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- **Volume A** contains the core Standard and the IASB’s Board Approvals;
- **Volume B** contains Illustrative Examples and Implementation Guidance; and
- **Volume C** contains Basis for Conclusions and Dissenting Opinions.

Accordingly, this combined document may include references to “*this volume*”, *Part A, B or C*, or “*this edition*”. Any page references relate to the IASB’s published suite of Standards, not to this combined document.

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IAS 33

Approval by the Board of IAS 33 issued in December 2003

International Accounting Standard 33 *Earnings per Share* (as revised in 2003) was approved for issue by the fourteen members of the International Accounting Standards Board.

Sir David Tweedie	Chairman
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IASB documents published to accompany

IAS 33

Earnings per Share

The text of the unaccompanied standard, IAS 33, is contained in Part A of this edition. Its effective date when issued was 1 January 2005. The text of the Accompanying Guidance on IAS 33 is contained in Part B of this edition. This part presents the following document:

BASIS FOR CONCLUSIONS

Basis for Conclusions on IAS 33 *Earnings per Share*

This Basis for Conclusions accompanies, but is not part of, IAS 33.

Introduction

- BC1 This Basis for Conclusions summarises the International Accounting Standards Board's considerations in reaching its conclusions on revising IAS 33 *Earnings Per Share* in 2003. Individual Board members gave greater weight to some factors than to others.
- BC2 In July 2001 the Board announced that, as part of its initial agenda of technical projects, it would undertake a project to improve a number of Standards, including IAS 33. The project was undertaken in the light of queries and criticisms raised in relation to the Standards by securities regulators, professional accountants and other interested parties. The objectives of the Improvements project were to reduce or eliminate alternatives, redundancies and conflicts within Standards, to deal with some convergence issues and to make other improvements. In May 2002 the Board published its proposals in an Exposure Draft of *Improvements to International Accounting Standards*, with a comment deadline of 16 September 2002. The Board received over 160 comment letters on the Exposure Draft.
- BC3 Because the Board's intention was not to reconsider the fundamental approach to the determination and presentation of earnings per share established by IAS 33, this Basis for Conclusions does not discuss requirements in IAS 33 that the Board has not reconsidered.

Presentation of parent's separate earnings per share

- BC4 The Exposure Draft published in May 2002 proposed deleting paragraphs 2 and 3 of the previous version of IAS 33, which stated that when the parent's separate financial statements and consolidated financial statements are presented, earnings per share need be presented only on the basis of consolidated information.
- BC5 Some respondents expressed concern that the presentation of two earnings per share figures (one for the parent's separate financial statements and one for the consolidated financial statements) might be misleading.
- BC6 The Board noted that disclosing the parent's separate earnings per share amount is useful in limited situations, and therefore decided to retain the option. However, the Board decided that the Standard should prohibit presentation of the parent's separate earnings per share amounts in the consolidated financial statements (either on the face of the financial statements or in the notes).

Contracts that may be settled in ordinary shares or cash

- BC7 The Exposure Draft proposed that an entity should include in the calculation of the number of potential ordinary shares in the diluted earnings per share calculation contracts that may be settled in ordinary shares or cash, at the issuer's option, based on a rebuttable presumption that the contracts will be settled in shares. This proposed presumption could be rebutted if the issuer had acted through an established pattern of past practice, published policies, or by having made a sufficiently specific current statement indicating to other parties the manner in which it expected to settle, and, as a result, the issuer had created a valid expectation on the part of those other parties that it would settle in a manner other than by issuing shares.
- BC8 The majority of the respondents on the Exposure Draft agreed with the proposed treatment of contracts that may be settled in ordinary shares or cash at the issuer's option. However, the Board decided to withdraw the notion of a rebuttable presumption and to incorporate into the Standard the requirements of SIC-24 *Earnings Per Share—Financial Instruments and Other Contracts that May Be Settled in Shares*. SIC-24 requires financial instruments or other contracts that may result in the issue of ordinary shares of the entity to be considered potential ordinary shares of the entity.
- BC9 Although the proposed treatment would have converged with that required by several liaison standard-setters, for example, in US SFAS 128 *Earnings per Share*, the Board concluded that the notion of a rebuttable presumption is inconsistent with the stated objective of diluted earnings per share. The US Financial Accounting Standards Board has agreed to consider this difference as part of the joint short-term convergence project with the IASB.

Calculation of year-to-date diluted earnings per share

- BC10 The Exposure Draft proposed the following approach to the year-to-date calculation of diluted earnings per share:
- (a) The number of potential ordinary shares is a year-to-date weighted average of the number of potential ordinary shares included in each interim diluted earnings per share calculation, rather than a year-to-date weighted average of the number of potential ordinary shares weighted for the period they were outstanding (ie without regard for the diluted earnings per share information reported during the interim periods).
 - (b) The number of potential ordinary shares is computed using the average market price during the interim periods, rather than using the average market price during the year-to-date period.
 - (c) Contingently issuable shares are weighted for the interim periods in which they were included in the computation of diluted earnings per share, rather than being included in the computation of diluted earnings per share (if the conditions are satisfied) from the beginning of the year-to-date reporting period (or from the date of the contingent share agreement, if later).

