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The CPD Fest 2020

Impact of Covid-19 on Financial Statements Part 1 – FRS 102 Implications

Presenter:
Des O'Neill & Mike O'Halloran

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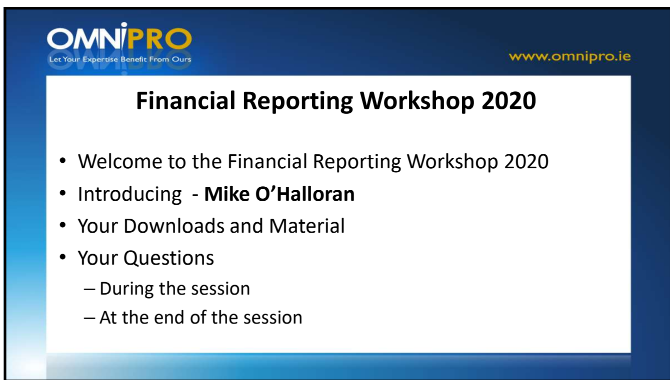

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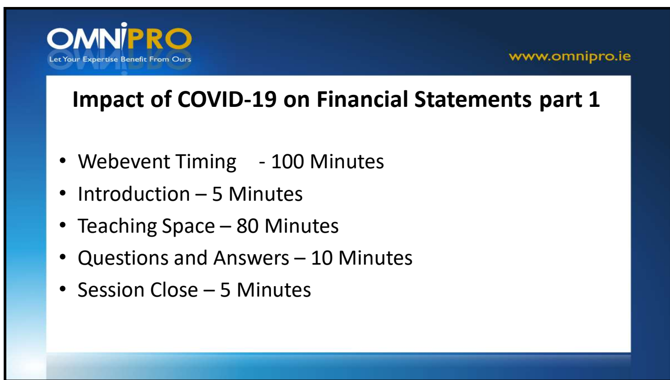

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Impact of COVID-19 on Financial Statements part 1

Covering in this session

- Going concern
- Banking covenants
- Exceptional Items
- Judgements and estimates
- Government grants- TWSS
- Provisions, Onerous contracts and leases

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Impact of COVID-19 on Financial Statements part 1

- Revenue
- Employee benefits & redundancies
- Deferred tax
- Directors report

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Section 3- Financial Statement presentation

- Section 3 explains the requirements for the presentation of financial statements;
  - Must give a true and fair view
  - Statement of compliance with FRS 102
  - Going concern
  - Frequency of reporting & consistency of presentation
  - Materiality and aggregation
  - What a complete set of financial statements is and what compliance with FRS 102 requires.

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Going Concern

- Section 3.8-
  - Management make an assessment of the entity's ability to continue as a Going Concern
  - An entity is a going concern unless management intend to liquidate or permanently cease trading
- Section 3.9-
  - Requires disclosure of any material uncertainties
  - Section 1A?
- FRS 105

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Section 3- Financial Statement presentation

- Going concern will be a consideration for the majority of companies.
- Appropriateness of going concern basis
- Adequacy of disclosures

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GC Scenario 1 - Not affected by COVID-19 or will perform better as a result of it.

- Possibly no disclosures required.
- No immediate issues
- Any long term issues?

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GC Scenario 2- Affected by COVID-19 but the directors are satisfied that no material uncertainty exists.

- Companies with an initial slowdown but the directors believe that this is short term and they will return to normal once the period passes.
- Possibly require a going concern note explaining why there is no material uncertainty.

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GC Scenario 3 - Affected by COVID-19 and the directors believe that a material uncertainty exists.

- Companies that have been hit hard by Covid-19.
- Temporarily shut down.
- Budgets indicate that it will be a difficult trading period.
- Costs being cut as much as possible to keep the business alive during the period of uncertainty.
- Believe that the going concern basis is appropriate but a material uncertainty exists.
- Going concern note required explaining material uncertainty etc.

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GC Scenario 4- Severely affected by COVID-19 and the directors need to consider if liquidation is the only realistic option.

- Company plans to be liquidated or permanently cease trading in next 12 months
- Break up basis
- Disclose fact in financial statements
- Restate assets to NRV

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What should a going concern (material uncertainty) note include?

- Details of the uncertainty including a description of the events/conditions casting doubt on the entity's ability to continue as a going concern.
- Management's plans to deal with these events.
- A clear disclosure that there is a material uncertainty which may cast significant doubt on the entity's ability to continue as a going concern.
- A statement that it may be unable to realise its assets and discharge its assets in the normal course of business.

Requirement driven by ISA 570-

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Section 4- Statement of financial position

- Section 4 deals with the presentation of the balance sheet.
- Required to present assets, liabilities and equity
- Required to classify liabilities that are current and non-current

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Section 4- Breach of banking covenants

- COVID-19 & banking covenants
- Types of banking covenants
- What happens if banking covenants are breached?
- Breach in covenants after the year end but before sign off?
- Going concern implications

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Breach of bank covenants

- Section 11.47 of FRS 102 requires that when there is a breach of the terms or default of principal, interest, sinking fund or redemption terms that has not been remedied by the reporting date the following should be disclosed;
  - Details of the breach or default.
  - The carrying amount of the loans at the reporting date, and
  - Whether the breach was remedied or the terms renegotiated prior to the financial statements being authorised for issue.

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Exceptional Item

- Exceptional Item –
- Not Defined (CA refers to them)
  - Where material an additional line is included in the profit and loss where relevant to the entity's performance.
  - Examples – Debt write off's, impairments, restructuring
  - Disclosure – Primary Financial Statements and Notes
  - Recurring items are not exceptional items

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Section 5- Statement of Comprehensive Income and Income Statement

- Will COVID-19 lead to more "exceptional items" disclosures?
- Exceptional items should be shown on the face of the P&L where it is relevant to the user of the financial statements in understanding the results.
- Interaction with other sections of FRS 102- S.27, S.32
- Note disclosure
- Accounting policy disclosure
- Example

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Section 6 Statement of Changes in Equity and Statement of Income and Retained Earnings

- Section 6 deals with the requirements for the presentation of changes in an entity's equity for a period.
- SOCE required to present all changes in equity
  - Total comprehensive income
  - Non-controlling interests
  - Change in accounting policies and errors
  - Transactions with owners in their capacity as owners

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Section 6 Statement of Changes in Equity and Statement of Income and Retained Earnings

- Treatment of revaluation reserves arising from COVID-19 impairments.
- Recognise impairment loss immediately in P&L unless carried at a revalued amount
- Example

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Section 8- Notes to the Financial Statements

- Section 8 describes the principles underlying the information that is to be presented in the notes to the financial statements.
- Structure of the notes
- Disclosure of accounting policies
- Section 8.6 & 8.7 of FRS 102
- FRS 102 requirement-
- Judgements
- Assumptions
- Key sources of estimation uncertainty

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Judgements and key sources of estimation uncertainty

- Increased amount of judgement and assumptions
- Going concern
- Future cashflow
- Property values
- Impairment
- Stock provisions
- Post balance sheet adjusting vs non-adjusting items- what judgement was used if considering whether events were adjusting
- Recoverability of debtors

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Judgement areas

- The factors on which the going concern basis is based on, including assumptions used in preparing budgets for the upcoming 12 months and applying the going concern basis.
- Judgement regarding going concern, how long restrictions will remain in place, the overall economic impact of the measures.
- The factors used in calculating impairment & factors used when deciding not to impair.
- Considerations used in determining if events occurring since the year end are adjusting or non-adjusting.
- Judgements relating to the recoverability of debtors.
- Judgement used in determining which items are exceptional items as a result of COVID-19.

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Estimation Uncertainty Areas

- Estimation uncertainty regarding inventory provisioning.
- Estimation uncertainty regarding the recoverability of debtors.
- Estimation uncertainty arising from impairments to assets arising from COVID-19.

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Section 24- Government Grants

- Section 24 deals with the recognition, measurement and disclosures for government grants. Government grants are assistance in the form of a transfer of resources to an entity in return for past or future compliance with specific conditions. It excludes transactions with governments that cannot be distinguished from the normal trading transactions of the entity.

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Government grants- Policy Choice

- Accruals Model
  - Recognise the grant over the expected life of the **asset** and the amount deferred shown as a liability on the balance sheet.
  - Recognise the grant over a systematic basis over the period the entity recognises the **cost** where the grant is revenue in nature.
- Performance Model
  - Recognise the grant on receipt where the grant does not impose performance related conditions, or
  - Recognise the grant when the performance related conditions are met.

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How should the TWSS/PUP be treated in the financial statements?

- Government grants defined;
  - "**Assistance by government** in the form of a **transfer of resources** to an entity in return for **past or future compliance** with **specified conditions** relating to the operating activities of the entity. Government refers to government, government agencies and similar bodies whether local, national or international."

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When to recognise

- Should not be recognised until there is reasonable assurance that;
  - The entity will comply with the conditions attaching to them.
  - The grants will be received.

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Accruals model vs. Performance model

- Choose accruals model or performance model;
- **Accruals Model**
- Recognise in income on a systematic basis over the periods in which the related cost is recognised.
- Recognise as other income when the expense is incurred.

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Accruals model vs. Performance model

- **Performance model**
- Recognise in income only when the performance conditions are met.
- Main performance condition is a 25% reduction in turnover. Hold as a liability until it is evident that the performance conditions are met.

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Section 21 Provisions and Contingencies

- A provision should be recognised where there is a present obligation (either legal or constructive)
- as a result of a past event
- where a transfer of economic benefits is probable to settle the obligation
- and the obligation can be reliably measured

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Section 21 Provisions and Contingencies

Present obligation as a result of a past event
Y
Future economic outflow of benefits probable/certain
N
Future economic benefit possible outflow
N
Remote
Y
Reliably measured
N
Disclose
Y
No disclosure or recognition
Y
Recognise provision (present value provision where material)

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Section 21 Provisions and Contingencies

- Areas affected by COVID-19
  - Onerous contracts
  - Onerous leases
  - Liabilities from an inability to fulfil an order
  - Future operating losses- no provision
  - Redundancies
  - Closure of a factory
  - Examples

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- ***Example: Closure of a division: no implementation before end of reporting period (Extracted from Section 21A.6 of FRS 102)***
- On 12 December 20X0 the board of an entity decided to close down a division. Before the end of the reporting period (31 December 20X0) the decision was not communicated to any of those affected and no other steps were taken to implement the decision.
- Present obligation as a result of a past obligating event: There has been no obligating event, and so there is no obligation.
- **Conclusion**: The entity does not recognise a provision.

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- **Example: Closure of a division: communication and implementation before end of reporting period (Extracted from Section 21A.6 of FRS 102)**
- 21A.7 On 12 December 20X0 the board of an entity decided to close a division making a particular product. On 20 December 20X0 a detailed plan for closing the division was agreed by the board, letters were sent to customers warning them to seek an alternative source of supply, and redundancy notices were sent to the staff of the division.
- Present obligation as a result of a past obligating event: The obligating event is the communication of the decision to the customers and employees, which gives rise to a constructive obligation from that date, because it creates a valid expectation that the division will be closed.
- An outflow of resources embodying economic benefits in settlement: Probable as it can be reliably measured.
- **Conclusion:** The entity recognises a provision at 31 December 20X0 for the best estimate of the costs that would be incurred to close the division at the reporting date.

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NEW - Operating Lease Concessions

- Amendment to FRS 102- October 2020
- COVID-19 related rent concessions on operating leases
- Provides clarity on how to account for changes in lease payments should be accounted for
- Previously not addressed in FRS 102. Led to different application
- Effective- periods commencing on/after 1 January 2020. Can early adopt

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What is the Amendment- Lessees?

- Lessee shall recognise any change in lease payments arising from rent concessions on a systematic basis over the periods that the change in payments is intended to compensate
  - Only applies to temporary rent concessions as a result of COVID
    - Deferred lease payments?
  - Change results in revised consideration for the lease that is less than previous
  - Any reduction affects only payments originally due on or before 30 June 2021
  - No significant changes to the T&Cs of the lease

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What is the Amendment- Lessors?

- A **Lessor** shall recognise any change in lease income arising from rent concessions that meet the criteria in previous slide on a systematic basis over the period that the change is intended to compensate.

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Additional disclosure requirements

- Disclosure required of
  - Changes in lease payments recognised in the P&L in accordance with this change.

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Onerous leases

- What is an onerous contract?
  - A contract in which the unavoidable costs of meeting the obligation exceed the economic benefits.
  - Unavoidable costs are the least net cost of exiting from the contract.
  - The lower of the cost of fulfilling it and any compensation or penalties from failure to fulfil it.

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Onerous leases

- Section 20 of FRS 102 requires the entity to apply section 21 (provisions) when a lease becomes onerous.
- Section 21
  - If we have an onerous contract then the present obligation shall be measured as a provision

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Onerous leases

- What do we need to look at to determine the “least net cost”
  - What is the lease amount?
  - What is the unexpired lease term?
  - Can we sublet the premises?
  - Has an early termination payment been discussed?

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- Assume the following
  - What is the lease amount? **€40k per annum**
  - What is the unexpired lease term? **2 years**
  - Can we sublet the premises? **Yes @ €15k per annum**
  - Has an early termination payment been discussed. **Yes, landlord willing to settle for €55k**

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- What is the least net cost?
- If we see out the 2 year lease? **€80k**
- If we pay the early termination payment **€55k**
- If we sublet the property **€50k (€80k- €15k*2)**

- **In this situation, the least net cost is €50k and should be recognised as a provision.**

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When to recognise a provision

- Recognise provision when
  - There is a present obligation **(the lease liability)**
  - As a result of a past event **(signing the lease)**
  - Can be reliably estimated **(the least net cost)**

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Disclosure in full FRS 102

Disclosures

Disclosures about provisions

21.14 For each class of provision, an entity shall disclose the following:

(a) a reconciliation showing:
  (i) the carrying amount at the beginning and end of the period;
  (ii) additions during the period, including adjustments that result from changes in measuring the discounted amount;
  (iii) amounts charged against the provision during the period; and
  (iv) unused amounts reversed during the period;

(b) a brief description of the nature of the obligation and the expected amount and timing of any resulting payments;

(c) an indication of the uncertainties about the amount or timing of those outflows; and

(d) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

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Section 23 Revenue

- Section 23 applies to the accounting for revenue arising from the sale of goods, rendering of services, construction contracts and the use by others of entity assets yielding interest, royalties or dividends. It does not apply to revenue or income arising from transactions and events dealt with in other sections of the standard (e.g. leases, changes in fair value in investment property).

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Section 23 Revenue

- COVID-19 implications
  - Recognition criteria may be impacted when customers go out of business or where arrangements are entered into with customers
- The minimum criteria to meet when recognising revenue are
  - The revenue can be measured reliably
  - It is probable that economic benefits will flow

Example

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Section 28 Employee Benefits

- Section 28 deals with the recognition, measurement and disclosure of employees benefits to include the recognition and measurement of defined benefit and contribution pension schemes, short term employee benefits and termination benefits.

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Section 28 Employee Benefits

- COVID-19 implications- Redundancies
  - Recognise when the entity can demonstrate its commitment to either
- (a) terminate the employment of an employee or group of employees before the normal retirement date; or
- (b) to provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

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Section 28 Employee Benefits

- COVID-19 implications- Bonuses
  - What are the payment terms of bonuses?
  - Terms extended beyond 12 months

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Section 29 Income Tax

- Section 29 deals with the recognition, measurement and disclosure of current and deferred tax, VAT and withholding tax on dividends.
- Current tax
  - Tax recognized for the current and prior periods
- Deferred tax
  - Tax arising on timing differences

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Section 29 Income Tax

- COVID-19 & deferred tax
- Effect of impairments
- Assets previously revalued
- Deferred tax assets based on losses forward
  - Is recovery probable?

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Director's Report

- Principal risks and uncertainties
- Future developments
- Particulars of events since the year end
- Going concern disclosures?
- FRS 102 vs. FRS 102 S.1A

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Director's report

Directors' report: business review

327. (1) F137 [Subject to *subsection (1A)* , the directors ' report for a financial year] shall contain—

(a) a fair review of the business of the company, and

(b) a description of the principal risks and uncertainties facing the company.

