Illustrative Disclosures

on climate-related disclosures in the financial statements

About KPMG

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Inclusive
We bring together diverse perspectives and skills, because this leads to deeper insights and greater outcomes

Outcomes-driven
We work shoulder to shoulder with our clients to help them achieve better outcomes

Contents

Note	*Reference*	**Explanatory note**
1.	*1-1.7*	Entities consider financial statement materiality in relation to accounting and disclosure of climate-related matters in the financial statements in the same way as other accounting and disclosure matters. Under Singapore Financial Reporting Standards (International) (SFRS(I)), information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that primary users of financial statements make on the basis of those financial statements. For further information, see our talkbook to assess impact on your financial statements.
2.		On 28 October 2022, ISCA issued *Technical Bulletin 1: Addressing Climate-Related Risks in Financial Statements and Audit of such Financial Statements*. The technical bulletin seeks to raise awareness on the need to consider the impact of climate-related risks on an entity's business and operating environment, and their potential implications on the entity's financial statements. For further guidance, refer to *Technical Bulletin 1*.
3.		In June 2023, the International Sustainability Standards Board (ISSB) issued two IFRS® Sustainability Disclosure Standards, IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*, for disclosure of sustainability-related financial information and climate-related disclosures. As such, the IASB also republished its educational material on the "Effects of climate-related matters on financial statements" in July 2023 to remind stakeholders of the long-standing requirements in IFRS Accounting Standards to report on the effects of climate-related matters in the financial statements when those effects are material. To further support entities in addressing areas of known investor and regulatory concern, particularly regarding disclosures about uncertainties in financial statements, the IASB issued new illustrative examples (using climate-related scenarios) in November 2025. For further information, see our article: Uncertainty – Reflecting its impacts in financial reporting. On 10 December 2025, the Accounting Standards Committee (ASC) issued these new illustrative examples as amendments to SFRS(I) (Amendments to Illustrative Examples on SFRS(I) 7, SFRS(I) 18, SFRS(I) 1-1, SFRS(I) 1-8, SFRS(I) 1-36 and SFRS(I) 1-37: *Disclosures about Uncertainties in the Financial Statements*).
4.		Not all existing risks and uncertainties impact companies equally. Entities can refer to this talkbook: Be clear in times of uncertainty for key steps in assessing the impact of risks and uncertainties in financial reporting.

About this Supplement[1,2,3]

This publication is produced by KPMG in Singapore, and the views expressed herein are those of KPMG in Singapore.

This publication has been produced to complement our Guide to annual financial statements – Illustrative disclosures (Singapore Illustrative Financial Statements 2025). The Singapore Illustrative Financial Statements 2025 and this supplement may help entities to prepare and present financial statements in accordance with Singapore Financial Reporting Standards (International) (SFRS(I)).

This supplement focuses on illustrating disclosures that entities may need to provide to help users understand how climate-related matters[4] impact the financial statements.

Each illustrative example deals with a specific, independent and unrelated fact pattern and is therefore not intended to reconcile to the other examples or the Singapore Illustrative Financial Statements 2025. It provides disclosure examples for illustrative purposes only. This supplement does not illustrate all of the disclosures that may be warranted as a result of climate-related risks or transactions, which will depend on an entity's underlying facts and circumstances. The specific facts of each entity will need to be considered in the context of SFRS(I) requirements as a whole.

References to standards are included on the left-hand margin of this supplement. Generally, the references relate only to presentation and disclosure requirements. Sections with "[…]" indicate additional disclosures not illustrated in this publication. Entities can refer to the Singapore Illustrative Financial Statements 2025 for these additional disclosures.

Note	*Reference*	**Explanatory note**
1.	*9.4.3.1, B4.3.1*	An issuer considers first whether the sustainability-linked bond is a hybrid contract - i.e. one that includes both a non-derivative host instrument and one or more embedded derivatives. It then assesses whether an embedded derivative requires separation from the host contract (bifurcation) under SFRS(I) 9. For further information, see our web article: Do green bonds contain embedded derivatives?
2.		The amendments to SFRS(I) 9 and SFRS(I) 7 are effective from 1 January 2026, with earlier application permitted. For further information, see our web article: Classification of financial assets. The illustrations in this supplement assume that the amendments to SFRS(I) 9 and SFRS(I) 7 were not early adopted. Refer to Guide to annual financial statements – Illustrative disclosures for banks (December 2025) for an illustration of the associated disclosures of financial assets with contingent features by an early adopter of part of these amendments.

1. Sustainability-linked bonds (Issuer's perspective)

Fact pattern

The Group issued a sustainability-linked bond amounting to $[•], where the interest rate payable is dependent on the issuer meeting its greenhouse gases (GHG) emissions reduction targets by 20X6 from its 20XX baseline. The bond contains the following terms and conditions:

Term: 8 years with a bullet principal repayment

Coupon: [•]% per annum, payable semi-annually in arrears on 6 April and 6 October in each year, and subject to the adjustment as described in the Premium Trigger Event clause below.

Premium Trigger Event: If the Group fails to achieve its sustainability performance target of reducing its Scope 1 and 2 GHG emissions by [•]% from 20XX baseline by the end of 20X6, the coupon on the bond will increase to [•]% per annum to maturity. If the sustainability performance target is achieved, the coupon on the bond will decrease to [•]% per annum to maturity.

Illustration of disclosures in the notes

Notes to the financial statements (extract)

Issuer's perspective

41. Material Accounting Policies (extract)
41.3 Financial instruments (extract)

[...]

(vii) Derivative financial instruments (extract)

[···]

9.4.3.3

Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:

- the host contract is not an asset in the scope of SFRS(I) 9;
- the host contract is not itself carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

The Group has issued a bond with contractual cash flows based on the Group meeting a sustainability performance target of reducing its scope 1 and 2 GHG emissions by [•]% from its 20XX baseline by the end of 20X6. The Group has determined that the variability in cash flows linked to the Group's sustainability performance target is a non-financial variable specific to the party to the contract, and therefore, in accordance with the Group's accounting policy the feature fails the definition of a derivative. Accordingly, the feature is not separated. Instead, it is included in the calculation of the effective interest rate of the bond.[1, 2]

Notes to the financial statements (extract)

Issuer's perspective

21. Financial instruments (extract)
Financial Risk Management (extract)
Liquidity Risk

7.31, 33

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's objective when managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

[…]

Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities. The amounts are gross and undiscounted, and include contractual interest payments and exclude the impact of netting agreements.