IAS 33 BC

- BC11 The majority of the respondents on the Exposure Draft disagreed with the proposed approach to the year-to-date calculation of diluted earnings per share. The most significant argument against the proposed approach was that the proposed calculation of diluted earnings per share could result in an amount for year-to-date diluted earnings per share that was different for entities that report more frequently, for example, on a quarterly or half-yearly basis, and for entities that report only annually. It was also noted that this problem would be exacerbated for entities with seasonal businesses.
- BC12 The Board considered whether to accept that differences in the frequency of interim reporting would result in different earnings per share amounts being reported. However, IAS 34 *Interim Financial Reporting* states 'the frequency of an entity's reporting (annual, half-yearly, or quarterly) should not affect the measurement of its annual results. To achieve that objective, measurements for interim reporting purposes should be made on a year-to-date basis.'
- BC13 The Board also considered whether it could mandate the frequency of interim reporting to ensure consistency between all entities preparing financial statements in accordance with IFRSs, ie those that are brought within the scope of IAS 33 by virtue of issuing publicly traded instruments or because they elect to present earnings per share. However, IAS 34 states that, 'This Standard does not mandate which entities should be required to publish interim financial reports, how frequently, or how soon after the end of an interim period.' The frequency of interim reporting is mandated by securities regulators, stock exchanges, governments, and accountancy bodies, and varies by jurisdiction.
- BC14 Although the proposed approach for the calculation of year-to-date diluted earnings per share would have converged with US SFAS 128, the Board concluded that the approach was inconsistent with IAS 34 and that it could not mandate the frequency of interim reporting. The US Financial Accounting Standards Board has agreed to consider this difference as part of the joint short-term convergence project with the IASB as well as the issue noted in paragraph BC9.

Other changes

- BC15 Implementation questions have arisen since the previous version of IAS 33 was issued, typically concerning the application of the Standard to complex capital structures and arrangements. In response, the Board decided to provide additional application guidance in the Appendix as well as illustrative examples on more complex matters that were not addressed in the previous version of IAS 33. These matters include the effects of contingently issuable shares, potential ordinary shares of subsidiaries, joint ventures or associates, participating equity instruments, written put options, and purchased put and call options.
- BC16 IFRS 18 *Presentation and Disclosure in Financial Statements* amended the disclosure requirements in IAS 33 to specify the numerator (or numerators) entities can use to calculate amounts per share using a measure of performance. When disclosing additional amounts per share, an entity can only use as the

numerator an amount attributable to ordinary equity holders of the parent of totals or subtotals in paragraphs 69, 86 and 118 of IFRS 18 or a management-defined performance measure as defined by IFRS 18.

- BC17 The IASB concluded that it was necessary to specify the numerator (or numerators) an entity can use when disclosing additional amounts per share to ensure that users of financial statements receive the same information about additional amounts per share as they receive for management-defined performance measures. Therefore, the IASB considered the implications of this restriction for entities required by local law or regulation to disclose amounts per share in addition to basic and diluted earnings per share as required by IAS 33. If such an entity concludes that a numerator required by local law or regulation meets the definition of a management-defined performance measure in IFRS 18, that entity would be permitted to disclose the amount per share in its financial statements.
- BC18 IFRS 18 also amended IAS 33 to specify that information about amounts per share, in addition to information about basic and diluted earnings per share as required by IAS 33, may only be disclosed in the notes and may not be presented in the primary financial statements. The IASB concluded that additional amounts per share calculations require additional information and reconciliation to the measures presented in the primary financial statements to be understood by users of financial statements. This additional information and reconciliations can only be provided in the notes. Disclosure in the notes also addresses the concerns of some stakeholders that adjusted measures of performance should not be given more prominence than measures specified by IFRS Accounting Standards.

IASB documents published to accompany

IAS 33

Earnings per Share

The text of the unaccompanied standard, IAS 33, is contained in Part A of this edition. Its effective date when issued was 1 January 2005. The text of the Basis for Conclusions on IAS 33 is contained in Part C of this edition. This part presents the following document:

ILLUSTRATIVE EXAMPLES

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IAS 33 *Earnings per Share* Illustrative Examples

These examples accompany, but are not part of, IAS 33.

Example 1 Increasing rate preference shares

Reference: IAS 33, paragraphs 12 and 15

Entity D issued non-convertible, non-redeemable class A cumulative preference shares of CU100 par value on 1 January 20X1. The class A preference shares are entitled to a cumulative annual dividend of CU7 per share starting in 20X4.

At the time of issue, the market rate dividend yield on the class A preference shares was 7 per cent a year. Thus, Entity D could have expected to receive proceeds of approximately CU100 per class A preference share if the dividend rate of CU7 per share had been in effect at the date of issue.

In consideration of the dividend payment terms, however, the class A preference shares were issued at CU81.63 per share, ie at a discount of CU18.37 per share. The issue price can be calculated by taking the present value of CU100, discounted at 7 per cent over a three-year period.

Because the shares are classified as equity, the original issue discount is amortised to retained earnings using the effective interest method and treated as a preference dividend for earnings per share purposes. To calculate basic earnings per share, the following imputed dividend per class A preference share is deducted to determine the profit or loss attributable to ordinary equity holders of the parent entity:

Year	<i>Carrying amount of class A preference shares 1 January</i>	<i>Imputed^(a) dividend</i>	<i>Carrying^(b) amount of class A preference shares 31 December</i>	<i>Dividend paid</i>
	CU	CU	CU	CU
20X1	81.63	5.71	87.34	–
20X2	87.34	6.12	93.46	–
20X3	93.46	6.54	100.00	–
Thereafter:	100.00	7.00	107.00	(7.00)

(a) at 7%

(b) This is before dividend payment.

Example 2 Weighted average number of ordinary shares

Reference: IAS 33, paragraphs 19–21

		<i>Shares issued</i>	<i>Treasury^(a) shares</i>	<i>Shares outstanding</i>
1 January 20X1	Balance at beginning of year	2,000	300	1,700
31 May 20X1	Issue of new shares for cash	800	–	2,500
1 December 20X1	Purchase of treasury shares for cash	–	250	2,250
31 December 20X1	Balance at year-end	<u>2,800</u>	<u>550</u>	<u>2,250</u>

Calculation of weighted average:

$$(1,700 \times \frac{5}{12}) + (2,500 \times \frac{6}{12}) + (2,250 \times \frac{1}{12}) = 2,146 \text{ shares or}$$

$$(1,700 \times \frac{12}{12}) + (800 \times \frac{7}{12}) - (250 \times \frac{1}{12}) = 2,146 \text{ shares}$$

(a) Treasury shares are equity instruments reacquired and held by the issuing entity itself or by its subsidiaries.