F138 [(1A) A company that qualifies for the small companies regime or the micro companies regime shall be exempt from the requirements of *subsection (1)* .]

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Principal Risks & Uncertainties

- Required for companies not availing of the small companies regime.
- Risks have changed as the Pandemic progressed.
- Risks and uncertainties should be specific to the company and consider the specific issues
  - Companies with debtors (credit risk)
  - Companies in the hospitality sector (economic risk)
  - Companies trading in highly affected countries (market risk, supply chain risk)

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Future developments

- S.327 CA 2014. "The review required by *subsection (1)* shall include an indication of likely future developments in the business of the company."
- Although this generally comments on management's plans and ambitions for the company it is hard to ignore the immediate future hurdle of Covid-19.

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Events since the balance sheet date

- Directors report should incorporate a summary of the "important events since the balance sheet date".

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Going concern note in directors report?

- The directors report requires a "summary of the principal risks and uncertainties facing the company".
- If a material uncertainty is being disclosed in relation to going concern, there is scope to include commentary relating to this uncertainty and going concern in the directors report.

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Questions ?

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Here to guide you and your clients through COVID-19

Version 3, Version Date 05/05/2020

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FRS102.com- Covid-19 update

Section 2- Concepts and Pervasive Principles

Summary of this section

Section 2 describes the objective of financial statements, which is to provide useful information about the entity's financial position, performance and cash flows, and establishes the concepts and underlying principles of preparation.

What are the key points of this section of FRS 102?

Section 2 sets out a list of qualitative characteristics which are used when assessing whether financial statements meet their objectives namely; understandability, relevance, materiality, reliability, substance over form, prudence, completeness, comparability, timeliness and balance between benefit and cost.

Financial statements are required to show a true and fair view and should be prepared on an accruals basis.

Section 2 defines an asset as a resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity.

A liability is defined as a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

Assets, liabilities, income and expenses are recognised where it is probable that any associated future economic benefit will flow to or from the entity, and where the item has a cost or value that can be measured reliably.

In general, assets and liabilities are initially measured at historical cost unless there is a specific requirement elsewhere in the FRS to measure them at fair value. Subsequent measurement depends on the type of balance and will be based on one of the following:

- Amortised cost (for most basic financial assets and liabilities);
- Fair value (for other financial assets and liabilities, investments in associates and joint ventures (if chosen), investment properties, and some agricultural assets);
- The cost model or revaluation model (for property, plant and equipment and intangible assets);
- The lower of cost and selling price less costs to complete and sell (for inventory); and
- The best estimate of the amount that would be required to settle the obligation at the reporting date (for most non-financial liabilities)

How does COVID-19 impact on this section?

One of the key areas of section 2 in relation to COVID-19 is the methodology for calculating fair value set out in the Appendix to Section 2. In the early stages of COVID-19 it may prove difficult to establish what fair value is if it is deemed that there is no "active market" in place. This will also come to the fore as section 27- Impairment requires consideration of "fair value less costs to sell" in determining the "Recoverable Amount".

Practical implications

If applying section 27 of FRS 102, one of the many challenges faced by accountants is the determination of "fair value". When testing for impairment, an entity is required to compare an assets "carrying amount" with its "recoverable amount".

The carrying amount is an easily understood value and represents the amount of which the asset is carried on the balance sheet.

Recoverable amount requires the assessment of the higher of;

1. Fair value less costs to sell, and
2. Value in Use

Value in use has a set series of rules and guidance as set out in Section 27 of FRS 102 and, although the area of cashflow projections might be difficult to estimate in the current climate, there is reasonably clear guidance on how to apply this to arrive at a value in use calculation.

At the time of writing this piece, the country is in lockdown, people in non-essential roles have been restricted to movement within a 2km radius and business has temporarily ceased in the majority of sectors.

The economic environment that was in situ on the 28th March 2020 was reasonably strong (despite a few weeks of decline) and the underlying values of assets did not show any tangible signs of impairment (to the extent that there is no market based evidence showing a significant decline) up to that date.

Whilst there may be property transactions occurring during the period of lockdown, there is little evidence of market based transactions to support underlying asset values. Further to this, people's inability to travel, businesses lack of ability to open and a general air of apprehension has stalled some transactions.

While in the lockdown period from 28th March 2020 to whenever it is lifted (likely to be no earlier than mid-May at the time of writing this), there is a significant degree of uncertainty regarding asset prices in areas such as property, intangible assets etc. One would anticipate that there will be a decline in asset values during this period of time but the overall effect is unclear and there is potentially a large range of estimated values that entities could use to estimate the fair value of their property while in lockdown.

When considering "Fair Value", entities will need to consider the guidance contained in the Appendix to Section 2 of FRS 102.

Does an "Active Market" exist?

An active market is defined in the glossary to FRS 102 as

A market in which all the following conditions exist:

(a) the items traded in the market are homogeneous;

(b) willing buyers and sellers can normally be found at any time; and

(c) prices are available to the public.

If dealing with an asset such as a property, (a) above will be met (unless the property is particularly unusual, complex or has an unusual purpose). During the period of lockdown, one would argue that willing buyers and sellers cannot be found. Also, one would argue that the prices are not available to the public (this is particularly pertinent here given the potential sharp fall in property prices from 28th March to whenever the lockdown is lifted).

The "Active Market" area requires some judgement, but on the basis of the above it would be argued that no active market exists for the period of time while the lockdown is in place.

Application of the fair value methodology in Appendix to Section 2 of FRS 102 to COVID-19

In order to consider the fair value of property, we should apply the rules set out in appendix A to section 2 of FRS 102

1. The best evidence of fair value is a quoted price for an identical asset (or similar asset) in an active market. This is usually the current bid price.

   As argued above, during the period of lockdown, an "active market" does not exist and so we must move on to the next step.

2. When quoted prices are unavailable, the price in a binding sale agreement or a recent transaction for an identical asset (or similar asset) in an arm's length transaction between knowledgeable, willing parties provides evidence of fair value. However, this price may not be a good estimate of fair value if there has been a significant change in economic circumstances or a significant period of time between the date of the binding sale agreement or the transaction, and the measurement date. If the entity can demonstrate that the last transaction price is not a good estimate of fair value (eg because it reflects the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale), that price is adjusted.

   Given the sudden shock to the economy, it is likely that this step will not produce a "fair value" unless there have been transactions since the lockdown that represent an arms length transaction between knowledgeable and willing parties. Assuming this does not produce a "fair value" we must move on to the next step.

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3. If the market for the asset is not active and any binding sale agreements or recent transactions for an identical asset (or similar asset) on their own are not a good estimate of fair value, an entity estimates the fair value by using another valuation technique. The objective of using another valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

   Assuming steps 1 and 2 are not successful in achieving a fair value then a valuation technique must be used to determine fair value. This step may be appropriate when to establish a fair value during the lockdown period once the lockdown period ends (ie. if we have market data based on transactions after the lockdown period, this will give us a more accurate picture of the fair value of assets held during the lockdown period). Assuming we are still in the lockdown period, we must move on to the next step.

4. **Valuation Technique**

   Valuation techniques include using the price in a binding sale agreement and recent arm's length market transactions for an identical asset between knowledgeable, willing parties, reference to the current fair value of another asset that is substantially the same as the asset being measured, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the asset and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique.
   The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations. Fair value is estimated on the basis of the results of a valuation technique that makes maximum use of market inputs, and relies as little as possible on entity-determined inputs.
   A valuation technique would be expected to arrive at a reliable estimate of the fair value if:
   (a) it reasonably reflects how the market could be expected to price the asset; and
   (b) the inputs to the valuation technique reasonably represent market expectations and measures of the risk return factors inherent in the asset.

   Given the unusual and unprecedented nature of the COVID-19 pandemic, it is unlikely that a reliable valuation technique could be used to estimate values during the period of lockdown. Therefore we must move on to the next step.

5. If we have been unable to achieve a "fair value" then we must look to the guidance where there is "no active market", as follows;

   The fair value of an asset that does not have a quoted market price in an active market is reliably measurable if:

   (a) the variability in the range of reasonable fair value estimates is not significant for that asset; or

   (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.

   This requires some judgement and the application of materiality but the uncertainty is likely to result in a range of estimated fair values that is significant. If the range of estimates is

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significant, and is not deemed to be probable that it can be reasonably assessed then the entity is precluded from measuring the asset at fair value.

If an entity is precluded from using fair value by following the above rules then under Section 2A.5, the carrying amount at the last date the asset was reliably measured becomes it's new cost and the asset is measured at cost less impairment until a new measure of fair value becomes available. In assessing cost less impairment, an entity is directed to section 27 where the assets carrying value should be compared to its recoverable amount.

If (following the steps above) the entity deems that it cannot use fair value, this leaves only Value in Use as the measurable when calculating recoverable cost.

Consequently, when assessing for impairment and fair value is precluded from being used, the carrying value should be compared to Value in Use. If value in use is lower than carrying value then an impairment of the deficit is required.

Section 27.22 makes reference to situations where the fair value cannot be determines and states that where this is the case the value in use is the figure to be written down to in an impairment situation.

"However, an entity shall not reduce the carrying amount of any asset in the cash-generating unit below the highest of:

(a) its fair value less costs to sell (if determinable);

(b) its value in use (if determinable); and

(c) zero."

How is the above scenario likely to impact financial statements?

It is likely that the inability to calculate "fair value" owing to no "active market" is likely to cover only a small window of time. Depending on the year end and also the date of signature, this may not have an impact on financial statements.

Year ends before March 2020

If we consider year ends of December 2019, January 2020 and February 2020, there was an active market in place and therefore "fair value" is reasonably established.

March 2020 year ends until lockdown ends and market data is available

If we assume that lockdown continues towards the end of May with some businesses reopening in June, one would assume that property transactions (and more importantly the market data behind the property transactions) become more visible towards mid-late June. In this scenario, companies with a year end of March 2020, April 2020 and May 2020 which are signed before accurate market data is available may be impacted by the inability to determine fair value.

If market data comes to light at some point (in June in the above scenario) then a clearer picture will be available at that point of the values in place at March 2020, April 2020 and May 2020 which will allow entities to consider the fair value at the year end.

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FRS102.com- Covid-19 update

Section 3- Financial Statement preparation

Summary of this section

Section 3 explains that the financial statements of an entity shall give a true and fair view, what a complete set of financial statements is; and what compliance with FRS 102 requires.

What are the key points of this section of FRS 102?

The fundamental principles for the preparation of financial statements that result in the faithful representation of transactions, other events and conditions, are the going concern assumption, consistency of presentation, comparability and materiality. Where there are doubts about going concern this needs to be stated in the financial statements.

A complete set of financial statements includes each of the following for the current period and the previous comparable period:

- a statement of financial position (FRS 102 also allows the use of the word balance sheet);
- either a single statement of comprehensive income or a profit and loss account and a separate statement of comprehensive income where the entity has items posted to other comprehensive income;
- a statement of changes in equity;
- a statement of cash flows; and
- notes to the financial statements which includes an explicit statement that the financial statements have been prepared under FRS 102.

Where financial statements are prepared for periods longer or shorter than one year, the entity must disclose; that fact, the reason for using a longer or shorter period and the fact that comparable amounts presented in the financial statements are not entirely comparable.

Financial statements are required to make clear the name of the reporting entity, the presentational currency, date of the end of the reporting period, whether individual or group accounts are covered and the level of rounding, if any used.

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How does COVID-19 impact on this section?

The going concern considerations as set out in sections 3.8 and 3.9 of FRS 102 will be a key area of focus when addressing the financial reporting implications of COVID-19.

Section 3.8 requires management to make an assessment of the entity's ability to continue as a going concern. An entity is a going concern unless management either intends to liquidate or cease trading or has no realistic alternative but to do so. This requires management to consider a period of at least 12 months from the date of authorisation.

Section 3.9 requires disclosure of any material uncertainties casting doubt on the entity's ability to continue as a going concern. Disclosure of the fact that the going concern basis has not been applied is required if applicable.

One of the significant considerations of COVID-19 is whether (and how significantly) COVID-19 has impacted the company from a going concern perspective. This section of FRS 102 also interacts with Section 32- Events After the End of the Reporting Period, as it requires that where an entity discovers after the year end that the going concern basis is not appropriate then the financial statements should not be prepared on a going concern basis.

Practical implications

Entities will need to consider the effect COVID-19 has had on their business, including the future prospects of the business. This should include consideration of budgets and cashflows for the 12 month period up to the date of signing off the financial statements. This will present many challenges for entities in the early stages of COVID-19 as the uncertainty caused by the virus and government reactions to it may mean that budgets and cashflows which are reliable may be difficult to produce.

Entities will need to consider how affected their business is by COVID-19 and then determine the appropriate treatment from a basis of preparation point of view.

For most entities, the emergence of COVID-19 will require the entity to reassess the going concern basis. For some entities, this will require additional disclosures in the directors report and in the notes to the financial statements. For entities where a material uncertainty is identified which casts significant doubt on the entity's ability to continue as a going concern there will be a significant level of additional disclosure required.

Where a company's only option is to liquidate or permanently cease trading, the financial statements should not be prepared on a going concern basis.

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Disclosure issues arising from COVID-19

An example of illustrative disclosure notes addressing the going concern note disclosures are set out below.

Illustrative example 1- Company affected by Covid-19 but continues to trade. Trade has not been significantly affected and the directors conclude that no material uncertainty exists.

The company made a profit of €xxxxxxxx and has net current assets of €xxxxxx net assets of €xxxxx at the year end.

During the first quarter of 2020, The Covid-19 pandemic has spread initially from Asia to Europe and subsequently worldwide. The initial economic effect of this has been a worldwide slowdown in economic activity and the loss of jobs across many businesses. In Ireland there are restrictions placed on "non-essential" businesses which has resulted in many businesses temporarily closing in measures designed to restrict the movement of people and to slow down the spread of the virus.

Company Limited has continued to trade during this period and has not seen a significant effect on its trading activities as a result of the virus. The directors have prepared budgets for the upcoming 12 months which show that the company will continue as a going concern.

The financial statements have been prepared on a going concern basis.

Illustrative example 2- Company affected by Covid-19 but continues to trade. Trade is negatively affected by the virus and the directors have seen a significant reduction in trading activity. Staff costs have been reduced.

The company made a profit of €xxxxxxxx and has net current assets of €xxxxxx net assets of €xxxxx at the year end.

During the first quarter of 2020, The Covid-19 pandemic has spread initially from Asia to Europe and subsequently worldwide. The initial economic effect of this has been a worldwide slowdown in economic activity and the loss of jobs across many businesses. In Ireland there are restrictions placed on "non-essential" businesses which has resulted in many businesses temporarily closing in measures designed to restrict the movement of people and to slow down the spread of the virus.

Like many businesses, Company Limited is exposed to the effects of the Covid-19 pandemic. Whilst the company continues to trade during this period, there has been a notable reduction in trading activity and customer demand compared to the same period in the previous financial year. Staff costs have been reduced through the temporary reduction in staff/reduced hours and other costs have been reduced where possible (TAILOR/DELETE AS APPROPRIATE). The company will also use government supports provided to businesses during this time.

Based on the measures taken to reduce costs, the directors believe that the company is well positioned to return to full trading capacity once the period of uncertainty passes. However, the directors believe that the above circumstances represent a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The financial statements have been prepared on a going concern basis.

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Illustrative example 3- Company affected by Covid-19 and has temporarily ceased trading as a result of Covid-19. There has been a significant reduction in trading activity and staff costs have been reduced.

The company made a profit of €xxxxxxxx and has net current assets of €xxxxxx net assets of €xxxxx at the year end.

During the first quarter of 2020, The Covid-19 pandemic has spread initially from Asia to Europe and subsequently worldwide. The initial economic effect of this has been a worldwide slowdown in economic activity and the loss of jobs across many businesses. In Ireland there are restrictions placed on "non-essential" businesses which has resulted in many businesses temporarily closing in measures designed to restrict the movement of people and to slow down the spread of the virus.

