segment assets by location of assets where different from location of customers [¶6.3(b)] |

| PRIMARY FORMAT IS BUSINESS SEGMENTS | PRIMARY FORMAT IS GEOGRAPHICAL SEGMENTS BY LOCATION OF ASSETS | PRIMARY FORMAT IS GEOGRAPHICAL SEGMENTS BY LOCATION OF CUSTOMERS |
|---|---|---|
| ***Other Required Disclosures*** | ***Other Required Disclosures*** | ***Other Required Disclosures*** |
| Revenues for any business or geographical segment where the external revenue is 10 per cent or more of entity revenues but that is not a reportable segment because a majority of its revenues are from internal transfers [¶6.7] | Revenues for any business or geographical segment where the external revenue is 10 per cent or more of entity revenues but that is not a reportable segment because a majority of its revenues are from internal transfers [¶6.7] | Revenues for any business or geographical segment where the external revenue is 10 per cent or more of entity revenues but that is not a reportable segment because a majority of its revenues are from internal transfers [¶6.7] |
| Basis of pricing inter-segment transfers and any change therein [¶6.8] | Basis of pricing inter-segment transfers and any change therein [¶6.8] | Basis of pricing inter-segment transfers and any change therein [¶6.8] |
| Information about changes in segment accounting policies [¶6.9] | Information about changes in segment accounting policies [¶6.9] | Information about changes in segment accounting policies [¶6.9] |
| Information about the basis of measurement of additional segment information that is not based on the entity's accounting policies [¶6.10] | Information about the basis of measurement of additional segment information that is not based on the entity's accounting policies [¶6.10] | Information about the basis of measurement of additional segment information that is not based on the entity's accounting policies [¶6.10] |
| Types of products and services in each business segment [¶6.11] | Types of products and services in each business segment [¶6.11] | Types of products and services in each business segment [¶6.11] |
| Composition of each geographical segment [¶6.11] | Composition of each geographical segment [¶6.11] | Composition of each geographical segment [¶6.11] |

The following disclosures are encouraged for primary segments:

| | | |
|---|---|---|
| Relevant segment items[¶6.1.3] | Relevant segment items[¶6.1.3] | Relevant segment items[¶6.1.3] |
| Segment cash flows [¶6.1.4] | Segment cash flows [¶6.1.4] | Segment cash flows [¶6.1.4] |

# APPENDIX 2

# ILLUSTRATIVE SEGMENT DISCLOSURES

This Appendix forms part of the commentary and is provided to illustrate the application of the standards to assist in clarifying their meaning.

The schedule and related note presented in this Appendix illustrate the segment disclosures that this Standard would require for a diversified multinational entity.

## INFORMATION ABOUT BUSINESS SEGMENTS (Note 4)

(All amounts $ million)

| | Paper Products | | Office Products | | Publishing | | Other Operations | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 20X2 | 20X1 | 20X2 | 20X1 | 20X2 | 20X1 | 20X2 | 20X1 | 20X2 | 20X1 | 20X2 | 20X1 |
| **REVENUE** | | | | | | | | | | | | |
| External sales | 55 | 50 | 20 | 17 | 19 | 16 | 7 | 7 | – | – | 101 | 90 |
| Inter-segment sales | 15 | 10 | 10 | 14 | 2 | 4 | 2 | 2 | (29) | (30) | – | – |
| Total sales revenue | 70 | 60 | 30 | 31 | 21 | 20 | 9 | 9 | (29) | (30) | 101 | 90 |
| Share of net profit or loss/result of associates | 6 | 5 | – | – | – | – | 2 | 2 | – | – | 8 | 7 |
| Total segment revenue | 76 | 65 | 30 | 31 | 21 | 20 | 11 | 11 | (29) | (30) | 109 | 97 |
| **RESULT** | | | | | | | | | | | | |
| Segment result | 26 | 22 | 9 | 7 | 2 | 1 | 2 | 2 | (1) | (1) | 38 | 31 |
| Unallocated corporate expenses | | | | | | | | | | | (9) | (10) |
| Profit/result from ordinary activities before income tax expense | | | | | | | | | | | 29 | 21 |
| Income tax expense | | | | | | | | | | | (7) | (4) |
| Profit/result from ordinary activities after income tax expense | | | | | | | | | | | 22 | 17 |
| Extraordinary items | | | | | | | | | | | – | (1) |
| Net profit | | | | | | | | | | | 22 | 16 |
| Segment assets | 74 | 66 | 34 | 30 | 10 | 10 | 22 | 19 | | | 140 | 125 |
| Unallocated corporate assets | | | | | | | | | | | 35 | 30 |
| Consolidated total assets | | | | | | | | | | | 175 | 155 |
| Segment liabilities | 25 | 15 | 8 | 11 | 8 | 8 | 1 | 1 | | | 42 | 35 |
| Unallocated corporate liabilities | | | | | | | | | | | 40 | 55 |
| Consolidated total liabilities | | | | | | | | | | | 82 | 90 |
| Investment in equity method associates included in segment assets | 20 | 16 | – | – | – | – | 12 | 10 | | | 32 | 26 |
| Acquisition of property, plant and equipment and intangible assets | 12 | 10 | 3 | 5 | 5 | | 4 | 3 | | | 24 | 18 |
| Depreciation | 9 | 7 | 9 | 7 | 5 | 3 | 3 | 4 | | | 26 | 21 |
| Non-cash expenses other than depreciation | 8 | 2 | 7 | 3 | 2 | 2 | 2 | 1 | | | 19 | 8 |
| Inventory write-down | (6) | – | – | – | – | – | – | – | | | (6) | – |