Example 3 Bonus issue

Reference: IAS 33, paragraphs 26, 27(a) and 28

Profit attributable to ordinary equity holders of the parent entity 20X0		CU180	
Profit attributable to ordinary equity holders of the parent entity 20X1		CU600	
Ordinary shares outstanding until 30 September 20X1			200
Bonus issue 1 October 20X1			2 ordinary shares for each ordinary share outstanding at 30 September 20X1
			200 × 2 = 400
Basic earnings per share 20X1	CU600		
	(200 + 400)		= CU1.00
Basic earnings per share 20X0	CU180		
	(200 + 400)		= CU0.30

Because the bonus issue was without consideration, it is treated as if it had occurred before the beginning of 20X0, the earliest period presented.

Example 4 Rights issue

Reference: IAS 33, paragraphs 26, 27(b) and A2

	20X0	20X1	20X2
Profit attributable to ordinary equity holders of the parent entity	<u>CU1,100</u>	<u>CU1,500</u>	<u>CU1,800</u>
Shares outstanding before rights issue	500 shares		
Rights issue	One new share for each five outstanding shares (100 new shares total) Exercise price: CU5.00 Date of rights issue: 1 January 20X1 Last date to exercise rights: 1 March 20X1		
Market price of one ordinary share immediately before exercise on 1 March 20X1:	CU11.00		
Reporting date	31 December		

Calculation of theoretical ex-rights value per share

$$\frac{\text{Fair value of all outstanding shares before the exercise of rights} + \text{total amount received from exercise of rights}}{\text{Number of shares outstanding before exercise} + \text{number of shares issued in the exercise}}$$

$$\frac{(\text{CU}11.00 \times 500 \text{ shares}) + (\text{CU}5.00 \times 100 \text{ shares})}{500 \text{ shares} + 100 \text{ shares}}$$

Theoretical ex-rights value per share = CU10.00

Calculation of adjustment factor

Fair value per share before exercise of rights	<u>CU11.00</u>	= 1.10
Theoretical ex-rights value per share	CU10.00	

continued...

IAS 33 IE

*...continued***Calculation of basic earnings per share**

		<u>20X0</u>	<u>20X1</u>	<u>20X2</u>
20X0 basic EPS as originally reported:	CU1,100 ÷ 500 shares	CU2.20		
20X0 basic EPS restated for rights issue:	CU1,100 <u>(500 shares × 1.1)</u>	<u>CU2.00</u>		
20X1 basic EPS including effects of rights issue:	CU1,500 <u>(500 × 1.1 × ²/₁₂) + (600 × ¹⁰/₁₂)</u>		<u>CU2.54</u>	
20X2 basic EPS:	CU1,800 ÷ 600 shares			<u>CU3.00</u>

Example 5 Effects of share options on diluted earnings per share

Reference: IAS 33, paragraphs 45–47

Profit attributable to ordinary equity holders of the parent entity for year 20X1	CU1,200,000
Weighted average number of ordinary shares outstanding during year 20X1	500,000 shares
Average market price of one ordinary share during year 20X1	CU20.00
Weighted average number of shares under option during year 20X1	100,000 shares
Exercise price for shares under option during year 20X1	CU15.00

continued...

...continued

Calculation of earnings per share

	<i>Earnings</i>	<i>Shares</i>	<i>Per share</i>
Profit attributable to ordinary equity holders of the parent entity for year 20X1	CU1,200,000		
Weighted average shares outstanding during year 20X1		500,000	
<i>Basic earnings per share</i>			CU2.40
Weighted average number of shares under option		100,000	
Weighted average number of shares that would have been issued at average market price: (100,000 × CU15.00) ÷ CU20.00	(a)	(75,000)	
<i>Diluted earnings per share</i>	CU1,200,000	525,000	CU2.29

(a) Earnings have not increased because the total number of shares has increased only by the number of shares (25,000) deemed to have been issued for no consideration (see paragraph 46(b) of the Standard).

Example 5A Determining the exercise price of employee share options

Weighted average number of unvested share options per employee	1,000
Weighted average amount per employee to be recognised over the remainder of the vesting period for employee services to be rendered as consideration for the share options, determined in accordance with IFRS 2 <i>Share-based Payment</i>	CU1,200
Cash exercise price of unvested share options	CU15

Calculation of adjusted exercise price

Fair value of services yet to be rendered per employee:	CU1,200
Fair value of services yet to be rendered per option: (CU1,200 ÷ 1,000)	CU1.20
Total exercise price of share options: (CU15.00 + CU1.20)	CU16.20

Example 6 Convertible bonds¹

Reference: IAS 33, paragraphs 33, 34, 36 and 49

Profit attributable to ordinary equity holders of the parent entity	CU1,004
Ordinary shares outstanding	1,000
Basic earnings per share	CU1.00
Convertible bonds	100
Each block of 10 bonds is convertible into three ordinary shares	
Interest expense for the current year relating to the liability component of the convertible bonds	CU10
Current and deferred tax relating to that interest expense	CU4

Note: the interest expense includes amortisation of the discount arising on initial recognition of the liability component (see IAS 32 Financial Instruments: Presentation).

Adjusted profit attributable to ordinary equity holders of the parent entity	CU1,004 + CU10 – CU4	
		= CU1,010
Number of ordinary shares resulting from conversion of bonds		30
Number of ordinary shares used to calculate diluted earnings per share		1,000 + 30 = 1,030
Diluted earnings per share	$\frac{\text{CU1,010}}{1,030}$	= CU0.98

¹ This example does not illustrate the classification of the components of convertible financial instruments as liabilities and equity or the classification of related interest and dividends as expenses and equity as required by IAS 32.