Like many businesses, Company Limited is exposed to the effects of the Covid-19 pandemic. In March 2020, as a result of the reduction in economic activity and the recommendations and restrictions placed on businesses the company has decided to temporarily cease trading. During this period, the company has laid off staff and reduced working hours for staff who have been retained. Other costs have also been reduced during the non-trading period where possible. The company will also use government supports provided to businesses during this time.

Based on the measures taken to reduce costs, the directors believe that the company is well positioned to return to full trading capacity once the period of uncertainty passes. However, the directors believe that the above circumstances represent a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The financial statements have been prepared on a going concern basis.

Illustrative example 4- There is no realistic alternative for the company but to permanently cease trading or liquidate. The financial statements have not been prepared on a going concern basis

The company made a loss of €xxxxxxxx, has net liabilities of €xxxxxx and net current liabilities of €xxxxx at the year end.

During the first quarter of 2020, The Covid-19 pandemic has spread from Asia to Europe and worldwide. The initial economic effect of this has been a worldwide slowdown in economic activity and the loss of jobs across many businesses. In Ireland there are restrictions placed on "non-essential" businesses which has resulted in many businesses temporarily closing in measures designed to restrict the movement of people and to slow down the spread of the virus.

The effects of the above have been so severe on the activities of the company that the directors believe that there is no realistic alternative but to cease trading or to liquidate the company.

Accordingly, the financial statements have not been prepared on a going concern basis.

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Section 1A of FRS 102 disclosures

If applying section 1A of FRS 102, the disclosures relating to material uncertainties are encouraged.

In any event, where an entity has material uncertainties related to going concern, such disclosures are fundamental to users understanding of the financial statements and should be disclosed to ensure that the financial statements give a true and fair view.

If the financial statements are prepared on a basis other than the going concern basis then this should be disclosed.

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Section 4- Statement of Financial Position

Summary of this section

Section 4 deals with the presentation of the statement of financial position. The statement of financial position (also known as the balance sheet) presents an entity's assets, liabilities and equity at the end of the reporting period.

What are the key points of this section of FRS 102?

The statement of financial position which can also be called a balance sheet should be laid out in accordance with the formats as specified under the Companies Act. It is possible to use the IFRS formats as long as it provides the substance of the information required by Companies Act.

An entity is required to distinguish those items that are current and non-current. To comply an entity shall present current and non-current assets and current and non-current liabilities as separate classifications in its balance sheet.

An entity shall present additional line items, headings, and sub-totals in the balance sheet when such presentation is relevant to an understanding of the entity's financial position.

Disclosure is required in either the notes to the financial statements or on the face of the statement of financial position in relation to the following, a description for each reserve within equity and for each class of shares; the number and par value of shares issued, the rights, preferences and restrictions attached to those shares including restrictions on distribution of dividend, shares in the entity held by subsidiaries, joint ventures or associates and a reconciliation of the number of shares at the start and end of the year.

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How does COVID-19 impact on this section?

The effects of COVID-19 may mean that some companies breach their banking covenants. Where loan covenants are breached, it will usually mean that liabilities will no longer meet the definition of non-current liabilities and should be restated to current liabilities.

Loan agreements will often include loan covenants such as maintaining a certain debt to equity ratio or cashflow level. The impact of factors such as impairment of assets and liquidity could put pressure on such covenants and may cause them to be breached.

Practical implications

Where covenants are breached, the lender will be entitled to demand repayment before the loan maturity date. In instances such as this, the debt which was originally classified as due greater than one year will need to be reclassified as due within 1 year.

If covenants are breached after the year end then this would be a non-adjusting event requiring disclosure in accordance with section 32 of FRS 102. However, consideration should be given as to whether covenants were breached during the financial year. Consideration should also be given to the wider issue of going concern implications arising from a covenant breach.

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Disclosure issues arising from COVID-19

Where covenants are breached, the balance sheet classification will be changed (from due within 1 year to due after 1 year). The related note disclosures and maturity analysis will also change accordingly. Given the significance of a covenant breach, this may also impact on going concern disclosures.

Where covenants are breached, section 11.47 of FRS 102 will also need to be complied with. This requires that when there is a breach of the terms or default of principal, interest, sinking fund or redemption terms that has not been remedied by the reporting date the following should be disclosed;

- Details of the breach or default.
- The carrying amount of the loans at the reporting date, and
- Whether the breach was remedied or the terms renegotiated prior to the financial statements being authorised for issue.

If the covenant breach occurred after the year end, there will not be a reclassification in the financial statements as this will not be a post balance sheet event. However, consideration should be made as to whether the covenants were breached during the year

Section 1A of FRS 102 disclosures

If applying Section 1A of FRS 102 then there is still a requirement to present current liabilities and non-current liabilities separately. As a result, any liabilities arising from covenant breaches are required to be presented as current, similar to the requirements under full FRS 102.

The requirements of section 11.47 are not required under section 1A of FRS 102. However, disclosure of the breach may be required in order for the financial statements to give a true and fair view.

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A Personalised CPD Certificate of Completion will be forwarded to you upon completion of this course.
These notes do not serve as proof of completion alone.

FRS102.com- Covid-19 update

Section 5- Statement of Comprehensive Income and Income Statement

Summary of this section

Section 5 deals with the presentation of total comprehensive income for the reporting period. It allows presentation in one or two statements and sets out the information to be presented in those statements.

What are the key points of this section of FRS 102?

This standard sets out the format, contents and requirements for presenting items in the Income Statement or the Statement of Comprehensive Income. It sets out the reduced requirements if a company is applying section 1A of FRS 102.

This section of FRS 102 also sets out the requirements on how to deal with exceptional items.

Where exceptional items are material they should be appropriately disclosed in the profit and loss. Materiality can be determined by an item's size and nature.

FRS 102 does not define exceptional items. Example of exceptional items include (as detailed in IAS 1 of IFRS):

- Cost or provision of a major restructuring of operations e.g. a large voluntary and forced redundancies based on the size of the entity
- Profit/loss on disposal of investments
- Impairment/write down of tangible fixed assets
- Impairment of investments
- Impairment of inventories
- Write down on inventories
- Provision for closure costs
- Reversal of prior year impairments or provisions in relation to the above.
- Litigation settlements
- Other reversals of provisions

Where an item is a reoccurring item (e.g. fair valuing investment properties year on year) then this is not an exceptional item as it is a transaction in the normal course of business. A consistent approach should be adopted in that an entity cannot only choose to show losses as exceptional items but they also must show gains as exceptional items if they are of a similar nature e.g. reversal of prior year impairments previously disclosed as exceptional.

Gains and losses should not be netted when disclosing the exceptional items, they should be shown separately.

How does COVID-19 impact on this section?

The financial effects of COVID-19 may result in some companies incurring exceptional expenses and costs as the write down and impairment of assets occurs. Where exceptional items occur, these should be treated in accordance with Section 5 of FRS 102.

An exceptional item should only be shown on the face of the profit and loss account where it is relevant to the user of financial statements in understanding the results. If it is not it should be disclosed in the notes. Therefore, if material, it should be disclosed on the face of the P&L.

Practical implications

Accountants will need to consider the financial implications of COVID-19 in other sections such as section 27- Impairment, section 32- post balance sheet events etc to determine if assets have been impaired and if the effect of COVID-19 is material on the financial statements.

Following consideration of the impact of COVID-19 on the financial statements, companies will need to consider if the items are required to be presented as exceptional items and if so whether they are required to be disclosed on the face of the profit and loss account.

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These notes do not serve as proof of completion alone.

Disclosure issues arising from COVID-19

If material, then exceptional items should be disclosed on the face of the profit and loss account as a separate line item.

As FRS 102 does not define exceptional items, entities will have to include in a note to the financial statements what they define as exceptional in the notes to the financial statements. See below an example of such a disclosure:

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Example : *Exceptional item disclosure note for an accounting policy*

Exceptional items
Exceptional items are those that the Directors' view are required to be separately disclosed by virtue of their size or incidence to enable a full understanding of the Company's' financial performance. The Company believe that this presentation provides a more informative analysis as it highlights one off items. Such items may include restructuring, impairment of assets, profit or loss on disposal or termination of operations, litigation settlements, legislative changes and profit or loss on disposal of investments. The company has adopted an income statement format that seeks to highlight significant items within the company results for the year.

Whether an exceptional item is shown on the face of the profit and loss above the operating profit line or not will depend on the method adopted to analyse the costs (i.e. by function or by nature of expense) and the type of exceptional expense. Usually if the expenses are displayed by nature then it is usually unlikely it could be shown above the operating profit line as it would have to be included within the expense that it would fall into. Where there is no overlap it may be appropriate to include it separately above the line e.g. legal provisions etc. Therefore in this instance a boxed presentation approach should be adopted similar to the function of expense layout as discussed below.

When a function of expense layout is adopted the exceptional cost should be included within the function to which they relate in the profit and loss above the operating profit and then a boxed presentation can be included on the face of the profit and loss to show within the box, the operating profit before the exceptional item, then detail the exceptional item and then the operating profit after the exceptional item with a reference to a note where full details of the exceptional item is provided. See illustration of this below

A note should be included in the financial statements detailing the nature and reason for the exceptional item as well as the tax effect of this.

See below example of the way in which exceptional items should be displayed:

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Profit and Loss Account
For the Year Ended 31 December 2019

	Notes	2020	2019
		CU	CU
Turnover	1	XXXXX	XXXXX
Cost of sales		(XXXX)	(XXXX)
Gross profit		XXXX	XXXX
Selling and distribution costs		(XXX)	(XXX)
Administrative expenses		(XXX)	(XXX)
Other operating income		XXX	XXX
Operating profit	3	900,000	XXX
Operating profit before exceptional item		1,200,000	XXX
Impairment of tangible fixed assets		150,000	XXX
Impairment of stock		150,000	XXX
Operating profit		**900,000**	**XXX**
Income from shares in group undertakings	4	XXX	XXX
Income from shares in other financial assets	4	XXX	XXX
Income from shares in participating interests	5	XXX	XXX
Profit on ordinary activities before interest and taxation		XXXX	XXXX
Interest receivable and similar income	6	XXX	XXX
Interest payable and similar income	7	(XXX)	(XXX)
Profit on ordinary activities before taxation		XXXX	XXXX
Tax on profit on ordinary activities	8	(XXX)	(XXX)
Profit for the financial year		1,000,000	500,000
Profit for the financial year attributable to:			
Owners of the parent company		1,000,000	500,000
		1,000,000	500,000

Extract from notes to the financial statements

Exceptional item - impairment charge

	2020	2019
	CU	CU
Impairment of tangible fixed assets	150,000	-
Impairment of stock	150,000	-
	300,000	-

(i) The directors have reviewed the carrying value of tangible fixed assets, net of associated deferred grants, at the year end in accordance with Section 27 "Impairment of Assets". As a result, a net impairment loss of CU150,000 (2019: CUNil) has been charged to the profit and loss account during the year. The impairment arose as a result of the material change in the market in which the company operates, caused by the economic impact of the COVID-19 pandemic.

(ii) The directors have reviewed the carrying amount of its stock at the year end in comparison to its sales price less costs to complete in accordance with section 13 and section 27 of FRS 102. As a result, an impairment loss of CU150,000 (2019: CUNil) has been charged to the profir and loss account during the year. The impairment arose as a result of a period of temporary closure shortly after the year end which caused some stock obsolescence. The period of temporary closure occurred in response to the government recommendations and restrictions to help contain the spread of the COVID-19 pandemic.

Note where exceptional item not shown on the face of the profit and loss

Exceptional item	2020	2019
	CU	CU
Administrative expenses in the profit and loss account includes the following exceptional charges:		
Provision against trade debtors	XX	XX
	XX	XX

Exceptional item

The exceptional item arose as a result of the liquidation of a trade debtor following the economic impact on its business of COVID-19.

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Section 1A of FRS 102 disclosures

Section 1A requires the disclosure of exceptional items either on the income statement or in the notes to the financial statements. This should include information on the nature, amount and effect of individual items of income and expenditure that are exceptional by virtue of size or incidence

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Section 6- Statement of Changes in Equity and Statement of Income and Retained Earnings

Summary of this section

Section 6 deals with the requirements for the presentation of changes in an entity's equity for a period.

What are the key points of this section of FRS 102?

The SOCE presents all changes in equity, including:

- total comprehensive income for the period showing the split between owners of the parent and non-controlling interest;
- the effects of changes in accounting policies and correction of errors; and
- a reconciliation between the carrying amount at the beginning and end of the period of each component of equity for each period presented, separately disclosing changes resulting from:
    - profit or loss;
    - other comprehensive income; and
- transactions with owners in their capacity as owners, e.g. dividends, treasury shares, changes in ownership interest in subsidiaries that do not result in loss of control.

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How does COVID-19 impact on this section?

Entities will need to consider if any transactions are required to be posted through the statement of changes in equity as a result of COVID-19. This may result following the reversal of a revaluation.

Practical implications

Entities will need to consider the provisions of section 27.6 of FRS 102 as set out below.

"An entity shall recognise an impairment loss immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another section of this FRS (for example, in accordance with the revaluation model in Section 17 Property, Plant and Equipment). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other section."

If an asset which is being impaired as a result of COVID-19 was previously revalued and the revaluation is reflected in a separate reserve on the balance sheet then the portion of the impairment that relates to the revaluation reserve should be reversed through the statement of changes in equity first. Any excess impairment above the amount previously revalued should be recognised in the profit and loss account as an impairment.

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Disclosure issues arising from COVID-19

Below is an example disclosure of a statement of changes in equity recognising the effect of an impairment of a previously revalued asset. Assume a total impairment of €100,000. In this case the revaluation reserve of €25,000 is fully written off with the balance being recognised in the profit and loss account.

For the Year Ended 31 December 20xx

	Equity Share Capital	**Revaluation Reserve**	**Retained Earnings**	**Share premium Reserve**	**Total Equity**
	CU	**CU**	**CU**	**CU**	**CU**
Balance at 1 January 20xx	100,000	25,000	115,000	1,000	241,000
Profit for the year			8,000		- 8,000
Balance at 31 December 20xx	**100,000**	**25,000**	**123,000**	**1,000**	**249,000**
Balance at 1 January 20xx	**100,000**	**25,000**	**123,000**	**1,000**	**249,000**
Loss for the year			(93,000)		(93,000)
Impairment of revalued assets		(25,000)			(25,000)
Balance at 31 December 20xx	**100,000**	**0**	**30,000**	**1,000**	**131,000**

The below could be included in the notes to the financial statements

i) Revaluation reserve

The revaluation reserve arises as a result of the company's policy of revaluing property, plant and equipment on a regular basis. During the year an impairment was recognised on the asset of €100,000. In accordance with section 27.6 of FRS 102, the revalued portion of the asset impaired has been treated as a revaluation decrease.

Section 1A of FRS 102 disclosures

Section 1A of FRS 102 encourages statement of changes in equity or a statement of income and retained earnings where there are transactions with equity holders so as to meet the requirement to show the true and fair view. The above transaction does not represent a transaction with equity holder and therefore a statement of changes in equity is not necessarily encouraged unless there are other transactions requiring it. If the revaluation is recognised in Other Comprehensive Income then FRS 102 encourages the presentation of this in accordance with section 5 of FRS 102.

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Section 8- Notes to the financial statements

Summary of this section

Section 8 describes the principles underlying the information that is to be presented in the notes to the financial statements.

What are the key points of this section of FRS 102?

The section requires systematic presentation of information not presented elsewhere in the financial statements, as well as information on the:

- basis of preparation;
- specific accounting policies;
- changes in estimates or changes in accounting policies;
- explanatory notes for items presented in the financial statements;
- judgements made in applying the accounting policies; and
- key sources of estimation

The notes are required to include a specific statement that the financial statements have been prepared in compliance with FRS 102.

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How does COVID-19 impact on this section?

The most significant area affected by COVID-19 is Section 8.6 & 8.7 which requires entities to disclose its judgements, assumptions and key sources of estimation uncertainty. COVID-19 will present entities with more sources of estimation uncertainty while judgement and assumptions will be necessary to address some areas affected.

