Noble Group: Financial Accounting

July 17, 2017, Deforestation at a Noble Group Plantation.

Forensic Financial Accounting Analysis From 2023

A complex transaction conducted by Noble Group in 2014 serves as a good case study for understanding multiple accounting standards and how they impact the values recorded in financial statements. Here is a timeline of the events with discussion.

	2017 USD '000	2016 USD '000
Property, Plant and Equipment	$62,027	$197,034
Intangible Assets	$9,461	$9,461
Agricultural Assets	$368	$349
Cash and Cash Equivalents	$799	$540
Prepayments, Deposits and Other Receivables	$18,805	$17,092
Inventories	$2,675	$3,781
Assets in Subsidiaries as Held for Sale	$94,135	$228,257

- **2014**: Noble Group stated its intention to divest/sell its interest in NAL Group. A fair value for NAL Group of $224 million. was then recorded in Noble's financial statements as an asset "held for sale." However, Noble Group wanted to retain NAL's palm oil business. In exchange for these palm oil assets the company issued a promissory note/debt of $64.4 million to NAL Group. This promissory note carried a contingent value right under which Noble would remit the proceeds of the sale of palm business, less certain expenses, to the NAL Group once sold.

This transaction falls under multiple accounting standards. First, IFRS 5: Financial reporting for non-current assets held for sale and discontinued operations. This governed the conditions and treatment of the $224 million of NAL Group assets held for sale. Second, IFRS: Financial Instruments, Disclosures dictated that Noble Group disclose the qualitative and quantitative information about the transaction and how it affected the company's risks. Third, IFRS 9 provides the comprehensive technical criteria for reporting the details of financial instruments. Fourth, as discussed in a previous case study, proper fair value accounting is covered by IFRS 13. Last, recall from earlier that IAS 41 dictates how agricultural assets are reported.

- **2016**: Noble Group continued to own NAL Group asset at the end of 2016, reporting it with a fair value of $228 million in its audited 2016 financial statements. This represented a $4 million increase. Of this $228 million "asset held for sale," $197 million was the fair market value of property, plant and equipment (PPE) related to the palm assets.
- **2017**: Noble Group's second quarter report noted a $60 million "non-cash impairment to noncurrent assets" on its two palm oil assets held for sale. These palm oil assets had been retained by Noble Group as part of its divestiture of NAL Group. This represented a steep decline just two quarters after its recorded value as of the end of 2016.
- **2017**: At the end of 2017, Noble Group recorded the fair value of its PPE related palm assets as $62 million. This was a decrease of $135 million from the $197 million reported at the end of 2016, just one year prior.

Noble Group's Q2 interim impairment of $60 million explains less than one half of the total impairment experienced between 2016 and 2017. Noble Group's annual statement does not explain the additional $75 million in impairment to its palm oil related PPE.

Furthermore, Noble Group's recognition of impairment occurred only after its creditor HSBC, the Roundtable on Sustainable Palm Oil (RSPO), and others requested that Noble Group review its valuation of its concessions in West Papua, Indonesia. Of interest to market participants was the fact that Noble Group had stated that one of the plantations – PT Pusaka Agro Lestari, certified to RSPO, was only 11% forested as opposed to actually being 90% forested.

As a condition of this RSPO certification was requirement that Noble Group adhere to the RSPO's application of the High Conservation Values, an indirect measure of natural capital, where Noble Group misstated the forested percent in its concession, contradicting Noble Group's own stated intention from its 2016 Annual Report.

Since costs of production increase if an area is forested due to forest clearance costs, market participants wanted to know if the $228 million reported had factored in the additional costs associated with the increase in forested habitat.

Noble Group's impairment charge of its palm oil related assets calls into question the reliability of its application of IAS 41 in prior years. While write downs are required under IAS 41 to mark biological assets to market, impairment charges caused by factors such as the amount of forest to be cleared are measurable ex ante.

- **2018**: These and other accounting irregularities led to Noble Group's shares being suspended from trading in November 2018 from the Singapore Stock Exchange. Ultimately, Noble Group would declare it was defaulting on debt obligations and undergo an extensive restructuring process that led to the creation of Noble Group Holdings Ltd.
- **2019**: Noble Group finally sold its two palm oil concessions for $67 million in 2019.

Noble Group's accounting disclosures were poor or non-existent relative to IFRS 5, 7, 9, and 13, as well as IAS 41. Investors relying on these disclosures would have overstated the value of its assets held for sale and undervalued its liabilities on its balance sheet.

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