Example 7 Contingently issuable shares

Reference: IAS 33, paragraphs 19, 24, 36, 37, 41–43 and 52

Ordinary shares outstanding during 20X1 1,000,000 (there were no options, warrants or convertible instruments outstanding during the period)

An agreement related to a recent business combination provides for the issue of additional ordinary shares based on the following conditions:

	5,000 additional ordinary shares for each new retail site opened during 20X1
	1,000 additional ordinary shares for each CU1,000 of consolidated profit in excess of CU2,000,000 for the year ended 31 December 20X1
Retail sites opened during the year:	one on 1 May 20X1 one on 1 September 20X1
Consolidated year-to-date profit attributable to ordinary equity holders of the parent entity:	CU1,100,000 as of 31 March 20X1 CU2,300,000 as of 30 June 20X1 CU1,900,000 as of 30 September 20X1 (including a CU450,000 loss from a discontinued operation) CU2,900,000 as of 31 December 20X1

Basic earnings per share

	<i>First quarter</i>	<i>Second quarter</i>	<i>Third quarter</i>	<i>Fourth quarter</i>	<i>Full year</i>
Numerator (CU)	1,100,000	1,200,000	(400,000)	1,000,000	2,900,000
Denominator:					
Ordinary shares outstanding	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Retail site contingency	–	3,333 ^(a)	6,667 ^(b)	10,000	5,000 ^(c)
Earnings contingency ^(d)	–	–	–	–	–
Total shares	<u>1,000,000</u>	<u>1,003,333</u>	<u>1,006,667</u>	<u>1,010,000</u>	<u>1,005,000</u>
Basic earnings per share (CU)	<u>1.10</u>	<u>1.20</u>	<u>(0.40)</u>	<u>0.99</u>	<u>2.89</u>

(a) $5,000 \text{ shares} \times \frac{2}{3}$

(b) $5,000 \text{ shares} + (5,000 \text{ shares} \times \frac{1}{3})$

(c) $(5,000 \text{ shares} \times \frac{8}{12}) + (5,000 \text{ shares} \times \frac{4}{12})$

(d) The earnings contingency has no effect on basic earnings per share because it is not certain that the condition is satisfied until the end of the contingency period. The effect is negligible for the fourth-quarter and full-year calculations because it is not certain that the condition is met until the last day of the period.

Diluted earnings per share

	<i>First quarter</i>	<i>Second quarter</i>	<i>Third quarter</i>	<i>Fourth quarter</i>	<i>Full year</i>
Numerator (CU)	1,100,000	1,200,000	(400,000)	1,000,000	2,900,000
Denominator:					
Ordinary shares outstanding	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Retail site contingency	–	5,000	10,000	10,000	10,000
Earnings contingency	– ^(a)	300,000 ^(b)	– ^(c)	900,000 ^(d)	900,000 ^(d)
Total shares	<u>1,000,000</u>	<u>1,305,000</u>	<u>1,010,000</u>	<u>1,910,000</u>	<u>1,910,000</u>
Diluted earnings per share (CU)	<u>1.10</u>	<u>0.92</u>	<u>(0.40)^(e)</u>	<u>0.52</u>	<u>1.52</u>

(a) Company A does not have year-to-date profit exceeding CU2,000,000 at 31 March 20X1. The Standard does not permit projecting future earnings levels and including the related contingent shares.

(b) $[(\text{CU}2,300,000 - \text{CU}2,000,000) \div 1,000] \times 1,000 \text{ shares} = 300,000 \text{ shares}$.

(c) Year-to-date profit is less than CU2,000,000.

(d) $[(\text{CU}2,900,000 - \text{CU}2,000,000) \div 1,000] \times 1,000 \text{ shares} = 900,000 \text{ shares}$.

(e) Because the loss during the third quarter is attributable to a loss from a discontinued operation, the antidilution rules do not apply. The control number (ie profit or loss from, continuing operations attributable to the equity holders of the parent entity) is positive. Accordingly, the effect of potential ordinary shares is included in the calculation of diluted earnings per share.

Example 8 Convertible bonds settled in shares or cash at the issuer's option

Reference: IAS 33, paragraphs 31–33, 36, 58 and 59

An entity issues 2,000 convertible bonds at the beginning of Year 1. The bonds have a three-year term, and are issued at par with a face value of CU1,000 per bond, giving total proceeds of CU2,000,000. Interest is payable annually in arrears at a nominal annual interest rate of 6 per cent. Each bond is convertible at any time up to maturity into 250 ordinary shares. The entity has an option to settle the principal amount of the convertible bonds in ordinary shares or in cash.

When the bonds are issued, the prevailing market interest rate for similar debt without a conversion option is 9 per cent. At the issue date, the market price of one ordinary share is CU3. Income tax is ignored.

Profit attributable to ordinary equity holders of the parent entity Year 1	CU1,000,000
Ordinary shares outstanding	1,200,000
Convertible bonds outstanding	2,000
Allocation of proceeds of the bond issue:	
Liability component	CU1,848,122 ^(a)
Equity component	CU151,878
	CU2,000,000
	CU2,000,000

(a) This represents the present value of the principal and interest discounted at 9% – CU2,000,000 payable at the end of three years; CU120,000 payable annually in arrears for three years.

The liability and equity components would be determined in accordance with IAS 32 *Financial Instruments: Presentation*. These amounts are recognised as the initial carrying amounts of the liability and equity components. The amount assigned to the issuer conversion option equity element is an addition to equity and is not adjusted.

Basic earnings per share Year 1:

$$\frac{\text{CU1,000,000}}{1,200,000} = \text{CU0.83 per ordinary share}$$

Diluted earnings per share Year 1:

It is presumed that the issuer will settle the contract by the issue of ordinary shares. The dilutive effect is therefore calculated in accordance with paragraph 59 of the Standard.

$$\frac{\text{CU1,000,000} + \text{CU166,331}^{(a)}}{1,200,000 + 500,000^{(b)}} = \text{CU0.69 per ordinary share}$$

(a) Profit is adjusted for the accretion of CU166,331 (CU1,848,122 × 9%) of the liability because of the passage of time.