Practical implications

The areas affected by COVID-19 which require some judgements to be made include;

- The factors on which the going concern basis is based on, including assumptions used in preparing budgets for the upcoming 12 months and applying the going concern basis.
- Judgement regarding going concern, how long restrictions will remain in place, the overall economic impact of the measures.
- The factors used in calculating impairment & factors used when deciding not to impair.
- Considerations used in determining if events occurring since the year end are adjusting or non-adjusting.
- Judgements relating to the recoverability of debtors.
- Judgement used in determining which items are exceptional items as a result of COVID-19.

Entities are required to disclose the judgements made in applying the significant accounting policies.

Key sources of estimation uncertainty arising from COVID-19 may include;

- Estimation uncertainty regarding inventory provisioning.
- Estimation uncertainty regarding the recoverability of debtors.
- Estimation uncertainty arising from impairments to assets arising from COVID-19.

Entities are required to disclose the nature of assets subject to estimation uncertainty, information about the key assumptions used and the carrying amount at the end of the reporting period.

DRAFT V3

Disclosure issues arising from COVID-19

See below example Judgements and estimates disclosure

"*CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES*

The preparation of these financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

Judgements

Judgements and estimates are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The judgements that have had the most significant effect on the amounts recognised in the financial statements are discussed below.

(a) Going concern

Going concern is discussed in detail in note 4. At the time of approving the financial statements, there were restrictions placed on businesses to curtail the movement of people in measures designed to reduce the spread of the COVID-19 virus. This has had an effect on the company's business and the economic environment as a whole. In assessing the reasonableness of the going concern basis, the directors have used judgement in preparing budgets and cashflows for the upcoming 12 months, whilst recognising that there is a degree of judgement and estimation arising from the uncertain nature of the planned response to the COVID-19 pandemic. The judgements used by management in preparing their budgets and cashflows are as follows;

TAILOR ACCORDING TO THE COMPANY

- *That the company will be temporarily closed for a period of x months.*
- *That on recommencement of trading, sales will be x% lower than previous year.*
- *That cost reductions entered into during the period of temporary closure will adequately safeguard the company's cash reserves for when they recommence trading.*
- *ENTER ANY ADDITIONAL POINTS OF RELEVANCE.*

(b) Exceptional items

Exceptional items are those that in the Directors' view are required to be separately disclosed by virtue of their size or incidence to enable a full understanding of the Company's' financial performance. The Company believe that this presentation provides a more informative analysis as it highlights one off items. Such items may include significant restructuring costs (add as required).

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Judgement is required as to what management determine as exceptional items. In the opinion of the directors, the adverse effects caused by the outbreak of the COVID-19 pandemic meet the criteria for exceptional items.

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimates and assumptions

(a) Establishing useful economic lives for depreciation purposes of tangible fixed assets
Long-lived assets, consisting primarily of Tangible fixed assets, comprise a significant portion of the total assets. The annual depreciation charge depends primarily on the estimated useful economic lives of each type of asset and estimates of residual values. The directors regularly review these asset useful economic lives and change them as necessary to reflect current thinking on remaining lives in light of prospective economic utilisation and physical condition of the assets concerned. Changes in asset useful lives can have a significant impact on depreciation and amortisation charges for the period. Detail of the useful economic lives is included in the accounting policies.

(b) Impairment review following COVID-19
The COVID-19 pandemic has caused an adverse effect on the economic environment in which the entity operates. In accordance with section 27.9 of FRS 102, this is an impairment indicator and the company has carried out an impairment review of its assets. The factors taken into consideration in performing an impairment review are based on estimates and are subject to uncertainty. Some of the key factors taken into consideration when considering impairment are set out below.

(c) Inventory provisioning
When calculating inventory provision, management considers the sales price less costs to complete in comparison to the net realisable value. The level of provision required is reviewed on an on-going basis and has been disclosed in note 16. The company has also taken into consideration the effects COVID-19 has had on its inventories, including the effect of periods of closure caused by the outbreak.

(d) Providing for doubtful debts
The company makes an estimate of the recoverable value of trade and other debtors. The company uses estimates based on historical experience in determining the level of debts, which the company believes, will not be collected. These estimates include such factors as the current credit rating of the debtor, the ageing profile of debtors and historical experience. Any significant reduction in the level of customers that default on payments or other significant improvements that resulted in a reduction in the level of bad debt provision would have a positive impact on the operating results. The company has also specifically considered the effect of COVID-19 on the recovery of its debtors. The level of provision required is reviewed on an on-going basis and has been disclosed in note 17

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(NOTE- MAY NOT BE APPROPRIATE/SHOULD BE TAILORED IF COVID-19 IS NOT A POST BALANCE SHEET EVENT).

(e) Valuation of investment properties

The company revalue its investment property to fair value based on advice from independent expert valuers. See note 14 for details of this valuation. The directors note that there may be a degree of estimation uncertainty regarding the fair value at the year end as there is a limited amount of transactions happening in the property market following the emergence of COVID-19." (NOTE- MAY NOT BE APPROPRIATE/SHOULD BE TAILORED IF COVID-19 IS NOT A POST BALANCE SHEET EVENT).

Disclosures if applying section 1A of FRS 102

Judgements and key sources of estimation uncertainty disclosures are not specifically required under FRS 102 but an entity may wish to disclose these if it is useful in order to show a true and fair view.

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FRS102.com- Covid-19 update

Section 11- Basic Financial Instruments

Summary of this section

Section 11 defines basic financial instruments for all companies with the exception of public benefit entities. Basic financial instruments coming within the scope of section 11 are:

- Cash;
- Demand and fixed term deposits;
- Commercial paper and bills;
- Notes, loans receivable and payable;
- Bonds and similar debt instruments
- Accounts payable, accounts receivable;
- Investments in non-convertible preference shares, non-puttable ordinary and preference shares; and
- Commitments to make or receive a loan to another entity that cannot be settled net in cash.
- Loans due to or from group companies, directors loan accounts. It goes on to provide characteristics and examples of financial instruments.

Section 11 applies to all financial instruments meeting the conditions of paragraph 11.8 except for the following:

1. Investments in subsidiaries, associates and joint ventures;
2. Financial instruments that meet the definition of an entity's own equity and the equity component of compound financial instruments issued by the reporting entity that contain both a liability and an equity component;
3. Leases, to which Section 20 Leases applies;
4. Employers' rights and obligations under employee benefit plans, to which Section 28 Employee Benefits applies;
5. Financial instruments, contracts and obligations to which Section 26 Share-based payment applies, and contracts within the scope of paragraph 12.5;
6. Insurance contracts (including reinsurance contracts) that the entity issues and reinsurance contracts that the entity holds (see FRS 103 Insurance Contracts).
7. Financial instruments issued by an entity with a discretionary participation feature (see FRS 103 Insurance Contracts).
8. Reimbursement assets accounted for in accordance with Section 21 Provisions and Contingencies; and
9. Financial guarantee contracts (see Section 21).

A financial instrument is defined in Section 11.3 as a contract that gives rise to a financial asset of one entity and a financial liability of another entity.

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What are the key points of this section of FRS 102?

The definition of basic financial instruments as detailed above;

Two tiered approach model whereby financial assets and liabilities are measured at either amortised cost or FVTPL;

Non market rate/interest free intercompany/directors loans which are not repayable on demand will have to be recognised on an amortised cost basis (i.e. present value of future cash flows etc.). This will result in a transition adjustment which will also result in a charge to the profit and loss or equity for companies where it is a loan due and a credit where it is owed from the other parties depending on the circumstances;

Need to fair value equity investments where they can be measured reliably based on the hierarchy detailed in Section 11.27 and Section 11.14 (d) (i) if not then they are carried at cost less impairment.

Premium or discounts on bonds released over the remaining life of the bond on an effective interest basis to the profit and loss account so as to bring it to par at the end of its life.

Rules in relation to substantial modifications of the terms of an existing financial liability where there is a substantial change then the existing liability is derecognised/ extinguished and a new financial liability is recognised. Where a modification occurs, the difference between the carrying amount and the new required carrying amount is accelerated; and

Financial assets are derecognised only when the rights to the cash flows from the asset have expired or are settled; or the entity has transferred all the risks and rewards of ownership, or where ownership is transferred but control is relinquished (Section 11.33).

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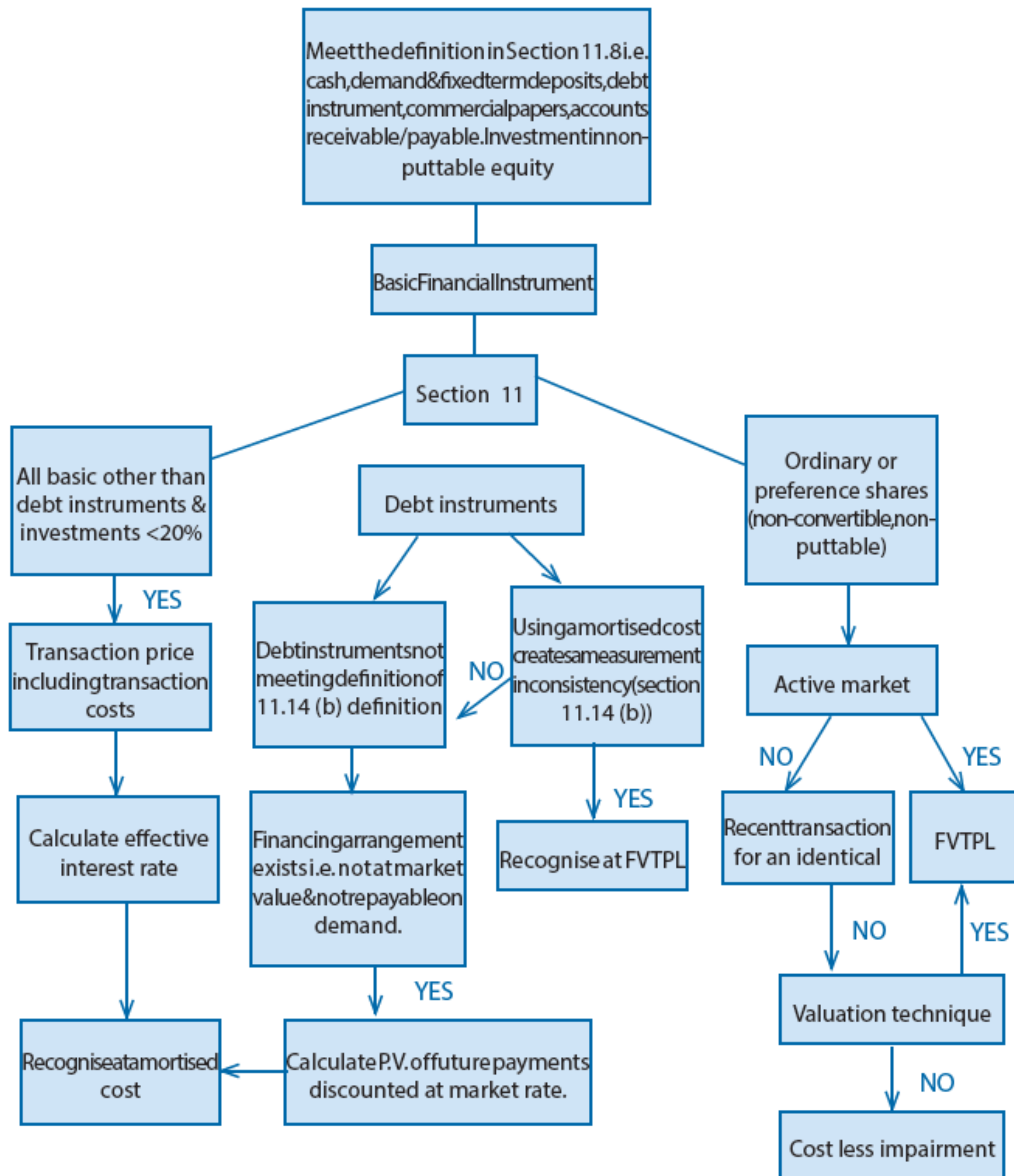
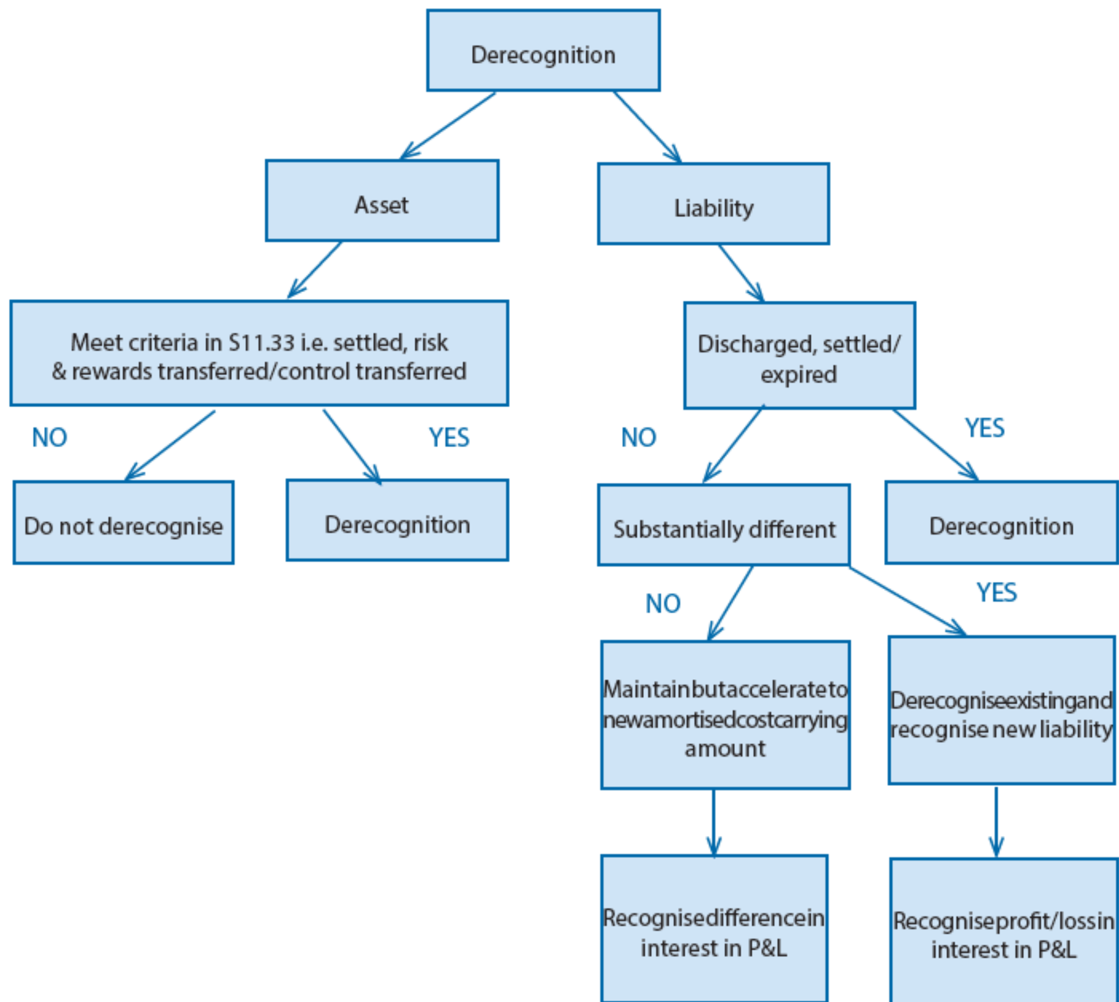
See below choices and a summary of the standard.



Section 11 – Derecognition rules



How does COVID-19 impact on this section?

Entities will need to consider whether impairment of assets is required as a result of COVID-19. FRS 102 requires an entity to assess whether there is objective evidence of impairment of any assets held at cost or amortised cost. If there is an impairment then this is required to be recognised in the profit and loss account immediately.