7.39(a)

Group
31 December 20X5

		Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
		$'000	$'000	$'000	$'000	$'000	$'000	$'000
7.39(a), B11A-B11D	**Non-derivative financial liabilities**							
	Secured bank loans	xxx	xxx	xxx	xxx	xxx	xxx	xxx
	Sustainability-linked bond	xxx	xxx	xxx	xxx	xxx	xxx	xxx
16.58	Lease liabilities	xxx	xxx	xxx	xxx	xxx	xxx	xxx
	Trade and other payables	xxx	xxx	xxx	xxx	xxx	xxx	xxx
	Bank overdraft	xxx	xxx	xxx	xxx	xxx	xxx	xxx
		xxx	xxx	xxx	xxx	xxx	xxx	xxx

[…]

7.39(b), (c), B11C-D

The maturity analyses show the contractual undiscounted cash flows of the Group's financial liabilities on the basis of their earliest possible contractual maturity. […] In addition to the above, the interest payments on the Group's sustainability-linked bond takes into consideration the Group's expectation of its ability to meet the sustainability-linked performance targets, and may change if the Group expects that it can no longer meet this target.

Note	*Reference*	**Explanatory note**
1.	*1-1.122, 1-1.31*	SFRS(I) 1-1 requires disclosure of judgements, apart from those involving estimation, that have the most significant effect on the amounts disclosed in the financial statements. Entities should also consider if judgements that are not specifically required to be disclosed by paragraph 122 of SFRS(I) 1-1, may still be material for disclosure by applying paragraph 31 of SFRS(I) 1-1. Such disclosures should be distinguished from disclosures required by SFRS(I)1-1 paragraph 122.
2.	*9.4.1.2*	Where a lender assesses the classification of a sustainability-linked bond, a question arises over whether such sustainability-linked adjustments to contractual cash flows are consistent with the solely payments of principal and interest (SPPI) criterion – i.e. whether the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding. SFRS(I) 9 *Financial Instruments* has been amended following its post-implementation review (PIR) of the classification and measurement requirements to include guidance on the classification of financial assets for all contingent features, not just sustainability-linked features. SFRS(I) 7 *Financial Instruments: Disclosures* was also amended to require additional disclosures (See Explanatory Note 3 below).
3.	*7.20B-20D*	Amendments to SFRS(I) 9 and SFRS(I) 7 on Classification and Measurement of Financial Instruments require disclosures of the effect of contractual terms that could change the amount of contractual cash flows based on the occurrence (or non-occurrence) of a contingent event that does not relate directly to changes in basic lending risks and costs. The disclosure is not limited to sustainability-linked features. An entity is required to disclose information to enable users of financial statements to understand such effects, including a qualitative description of the nature of the contingent event, quantitative information about the possible changes to contractual cash flows, the gross carrying amount of financial assets and amortised cost of financial liabilities that include such contingent features. Disclosure is provided by class of financial assets measured at amortised cost or FVOCI and by class of financial liabilities measured at amortised cost.

2. Sustainability-linked bonds (Holder's perspective)

Fact pattern

The Group holds sustainability-linked bonds amounting to $[•]. The bonds are held under a portfolio whose business model is to hold to collect. The purchased bonds include features that change contractual cash flows based on the issuer meeting certain contractually specified environmental, social and governance (ESG) targets.

Illustration of disclosures in the notes

Notes to the financial statements (extract)

Holder's perspective

2. Basis of preparation (extract)
2.4 Use of estimates and judgements (extract)

1-1.122

[...]

Information about critical judgements[1] in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- [...]
- Note 41.3 and [•] – classification of financial assets: whether the sustainability-linked bonds held meet the "solely payments of principal and interest" criteria;

Notes to the financial statements (extract)

Holder's perspective

41. Material Accounting Policies (extract)
41.3 Financial instruments (extract)
(ii) Classification and subsequent measurement (extract)[2, 3]

9.4.1.3, B4.1.7A-7B B4.1.9A-9E

Non-derivative financial assets: Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

Notes to the financial statements (extract)

Holder's perspective

41. Material Accounting Policies (extract) (continued)
41.3 Financial instruments (extract) (continued)
(ii) Classification and subsequent measurement (extract) (continued)

Non-derivative financial assets: Assessment of whether contractual cash flows are solely payments of principal and interest (continued)

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

9.B4.1.18

The Group has purchased bonds that include features that change contractual cash flows based on the issuer meeting certain contractually specified environmental, social and governance (ESG) targets. For example, the contractual interest rate is increased if the issuer fails to meet specific targets for reducing carbon emissions. If the ESG feature could only have a *de minimis* effect on the contractual cash flows of the bond, then the feature does not affect the classification of the bond. However, if the effect of the ESG feature could be more than de minimis, then judgement is required about whether the feature would be consistent with a basic lending arrangement and meet the SPPI criterion. The Group considers that variability of the interest rate of up to [•] bp is *de minimis*.[2]

In some cases, the ESG-linked adjustment to the contractual interest rate reflects compensation for a change in the credit risk of a bond and, therefore, does not prevent the bond from meeting the SPPI criterion. Where the ESG feature represents compensation for exposure to a particular ESG risk, the feature is not consistent with the SPPI criterion and the bond is measured at FVTPL.

Note	*Reference*	**Explanatory note**
1.		Entities should consider the impact of climate-related risks on their exposure to credit, liquidity and market risks and disclose accordingly.
	7.IG22A	In assessing whether information about the effects of particular risks (including climate) on its exposure to credit risk is material, an entity considers factors such as size of the loan portfolios, significance of the effects of climate-related risks and external qualitative factors. If such information is material, an entity discloses: (a) an explanation of the entity's credit risk management practices related to climate-related and other risks and how those practices relate to the recognition and measurement of expected credit losses. (b) an explanation of how the entity incorporated climate-related and other risks in the inputs, assumptions and estimation techniques it used to apply the requirements in Section 5.5 of SFRS(I) 9 (ie, impairment). (c) information about collateral held as security and other credit enhancements. This information might include, for example, information about properties held as collateral that are subject to flood risk and whether the risk is insured. (d) information about the concentration of climate-related risks if not apparent from other disclosures the entity makes.