**Note 4 - Business and Geographical Segments (all amounts $million)**

Business segments: for management purposes, the Group is organised on a worldwide basis into three major operating divisions — paper products, office products and publishing — each headed by an executive director. The divisions are the basis on which the Group reports its primary segment information. The paper products segment produces a broad range of writing and publishing papers and newsprint. The office products segment manufactures labels, binders, pens and markers and also distributes office products made by others. The publishing segment develops and sells loose-leaf services, bound volumes and CD-ROM products in the fields of taxation, law and accounting. Other operations include development of computer software for specialised business applications for unaffiliated customers and development of certain former productive forests into vacation home sites. Financial information about business segments is presented in the schedule on the previous page.

Geographical segments: although the Group's three divisions are managed on a worldwide basis, they operate in four principal major geographical locations. In Australia, its home country, the Group produces and sells a broad range of papers and office products. Additionally, all of the Group's publishing and computer software development operations are conducted in Australia, though the published loose-leaf and bound volumes and CD-ROM products are sold in Australia and throughout Europe. In Europe, the Group operates paper and office products manufacturing facilities and sales offices in France, Belgium, Germany and the Netherlands. Operations in Canada and the United States are essentially similar and consist of manufacturing papers and newsprint that are sold entirely within those two countries. Most of the paper pulp comes from company-owned forests in these countries. Operations in Indonesia include the production of paper pulp and the manufacture of writing and publishing papers and office products, almost all of which are sold outside Indonesia, both to other segments of the Group and to external customers.

Sales by geographical area: the following table shows the distribution of the Group's sales by geographical market, regardless of where the goods were produced:

| | **Sales Revenues by Geographical Market** | |
|---|---|---|
| | **20X2** | **20X1** |
| Australia | 19 | 22 |
| Europe | 30 | 31 |
| Canada and the United States | 28 | 21 |
| East Asia (principally Japan and Taiwan) | 18 | 14 |
| Other (principally Mexico and South America) | 6 | 2 |
| | 101 | 90 |

Assets and acquisitions of segment non-current assets by geographical area: the following tables show the carrying amount of segment assets and acquisitions of property, plant and equipment, and intangible assets by geographical area in which the assets are located:

| | **Carrying Amount of Segment Assets** | | **Acquisitions of Property, Plant and Equipment, and Intangible Assets** | |
|---|---|---|---|---|
| | **20X2** | **20X1** | **20X2** | **20X1** |
| Australia | 72 | 78 | 8 | 5 |
| Europe | 47 | 37 | 5 | 4 |
| Canada and the United States | 34 | 20 | 4 | 3 |
| Indonesia | 22 | 20 | 7 | 6 |
| | 175 | 155 | 24 | 18 |

Segment revenues and expenses: in Europe, paper and office products are manufactured in combined facilities and are sold by a combined sales force. Joint revenues and expenses are allocated to the two business segments. All other segment revenues and expenses are directly attributable to the segments.

Segment assets and liabilities: segment assets include all assets used by a segment and consist principally of cash, receivables, inventories and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of accounts payable, wages and accrued expenses. Segment assets and liabilities do not include deferred income taxes.

Inter-segment transfers: segment revenues, segment expenses and segment result include transfers between business segments and between geographical segments. Such transfers are accounted for at competitive market prices charged to external customers for similar goods. Those transfers are eliminated on consolidation.