(b) 500,000 ordinary shares = 250 ordinary shares × 2,000 convertible bonds

Example 9 Calculation of weighted average number of shares: determining the order in which to include dilutive instruments²

Primary reference: IAS 33, paragraph 44

Secondary reference: IAS 33, paragraphs 10, 12, 19, 31–33, 36, 41–47, 49 and 50

Earnings	CU
Profit from continuing operations attributable to the parent entity	16,400,000
Less dividends on preference shares	(6,400,000)
Profit from continuing operations attributable to ordinary equity holders of the parent entity	10,000,000
Loss from discontinued operations attributable to the parent entity	(4,000,000)
Profit attributable to ordinary equity holders of the parent entity	6,000,000
Ordinary shares outstanding	2,000,000
Average market price of one ordinary share during year	CU75.00

Potential ordinary shares

Options	100,000 with exercise price of CU60
Convertible preference shares	800,000 shares with a par value of CU100 entitled to a cumulative dividend of CU8 per share. Each preference share is convertible to two ordinary shares.
5% convertible bonds	Nominal amount CU100,000,000. Each CU1,000 bond is convertible to 20 ordinary shares. There is no amortisation of premium or discount affecting the determination of interest expense.
Tax rate	40%

² This example does not illustrate the classification of the components of convertible financial instruments as liabilities and equity or the classification of related interest and dividends as expenses and equity as required by IAS 32.

Increase in earnings attributable to ordinary equity holders on conversion of potential ordinary shares

		<i>Increase in earnings</i>	<i>Increase in number of ordinary shares</i>	<i>Earnings per incremental share</i>
		<u>CU</u>		<u>CU</u>
Options				
Increase in earnings		Nil		
Incremental shares issued for no consideration	$100,000 \times$ $(\text{CU}75 - \text{CU}60)$ $\div \text{CU}75$		20,000	Nil
Convertible preference shares				
Increase in profit	$\text{CU}800,000 \times$ 100×0.08	6,400,000		
Incremental shares	$2 \times 800,000$		1,600,000	4.00
5% convertible bonds				
Increase in profit	$\text{CU}100,000,000$ $\times 0.05 \times$ $(1 - 0.40)$	3,000,000		
Incremental shares	$100,000 \times 20$		2,000,000	1.50

The order in which to include the dilutive instruments is therefore:

- 1 Options
- 2 5% convertible bonds
- 3 Convertible preference shares

Calculation of diluted earnings per share

	Profit from continuing operations attributable to ordinary equity holders of the parent entity (control number)	Ordinary shares	Per share	
	CU		CU	
As reported	10,000,000	2,000,000	5.00	
Options	–	20,000		
	10,000,000	2,020,000	4.95	Dilutive
5% convertible bonds	3,000,000	2,000,000		
	13,000,000	4,020,000	3.23	Dilutive
Convertible preference shares	6,400,000	1,600,000		
	19,400,000	5,620,000	3.45	Antidilutive

Because diluted earnings per share is increased when taking the convertible preference shares into account (from CU3.23 to CU3.45), the convertible preference shares are antidilutive and are ignored in the calculation of diluted earnings per share. Therefore, diluted earnings per share for profit from continuing operations is CU3.23:

	Basic EPS	Diluted EPS
	CU	CU
Profit from continuing operations attributable to ordinary equity holders of the parent entity	5.00	3.23
Loss from discontinued operations attributable to ordinary equity holders of the parent entity	(2.00) ^(a)	(0.99) ^(b)
Profit attributable to ordinary equity holders of the parent entity	3.00 ^(c)	2.24 ^(d)

(a) $(\text{CU}4,000,000) \div 2,000,000 = (\text{CU}2.00)$

(b) $(\text{CU}4,000,000) \div 4,020,000 = (\text{CU}0.99)$

(c) $\text{CU}6,000,000 \div 2,000,000 = \text{CU}3.00$

(d) $(\text{CU}6,000,000 + \text{CU}3,000,000) \div 4,020,000 = \text{CU}2.24$

Example 10 Instruments of a subsidiary: calculation of basic and diluted earnings per share³

Reference: IAS 33, paragraphs 40, A11 and A12

Parent:

Profit attributable to ordinary equity holders of the parent entity	CU12,000 (excluding any earnings of, or dividends paid by, the subsidiary)
Ordinary shares outstanding	10,000
Instruments of subsidiary owned by the parent	800 ordinary shares 30 warrants exercisable to purchase ordinary shares of subsidiary 300 convertible preference shares

Subsidiary:

Profit	CU5,400
Ordinary shares outstanding	1,000
Warrants	150, exercisable to purchase ordinary shares of the subsidiary
Exercise price	CU10
Average market price of one ordinary share	CU20
Convertible preference shares	400, each convertible into one ordinary share
Dividends on preference shares	CU1 per share

No inter-company eliminations or adjustments were necessary except for dividends.

For the purposes of this illustration, income taxes have been ignored.

³ This example does not illustrate the classification of the components of convertible financial instruments as liabilities and equity or the classification of related interest and dividends as expenses and equity as required by IAS 32.

Subsidiary's earnings per share

Basic EPS	CU5.00 calculated:	$\frac{\text{CU}5,400^{(a)} - \text{CU}400^{(b)}}{1,000^{(c)}}$
Diluted EPS	CU3.66 calculated:	$\frac{\text{CU}5,400^{(d)}}{(1,000 + 75^{(e)} + 400^{(f)})}$

- (a) Subsidiary's profit attributable to ordinary equity holders.
 (b) Dividends paid by subsidiary on convertible preference shares.
 (c) Subsidiary's ordinary shares outstanding.
 (d) Subsidiary's profit attributable to ordinary equity holders (CU5,000) increased by CU400 preference dividends for the purpose of calculating diluted earnings per share.
 (e) Incremental shares from warrants, calculated: $[(\text{CU}20 - \text{CU}10) \div \text{CU}20] \times 150$.
 (f) Subsidiary's ordinary shares assumed outstanding from conversion of convertible preference shares, calculated: 400 convertible preference shares \times conversion factor of 1.