3. Financial risk management

Fact pattern The Group has identified climate risk as an emerging risk arising from financial instruments that has a growing impact on the Group's activities. Incidental to its business activities, the Group extends secured loans to certain coal mining companies **in Region [X]** which are transitioning to a low-carbon business model.

Illustration of disclosures in the notes

Notes to the financial statements (extract)

21. Financial instruments (extract)
Financial Risk Management (extract)

7.31 The Group has exposure to the following risks[1] from financial instruments:

- credit risk;
- liquidity risk; and
- market risks.

In addition, the Group has identified climate risk as an emerging risk arising from financial instruments that has a growing impact on the Group's activities. This note presents information about the Group's exposure to each of the above risks considering climate.

[…]

'Climate-related risks' are potential negative impacts on the Group arising from climate change. Climate-related risks have an impact on the principal risk categories, but due to their pervasive nature have been identified and managed by the Group on an overall basis.

The Group distinguishes between physical risks and transition risks. Physical risks arise as the result of acute weather events such as hurricanes, floods, and wildfires, and longer-term shifts in climate patterns, such as sustained higher temperatures, heat waves, droughts and rising sea levels. Transition risks arise as a result of measures taken to mitigate the effects of climate change and transition to a low-carbon economy – e.g. changes to laws and regulations, litigation due to failure to mitigate or adapt, and shifts in supply and demand for certain commodities, products and services due to changes in consumer behaviour and investor demand.

The Group has set up a Climate Risk Committee, which is responsible for developing group-wide policies, processes and controls to incorporate climate risks in the management of principal risk categories.

Note	*Reference*	**Explanatory note**
1.	*1-1.125, 129*	Paragraph 125 of SFRS(I) 1-1 requires disclosures of information about assumptions that an entity makes about the future and other sources of estimation uncertainty at the reporting date that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Paragraph 129 of SFRS(I) 1-1 gives an example of this disclosure: "the nature of the assumption or other estimation uncertainty". Entities need to consider what information they are able to provide to meet these requirements, reflecting the fact that for an entity, the extent and complexity of judgement involved in measuring ECL and the estimation uncertainty associated with it makes it one of the most significant accounting estimates in preparing financial statements. An entity needs to consider what information that is provided internally to key management personnel could be used to meet the requirements of paragraph 125 of SFRS(I) 1-1. Entities need to disclose any limitations relevant to understanding the disclosures provided.

Notes to the financial statements (extract)

21. Financial instruments (extract) (continued)
Financial Risk Management (extract) (continued)

7.31 The Group has developed a climate risk framework for:

- identifying risk factors and assessing their potential impact on the Group's financial statements; and
- allocating responsibilities for managing each identified risk factor.

The Group has also set out principles on how to incorporate climate-related risk into stress test scenarios.

The Group has identified the following climate-related risk factors as having an impact on the Group's financial instruments and included them in its principal risk management processes.

- Borrowers exposed to increased transition risks: The Group has identified industries that are subject to increased risk of climate regulation negatively affecting their business model. The Group has incorporated climate-related risk factors in their ECL assessment.
- Physical risk to real estate: The Group has identified areas in which it operates that are exposed to increased physical risk such as hurricanes or floods. Heightened physical risk is considered in valuing collateral, such as real estate.

In addition, the Group is in the process of developing models that aim to assess how the borrowers' performance is linked to climate change. The Group plans to use these models in pricing credit risk and in calculating ECLs.

7.35F(a), 35G

Loans and advances to corporate customers[1]

[...]

7.35K Generally, a significant increase in credit risk is assessed based on the estimation of PDs and consideration of qualitative factors, each of which are designed to reflect forward-looking information, on an individual instrument basis as described above. However, if the Group identifies a key driver that is not considered in the individual assessment on a timely basis, then the Group will evaluate whether there is reasonable and supportable information that enables it to make an additional assessment on a collective basis with respect to all or some of a portfolio. This may lead to the Group concluding that a segment or proportion of a portfolio has undergone a significant increase in credit risk.

Credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Group's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgement and relevant historical experiences.

Notes to the financial statements (extract)

21. Financial instruments (extract) (continued)
Financial Risk Management (extract) (continued)

7.35K9b), 36(b), B8G

Loans and advances to corporate customers[1] (continued)

In Region [X], the Group has extended loans to some borrowers in the coal mining industry. In view of the government strategy to encourage a move to greener technologies, these borrowers are transitioning to a low-carbon business model. As a result, the Group anticipates the transition to a low carbon business model may adversely affect the borrowers' cash flow generation capacity due to an anticipated decline in demand for fossil fuels, higher compliance costs and increased capital expenditure requirements. The risk of default occurring on these loans is determined to have increased significantly, even if those customers are not past due and there is no other evidence of significant increase in credit risk on an individual loan basis. The Group treats these loans as a separate segment and recognises a loss allowance at an amount equal to lifetime ECL. However, any newly originated loans to borrowers in the coal mining industry in this region would have a loss allowance equal to 12-month ECL because they would not have experienced significant increase in credit risk since initial recognition.