COVID-19 will not impact on financial liabilities unless the derecognition criterial set out in Section 11.36 of FRS 102 are satisfied (ie. the liability is paid, expires or is discharged). The debtor must be released from the obligation by the creditor. The liquidation or personal insolvency of a creditor is not grounds for impairing a creditor as the legal requirement to pay will rest with the debtor until the balance is formally written off.

Practical implications

Section 11.22 & 11.23 identifies events that may give rise to the possibility of impairment of a financial instrument.

"11.22 Objective evidence that a financial asset or group of assets is impaired includes observable data that come to the attention of the holder of the asset about the following loss events:

(a) significant financial difficulty of the issuer or obligor;

(b) a breach of contract, such as a default or delinquency in interest or principal payments;

(c) the creditor, for economic or legal reasons relating to the debtor's financial difficulty, granting to the debtor a concession that the creditor would not otherwise consider;

(d) it has become probable that the debtor will enter bankruptcy or other financial reorganisation; and

(e) observable data indicating that there has been a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, even though the decrease cannot yet be identified with the individual financial assets in the group, such as adverse national or local economic conditions or adverse changes in industry conditions.

11.23 Other factors may also be evidence of impairment, including significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates."

The economic impact of COVID-19 may result in some of the above impairment indicators being present, including the following;

- Significant financial difficult of debtors which may impact on their recovery. This may be more acute depending on the particular industry that the debtor operates in and if this has been particularly badly affected by COVID-19.
- A breach of payment terms by a debtor which is now in default as a result of COVID-19.
- A write down of debtors balances as a results of the consequences of the debtor getting into financial difficulty as a result of COVID-19.
- A debtor who has gone into liquidation or examinership as a result of COVID-19

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Example- Impairment of debt instruments

Company A issued a loan to a related company for CU200,000 and incurred costs of CU10,000 at the start of year 1 for 5 years. Interest at a fixed rate of 5% was charged (i.e. CU10,000 per annum) which was deemed to be the market rate of the loan at that date. At the end of year 3 the related company's financial performance deteriorated as a result of the economic impact of COVID-19 and shows signs that the full amount will not be recoverable. Company A estimates that it will only receive 75% of the interest (i.e. CU150,000*5%=CU7,500) and 75% of the capital (i.e. CU200,000*75%=CU150,000). Therefore, an impairment loss is required to be booked. The effective rate on taking out the loan was 3.88% which was calculated using a mathematical model in Excel.

Calculated EIR	3.880%				
Period Ending	**Opening Balance**	**Interest for Period at 3.88%**	**Cashflow**	**Impairment loss ***	**Closing Balance**
Year 1	210,000	8,148	(10,000)		208,148
Year 2	208,148	8,076	(10,000)		206,224
Year 3 pre impairment	206,224	8,001	(10,000)		204,226
Year 3 post impairment	204,226			(51,052)	153,174
Year 4	153,174	5,943	(7,500)		151,617
Year 5	151,617	5,883	(7,500)		150,000
Year 5	150,000		(150,000)	-	0

* 7,500 / (1.0388)^1 + 157,500^2 or 75% of the amortised cost at the end of year 3 pre impairment (204,226*75%)=€153,174

Period Ending	Cashflows	Discount rate at 1.0388%	Present value of cashflow
Year 3	-	1	-
Year 4	- 7,500	0.9626	- 7,220
Year 5	- 7,500	0.9267	- 6,950
Year 5	- 150,000	0.9267	- 139,004
			- 153,174

NOTE: if in the above example the entity determined there to be doubt about the recoverability of the full asset an impairment of CU204,226 would be booked.

Example- impairment review of a COVID-19 debtors listing

Company B operates an air conditioning business. At its year end of 31 March 2020, it had the following debtors on its year end debtors listing which it considered as part of its impairment review.

- CU50,000 due from a supermarket chain which is trading profitably during COVID-19- no indicators of impairment
- CU30,000 due from a local factory which closed down temporarily during COVID-19. From discussions with the debtor, only 50% of the balance will be recovered as a result of this.
- CU 25,000 due from a hotel which has significant financial difficulties arising from COVID-19. The hotel may not reopen following the lifting of restrictions and if it does, it will need to restructure/write off its debts.

Following on from the above impairment review, 2 adjustments are required as follows as the circumstances provide objective evidence of impairment;

Dr. P&L-	CU15,000	
Cr. Provision for bad debts		CU15,000

Being impairment of factory debtor to 50% of its original value

Dr. P&L-	CU25,000	
Cr. Provision for bad debt		CU25,000

Being impairment of hotel debtor to CU0

Section 1A of FRS 102 disclosures

The company is required to disclose details of impairments and reversal of impairments on financial assets is required to be disclosed in the notes to the financial statements (as required under full FRS 102).

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FRS102.com- Covid-19 update

Section 13- Inventories

Summary of this section

Inventories are defined as assets:

- held for sale in the ordinary course of business
- in the process of production for such sale; or
- in the form of materials or supplies to be consumed in the production process or rendering of services.

Section 13 applies to all inventories with the exception of:

- work in progress arising under construction contracts including directly related service contracts (Section 23);
- financial instruments (dealt with under Section 11 and section 12); and
- biological assets related to agriculture and agricultural produce at the point of harvest (Section 34).

Section 13 deals with the recognition, measurement, costing, impairment of inventories and allocation of production overheads to inventory.

What are the key points of this section of FRS 102?

- Inventories are measured at the lower of cost and estimated selling price less cost to complete and sell and includes inventories held for distribution;
- The standard contains detailed guidance on the techniques for measuring cost;
- Cost of inventories include all cost of purchases, cost of conversion and other costs incurred in bringing it to its present condition;
- Non-exchange transactions to be valued at fair value;
- Fixed production overheads to be allocated to inventory based on normal capacity;
- Cost of conversion includes directly attributable variable and fixed production overheads;
- Selling costs, abnormal losses, storage costs and administration overheads not contributing to inventories are expensed as incurred;
- FIFO/weighted average costs can be used. Standard costs, retail method or latest purchase price can also be used; and
- Specific section to deal with impairments. Impairment losses recognised or reversed are required to be disclosed.

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How does COVID-19 impact on this section?

The main area likely to be affected by COVID-19 is the area of inventory impairment, specifically section 13.19 which states;

"Paragraphs 27.2 to 27.4 require an entity to assess at the end of each reporting period whether any inventories are impaired, ie the carrying amount is not fully recoverable (eg because of damage, obsolescence or declining selling prices). If an item (or group of items) of inventory is impaired, those paragraphs require the entity to measure the inventory at its selling price less costs to complete and sell, and to recognise an impairment loss. Those paragraphs also require a reversal of a prior impairment in some circumstances."

For some companies, COVID-19 will present a greater likelihood that inventory will be impaired or obsolete at the year end as a result of the sudden closures of businesses and associated economic impact.

Practical implications

Entities will need to place greater focus on whether the post year end activity indicates that the selling price less costs to complete is lower than the carrying value. Such circumstances would indicate that an impairment is present.

Entities will also need to consider the timing of the year end and the events giving rise to the inventory impairment in accordance with section 32- Events after the End of the Reporting Period to determine if the impairment is an adjusting or non-adjusting post balance sheet event.

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Disclosure issues arising from COVID-19

Extract from notes to the financial statements- assuming the impairment is an adjusting event

1. **Stocks**

	2020	**2019**
Raw material	33,724	42,108
Precast concrete products	71,769	84,968
Work in progress	674,216	345,090
	779,709	**472,166**

Stocks are stated after provisions for impairment of CU32,000 (2019: CU28,000).

Example

Company A has inventory of wine and chocolate of CU100,000 at the year-end of March 2020. Following the developments of COVID-19, the company's market had diminished significantly. The company has identified that it can sell the wine and chocolates as Easter hampers, to avoid them going out of date. The sales price of the hampers will be CU80,000 but there is an additional cost of CU20,000 associated with packaging them. The directors are satisfied that this is an adjusting event.

In this example, the carrying value is CU100,000. The sales price (CU80,000) less costs to complete (CU20,000) is CU60,000. A stock impairment should be recognised of CU40,000 and incurred in the year ended March 2020 accounts.

<u>FRS 102 & Section 1A of FRS 102 disclosures</u>

There are no specific requirements under section 1A of FRS 102 to disclose inventory impairment.

Under full FRS 102, impairment losses recognised or reversed in the P&L are required to be disclosed.

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Section 14- Investment in Associates

Summary of this section

Section 14 defines what an associate is, how it should be recognised, measured, derecognised and disclosed.

An associate is an entity over which the investor has significant influence and which is not a subsidiary or a joint venture (Section 14.2).

Significant influence is the power to participate in (but not to control or jointly control) the financial and operating policy decisions of the associate. A 20 per cent share (directly or indirectly) of the voting power is the presumed threshold for the existence of significant influence (Section 14.4).

What are the key points of this section of FRS 102?

- In the individual entity financial statements; associates are measured under either the cost model, fair value model through the OCI or at fair value through the profit and loss account (assuming fair value can be reliably measured);
- In the consolidated parent financial statements, the parent must use the equity accounting method (with the exception of investments in associates as part of an investment portfolio in which case they are measured at fair value through the profit and loss account). Goodwill is consumed within the initial investment and is not disclosed separately and amortised over its useful life;
- When profits or losses arise on transactions between an investor and its equity accounted associate, the investor eliminates unrealised profits and losses to the extent of its interest in the associate;
- Under the cost model the share of profits/losses of the associate is posted against the investment including any distributions received. Where losses occur the investment cannot be reduced below zero; and
- Share of associate (i.e. results after interest and tax) to be shown as one line item in the consolidated financial statements. Share of associates income/expenses recognised in OCI in the associates accounts should be shown in OCI in the consolidated financial statements.

How does COVID-19 impact on this section?

The main effect of COVID-19 on this section will be whether the investments in associates will be impaired.

Practical implications

The implications of entity financial statements will depend on whether the entity values its investments in associates at cost or fair value.

Cost model

If applying the cost model then investments are measured at cost less accumulated impairment losses. Investments held at low nominal amounts will likely not be affected due to immateriality.

In order to determine if the asset should be impaired, the underlying value of the net assets should be reviewed to see if they are lower than the carrying value. If they are not then the value in use model may be used to determine whether an impairment is required.

Any impairment cost should be recognised in the P&L.

Impairments in the period between the year end and sign off should be considered in the context of section 32- post balance sheet events to determine if the event is adjusting or non-adjusting.

Fair Value model

If applying the fair value model then entities will need to consider the fair value movement and if this has been affected by COVID-19. Where there are indications after the year end of a significant movement in fair value between the year end and date of approval then this should be considered in the context of section 32- post balance sheet events to determine if the event is adjusting or non-adjusting.

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Example

Adoption of fair value through profit and loss

Company A in its individual financial statements has adopted a policy of fair valuing investments in associates through the profit and loss. The associate was acquired at the start of year 1 and original cost was CU100,000. The fair value of the investment at 31 March 2019 and 31 March 2020 was CU150,000 and CU125,000 respectively. Assume a deferred tax sales rate of 20%. Assume that the investment is held for future disposal as opposed to dividends – on this basis the sales tax rate should be used (if the investment was held for future dividends then the dividend tax rate should be used to measure deferred tax). Note if there was a tax exemption then no deferred tax would be required however we have assumed that there is not for the purposes of this calculation. The adjustments required to reflect the fair value policy and the related deferred tax are:

Journals required in the 31 March 2020 year

	CU	CU
Dr Fair Value on Movement in Associate in P&L	25,000	
Cr Investments in Associate		25,000

Being journal to reflect fall in value at 31 March 2020

	CU	CU
Dr Deferred Tax Liability	5,000	
Cr Deferred Tax in P&L		5,000
((CU25,000)*20%)		

Being journal to reflect deferred tax on the downward valuation.

Impairment if adopting the cost model

Company A holds a 40% investment in Company B (cost CU500,000). At the year end Company B's performance was far less than expected and a significant loss was incurred as a result of a period of closure arising from the outbreak of COVID-19. As a result Company B's net assets was CU800,000. The significant loss made by Company B is an impairment indicator. As it is likely that it would be difficult to determine the fair value less cost to sell in an active market, the value in use model should be utilised to determine whether an impairment is required. In this particular case, it may be appropriate to impair the investment down to the net asset amount of CU320,000 (CU800,000 *40%) assuming that the value in use calculations do not support the non-impairment. Given the loss making position of company B, it is likely that the cash generating unit will not generate a favourable value in use calculation and an impairment to CU320,000 will be required.

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Section 1A of FRS 102 disclosures

Under Section 1A of FRS 102, the movement in fair value of investments in associates or impairment in associates to be disclosed in the notes to the financial statements.

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Section 15- Investments in Joint Ventures

Summary of this section

Section 15 deals with the recognition, measurement and disclosure for joint ventures.

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint ventures can take the form of jointly controlled operations, jointly controlled assets, or jointly controlled entities.

What are the key points of this section of FRS 102?

- A jointly controlled entity is initially recognised at the transaction price and subsequently adjusted for the investors share of the profit or loss;
- For a venturer who is not a parent or in the parents separate financial statements, the joint venture is measured under either; the cost model, fair value model through the OCI (where a decrease occurs below that which was recognised in OCI then the remainder is posted to the profit and loss) or at fair value through the profit and loss account. If the cost model is chosen, the dividends will be shown as income;
- In the consolidated financial statements under the equity model for jointly controlled entities the share of profits/losses of the joint venture is posted against the investment including any distributions received. Where losses occur the investment cannot be reduced below zero. Goodwill is consumed within the initial investment and is not disclosed separately and amortised over its useful life;
- Where consolidated financial statement are not prepared or the entity is not a parent then the equity method is not used, instead, disclosures are required to summarise the results about the investments along with the effect if they had of been accounted for under the equity method;
- A joint arrangement and jointly controlled operation accounts for its own share of the assets, liabilities and cash flows in the consolidated financial statements; and
- Where joint control is lost, the investment is then recognised as an associate in accordance with Section 14 – Investments in Associates or Section 11– Basic financial Instruments or Section 12 – Other Financial Instruments Issues depending on the percentage ownership held after disposal.

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How does COVID-19 impact on this section?

COVID-19 may have an impact on how joint ventures applying the cost model are measured if they show indicators of impairment. Further, if joint ventures are measured using fair value then the fair value movement may have a negative effect on the asset held in a company's financial statements.

Practical implications

The implications of entity financial statements will depend on whether the entity values its joint ventures at cost or fair value.

Cost model

If applying the cost model then ventures are measured at cost less accumulated impairment losses.

In order to determine if the joint venture should be impaired, the underlying value of the net assets should be reviewed to see if they are lower than the carrying value. If they are not then the value in use model may be used to determine whether an impairment is required.

Any impairment cost should be recognised in the P&L.

Impairments in the period between the year end and sign off should be considered in the context of section 32- post balance sheet events to determine if the event is adjusting or non-adjusting.

Fair Value model

If applying the fair value model then entities will need to consider the fair value movement and if this has been affected by COVID-19. Where there are indications after the year end of a significant movement in fair value between the year end and date of approval then this is likely a non-adjusting event but should be considered in the context of section 32- post balance sheet events to determine the treatment.

Equity method

A venturer that is a parent is required, in its consolidated financial statements, account for all of its investments in jointly controlled entities using the equity method. Under this method, an equity investment is initially recognised at the transaction price (including transaction costs) and is subsequently adjusted to reflect the investor's share of the profit or loss, other comprehensive income and equity of the associate. Losses incurred as a result of COVID-19 may result in the value of the joint venture being written down to Nil (where the loss incurred exceeds the initial investment). An example of this is set out below.

Example- loss in excess of investment

Company A has a 35% joint venture. The cost was CU100,000. At the end of year 1 the joint venture made a loss of CU150,000. In this instance the CU100,000 would be credited against the investment but the CU50,000 would not be recognised as there is no obligation on Company A with regard to these losses.

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If in year 2 a profit of CU40,000 was recognised by the joint venture, this CU40,000 would not be recognised as a loss of CU50,000 has went unrecognised previously. Only when another CU10,000 is profit are made can the entity recognise the profit in the parent company consolidated accounts.