Consolidated earnings per share

Basic EPS	CU1.63 calculated:	$\frac{\text{CU}12,000^{(a)} + \text{CU}4,300^{(b)}}{10,000^{(c)}}$
Diluted EPS	CU1.61 calculated:	$\frac{\text{CU}12,000 + \text{CU}2,928^{(d)} + \text{CU}55^{(e)} + \text{CU}1,098^{(f)}}{10,000}$

- (a) Parent's profit attributable to ordinary equity holders of the parent entity.
 (b) Portion of subsidiary's profit to be included in consolidated basic earnings per share, calculated: $(800 \times \text{CU}5.00) + (300 \times \text{CU}1.00)$.
 (c) Parent's ordinary shares outstanding.
 (d) Parent's proportionate interest in subsidiary's earnings attributable to ordinary shares, calculated: $(800 \div 1,000) \times (1,000 \text{ shares} \times \text{CU}3.66 \text{ per share})$.
 (e) Parent's proportionate interest in subsidiary's earnings attributable to warrants, calculated: $(30 \div 150) \times (75 \text{ incremental shares} \times \text{CU}3.66 \text{ per share})$.
 (f) Parent's proportionate interest in subsidiary's earnings attributable to convertible preference shares, calculated: $(300 \div 400) \times (400 \text{ shares from conversion} \times \text{CU}3.66 \text{ per share})$.

Example 11 Participating equity instruments and two-class ordinary shares⁴

Reference: IAS 33, paragraphs A13 and A14

Profit attributable to equity holders of the parent entity	CU100,000
Ordinary shares outstanding	10,000
Non-convertible preference shares	6,000
Non-cumulative annual dividend on preference shares (before any dividend is paid on ordinary shares)	CU5.50 per share

After ordinary shares have been paid a dividend of CU2.10 per share, the preference shares participate in any additional dividends on a 20:80 ratio with ordinary shares (ie after preference and ordinary shares have been paid dividends of CU5.50 and CU2.10 per share, respectively, preference shares participate in any additional dividends at a rate of one-fourth of the amount paid to ordinary shares on a per-share basis).

Dividends on preference shares paid	CU33,000	(CU5.50 per share)
Dividends on ordinary shares paid	CU21,000	(CU2.10 per share)

Basic earnings per share is calculated as follows:

	<u>CU</u>	<u>CU</u>
Profit attributable to equity holders of the parent entity		100,000
Less dividends paid:		
Preference	33,000	
Ordinary	21,000	
		<u>(54,000)</u>
Undistributed earnings		<u><u>46,000</u></u>

continued...

⁴ This example does not illustrate the classification of the components of convertible financial instruments as liabilities and equity or the classification of related interest and dividends as expenses and equity as required by IAS 32.

...continued

Allocation of undistributed earnings:

Allocation per ordinary share = A

Allocation per preference share = B; $B = \frac{1}{4} A$

$$(A \times 10,000) + (\frac{1}{4} \times A \times 6,000) = \text{CU}46,000$$

$$A = \text{CU}46,000 \div (10,000 + 1,500)$$

$$A = \text{CU}4.00$$

$$B = \frac{1}{4} A$$

$$B = \text{CU}1.00$$

Basic per share amounts:

	<i>Preference shares</i>	<i>Ordinary shares</i>
Distributed earnings	CU5.50	CU2.10
Undistributed earnings	CU1.00	CU4.00
Totals	<u>CU6.50</u>	<u>CU6.10</u>

Example 12 Calculation and presentation of basic and diluted earnings per share (comprehensive example)⁵

This example illustrates the quarterly and annual calculations of basic and diluted earnings per share in the year 20X1 for Company A, which has a complex capital structure. The control number is profit or loss from continuing operations attributable to the parent entity. Other facts assumed are as follows:

Average market price of ordinary shares: The average market prices of ordinary shares for the calendar year 20X1 were as follows:

First quarter	CU49
Second quarter	CU60
Third quarter	CU67
Fourth quarter	CU67

The average market price of ordinary shares from 1 July to 1 September 20X1 was CU65.

Ordinary shares: The number of ordinary shares outstanding at the beginning of 20X1 was 5,000,000. On 1 March 20X1, 200,000 ordinary shares were issued for cash.

⁵ This example does not illustrate the classification of the components of convertible financial instruments as liabilities and equity or the classification of related interest and dividends as expenses and equity as required by IAS 32.

Convertible bonds: In the last quarter of 20X0, 5 per cent convertible bonds with a principal amount of CU12,000,000 due in 20 years were sold for cash at CU1,000 (par). Interest is payable twice a year, on 1 November and 1 May. Each CU1,000 bond is convertible into 40 ordinary shares. No bonds were converted in 20X0. The entire issue was converted on 1 April 20X1 because the issue was called by Company A.

Convertible preference shares: In the second quarter of 20X0, 800,000 convertible preference shares were issued for assets in a purchase transaction. The quarterly dividend on each convertible preference share is CU0.05, payable at the end of the quarter for shares outstanding at that date. Each share is convertible into one ordinary share. Holders of 600,000 convertible preference shares converted their preference shares into ordinary shares on 1 June 20X1.

Warrants: Warrants to buy 600,000 ordinary shares at CU55 per share for a period of five years were issued on 1 January 20X1. All outstanding warrants were exercised on 1 September 20X1.

Options: Options to buy 1,500,000 ordinary shares at CU75 per share for a period of 10 years were issued on 1 July 20X1. No options were exercised during 20X1 because the exercise price of the options exceeded the market price of the ordinary shares.

Tax rate: The tax rate was 40 per cent for 20X1.

20X1	<i>Profit (loss) from continuing operations attrib- utable to the parent entity^(a)</i>	<i>Profit (loss) attrib- utable to the parent entity</i>
	<u>CU</u>	<u>CU</u>
First quarter	5,000,000	5,000,000
Second quarter	6,500,000	6,500,000
Third quarter	1,000,000	(1,000,000) ^(b)
Fourth quarter	(700,000)	(700,000)
Full year	<u>11,800,000</u>	<u>9,800,000</u>

(a) This is the control number (before adjusting for preference dividends).

(b) Company A had a CU2,000,000 loss (net of tax) from discontinued operations in the third quarter.