[…]

Collateral held and other credit enhancements

The Group holds collateral and other credit enhancements against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

	Carrying amount		Percentage of exposure that is subject to collateral requirements		
	20X5	20X4	20X5	20X4	Principal type of collateral held
	$'000	$'000	$'000	$'000	
Loans and advances to corporate customers					
Corporate loans	xxx	xxx	xxx	xxx	[describe any collateral held e.g., High carbon emission intensity facilities]
Corporate loans to coal mining companies in Region [X]	xxx	xxx	xxx	xxx	[describe any collateral held e.g., none]
Other corporate loans	xxx	xxx	xxx	xxx	[describe any collateral held e.g., Renewable energy facilities]

Note	*Reference*	**Explanatory note**
1.		In some cases, changes in key assumptions on climate-related risk may not be expected to result in material adjustments in the measurement of assets and liabilities in the next financial year, but the chance of material adjustments in the longer term may be significant. In these circumstances, and given the expectations of investors, companies may need to consider disclosing key assumptions related to climate-related risk even though the risk of material adjustments in the next financial year may be considered to be low. Such disclosures should be clearly distinguished from disclosures on key judgements and estimates required by SFRS(I) 1-1 paragraph 125. Refer to KPMG's article: Have you disclosed the impacts of climate-related matters clearly? for more details.
2.	*1-1.31*	The below fact pattern illustrates an example when the climate change has affected the carrying amount of inventories. Paragraph 31 of SFRS(I) 1-1 requires an entity to consider whether to provide additional disclosures when compliance with the specific requirements in SFRS(I) is insufficient to enable users of financial statements to understand the effect of transactions, events and conditions on the entity's financial position and performance. In applying paragraph 31 of SFRS(I) 1-1, additional disclosures may be required even if the transition plan or climate-related risks have no effect on the recognition or measurement of its assets, liabilities, income and expenses for the current reporting period, for example, when the indicative bids and other evidence suggest that the net realisable values of the land parcels are higher than the carrying amounts.
		Materiality judgements leading to additional disclosures
	1-1.IG12-23	IG12-23 of SFRS(I) 1-1 illustrates an example where material judgements lead to additional disclosures. In the example, a manufacturing entity operating in a capital-intensive industry is exposed to significant climate-related transition risks and is subject to climate-related policies implemented in its jurisdictions. The entity has developed a strategically important climate-related transition plan, expected to significantly affect its operations, to manage these risks. The entity determines that its transition plan has no effect on the recognition or measurement of its assets, liabilities, income and expenses for the current reporting period because, for example: (a) the transition plan did not affect the useful lives of the affected manufacturing facilities. These facilities will not be replaced until the end of their current useful lives. (b) the entity's existing inventory of raw materials will be fully consumed before the entity changes the raw materials used in its manufacturing process in accordance with the transition plan. The carrying amount of the raw materials is recoverable. (c) the recoverable amounts of the affected cash-generating units (CGUs), after reflecting the effects of the transition plan where required by SFRS(I)1-36 *Impairment of Assets*, exceed their carrying amounts. (d) the transition plan did not affect the timing or amount of expenditure required to settle the entity's decommissioning and site-restoration obligations. In preparing the financial statements, the entity also assesses whether specific requirements in other SFRS(I) and paragraph 31 of SFRS(I)1-1 require it to disclose information about the effect (or lack of effect) of its transition plan on its financial position and performance. In applying paragraph 31 of SFRS(I) 1-1, the entity applies judgement to determine whether additional disclosures regarding the effect (lack of effect) of its transition plan or climate-related risks would provide material information by considering entity specific qualitative factors, external qualitative factors and connectivity with information disclosed in its general purpose financial report, such as details of the transition plan and climate-related risks and opportunities.

Note	*Reference*	**Explanatory note**
2.	*1-1.IG12-23*	After considering the factors in IG21-22 of SFRS(I) 1-1, the entity determines that additional disclosure to explain the lack of effect of its transition plan on its financial position and performance for the current reporting period would provide material information in the context of its financial statements taken as a whole, as for example, (a) entity-specific qualitative factors – (i) The entity has significant exposure to climate-related transition risks and its transition plan contributes to mitigating those risks (ii) The entity's transition plan is strategically important for, and is expected to significantly affect, its future operations. (b) external qualitative factors – the climate-related transition risks are significant to the business models of entities operating in the same industry and the climate-related policies adopted by the jurisdictions in which the entity operates. (c) connectivity with information disclosed in its general purpose financial report – information about the entity's plans to change its manufacturing methods and invest in more energy-efficient technology might suggest that some of its assets might be impaired. Following this assessment, entity concludes that additional disclosure to explain the lack of effect of its transition plan on its financial position and performance for the current reporting period would provide material information, for example, by explaining why its transition plan had no effect on its financial position and financial performance for the current reporting period by disclosing the reasons.
	1-1.31 *1-1.IG24-30*	**Materiality judgements not leading to additional disclosures** The assessment of whether additional disclosures may be required will depend on its specific facts and circumstances, including the nature and extent of those impacts on the entity. IG24-30 of SFRS(I) 1-1 illustrates an example where material judgements do not lead to additional disclosures. In the example, a service provider entity with limited exposure to climate transition risks has disclosed in its sustainability report that it has low level of greenhouse gas emissions, explaining that, if possible, it uses renewable energy and avoids exposure to high-emission activities. Considering the qualitative and quantitative factors, the entity determines that there are no indications that an explanation about the lack of effect of its greenhouse gas emissions policy on its financial position and performance for the current reporting period would be material information, because, for example: (a) its greenhouse gas emissions policy is not expected to significantly affect its future operations; and (b) it operates in an industry that has a low level of greenhouse gas emissions and has limited exposure to climate-related transition risks.

4. Net realisable value of inventories

Fact pattern

The Group is a property developer and owns numerous land parcels in various countries. Several land parcels are located in high flood risk areas.

The Group accounts for these land parcels which are held for development as inventories. In 20X5, the Group carried out a global portfolio baseline study to better understand its portfolio's physical climate risk in relation to floods. The study indicated a heightened risk of flooding in certain locations within [•] years which has the potential to breach impending changes to local building regulations for acceptable flood risk level for new developments. This led to a decision by the Group to cease the development plan of the impacted sites as it is unlikely for the Group to obtain funding and regulatory approval for future development. A preliminary solicitation of indicative bids and management's estimate of the net realisable value suggest that the sale value of the impacted land parcels would be negligible.

Illustration of disclosures in the notes

Notes to the financial statements (extract)

2. Basis of preparation (extract)
2.4 Use of estimates and judgements (extract)

[⋯]

1-1.112(c) Other accounting estimates[1] with assumptions impacted by climate-related risks, but which are not considered to have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are included in the following notes:

- […]
- Note 11 – measurement of net realisable value of land[2] held for development in high flood risk locations;

[…]

Notes to the financial statements (extract)

11. Inventories (extract)

[…]

1-2.36(e)-(g).
1-1.112(c)

During 20X5, management carried out a climate impact review and identified that certain low-lying land parcels owned by the Group in location X are exposed to heightened flood risk within the next [•] years, which has the potential to breach impending changes to local building regulations for acceptable flood risk levels for new developments. The Group commissioned a review of the net realisable value of the impacted land inventories and estimated the net realisable value to be $[•].