If there was a loan which met the definition of a long term investment then CU50,000 of the loss above would be taken off that loan.

Disclosures

If an impairment is made against joint ventures in accordance with section 27 of FRS 102 then the entity is required to disclose

- the amount of impairment losses recognised in profit or loss during the period and the line item(s) in the statement of comprehensive income (or in the income statement, if presented) in which those impairment losses are included; and
- (b) the amount of reversals of impairment losses recognised in profit or loss during the period and the line item(s) in the statement of comprehensive income (or in the income statement, if presented) in which those impairment losses are reversed

Section 1A of FRS 102 disclosures

Under Section 1A of FRS 102, the movement in fair value of investments in joint ventures or impairment of joint ventures is required to be disclosed in the notes to the financial statements.

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FRS102.com- Covid-19 update

Section 16- Investment Property

Summary of this section

Section 16 deals with the accounting for investment property.

What are the key points of this section of FRS 102?

Investment property is defined in Section 16.2 as property (land or buildings, or part of a building or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, rather than for:

1. Use in production or supply of goods or service or for administrative purposes; or
2. Sale in ordinary course of business

- Investment property is measured at fair value
- Movement in fair value to be recognised in the profit and loss account in the period that it occurred;
- Fair value not necessarily required to be performed by an external valuation specialist however they need to be suitably qualified and disclosure is required if not performed by a professional valuer;
- Deferred tax to be accounted for at the CGT rate;
- Reconciliation to be provided giving full details of transfers to and from investment property and any fair value adjustments;
- Contractual obligations and restrictions of disposal to be disclosed;

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How does COVID-19 impact on this section?

The main effect of COVID-19 on this section will be the impact of fair value movements caused by the economic effects of the government recommendations and restrictions worldwide.

Practical implications

Investment properties are subsequently measured in accordance with section 16.7 of FRS 102

"An investment property shall be measured at fair value at each reporting date with changes in fair value recognised in profit or loss. If a property interest held under a lease is classified as an investment property, the item accounted for at fair value is that interest and not the underlying property. The Appendix to Section 2 provides guidance on determining fair value."

It is likely that COVID-19 will have a negative impact on the fair value of investment property which will need to be recognised through the profit and loss account. This may also have deferred tax implications and deferred tax liabilities will reduce as the fair value of investment properties reduce.

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Examples

Example: Investment Property Fair value movements and deferred tax impact

Company A purchased a property on 31 March 2010 for CU120,000 which met the definition of investment property. At the 31 March 2019 the fair value was CU200,000 and as at 31 March 2020, the fair value was CU150,000. The sales deferred tax rate is 20% (Capital Gains tax rate). Assume indexation is not applicable.

Based on the above, the asset was held at fair value of CU200,000 on 31 March 2019 and a deferred tax liability of CU16,000 was recognised.

The journals required for year ended 31 March 2020 is:

	CU	CU
Cr Investment Property		50,000
Dr Fair Value Movement on Investment Property in P&L (other operating income)	50,000	

Being journal to reflect the movement in fair value during the year.

The journals required for deferred tax at 31 March 2020:

	CU	CU
Cr Deferred Tax in P&L ((CU200,000-150,000)*20%)		10,000
Dr Deferred Tax in Balance Sheet	10,000	

Being journal to reflect the movement in deferred tax during the year.

<u>Section 1A of FRS 102 disclosures</u>

Under Section 1A of FRS 102, disclosure is required of fair value movement in investment properties. Similarly there is a requirement to disclose details of investment property where included at fair value. Disclose fair value investment posted to the Profit & Loss including additions, disposals, transfers to and from PPE, transfers to and from inventories, valuation basis and assumptions applied.

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Section 17- Property, plant and equipment

Summary of this section

Section 17 deals with the initial recognition, subsequent measurement, depreciation and impairment for property, plant and equipment (PPE) held for use in the production, or supply of goods and services, for rental to others or administrative purposes. All items of PPE are expected to be used during more than one period.

What are the key points of this section of FRS 102?

- PPE are tangible assets that:
  - Are held for use in the production or supply of good or services, for rental to others or for administrative purposes; and
  - Are expected to be used during more than one
- Policy choice to recognise PPE at cost or revaluation (Section 2) using the fair value model;
- Where a policy of revaluation is taken, then a revaluation must be performed on regular intervals so that the carrying amount stated does not materially differ from the fair value at the reporting date;
- Movement as a result of a revaluation is posted to other comprehensive income and to the revaluation reserve together with the deferred tax movement. Where the revaluation decrease is in excess of previous revaluation gains posted, the excess is posted to the profit and loss account;
- A reversal of a prior period downward revaluation due to an uplift in subsequent years which was posted to the profit and loss cannot be reversed above what the depreciation would have been charged if no devaluation had occurred;
- Deferred tax to be recognised on the uplift where a revaluation policy is adopted;
- Depreciation method and residual value utilised to be reviewed only when there are indicators of change;
- Depreciation methods that can be used are; the straight line, the sum of the digits, the reducing balancing method or a method based on The one which reflects the usage of the economic benefits should be used;
- Spare parts which are used in more than one period or for PPE should be capitalised as fixed assets;
- Where a requirement to dismantle, remove and restore a site to its original condition the present value cost should be included in PPE and depreciated up to the date on which the liability crystallise;
- Qualifying borrowing costs can be capitalised within property, plant and equipment

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How does COVID-19 impact on this section?

The main effect of COVID-19 on this section will be the potential impairment of assets. Impairments will need to be considered in the context of section 32 of FRS 102- Events after the end of the reporting period as some PPE impairments may be adjusting events depending on the timing of the year end.

Section 17.24 addresses PPE impairment and states;

"At each reporting date, an entity shall apply Section 27 Impairment of Assets to determine whether an item or group of items of property, plant and equipment is impaired and, if so, how to recognise and measure the impairment loss. That section explains when and how an entity reviews the carrying amount of its assets, how it determines the recoverable amount of an asset, and when it recognises or reverses an impairment loss."

Assets held under the revaluation model will be impacted by fair value movements caused by the economic effects of the government recommendations and restrictions worldwide

Practical implications

Cost model

As the emergence of COVID-19 will mean the presence of an impairment indicator, companies will need to calculate the "recoverable amount" of the assets. This is done in accordance with section 27 of FRS 102.

Recoverable amount is the higher of its fair value less costs to sell and its value in use. An entity must consider what the fair value is of the property. If this is lower than it may not be necessary to impair the asset provided the value in use exceeds the carrying value.

In the event that the carrying value exceeds the recoverable amount then an impairment charge is required to be recognised in the P&L (or through the SOCE to the extent that the impairment reverses a previous revaluation).

The impairment of PPE in the period after the year end but before approval should be reviewed to determine if there are indications of an adjusting post balance sheet event.

Revaluation model

Entities adopting the revaluation model are required to perform a valuation where the fair value of PPE at the balance sheet date differs materially from the carrying amount of the asset. Judgement will be required in this area, but whether a material change has occurred, would be deemed to be one which would influence the decisions of the users of the financial statements. In determining this, the company would generally consult their valuers and consider factors such as changes in the general market conditions, the condition of the asset, changes to the asset and its location. In order to provide sufficient detail to the entity's auditors and in order to ensure values have not moved sufficiently, it is likely that management would be in contact with valuers who would provide information on the general market on an annual basis.

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It is probable that COVID-19 will have an impact on property valuations but the extent of this is unclear in the initial stages. The treatment of downward revaluations will depend on how valuations have historically been treated in the entity. See below extract from section 17.15F of FRS 102;

"The decrease of an asset's carrying amount as a result of a revaluation shall be recognised in other comprehensive income to the extent of any previously recognised revaluation increase accumulated in equity, in respect of that asset. If a revaluation decrease exceeds the accumulated revaluation gains accumulated in equity in respect of that asset, the excess shall be recognised in profit or loss."

Any downward valuation is firstly recognised in OCI to the extent that it reverses a previously recognised upward revaluation. Any excess is expensed to the P&L.

Example: A decline in the asset's market value (Section 27.9 (a) of FRS 102)

Company A purchased a specialised piece of property, plant of equipment for CU300,000 during the year. At the end of year 1, the supplier dropped its price for that type of equipment to CU200,000. In this case, this would indicate a possible impairment. As a result an impairment may be required. This drop in price does not automatically mean an impairment loss as it is likely the value in use of the asset when taken together with a CGU for the Company will be higher so therefore no impairment may be required.

If we assume that the piece of property is now abandoned and no longer in use within the CGU, then the fair value of that asset itself would be used to determine the amount of the impairment loss. The value in use for the CGU cannot be used as the asset is no longer providing any economic benefit, therefore its recoverable amount is the fair value of assets in the balance sheet relating to the property less cost to sell.

Similarly assume Company A has an office block which it uses. Due to a significant reduction in property prices, there are indications that this asset is stated above its carrying amount. In this case, this would be an indicator of an impairment, however, this does not necessarily mean a write down is required as it is part of a CGU (that being the overall factory etc.).

Prior to COVID-19, the CGU was showing a positive value in use with significant headroom between the carrying value of the assets and the value in use. The company has been hit hard by COVID-19 and part of the company's business has been lost. When it performs its value in use calculations, the results show that the current carrying value exceeds the value in use. As a result, an impairment is required.

Example: Accounting for revaluations and subsequent movements – depreciable assets

Company A has adopted a policy of revaluation on its PPE. The company purchased an asset for CU500,000 at the start of year 1 and determined the useful life to be 20 years. By the end of year one, there were indications of a change in market conditions and a valuation exercise was performed which showed the market value at CU525,000. At the end of year 4, a further valuation was performed as the difference in fair value and the carrying value was material, at this time the value was reduced to CU300,000. In year 8, a further valuation was performed which indicated a fair value of CU600,000.

Assume the deferred tax rate is 10% (this is not the sales rate as the asset is depreciated) and the asset does not qualify for capital allowances. Assume the depreciation on the revalued amount is

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transferred from the revaluation reserve to profit and loss reserves on a year by year basis as the depreciation is charged.

Company A would account for the changes in value in the following way:

At end of year 1:

The carrying value of the asset is CU475,000 (i.e. CU500,000 less depreciation for one year of CU25,000 (CU500,000/20yrs))

	CU	CU
Dr Fixed Assets	50,000	
(CU525,000-CU475,000)		
Cr OCI/Revaluation Reserve		50,000

From then on the carrying amount of CU525,000 will be depreciated over the remaining life of 19 years (CU27,632 per annum).

Deferred tax

	CU	CU
Dr OCI/Revaluation Reserve	5,000	
Cr Deferred Tax in Balance Sheet		5,000
(CU50,000 *10%)		

Therefore, the net amount posted to the revaluation reserve is CU45,000 (CU50,000-CU5,000). For year 2 to year 4, the deferred tax will be reduced and posted to the profit and loss account in line with the additional depreciation charged on the uplift in value of CU2,632 (i.e. CU27,632 less depreciation under cost basis of CU25,000).

At end of year 4:

The carrying value of the asset is CU442,104 (i.e. CU525,000 less depreciation of CU27,632 for three years totalling CU82,896)

	CU	CU
Dr Profit and Loss	100,000	
Dr Revaluation Reserve	42,104	
(reversal of amount recognised in yr 1 of CU50,000 less depreciation reclassified from P&L of CU 2,632 for 3 years.)		
Cr Fixed Assets		142,104

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From then on the carrying amount of CU300,000 will be depreciated over the remaining life of 16 years (CU18,750 per annum).

Deferred tax

	CU	CU
Dr Deferred Tax in Balance Sheet	4,211	
(CU5,000 less (CU2,632 * 10%) * 3 years) = 789		
Cr OCI/Revaluation Reserve		4,211

Note deferred tax asset on the write down is not recognised on the basis that it is not reasonable that future economic benefits will be derived from the capital losses.

At end of year 8:

The carrying value of the asset is CU225,000 (i.e. CU300,000 less depreciation of CU18,750 for 4 years totalling CU75,000)

	CU	CU
Dr Fixed Assets	375,000	
(CU600,000 mkt value-CU225,000 NBV)		
Cr Profit and Loss		75,000
(CU100,000 previously posted-CU25,000 See Note 1 below)		
Cr Revaluation Reserve		300,000
(CU375,000-CU75,000)		

Deferred tax

	CU	CU
Dr OCI/Revaluation Reserve	10,000	
Cr Deferred Tax in Balance sheet		10,000
((CU600,000-CU500,000 original cost) * 10%)		

From then on the carrying amount of CU600,000 will be depreciated over the remaining life of 12 years.

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Note 1: The amount that can be credited to the P&L is reduced by the additional depreciation that would have been charged had the asset not been revalued downward in the past i.e. original cost prior to downward revaluation of CU500,000 / useful life of 20 years= CU25,000 * 4 years = CU100,000. This compares to depreciation charged while the asset was being depreciated on the reduced amount of CU75,000 (year 5 to year 8 – CU300,000/UEL of 16 years* 4 years) = CU25,000

Section 1A of FRS 102 disclosures

Section 1A of FRS 102 requires disclosure of the following in relation to Property, Plant and Equipment- balances brought forward, additions, depreciation charge, impairments, revaluations, disposals, add back of depreciation and closing balances to be disclosed for each class of Fixed asset. No need for prior year comparative

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Section 18- Intangible Assets other than Goodwill

Summary of this section

Section 18 deals the recognition, measurement, amortisation and disclosure for intangible assets other than goodwill. Section 18.2 defines an intangible asset as an identifiable non- monetary asset without physical substance. To count as identifiable, it must be separable, and must arise from contractual or other legal rights.

What are the key points of this section of FRS 102?

An intangible asset is an identifiable non-monetary asset without physical substance. To count as identifiable, it must be separable, or must arise from contractual or other legal rights.

Section 18.4 states that an intangible asset is only recognised if it is probable that its expected future economic benefits will flow to the owner, and if its cost or value can be measured reliably.

For internally generated intangible, costs incurred in the research phase must be expensed.

For internally generated intangibles there is a choice with regard to the cost incurred in the development stage; either to expense or capitalise assuming the capitalisation criteria in Section 18.18H are satisfied.

An intangible should be measured initially at cost and subsequently at either cost less accumulated amortisation and impairment or at fair value at the date of revaluation less any subsequent accumulated amortisation or impairments provided the fair value can be determined by reference to an active market. With respect to acquisition of intangibles through a business combination they should initially be measured at fair value.

Where the revaluation model is taken, revaluations need to be carried out with sufficient regularity to ensure the carrying amount at each reporting period equates to the fair value and needs to be done for similar assets of the same class.

Movements as a result adopting the revaluation model should be posted to the OCI and any decrease in value below cost is posted to the profit and loss.

Internally generated brands, logos, customer lists cannot be capitalised (Section 18.8C). Impairment review only to be carried out if indicators of impairment exist as detailed in Section 27. More intangibles to be recognised on business combinations

Amortisation presumed to be a max of 10 years if an estimate cannot be reliably measured.

A need to review useful lives of intangibles and goodwill to ensure they are still appropriate and no indicators of change has occurred at the end of each reporting period.

An intangible cannot have an indefinite life.

Under Section 18, the residual value is assumed to be zero unless: there is a commitment by a third party to purchase the asset at the end of its useful life, or there is an active market for the asset and

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residual value can be determined by reference to that market and it is probable that such a market will exist at the end of asset's useful life**.**

How does COVID-19 impact on this section?

The main effect of COVID-19 on this section will be the potential impairment of intangible assets caused by the economic impact of COVID-19. Also, there is the potential for a revision to residual values where this has been used as part of the amortisation calculation.

Practical implications

After initial recognition, an entity is required to measure intangible assets using the cost model or the revaluation model. The revaluation model does not generally feature for intangible assets as it is often difficult to reliably measure an intangible asset. If using the cost model, the asset is carried at cost less amortisation less impairment losses. In assessing for impairment, section 18 refers to section 27- impairment of assets in order to determine if an asset is impaired.