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First Quarter 20X1

<i>Basic EPS calculation</i>		<u>CU</u>	
Profit from continuing operations attributable to the parent entity		5,000,000	
Less: preference share dividends		(40,000) ^(a)	
Profit attributable to ordinary equity holders of the parent entity		<u><u>4,960,000</u></u>	
<i>Dates</i>	<i>Shares outstanding</i>	<i>Fraction of period</i>	<i>Weighted- average shares</i>
1 January–28 February	5,000,000	$\frac{2}{3}$	3,333,333
<i>Issue of ordinary shares on 1 March</i>			
1 March–31 March	200,000	$\frac{1}{3}$	1,733,333
Weighted-average shares	<u>5,200,000</u>		<u><u>5,066,666</u></u>
Basic EPS			<u><u>CU0.98</u></u>

continued...

...continued

Diluted EPS calculation

Profit attributable to ordinary equity holders of the parent entity		CU4,960,000
Plus: profit impact of assumed conversions		
Preference share dividends	CU40,000 ^(a)	
Interest on 5% convertible bonds	CU90,000 ^(b)	
Effect of assumed conversions		<u>CU130,000</u>
Profit attributable to ordinary equity holders of the parent entity including assumed conversions		<u><u>CU5,090,000</u></u>
Weighted-average shares		5,066,666
Plus: incremental shares from assumed conversions		
Warrants	0 ^(c)	
Convertible preference shares	800,000	
5% convertible bonds	480,000	
Dilutive potential ordinary shares		<u>1,280,000</u>
Adjusted weighted-average shares		<u><u>6,346,666</u></u>
Diluted EPS		<u><u>CU0.80</u></u>

(a) 800,000 shares × CU0.05

(b) (CU12,000,000 × 5%) ÷ 4; less taxes at 40%

(c) The warrants were not assumed to be exercised because they were antidilutive in the period (CU55 [exercise price] > CU49 [average price]).

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Second Quarter 20X1

<i>Basic EPS calculation</i>		CU
Profit from continuing operations attributable to the parent entity		6,500,000
Less: preference share dividends		(10,000) ^(a)
Profit attributable to ordinary equity holders of the parent entity		6,490,000

<i>Dates</i>	<i>Shares outstanding</i>	<i>Fraction of period</i>	<i>Weighted- average shares</i>
1 April	5,200,000		
<i>Conversion of 5% bonds on 1 April</i>	480,000		
1 April–31 May	5,680,000	$\frac{2}{3}$	3,786,666
<i>Conversion of preference shares 1 June</i>	600,000		
1 June–30 June	6,280,000	$\frac{1}{3}$	2,093,333
Weighted-average shares			5,880,000
Basic EPS			CU1.10

continued...

...continued

Diluted EPS calculation

Profit attributable to ordinary equity holders of the parent entity		CU6,490,000
Plus: profit impact of assumed conversions		
Preference share dividends	CU10,000 ^(a)	
Effect of assumed conversions		<u>CU10,000</u>
Profit attributable to ordinary equity holders of the parent entity including assumed conversions		<u><u>CU6,500,000</u></u>
Weighted-average shares		5,880,000
Plus: incremental shares from assumed conversions		
Warrants	50,000 ^(b)	
Convertible preference shares	<u>600,000^(c)</u>	
Dilutive potential ordinary shares		<u>650,000</u>
Adjusted weighted-average shares		<u><u>6,530,000</u></u>
Diluted EPS		<u><u>CU1.00</u></u>

(a) 200,000 shares × CU0.05

(b) $CU55 \times 600,000 = CU33,000,000$; $CU33,000,000 \div CU60 = 550,000$; $600,000 - 550,000 = 50,000$ shares OR $[(CU60 - CU55) \div CU60] \times 600,000$ shares = 50,000 shares(c) $(800,000 \text{ shares} \times \frac{2}{3}) + (200,000 \text{ shares} \times \frac{1}{3})$

Third Quarter 20X1

<i>Basic EPS calculation</i>		<u>CU</u>	
Profit from continuing operations attributable to the parent entity		1,000,000	
Less: preference share dividends		(10,000)	
Profit from continuing operations attributable to ordinary equity holders of the parent entity		990,000	
Loss from discontinued operations attributable to the parent entity		(2,000,000)	
Loss attributable to ordinary equity holders of the parent entity		<u>(1,010,000)</u>	
<i>Dates</i>	<i>Shares outstanding</i>	<i>Fraction of period</i>	<i>Weighted-average shares</i>
1 July–31 August	6,280,000	$\frac{2}{3}$	4,186,666
<i>Exercise of warrants on 1 September</i>	<u>600,000</u>		
1 September–30 September	6,880,000	$\frac{1}{3}$	2,293,333
Weighted-average shares			<u>6,480,000</u>
Basic EPS			CU0.15
Profit from continuing operations			(CU0.31)
Loss from discontinued operations			<u>(CU0.16)</u>
Loss			<u>(CU0.16)</u>

continued...

...continued

Diluted EPS calculation

Profit from continuing operations attributable to ordinary equity holders of the parent entity		CU990,000
Plus: profit impact of assumed conversions		
Preference share dividends	CU10,000	
Effect of assumed conversions		<u>CU10,000</u>
Profit from continuing operations attributable to ordinary equity holders of the parent entity including assumed conversions		CU1,000,000
Loss from discontinued operations attributable to the parent entity		<u>(CU2,000,000)</u>
Loss attributable to ordinary equity holders of the parent entity including assumed conversions		<u>(CU1,000,000)</u>
Weighted-average shares		<u>6,480,000</u>
Plus: incremental shares from assumed conversions		
Warrants	61,538 ^(a)	
Convertible preference shares	200,000	
Dilutive potential ordinary shares		<u>261,538</u>
Adjusted weighted-average shares		<u><u>6,741,538</u></u>
 Diluted EPS		
Profit from continuing operations		CU0.15
Loss from discontinued operations		(CU0.30)
Loss		<u><u>(CU0.15)</u></u>

(a) $[(CU65 - CU55) \div CU65] \times 600,000 = 92,308$ shares; $92,308 \times \frac{2}{3} = 61,538$ shares

Note: The incremental shares from assumed conversions are included in calculating the diluted per-share amounts for the loss from discontinued operations and loss even though they are antidilutive. This is because the control number (profit from continuing operations attributable to ordinary equity holders of the parent entity, adjusted for preference dividends) was positive (ie profit, rather than loss).