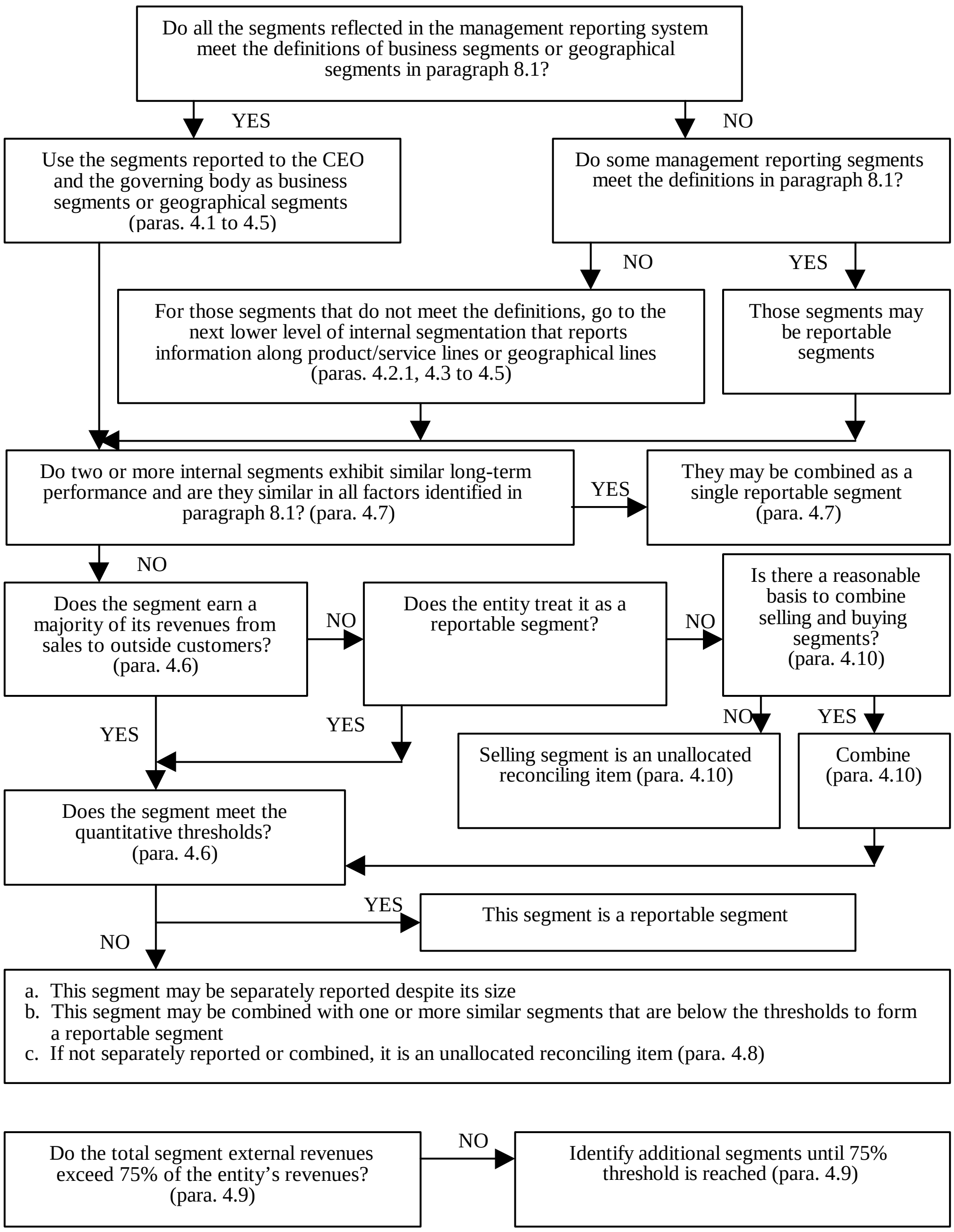
Inventory write-down: excess capacity in the paper and pulp industry and the resultant severe competition as competitors sought to maintain market share resulted in an erosion of margins and significant reductions in selling prices which had an adverse effect on the net realisable values of inventories. In response to these factors the directors have recognised significant write-downs of inventories of finished goods and raw materials. These write-downs amounted to $6 million ($4 million after tax effect).

Investment in equity method associates: the Group owns 40 per cent of the ordinary shares of EuroPaper Limited, a specialist paper manufacturer with operations principally in Spain and the United Kingdom. The Group also owns several investments accounted for using the equity method in Canada and the United States which are included in other operations because their activities are dissimilar to any of the three business segments.

# APPENDIX 3

# SEGMENT DEFINITION DECISION TREE

This Appendix forms part of the commentary and is provided to illustrate the application of paragraphs 4.1 to 4.11.