This involves the entity assessing the recoverable amount of the of the intangible asset (higher of fair value less costs to sell and value in use) to determine if this is higher than the carrying value. Where the carrying value exceeds the recoverable amount then an impairment loss must be charged to the P&L.

Entities that have previously used value in use to determine the recoverable amount may need to recognise an impairment charge as COVID-19 is likely to impact negatively on cashflow projections.

Another potential area impacted by COVID-19 is the impact on residual values where this has been recognised in accordance with section 18.23. Residual values must be €nill unless

a. there is a commitment by a third party to purchase the asset at the end of its useful life or

b. there is an active market for the asset and the residual value can be determined by reference to that market and it is probable that such a market will exist at the end of the asset's useful life.

Given the significant change in the economic environment following COVID-19, this may have a negative impact on residual values which may affect amortisation calculations.

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Example- Revising residual value of an asset

In year 1 an asset was purchased for CU100,000. It had an estimated life of 6 years. It's estimated residual value was estimated to be CU10,000 and the residual value could be used as there was an active market. This residual value was assessed for indicators of change at each year end and there were no issues up to the end of year 4. At the start of year 5, following COVID-19, the market for this type of asset the residual value decreased to CU2,000 (being the present value of future residual amount). At the end of year 4, the asset had a carrying amount of as follows:

Cost	CU100,000
Residual Value	(CU10,000)
Depreciable Amount	CU90,000
Depreciation	
(CU90,000 / 6 yrs * 4 yrs)	(CU60,000)
Carrying Amount	CU30,000

At the start of year 5, the residual amount is CU2,000, therefore the depreciable amount is CU98,000. Deducting amortisation charged to date of CU60,000 leaves CU38,000 to be depreciated over the remaining useful life of 2 years. Therefore, amortisation of CU19,000 is charged in year 5 and year 6. Disclosure of the change in estimate would be required in the financial statements.

If we take this example and assume the residual value increases to CU50,000, then the carrying amount in year 5 of CU30,000 is in excess of the residual amount. Therefore, no amortisation is required in year 5 and 6 and any over amortisation is not reversed. Disclosure of the change in estimate would be required in the financial statements detailing the effect on current and future periods.

Example- impairment to intangible assets following COVID-19

Company A owns a patent which is held at cost of CU100,000. In previous years impairment reviews, the carrying amount was below the recoverable amount (based on a value in use of CU150,000).

COVID-19 has had an impact on the future cashflow projections on this company and when these are taken into consideration then the value in use is CU75,000. A fair value cannot be determined due to the lack of an active market.

As the carrying value exceeds the recoverable amount an impairment loss must be charged to the P&L (being the difference between the recoverable amount and the carrying amount- CU25,000).

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Section 1A of FRS 102 disclosures

If applying section 1A of FRS 102, the following disclosures are required- balances brought forward, additions, amortisation charge, disposals, impairments, revaluations and closing balances. No need for prior year comparatives showing the movement

There is also a requirement to show the impairment/reversal of impairment charge.

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Section 19- Business Combinations and goodwill

Summary of this section

Section 19 deals with business combinations.

A business combination is the bringing together of separate entities or businesses into one reporting entity (Section 19.3). All business combinations (other than those that meet the definition of a group reconstruction, and public benefit entities) are accounted using the purchase method of accounting.

What are the key points of this section of FRS 102?

Goodwill is the difference between the acquirer's interest in the net amount of identifiable assets acquired and the cost of the business combination. After initial recognition it is carried at cost less accumulated amortisation and impairments;

Acquired assets/liabilities etc. are initially measured at fair value except deferred tax and employee benefits;

The purchase method of accounting is to be used on all acquisitions with the exception of certain group reconstructions and public benefit entities;

Contingent consideration is recognised in the purchase cost if probable that it can be reliably measured with subsequent adjustments going to goodwill (Section 19.12). Contingent consideration may need to be present valued depending on the time period;

Adjustments to the estimates of fair values can be made within 12 months of the acquisition however if the adjustment straddles the following year they must be adjusted for retrospectively;

Measure non-controlling interest at share of net assets;

Cost of business combination is the total of fair value of assets given, liabilities assumed and equity instruments issued at each stage of the transaction plus directly attributable costs;

Test for impairment in line with Section 27 only if impairment indicators exist;

Negative goodwill is firstly allocated against the fair value of the non-monetary assets in period in which non-monetary assets recovered and the balance against the period in which the entity is likely to benefit;

Less onerous disclosures under Section 19 than was under FRS 7 (old GAAP);

Recognise deferred tax on difference between fair values on acquisition and tax base and set this against goodwill;

Likely to be more amortisation in the profit and loss account due to more intangibles recognised as criteria not as strict as well as a rebuttable assumption where a useful life cannot be reliably measured of 10 years;

Direct transaction costs capitalised; and

Merger accounting permitted for group reconstructions where the ultimate equity holders remain the same. Under this method fair valuing is not required.

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How does COVID-19 impact on this section?

The main effect of COVID-19 on this section will be the potential impairment of goodwill arising from business combinations. Section 19 requires that once goodwill is initially recognised the acquirer shall measure goodwill acquired in a business combination at cost less accumulated amortisation losses and accumulated impairment.

The effects of COVID-19 could also have an impact on the expected useful life of an intangible asset.

Practical implications

After initial recognition, Section 19 requires that once goodwill is initially recognised the acquirer shall measure goodwill acquired in a business combination at cost less accumulated amortisation losses any accumulated impairment. An impairment is required to be considered in accordance with section 27- Impairment of Assets for recognising and measuring the impairment of goodwill. If there are indicators of impairment then an entity is required to carry out an impairment review.

Unless the acquired entity is not affected by COVID-19, it is likely that an impairment indicator will be present which will require an impairment review to be carried out.

This will involve, comparing the carrying amount of the goodwill to its recoverable amount (higher of fair value less costs to sell and value in use). If this identifies an impairment then this should be recognised in the profit and loss account.

When considering the impairment of goodwill, we must remain aware of the specific requirements in sections 27.21 and 27.24 to 27.28 of FRS 102 relating to goodwill. This provides for the following additional requirements that apply when impairing goodwill;

- Impairment losses should first be recognised against goodwill and then against other assets of the CGU on a pro-rata basis if measuring value in use.
- On acquisition, the goodwill arising from an acquisition shall be allocated to each of the acquired cash generating units.
- Where assets are partially held by a non-controlling interest then the carrying amount of that asset should be notionally adjusted before being compared to its recoverable amount.
- If goodwill cannot be allocated to an individual CGU then goodwill shall be tested by determining the recoverable amount of either;
  - The acquired entity in its entirety if goodwill relates to an entity that has not been integrated.
  - The entire group of entities, excluding any entities that have not been integrated if the goodwill relates to an entity that has been integrated.
  - (Integrated means the acquired business has been restructured or dissolved into the reporting entity or other subsidiaries).

COVID-19 may also cause an entity to revise it's useful life estimate of goodwill. This may arise due to a number of factors such as economic uncertainty, changes in consumer behaviours, changes in intended asset use following COVID-19 etc.

Section 19.23 of FRS 102 makes it clear that goodwill is considered to have a finite life and specifies that where a useful life cannot be determined then a useful life should not exceed 10 years. This cannot be chosen as a default, instead a good effort has to be made to determine a useful life.

Where a change in useful life of goodwill is determined due to a change in estimate this should be adjusted for prospectively. See example below.

Example: Revising the useful life of goodwill

In year 1, goodwill was recognised on acquisition CU100,000. It had an estimated life of 10 years. Its estimated residual value was estimated to be nil. This useful life was assessed for indicators of change at each year end and there were no issues up to the end of year 4. At the start of year 5, due to a detailed assessment of the remaining life's of goodwill, the useful life was reassessed at 4 years instead of 6 years at that time, the asset had a carrying amount as follows:

Cost	CU100,000
Residual Value	(-)
Depreciable Amount	CU100,000
Depreciation (100,000 / 10 yrs * 4 yrs)	(CU40,000)
Carrying Amount	CU60,000

In year 5, the useful life was assessed as 4 years instead of 6 years (there were no issues with regard to impairment). Deducting amortisation charged to date of CU40,000 leaves CU60,000 to be amortised over the updated remaining useful life of 4 years. Therefore, amortisation of CU15,000 (CU60,000/4yrs) for the remaining four years. Disclosure of the change in estimate would be required in the financial statements detailing the effect on current and future years i.e. that the amortisation charge increased from CU10,000 to CU15,000 for the remaining years and the assets will be written down to nil in 4 years time as opposed to the original 6 years.

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Example: Impairment loss for a CGU with goodwill

In year 1 Parent A acquired company X for CU100,000. On acquisition 3 CGU's were identified called CGU 1, CGU 2 and CGU 3. The fair value of the assets acquired was CU60,000 and goodwill of CU40,000 was recognised on acquisition and set against each CGU. The goodwill was allocated to each CGU based on the synergies expected to be achieved which ultimately was allocated 1/3rd to each CGU.

In year 2, due to a change in the market trends the demand for the product produced by CGU 1 reduced significantly. The value in use calculations indicate a recoverable amount of CU9,000. At that date the carrying amount of the goodwill and identifiable assets were CU10,000 and CU20,000 (split between asset A&B of CU12,000 and CU8,000) respectively. Therefore, the total impairment to be booked is CU21,000 (CU10,000+CU20,000-CU9,000 recoverable amount).

The calculation of the allocation of the impairment loss of CGU 1 is carried out as follows:

	Carrying value	Impairment	Carrying amount after impairment
Goodwill	CU10,000	(CU10,000)*	CUnil
Asset A	CU12,000	(CU6,600)**	CU5,400
Asset B	CU8,000	(CU4,400)***	CU3,600

*impairment set against goodwill first and remaining amount set against all other assets on a pro-rata basis.

**impairment allocated pro-rata to identifiable assets e.g. asset A= (CU21,000-CU10,000 allocated to goodwill) * (CU12,000/(CU12,000+CU8,000)) = CU6,600.

***impairment allocated pro-rata to identifiable assets e.g. asset A= (CU21,000-CU10,000 allocated to goodwill) * (CU8,000/(CU12,000+CU8,000)) = CU4,400.

<u>Section 1A of FRS 102 disclosures</u>

If applying section 1A of FRS 102, the following disclosures are required in the notes to the accounts relating to business combinations and goodwill- balances brought forward, additions, amortisation charge, disposals, impairments, revaluations and closing balances. No need for prior year comparatives showing the movement

There is also a requirement to show the impairment/reversal of impairment charge.

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Section 21- Provisions and contingencies

Summary of this section

Section 21 applies to all provisions, contingent liabilities and contingent assets, except those covered by other sections of FRS 102. For example, leases, construction contracts, employee benefits and income tax. It does not apply to executory contracts unless they are onerous contracts.

What are the key points of this section of FRS 102?

A provision should be recognised where there is a present obligation (either legal or constructive) as a result of a past event and where a transfer of economic benefits is probable to settle the obligation and the obligation can be reliably measured. A tree showing the decision making process is set out below.

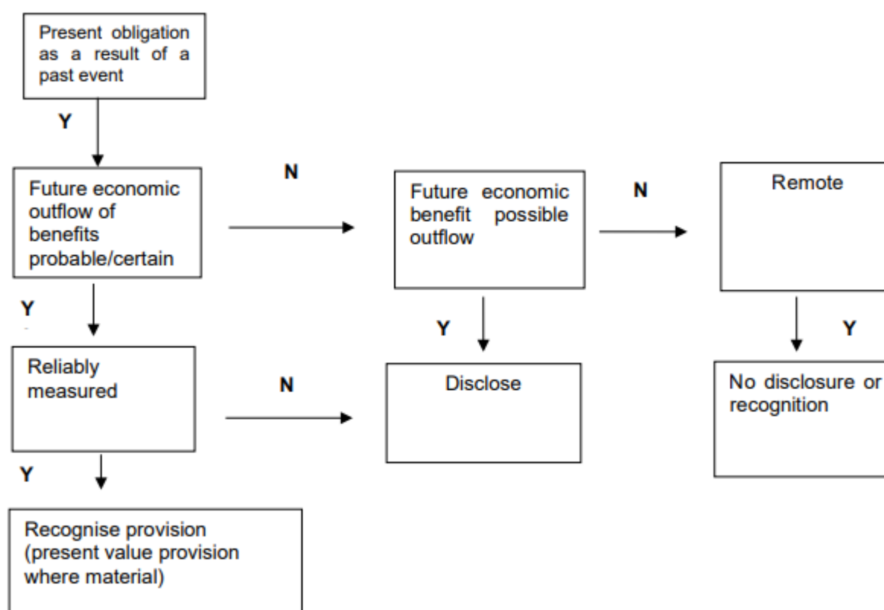
Provisions are measured at the best estimate of the amount required to settle the obligation at the reporting date and should take into account the time value of money where material. The provision is then adjusted at each reporting date. The unwinding of any discount is included within finance costs.

Contingent assets are not recognised and instead disclosed if their likelihood is probable.

Contingent liabilities are disclosed unless the possibility of an outflow of resources is considered remote in which case no disclosure is required. A contingent liability arises where the outflow of economic benefits cannot be measured reliably or it is not probable that an outflow of economic benefits will be required.

Section 21.17 allows companies not to disclose certain details in relation to provisions, contingent liabilities and assets on the basis it would be prejudicial to a dispute. However, disclosure is required detailing why the entity feels the disclosures cannot be detailed.

The standard provides examples of circumstances in which a provision is required to be made.



How does COVID-19 impact on this section?

This section of FRS 102 may impact on entities as it may give rise to an increased possibility of provisions in the area of onerous contracts;

Onerous contracts- Appendix 1 to FRS 102 defines an onerous contract as one in which the unavoidable costs of meeting the obligation under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract. This is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. It is irrelevant as to whether an entity intends to make the cheapest choice or not, the least net cost is the only amount that should be provided for. The economic benefits to be considered are both the direct and indirect benefits. Where such a contract exists the future operating losses on these contracts should be provided for as stated in Section 21.11A of FRS 102.

The potential effects of COVID-19 on onerous contracts are set out below.

Practical implications

Onerous leases

The effect of COVID-19 may result in some entities recognising onerous leases arising from the closure of factories or operations. Where an entity has committed to a lease agreement for a period of time and subsequently decides not to use the property then the company must recognise a provision for the lower of the cost to terminate the lease or the future lease amounts payable.

Example of onerous lease

Company A entered into a lease on a factory in year 1 for a 10 year period for CU100,000 per annum which it used to manufacture parts for heavy construction machinery. At the end of year 4, following the development of COVID-19, the company decided to cease manufacturing the product and focus on servicing the machinery instead. At the end of year 4, the entity no longer has any use for the property and cannot sublease it but are contractually tied in for a further 6 years from that date. The company has discussed with the landlord as to the cost of terminating the lease early which they stated would be CU500,000.

As the entity is contractually committed to pay the lease, there is a present obligation as a result of a past event i.e. the signing of the contract to take on the lease for 10 years for which no further benefits will be obtained and a reliable estimate can be determined, a provision should be recognised for the lower of the cost to terminate of CU500,000 or the future lease amounts payable for 6 years of CU600,000. Therefore a provision should be recognised for CU500,000 and should be present valued where it is considered material.

Future operating losses

If future operating losses are expected as a result of COVID-19 then these should not be provided for. The reasoning for not allowing operating losses to be provided for is due to the fact that the entity has

the choice to cease trading immediately/earlier and therefore it would not have to incur these losses. Hence there is no present obligation. This contrasts with provision for onerous leases where the entity has a contractual obligation to hold on to the lease for its life.

Liabilities arising from an inability to fulfil an order

If circumstances arise during COVID-19 whereby an entity is unable to fulfil an order as a result of COVID-19 and there is a contractual liability arising from this then there is likely to be a provision (as there is a present obligation as a result of a past event and where a transfer of economic benefits is probable to settle the obligation and the obligation can be reliably measured).