The Group's estimate of the net realisable value takes into consideration the sale value of the land and assumes that the Group is unlikely to obtain funding and regulatory approval for future development of the impacted sites less the estimated costs to be incurred.

Estimates are periodically reassessed by the Group. Future developments such as improvements in drainage and pumping techniques, new flood mitigation measures, or changes in government regulations and infrastructure, could result in changes to the estimated net realisable value.

The write-down of the land inventories of $[•] to the net realisable value, is included in 'cost of sales'.

5. Provision for carbon taxes

Fact pattern

The Group is a large-scale manufacturer of chemical products and operates several manufacturing plants in Singapore. A carbon tax was introduced by the government and is applicable to each manufacturing facility that directly emits at least 25,000 tCO2e of greenhouse gases (GHG) annually. The carbon tax is currently set at a fixed price of $25 per tCO2e for 2025, and it will be raised to $45 per tCO2e in 2026 and 2027. The legislation requires carbon taxes levied to be settled via carbon credits sold by the regulator. From 2024, each of these facilities are allowed to use of international carbon credit to offset taxable emission up to 5% of their taxable emissions.

Manufacturing facilities X and Y of the Group exceeded the regulatory emission threshold of 25,000 tCO2e in 2025 and the Group is liable to pay carbon taxes. In prior years, both manufacturing facilities X and Y were registered as taxable facilities as they had previously exceeded the emissions threshold.

Illustration of disclosures in the notes

Notes to the financial statements (extract)

41. Material Accounting Policies (extract)
41.X Carbon taxes

INT21.8-12

A provision for carbon taxes is recognised when the minimum greenhouse gases (GHG) emission threshold as set out in the relevant legislation is reached. Subsequent to reaching the minimum legislated GHG emission threshold, provision for carbon taxes is recognised as and when greenhouse gases are emitted.

Note	*Reference*	**Explanatory note**
1.	*1-37.85, IG Example 2A*	Entities assess whether disclosures under paragraph 85 of SFRS(I) 1-37 provide material information to users of the financial statements. Entities might also disclose information about their obligations even if the effects on the carrying amounts of the entities' provisions are immaterial. Considering the application of Example 2A of SFRS(I) 1-37, an entity considers, among other factors, the size of costs required to settle the obligations, the risk of early settlement and external climate-related qualitative factors. If an entity assesses that information about provisions is material, an entity discloses information about its provision which may include information about the obligations that have an immaterial effect on the carrying amount of the provision, for example, (a) a brief description of the nature of the obligations and the expected timing of the outflows of economic benefits required to settle them. (b) an indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, the entity also discloses the major assumptions made concerning future events.

Notes to the financial statements (extract)

19. Provisions (extract)

		Restruc-turing $'000	Site restora-tion $'000	Onerous contract $'000	Emissions schemes $'000	Carbon taxes $'000	Legal $'000	[...] $'000	Total $'000
	Group								
1-37.84(a)	At 1 January 2025	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
3.23	Assumed in a business combination	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
1-37.84(b)	Provisions made during the year	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
1-37.84(c)	Provisions used during the year	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
	Provisions disposed of through distribution	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
1-37.84(d)	Provisions reversed during the year	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
1-37.84(e)	Unwind of discount	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
1-37.84(a)	At 31 December 2025	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
	Non-current	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
	Current	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
		xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx

Carbon taxes

1-37.85(a)-(b)

The Singapore Government introduced the [relevant legislation] in 2019, where an industrial facility that emits direct greenhouse gases (GHG) estimated to be equal to or above 25,000 tonnes of GHG emissions (tCO2e) in a particular year is charged a tax.

During 2025, the Group exceeded the emissions threshold of 25,000 tCO2e and recognised a provision[1] of $[•] based on the total amount of reckonable GHG emissions of its taxable facilities multiplied by the tax rate of $25 per tCO2e. The provision will be settled by the surrender of fixed-price carbon credits purchased from the [relevant government agency] in 2026.

Note	*Reference*	**Explanatory note**
1.		See explanatory note 1 on page 13.
2.	*1-1.112(c)*	Where there are potential regulatory changes or the entity has announced transition plans, entities should consider including an explanation that such transition plans or potential regulatory changes do not affect the useful lives of assets, if such information is likely to be useful to users of the financial statements (e.g. where users of the financial statements would expect these changes to affect the useful lives of assets).

6. Change in useful life and residual value

Fact pattern

The Group is in the essential chemicals sector and supplies chemical products to a variety of industries for production of consumer goods, ranging from apparel to electronics. Following the enactment of the [name] regulation by the government and reporting requirements[2] over greenhouse gas emissions in 20X5, the Group has embarked on a revised climate change strategy. As one of its initiatives for emissions reduction, the Group enhanced its wireless monitoring capabilities at its refining plant to better identify equipment in need of maintenance.

The Group also conducted an energy efficiency review which identified Equipment X for replacement by a more energy efficient model. Accordingly, the useful life of Equipment X would reduce by [•] years. The residual value of existing Equipment X has also been re-evaluated to reflect the market's preference for energy efficient equipment.

Illustration of disclosures in the notes

Notes to the financial statements (extract)

2. Basis of preparation (extract)
2.4 Use of estimates and judgements (extract)

[...]

1-1.112(c) Other accounting estimates[1] with assumptions impacted by climate-related risks, but which are not considered to have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are included in the following notes

- [...]
- Note 3 – Property, plant and equipment: useful life and residual value of Equipment X;

[...]

Note	*Reference*	**Explanatory note**
1.	*1-36.17*	Factors resulting in changes in estimates could also be potential indicators of impairment. Entities should assess whether any impairment indicators in SFRS(I)1-36 are met and if necessary, assess for impairment.
2.		Changing the fact pattern, if the Group holds a portfolio of Equipment X and Y and Equipment X continues to be in use and will be replaced by energy efficient Equipment Y in phases, additional disclosures such as presenting Equipment X and Equipment Y as two separate classes of PPE in the notes to the financial statements may be necessary if such information is material to the users of the financial statements. For example, the entity may determine that future regulatory requirements to reduce emissions or changing consumer demands could affect Equipment X and Equipment Y in different ways such as their useful lives, residual values, or recoverable amounts. Relevant considerations may include, among other factors, the size of the PPE's carrying amount, the significance of climate-related transition risks to the entity's operations and external climate-related qualitative factors.