# CONFORMITY WITH INTERNATIONAL AND NEW ZEALAND ACCOUNTING STANDARDS

## Conformity with International Accounting Standards

As at the date of issue of this Standard, compliance with this Standard will ensure conformity with International Accounting Standard IAS 14 "Segment Reporting".

## Conformity with New Zealand Accounting Standards

As at the date of issue of this Standard, compliance with this Standard will not ensure compliance with Statement of Standard Accounting Practice SSAP 23 "Financial Reporting for Segments". SSAP 23 requires an industry and geographical basis of identifying segments and does not permit a primary and secondary reporting format. SSAP 23 also requires different disclosures from those required by this Standard.

# BACKGROUND TO REVISION

This section does not form part of the Standard. It is a summary of the reasons for the current revision to the Standard.

1 The reissue of the Standard is part of a program commenced by the former Australian Accounting Standards Board and the Public Sector Accounting Standards Board of the Australian Accounting Research Foundation (the former Boards) to achieve greater harmony between Australian accounting standards and those of the International Accounting Standards Committee. The reconstituted Australian Accounting Standards Board (AASB) is continuing this program and has issued the Standard as part of a single series of Standards rather than the former two series as both an Accounting Standard and an Australian Accounting Standard.

2 The issue of the Standard follows consideration of the responses received on Exposure Draft ED 90 "Segment Reporting", which was prepared by the former Boards and released in March 1998. ED 90 contained proposals aimed at harmonising Accounting Standard AASB 1005 and Australian Accounting Standard AAS 16 "Financial Reporting by Segments" with International Accounting Standard IAS 14 "Segment Reporting".

## Principal Changes from the Previous Standards

3 Consistent with the proposals in ED 90, the Standard:

(a) requires information to be reported for business segments and geographical segments. It is consistent with a presumption that an entity will look to its internal organisational structure and internal reporting system for the purpose of identifying segments. The superseded Standards required information to be reported for industry segments and geographical segments but provided less guidance for identifying segments;

(b) requires one basis of segmentation to be primary and the other to be secondary, with considerably less information required to be disclosed for secondary segments. The superseded Standards required the same information to be reported for both industry segments and geographical segments;

(c) requires that the accounting policies applied in preparing segment information be the same as those adopted by the entity;

(d) provides detailed guidance as to specific items of revenues and expenses that are included in or excluded from segment revenues and segment expenses;

(e) requires "symmetry" in the inclusion of items in segment result and in segment assets. For example, if segment result includes depreciation expense, the depreciable asset is included in segment assets;

(f) permits internally reported segments that are not required to be separately reported to be combined with each other if they share a substantial number of the factors that define a business segment or geographical segment, or combined with a similar significant segment for which information is reported internally if certain conditions are met;

(g) requires more extensive disclosures than those required by the previous Standards. For an entity's primary basis of segment reporting (business segments or geographical segments), this Standard requires additional disclosures relating to:

    (i) segment liabilities;

    (ii) the total amount recognised during the reporting period for the acquisition of segment non-current assets;

    (iii) depreciation and amortisation expense;

    (iv) non-cash expenses other than depreciation and amortisation; and

    (v) the entity's share of the net profit or loss/result and the carrying amount of the investment in an associate, or other investee accounted for under the equity method, if substantially all of the associate's or other investee's operations are within only that segment;

(h) requires inter-segment transfers to be measured on the basis that the entity used to price the transfers and requires the basis of measurement and changes therein to be disclosed;

(i) requires that, whichever is the basis of an entity's geographical segments (origin of sales or destination of sales), information to be presented in respect of both bases if the information derived on one basis is significantly different from information derived on the other basis; and

(j) requires disclosure of revenues for any segment not deemed reportable if it earns a majority of its revenues from sales to other segments and its revenues from sales to external customers is 10 per cent or more of total entity revenues.

## Noteworthy Differences from ED 90

4 The Standard requires an entity that operates predominantly in a single business or geographical segment to disclose that fact together with a general description of the entity's types of products and services. This requirement is consistent with a similar requirement in the previous Standards.

5 The drafting style in ED 90 reflected that in IAS 14. Some respondents to ED 90 expressed the view that the drafting style was difficult to understand, there was unnecessary repetition of the requirements, that some "black-letter" requirements should be included as commentary and that some commentary should be black-letter requirements. The Board has sought to address these comments in the Standard in order to clarify its requirements. In doing so some parts of ED 90 are restructured and some paragraphs are redrafted, in particular, those dealing with identifying the reporting format and reportable segments.