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Fourth Quarter 20X1

<i>Basic EPS calculation</i>	<u>CU</u>
Loss from continuing operations attributable to the parent entity	(700,000)
Add: preference share dividends	(10,000)
Loss attributable to ordinary equity holders of the parent entity	<u><u>(710,000)</u></u>

<i>Dates</i>	<i>Shares outstanding</i>	<i>Fraction of period</i>	<i>Weighted- average shares</i>
1 October–31 December	6,880,000	³ / ₃	6,880,000
Weighted-average shares			<u><u>6,880,000</u></u>

Basic and diluted EPS

Loss attributable to ordinary equity holders of the parent entity	<u><u>(CU0.10)</u></u>
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Note: The incremental shares from assumed conversions are not included in calculating the diluted per-share amounts because the control number (loss from continuing operations attributable to ordinary equity holders of the parent entity adjusted for preference dividends) was negative (ie a loss, rather than profit).

Full Year 20X1

<i>Basic EPS calculation</i>	<u>CU</u>
Profit from continuing operations attributable to the parent entity	11,800,000
Less: preference share dividends	(70,000)
Profit from continuing operations attributable to ordinary equity holders of the parent entity	11,730,000
Loss from discontinued operations attributable to the parent entity	(2,000,000)
Profit attributable to ordinary equity holders of the parent entity	<u><u>9,730,000</u></u>

<i>Dates</i>	<i>Shares outstanding</i>	<i>Fraction of period</i>	<i>Weighted-average shares</i>
1 January–28 February	5,000,000	$\frac{2}{12}$	833,333
<i>Issue of ordinary shares on 1 March</i>	<u>200,000</u>		
1 March–31 March	5,200,000	$\frac{1}{12}$	433,333
<i>Conversion of 5% bonds on 1 April</i>	<u>480,000</u>		
1 April–31 May	5,680,000	$\frac{2}{12}$	946,667
<i>Conversion of preference shares on 1 June</i>	<u>600,000</u>		
1 June–31 August	6,280,000	$\frac{3}{12}$	1,570,000
<i>Exercise of warrants on 1 September</i>	<u>600,000</u>		
1 September–31 December	6,880,000	$\frac{4}{12}$	2,293,333
Weighted-average shares			<u><u>6,076,667</u></u>
Basic EPS			
Profit from continuing operations			CU1.93
Loss from discontinued operations			(CU0.33)
Profit			<u><u>CU1.60</u></u>

continued...

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...continued

Diluted EPS calculation

Profit from continuing operations attributable to ordinary equity holders of the parent entity		CU11,730,000
Plus: profit impact of assumed conversions		
Preference share dividends	CU70,000	
Interest on 5% convertible bonds	CU90,000 ^(a)	
Effect of assumed conversions		<u>CU160,000</u>
Profit from continuing operations attributable to ordinary equity holders of the parent entity including assumed conversions		CU11,890,000
Loss from discontinued operations attributable to the parent entity		<u>(CU2,000,000)</u>
Profit attributable to ordinary equity holders of the parent entity including assumed conversions		<u>CU9,890,000</u>
Weighted-average shares		6,076,667
Plus: incremental shares from assumed conversions		
Warrants	14,880 ^(b)	
Convertible preference shares	450,000 ^(c)	
5% convertible bonds	120,000 ^(d)	
Dilutive potential ordinary shares		<u>584,880</u>
Adjusted weighted-average shares		<u>6,661,547</u>
 Diluted EPS		
Profit from continuing operations		CU1.78
Loss from discontinued operations		(CU0.30)
Profit		<u>CU1.48</u>

(a) $(CU12,000,000 \times 5\%) \div 4$; less taxes at 40%.

(b) $[(CU57.125^* - CU55) \div CU57.125] \times 600,000 = 22,320$ shares; $22,320 \times \frac{8}{12} = 14,880$ shares*.
The average market price from 1 January 20X1 to 1 September 20X1.

(c) $(800,000 \text{ shares} \times \frac{5}{12}) + (200,000 \text{ shares} \times \frac{7}{12})$.

(d) $480,000 \text{ shares} \times \frac{3}{12}$.

The following illustrates how Company A might present its earnings per share data in its statement of comprehensive income. Note that the amounts per share for the loss from discontinued operations are not required to be presented in the statement of comprehensive income.

For the year ended 20X1

	<u>CU</u>
Earnings per ordinary share	
Profit from continuing operations	1.93
Loss from discontinued operations	(0.33)
Profit	<u>1.60</u>
Diluted earnings per ordinary share	
Profit from continuing operations	1.78
Loss from discontinued operations	(0.30)
Profit	<u>1.48</u>

The following table includes the quarterly and annual earnings per share data for Company A. The purpose of this table is to illustrate that the sum of the four quarters' earnings per share data will not necessarily equal the annual earnings per share data. The Standard does not require disclosure of this information.

	<i>First quarter</i>	<i>Second quarter</i>	<i>Third quarter</i>	<i>Fourth quarter</i>	<i>Full year</i>
	<u>CU</u>	<u>CU</u>	<u>CU</u>	<u>CU</u>	<u>CU</u>
Basic EPS					
Profit (loss) from continuing operations	0.98	1.10	0.15	(0.10)	1.93
Loss from discontinued operations	–	–	(0.31)	–	(0.33)
Profit (loss)	<u>0.98</u>	<u>1.10</u>	<u>(0.16)</u>	<u>(0.10)</u>	<u>1.60</u>
Diluted EPS					
Profit (loss) from continuing operations	0.80	1.00	0.15	(0.10)	1.78
Loss from discontinued operations	–	–	(0.30)	–	(0.30)
Profit (loss)	<u>0.80</u>	<u>1.00</u>	<u>(0.15)</u>	<u>(0.10)</u>	<u>1.48</u>