Notes to the financial statements (extract)

3. Property, plant and equipment (extract)

[...]

Change in estimates[1]

During 20X5, the Group conducted an energy efficiency review as part of the Group's decarbonisation efforts following the enactment of the [name] regulation by the government requirements over greenhouse gas emissions. This resulted in a change to the expected usage of Equipment X. Equipment X, which management had previously intended to be used in production for [•] years from the date of purchase, is now expected to be disposed after [•] years of use and be replaced by more energy efficient equipment[2]. As a result, the expected useful life of Equipment X decreased. The Group estimated the residual value to be nil at the end of the revised useful life which reflects the market preference for energy efficient equipment. The carrying value of other equipment are expected to be fully depreciated within the next 2 to 3 years. The Group's main focus is to switch to more energy efficient models by [20XY] as part of the Group's net zero commitment. The effect of these changes on actual and expected depreciation expense, included in 'cost of sales', was as follows:

	20X5 $'000	20X6 $'000	20X7 $'000	20X8 $'000	20X9 $'000	Later $'000
(Decrease) increase in depreciation expense	xxx	xxx	xxx	xxx	xxx	xxx

Note	*Reference*	**Explanatory note**
1.	*1-20.24*	The Group has elected to present government grants related to assets as deferred income. Alternatively, an entity may present these grants as a deduction in arriving at carrying amount of the asset. This issue is discussed in *Insights into IFRS* (4.3.130.10).

7. Climate-related grants

Fact pattern

In 20X5, the Group replaced its existing chilled water and refrigeration systems with new energy efficient systems (the "project"). This project has been approved as an eligible project under a grant scheme offered to the Group by the government in a jurisdiction which the group operates, prior to the commencement of the project. To comply with the terms of the grant, the Group conducted a measurement and verification study to measure, verify and compute the energy savings. The disbursement of the grant to the Group is claimed on a reimbursement basis subject to complying with the terms and conditions of the grant.

The Group assessed that the [Grant Name] meets the criteria to be recognised as a government grant related to assets under SFRS(I) 1-20 *Accounting for Government Grants and Disclosure of Government Assistance* and has applied the method to present the grant as a deferred income.[1]

Illustration of disclosures in the notes

Notes to the financial statements (extract)

41. Material Accounting Policies (extract)
41.15 Deferred income (extract)

[...]

1-20.12, 20, 26, 29, 39(a)

Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received, and the Group will comply with the conditions associated with the grant. Grants related to [Grant Name] are recognised in profit or loss as 'other income' on a systematic basis over the useful life of the asset.

Note	*Reference*	**Explanatory note**
1.		The deferred income is generally classified as a non-current liability when an entity presents a classified statement of financial position. For further details, refer to *Insights into IFRS* (4.3.130.60).
2.	*1-20.39(c)*	This disclosure illustrates an example of the conditions to be complied with by the recipient of the grant. Entities will need to disclose unfulfilled conditions, and any other contingencies attached to the government grants.

Notes to the financial statements (extract)

18. Deferred income

		Group	
		20X5	20X4
		$'000	$'000
1-20.39(b)-(c)	Government grants – [Grant Name]	xxx	-
	Non-current[1]	xxx	-
		xxx	-

[…]

[Grant Name]
In 20X5, the Group was awarded the [Grant Name], amounting to $[•] conditional on the replacement of the Group's existing chilled water and refrigeration systems with new energy efficient systems. The grant reimbursed 70% of the qualifying costs incurred by the Group including technology and equipment, external manpower and professional service. The qualifying costs incurred have been capitalised as property, plant and equipment and the grant, recognised as a deferred income, is being amortised over the useful life of the asset. In accordance with the grant, the Group is prohibited from selling, disposing, leasing or otherwise transferring the new energy efficient systems for a period of [•] years from the date of the grant without the written approval of the [relevant government agency]. [2]

Note	*Reference*	**Explanatory note**
1.	*1-36.17*	If there are indicators that an asset may be impaired, this may indicate that the remaining useful life, the depreciation (amortisation) method or the residual value for the asset needs to be reviewed and adjustments might need to be made in accordance with the standard applicable to the asset, even if no impairment loss is recognised for the asset.
2.		Refer to note 4 of our Singapore Illustrative Financial Statements 2025 for an illustration of impairment losses/reversal of impairment losses recognised.
3.	*1-36.6*	SFRS(I) 36 defines the recoverable amount of an asset or CGU as the higher of its fair value less costs of disposal or value-in-use. If the recoverable amount determined using the value-in-use method leads to impairment, entities should assess if the fair value less costs of disposal of the asset or CGU is higher than the value-in-use or the carrying amount before recognising any impairment losses, if necessary.

8. Impairment of non-financial assets

Fact pattern The Group is in the essential chemicals sector and supplies chemical products to a variety of industries for production of consumer goods, ranging from apparel to electronics. Following the announcement by the government to tighten regulations and reporting requirements over greenhouse gas emissions in 20X5, the Group revised its climate change strategy to focus on investing in low emission technologies and supporting emissions reductions in the value chain.

The Group assessed that the upcoming regulations on greenhouse gas emissions and the rapid development in global climate transition may increase the Group's exposure to higher carbon emission tax leading to higher costs of manufacturing on its products. These developments may potentially impact customer demand of its high carbon emission cash-generating unit ("CGU"), ABC Division. The Group has revisited its assumptions[1] for assessing the recoverable amount of its ABC Division in its annual mandatory goodwill impairment exercise[2] to align with the Group's revised climate change strategy. The recoverable amount of the CGU was determined based on value in use calculations. Per the Group's assessment, no impairment was required to be recognised during the year.[3]

Illustration of disclosures in the notes

Notes to the financial statements (extract)

2. Basis of preparation (extract)
2.4 Use of estimates and judgements (extract)

[…]

1-1.125, 129 Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material misstatement to the carrying amount of the assets and liabilities within the next financial year are included in the following notes:

- […]
- Note 4- impairment test of goodwill and property, plant and equipment: key assumptions underlying recoverable amounts.

[…]

Note	*Reference*	**Explanatory note**
1.	*1-36.A*	This illustrates one possible present value technique to measure value in use, using the traditional approach, which involves using a single set of estimated cash flows and a single discount rate. The expected cash flow approach may also be used depending on the circumstances. Under the expected cash flow approach, all expectations about possible cash flows are used instead of the single most likely cash flow, and probabilities are assigned to the different scenarios.
	1-36.A2, A7	The traditional cash flow approach may in some cases be similar to the expected cash flow approach, when, for example, the most likely cash flows are in the middle of the range of possible outcomes, and the upside and downside scenarios have approximately equal probabilities and are similar distance from the median. In such cases, it may be appropriate to use the traditional approach.
		In cases where companies are significantly affected by climate-related risks, and there are multiple possible outcomes, where significant downside scenarios are more likely and/or more severe than the upside scenarios, climate-related matters may be more appropriately captured under the expected cash flow approach. The use of expected cash flow approach is also mentioned in ACRA's Financial Reporting Practice Guidance No. 1 - in situations where there could be a range of possible outcomes, entities can consider the use of multiple scenarios with assigned probabilities that reflect possible economic conditions and impact on the future cash flows from the asset.
		Entities can refer to our How-To Guide on Climate Change and Impairment – with practical insights and examples – and our updated Digital Guide to consider the impact of climate change on impairment testing under SFRS(I) 1-36.
		ISCA's Technical Bulletin also provides an example where the entity has assessed varying probabilities in achieving its business plan by the stipulated timeline (70% probability that the timeline is achieved, 20% probability that completion is delayed to 2031, and 10% probability that the plan is not achieved), and uses the expected cash flow approach in impairment testing.
2.		Although the information provided in the other parts in the annual report may differ in nature from the financial statements, it needs to be consistent where appropriate. Furthermore, if a company has made and disclosed climate-related commitments in the other parts of the annual report, then the assumptions used in the financial statements need to be consistent where appropriate.
		However, differences can arise between the information in other parts of the annual report and the assumptions used to prepare the financial statements, for example, the risks associated with 'potential' new laws and regulations, which are long term risks, may be discussed in other parts of the annual report, but they do not typically give rise to obligations in the financial statements until they are enacted (or substantively enacted). In contrast, upcoming changes in laws and regulations may affect management's expectations about returns generated by an asset or a cash generating unit in performing impairment testing of non-current assets.
		In such instances, to address the information gap, disclosure of the significant differences in assumptions and the reasons for the differences may help users to understand and to reconcile the information in the other parts of the annual report with the financial statements. Refer to KPMG's article: Have you disclosed the impacts of climate-related matters clearly? for more details.

Notes to the financial statements (extract)

4. Intangible assets and goodwill (extract)

[...]

Impairment testing for CGUs containing goodwill[1,2]

For the purposes of impairment testing, goodwill has been allocated to the Group's CGUs (operating divisions) as follows:

		20X5 $'000	20X4 $'000
	Group		
1-36.134(a)	ABC Division	xxx	xxx
	[···]	xxx	xxx
		xxx	xxx
1-36.135	CGUs without significant goodwill	xxx	xxx
		xxx	xxx

ABC Division

1-36.134(c) The recoverable amount of this CGU was based on its value in use.

1-36.134(d)(i), 1-8.39 In 20X5, the Group revised its climate change strategy considering the rapid development in global climate transition and upcoming regulations on greenhouse gas emissions in various jurisdictions in which the Group operates. The revised strategy impacted key assumptions[3] used in the estimation of the value in use as discussed below.

1-36.134(d)(ii), 1-1.131 The values assigned to the key assumptions represent management's assessment of future trends in the industry in which ABC Division operates and have been based on historical data from both external and internal sources. Changes in the economic environment including future development in the global climate transition may require changes to the key assumptions which could result in a material change to the carrying amount of the CGU.

Discount rate

1-36.134(d)(ii) The pre-tax discount rate was derived using a weighted average cost of capital (WACC), taking into account both cost of debt and equity. The cost of equity was based on the 10-year government bond rate issued by the government in the relevant market and in the same currency as the cash flows, adjusted for a risk premium to reflect both the increased risk of investing in equities and the systematic risk of the specific CGU, including as necessary, the selection of comparable companies that have similar risk profile to the high emission intensity CGU. The cost of debt was derived from observable risk premiums on corporate debt issued by a group of comparable companies that have similar risk profile to the high emission intensity CGU.

1-36.134(d)(v), f(ii) The discount rate applied for impairment testing is reassessed each year based on management's current best estimate and in 20X5, the pre-tax discount rate was [•]% (20X4: [•]%).

Note	*Reference*	**Explanatory note**
1.	*1-36.33(b), 44*	SFRS(I) 1-36 requires that value in use cash flow projections should exclude any future cash inflows or outflows from improving or enhancing an asset' s performance, unless the entity has already incurred the expenditure. Entities may need to exercise judgement in assessing if capital expenditure to be incurred in relation to climate change (e.g. making an asset compliant with climate-related laws or regulations) is more akin to maintenance or enhancement. If this is assessed to be a key judgement, appropriate disclosures should be included in the financial statements as required by SFRS(I) 1-1.122-23. This issue is discussed in *Insights into IFRS* (3.10.250.80-90). For further discussion, refer to our web article: What's the impact on cash flow projections used for impairment testing of non-financial assets?
2.	*1-36.33(b)*	SFRS(I) 1-36 requires that value in use cash flow projections shall cover a maximum period of five years, unless a longer period can be justified. In assessing the impact of climate change on the business, entities may need to consider if a longer forecast period may be required for the cash flow projections, for example if a longer time horizon is required for the entity to reach a steady state following the implementation of climate change transition plans.
3.	*1-1.125, 129*	A CGU that does not include goodwill or intangible assets will still need to provide disclosures about the assumptions used in determining a CGU' s recoverable amount in accordance with SFRS(I) 1-1.125. As illustrated in Example IV-2 of SFRS(I) 1-1, the entity considers the following factors to determine if assumptions made in determining the CGU' s recoverable amount have a significant risk of resulting in a material adjustment to the carrying amount of the non-current assets within the next financial year: *(a) the size of the CGU's carrying amount,* *(b) the subjectivity or complexity of the judgements management made in determining the assumption,* *(c) the risk that new information or new developments in the next financial year might result in changes to the assumption and* *(d) the sensitivity of the CGU's carrying amount to changes in the assumptions.* Applying paragraph 125 of SFRS(I) 1-1 and the factors identified above, an entity discloses information about these assumptions, and details of the nature and carrying amount of the CGU' s non-current assets at the end of the reporting period. In addition, paragraph 129 of SFRS(I) 1-1 requires an entity to present the disclosures in paragraph 125 in a manner that helps users of financial statements to understand the judgements that management makes about the future and about other sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances. The entity therefore determines the nature and extent of the information it provides to meet the objective described in paragraph 129 of SFRS(I)1-1 for the assumptions it identified. For example, the entity discloses qualitative and quantitative information about the assumptions—including the nature of the assumptions, the sensitivity of the non-current assets' carrying amount to these assumptions and the reasons for the sensitivity—if doing so is necessary to meet that objective.
4.	*1-36.33(a), 38*	In our view, when determining recoverable amount using either the fair value less costs of disposal or value in use approach, an entity should consider the impact of future changes in non-income tax laws (e.g. a carbon tax law that is expected to be enacted). This issue is discussed in Insights into IFRS (3.10.205) for fair value less costs of disposal and Insights into IFRS (3.10.285) for value in use.

Note	*Reference*	**Explanatory note**
5.		Under SFRS(I) 1-36, "key assumptions" are those to which the CGU's recoverable amount is most sensitive. SFRS(I) 1-1.134(d) explicitly requires disclosure of key assumptions in performing impairment testing using the value-in-use method. However, additional disclosures, for example, other assumptions, may still be necessary to meet the requirements of SFRS(I) 1-1.112(c). SFRS(I) 1-1.112(c) requires entities to provide information that is not provided elsewhere, but is relevant to an understanding of the financial statements. Refer to Amendments to Illustrative Examples on SFRS(I) 7, SFRS(I) 18, SFRS(I) 1-1, SFRS(I) 1-8, SFRS(I) 1-36 and SFRS(I) 1-37 *Disclosures about Uncertainties in the Financial Statements* for examples where additional disclosures may be required to fulfil the requirements of SFRS(I) 1-1.112(c).

Notes to the financial statements (extract)

4. Intangible assets and goodwill (extract) (continued)

Cash flow projections[3,5]

1-36.134(d)(iii) The cash flow projections included Group-specific estimates for five years[2] and a terminal growth rate thereafter. The Group has assumed that the strategic actions around climate transition would be completed within five years in line with its climate strategy and net-zero commitment.

1-36.134(d)(ii), f(ii) Forecasted cash flows for the five-year period were based on expectations of future outcomes considering past experience and other relevant factors as discussed below:

- […]
- Sales growth was projected taking into account the average growth levels experienced over the past five years and the estimated sales volume and price growth for the next five years. In developing the assumptions for the annual sales growth rate, management considered market trends, including consumer preferences, government policies and the transition to a lower carbon economy under various energy transition scenarios. The Group has assumed that it will transition in accordance with its climate strategy. In 20X5, it was assumed that sales will grow at a constant rate of [•]% over the next five years (20X4: [•]%).

1-36.IE94

- Operating costs were based on actual costs, adjusted for inflation, expected changes in volume and for expected costs of compliance with environmental regulations in various jurisdictions including carbon emission levies and taxes[4]. These compliance costs were estimated based on [management's best estimate of how future changes to relevant carbon emission cost policies and/or legislations] are likely to affect the future cash flows of the CGU and the Group's estimated emissions volume, which is projected to significantly increase in the coming years in line with forecasted production volumes. Certain compliance costs may be mitigated through the implementation of the Group's revised climate strategy and such mitigation plans have been considered to the extent that the capital expenditure cash outflows are considered in the cash flow projections. In 20X5, it was assumed that operating costs would grow at [•]% [in 20X6 and 20X7] and [•]% [over the next three years] (20X4: [•]% [over the next five years]).
- Capital expenditure[1] was estimated based on the Group's past experience and planned replacement of retired assets. Additional maintenance capital expenditure of $[•] and $[•] was projected for the replacement of existing machineries as part of the energy transition to more fuel-efficient and lower-emission technologies [in 20X6 and 20X7] (20X4: $[•][in 20X6 and 20X7]).

Note	*Reference*	**Explanatory note**
1.		SFRS(I) 1-36.33 requires that for value-in-use calculations, the growth rate used to project cash flows beyond the period covered by the most recent budgets/forecasts shall not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Notes to the financial statements (extract)

4. Intangible assets and goodwill (extract) (continued)

Cash flow projections (continued)

1-36.134(d)(ii)

Terminal growth rate, which is based on a long-term growth rate[1] projected into perpetuity, has been determined as the long-term average growth rate for the industry and markets in which the CGU operates.

1-36.134(d)(iv), f(ii)

The Group has assumed the cash flows from the CGU to reach a steady state in year five following the implementation of its climate transition plans. The terminal growth rate applied for impairment testing is reassessed each year based on management's current best estimate and in 20X5, the terminal growth rate was [•]% (20X4: [•]%).

1-36.134(f)(i)

The estimated recoverable amount of the CGU of $[•] exceeded its carrying amount by approximately $[•] (20X4: $[•]).

1-36.134(f)(iii),IE95

Management has identified that a reasonably possible change in the following key assumptions below could cause the carrying amount to exceed the recoverable amount. The following table shows the amount by which these assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount for the reporting period of 20X5 and 20X4.

	Change required for carrying amount to equal the recoverable amount	
	20X5	**20X4**
	%	**%**
Group		
Discount rate	xxx	xxx
Terminal growth rate	xxx	xxx
Sales growth rate (average of next five years)	xxx	xxx
EBITDA margin (%)	xxx	xxx

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Publication name: Illustrative Disclosures on climate-related disclosures in the financial statements