Example- compensation due to customer

Company A entered into an agreement to supply Company B with 300,000 concrete blocks per month. In the contract there is a condition that if Company A is unable to fulfil the order then they are required to pay compensation to Company B of 25 cents per block that falls short of the agreed limit. Company A closed temporarily during COVID-19 and was unable to fulfil the order. Company B remained open as it was deemed an essential service. Company A was only able to fulfil 50,000 of the concrete block order for the month of April.

Company A fell short of the order by 250,000 units and as a result, compensation of CU62,500 is payable (250,000 * 25 cents). The journals to recognise this in the records of Company A are;

	Dr	Cr
Dr. P&L	62,500	
Cr. Provisions on balance sheet		62,500

Section 1A of FRS 102 disclosures

If applying Section 1A of FRS 102, the provision for liabilities as shown in Sch 3A Formats for the balance sheet should show the split between; taxation (including deferred tax); retirement benefit obligations and other provision for liabilities. Note if there is deferred tax included within taxation here then there is no need to disclose deferred tax separately.

The detailed reconciliation note required under FRS 102 is not required under section 1A.

DRAFT

FRS102.com- Covid-19 update

Section 27- Impairment of assets

Summary of this section

Section 27 deals with the measuring, recognising and disclosing impairments for all assets with the exception of:

- assets arising from construction contracts covered by Section 23;
- deferred tax assets covered by section 29;
- Asset arising from employee benefits covered by Section 28;
- Financial assets within the scope of Section 11 and Section 12 dealing with financial
- instruments;
- Investment property measured at fair value under Section 16;
- Biological assets relating to agricultural activity dealth with in Section 34; and
- Impairment of deferred acquisition costs and intangible assets arising from insurance contracts which are dealt with in FRS 103.

What are the key points of this section of FRS 102?

Impairment review only required to be performed if indicators of an impairment exists.

Indicators of impairment as defined in Section 27.9 are:

- An asset's market value has declined significantly more than would be expected as a result of the passage of time;
- Significant changes occurred/are due to occur in technology, market, economic or legal environment;
- Market interest rates have increased during the period which are likely to affect
- materially the discount rate and value in use;
- The carrying amount of the net assets is more than the estimated fair value of the entity as a whole;
- Evidence available of obsolescence and damage of an asset;
- Significant changes with adverse effect on the entity have or is due to take place which, in the extent to which an asset is used/expected to be used e.g. plans to restructure, make idle or discontinue an operation;
- Reassessment of an asset from infinite to finite; and
- Evidence showing the economic environment of an asset is worse than expected.

A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

An impairment exists if the recoverable amount is less than the carrying amount.

The recoverable amount of an asset or cash generating unit is the higher of its fair value less costs to sell and its value in use.

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Fair value less costs to sell is based on the sale of the asset in an arm's length transaction between knowledgeable and willing parties.

Value in use is the present value of the future cash flows expected to be derived from the asset.

If an impairment loss arises on a cash generating unit, it is allocated first against goodwill and then against other assets of the unit, pro rata based on their carrying values.

For individual assets, reversals are recognised in profit or loss (or in other comprehensive income, for previously revalued assets in accordance with the requirements of the relevant section). The asset carrying value is never restored to more than what it would have been had the impairment never occurred.

For cash generating units, the reversal is allocated pro-rata to the assets in the unit, excluding goodwill.

Future of cash flows included in the value in use calculation cannot include future cash flows from future restructuring or improvements to the asset's performance. The pre-tax discount rate should be used.

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How does COVID-19 impact on this section?

The area of impairment is likely to be one of the key sections of FRS 102 impacted by COVID-19.

One of the external indicators of impairment as set out in section 27.9 of FRS 102 is;

"Significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated."

COVID-19 is likely to meet this definition of an external indicator of impairment and as a result, an impairment review of entities assets will be required.

This may result in a decline in asset values.

If the impairment has happened after the financial year but before sign off, entities will need to consider the impairment in the context of section 32- Events after then end of the reporting period to determine if the impairment meets the criteria for an adjusting event.

Practical implications

In considering if an asset is impaired, the recoverable amount should be compared to the carrying amount. The recoverable amount is the greater of the fair value less costs to sell and the value in use. The carrying amount is the amount that the balance is held at in the balance sheet.

In determining the recoverable amount, the entity takes the higher of "fair value less costs to sell" and "value in use". In doing this, the entity should first consider what the "fair value less costs to sell" of an asset is.

Fair Value less Costs to sell

Detailed in section 27.14 of FRS 102

"Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. The best evidence of the fair value less costs to sell of an asset is a price in a binding sale agreement in an arm's length transaction or a market price in an active market. If there is no binding sale agreement or active market for an asset, fair value less costs to sell is based on the best information available to reflect the amount that an entity could obtain, at the reporting date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. In determining this amount, an entity considers the outcome of recent transactions for similar assets within the same industry."

If Fair Value less Costs to sell is less than the carrying value then the entity should consider what the value in use of the asset is.

Note- if establishing fair value is difficult during the lockdown period- refer to the Section 2 Quick Guide.

Value in Use

Detailed in section 27.15 of FRS 102

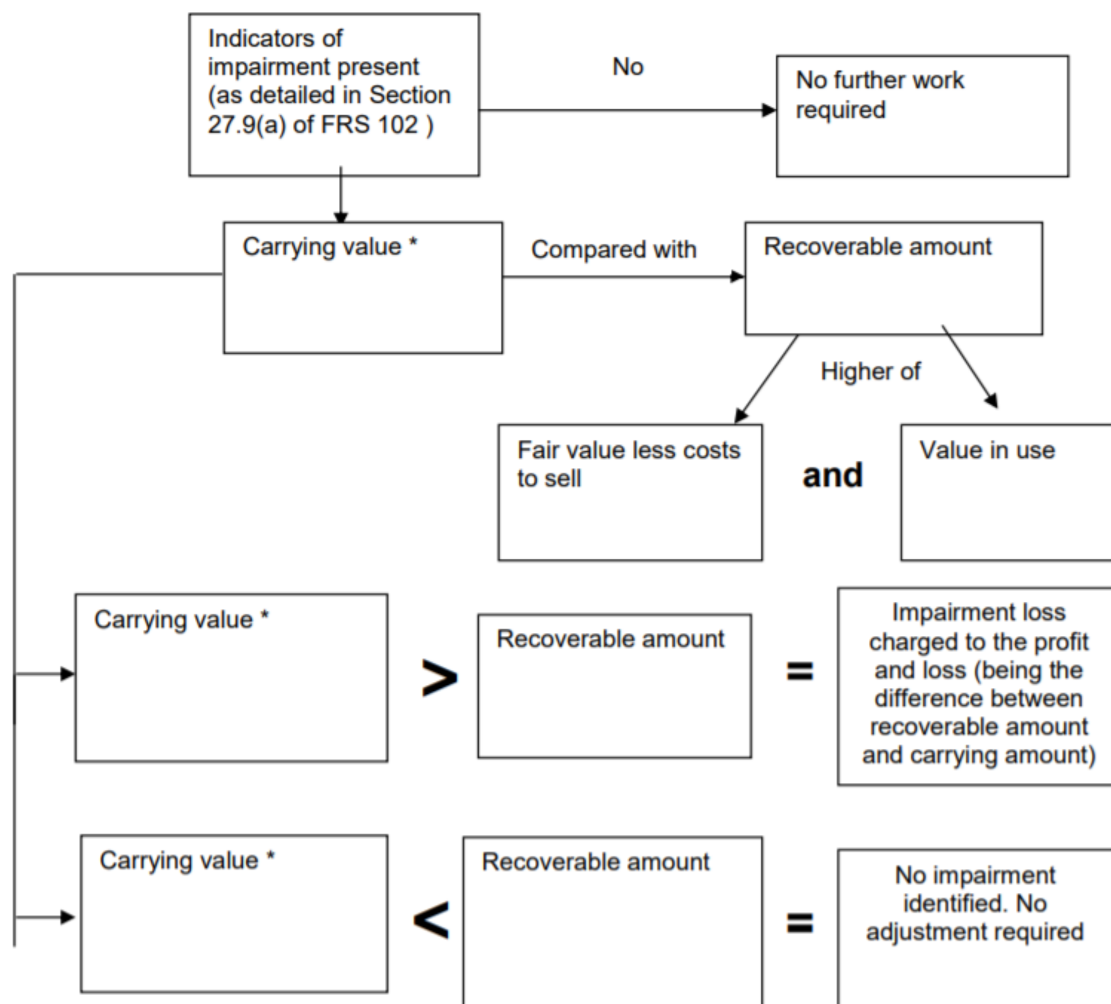
DRAFT V3

"Value in use is the present value of the future cash flows expected to be derived from an asset. This present value calculation involves the following steps: (a) estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal; and (b) applying the appropriate discount rate to those future cash flows."

If the recoverable amount is less than the carrying value then an impairment is required to be recognised through the profit and loss account. If the impairment relates to an asset that has previously been revalued then the revaluation portion shall reversed through the statement of changes in equity with the balance recognized as an impairment through the profit and loss account.

If the carrying value exceeds the recoverable amount then no impairment is required.

It is likely that any assets with a recoverable amount based on value in use will be impaired following COVID-19 as VIU is based on cashflows which are likely to be negatively affected as a result.



Examples

Value in Use- Determining cash flow to include

Company A is a manufacturing company providing special plywood to the construction industry. During the year there was a large slump in the construction market which was an indicator of impairment. The company has prepared the estimated cash flow and has included the below in the cash flow. Determine which ones will be allowed to be included as part of the value in use calculation.

- The company intends to restructure the company and lay 20 employees off which will result in cost savings of CU200,000 per annum.

  Solution: Neither the costs of the reconstruction or the cost savings can be incorporated into estimated future cash flows as the entity was not demonstratively committed to it i.e. it was not provided for in the year end financial statements .See Section 27.19 of FRS 102

- Next year the company has planned to purchase and install a whole new production line which will allow the company to diversify the type of products it produces such that it can supply material to a separate industry. (Section 27.9 (b) of FRS 102)

  Solution: Section 27.19 does not allow planned future capital expenditure which enhances the cash flow potential to be incorporated into the cash flow. Neither does it allow the future additional cash inflows from the proposed expenditure.

- The cost of replacing a component of the main production line which is depreciated at a different rate to the main line has been included in the cash flows.

  Solution: Given that this is a component that is separately depreciated from the main production line and it does not enhance the performance of the line above the performance at the date of the value in use calculation, this should be included in the estimated cash outflows. Note the cash flows should incorporate these based on the life of that component so if these parts had to be changed every five years, it would have to be included in the cash flow every five year. See Section 27.17 of FRS 102

- Assumed a growth rate of 10% per annum for 10 years. The terminal value amount is increased by a further 10%

  Solution: When determining whether this cash flow is appropriate, one would have to look at the industry in which the company operates. Given that the market has slumped it would be very unusual for a 10% growth rate to be assumed. On this basis it is likely that these growth rates would

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need to actually show a reduction for at least the first few years as opposed to an increase. The 10% growth rate for 10 years also seems to be for too long a period. IAS 36 would state that a growth rate should not be incorporated for more than 5 years and as stated in Section 27 from then on a steady rate or declining growth rate should be used. Therefore these growth rates would have to be reduced and usually after 5 years decreasing or no further growth should be assumed. However each circumstance would need to be assessed individually based on the industry in which the entity operates. (Section 27.17 (b) of FRS 102)

- The repairs and maintenance costs is very large when compared to the depreciation charged on the assets during the prior year.

  Solution: Although this is an allowable cash flow usually the repairs and maintenance cost included in the cash flow should some way equate to the yearly depreciation charge.

- In calculating the cash flows, the company incorporated the working capital requirements/movements but they compared the present value of the cash flows to the carrying amount they have not included the debtors/creditors/inventory and other working capital items within the carrying amount.

  Solution: This is incorrect as the company should compare like with like. In this instance the company should take the net assets relating to the CGU so that they are comparing like with like.

- The company has used a post-tax discount rate

  Solution: This is incorrect as a pre-tax discount rate should be used. (see Section 27.20 of FRS 102)

- The company has not incorporated any inflation into its workings

  Solution: The entity must incorporate the effects of inflation into its cash flows under the see Section 27.20 of FRS 102). Therefore, the expected future inflation needs to be incorporated.

- The company has included tax payments into the cash flow

  Solution: The inclusion of tax cash flows is not allowed under Section 27.18 of FRS 102.

- The company has included exceptional income with regard to a return on investment within the terminal value amount as this was included in the last forecasted period.

Solution: The terminal value amount must exclude all abnormal or exceptional items included in the last forecasted periods cash flows as this incorrectly inflates the terminal value amount. (See Section 27.8.2.6)

- The company in its cash flow used the profit before tax, amortisation and depreciation.

Solution: This is incorrect as the cash flows should incorporate the earnings before interest, tax, amortisation and depreciation as financing activities should be excluded together with any non-cash costs, as stated in Section 27.18 of FRS 102.

The interest income and expense should therefore have also been excluded in the above example.

Impairment loss for a CGU with goodwill

In year 1 Parent A acquired company X for CU100,000. On acquisition 3 CGU's were identified called CGU 1, CGU 2 and CGU 3. The fair value of the assets acquired was CU60,000 and goodwill of CU40,000 was recognised on acquisition and set against each CGU. The goodwill was allocated to each CGU based on the synergies expected to be achieved which ultimately was allocated 1/3rd to each CGU.

In year 2, due to a change in the market trends the demand for the product produced by CGU 1 reduced significantly. The value in use calculations indicate a recoverable amount of CU9,000. At that date the carrying amount of the goodwill and identifiable assets were CU10,000 and CU20,000 (split between asset A&B of CU12,000 and CU8,000) respectively. Therefore, the total impairment to be booked is CU21,000 (CU10,000+CU20,000-CU9,000 recoverable amount).

The calculation of the allocation of the impairment loss of CGU 1 is carried out as follows:

	Carrying value	Impairment	Carrying amount after impairment
Goodwill	CU10,000	(CU10,000)*	CUnil
Asset A	CU12,000	(CU6,600)**	CU5,400
Asset B	CU8,000	(CU4,400)***	CU3,600
Total			

*impairment set against goodwill first and remaining amount set against all other assets on a pro-rata basis.

**impairment allocated pro-rata to identifiable assets e.g. asset A= (CU21,000-CU10,000 allocated to goodwill) * (CU12,000/(CU12,000+CU8,000)) = CU6,600.

***impairment allocated pro-rata to identifiable assets e.g. asset A= (CU21,000-CU10,000 allocated to goodwill) * (CU8,000/(CU12,000+CU8,000)) = CU4,400.

Example- stock impairment

Company A has inventory of wine and chocolate of CU100,000 at the year-end of March 2020. Following the developments of COVID-19, the company's market had diminished significantly. The company has identified that it can sell the wine and chocolates as Easter hampers, to avoid them going out of date. The sales price of the hampers will be CU80,000 but there is an additional cost of CU20,000 associated with packaging them. The directors are satisfied that this is an adjusting event.

In this example, the carrying value is CU100,000. The sales price (CU80,000) less costs to complete (CU20,000) is CU60,000. A stock impairment should be recognised of CU40,000 and incurred in the year ended March 2020 accounts.

Example- Associate Impairment if adopting the cost model

Company A holds a 40% investment in Company B (cost CU500,000). At the year end Company B's performance was far less than expected and a significant loss was incurred as a result of a period of closure arising from the outbreak of COVID-19. As a result Company B's net assets was CU800,000. The significant loss made by Company B is an impairment indicator. As it is likely that it would be difficult to determine the fair value less cost to sell in an active market, the value in use model should be utilised to determine whether an impairment is required. In this particular case, it may be appropriate to impair the investment down to the net asset amount of CU320,000 (CU800,000 *40%) assuming that the value in use calculations do not support the non-impairment. Given the loss making position of company B, it is likely that the cash generating unit will not generate a favourable value in use calculation and an impairment to CU320,000 will be required.

Example: A decline in the asset's market value (Section 27.9 (a) of FRS 102)

Company A purchased a specialised piece of property, plant of equipment for CU300,000 during the year. At the end of year 1, the supplier dropped its price for that type of equipment to CU200,000. In this case, this would indicate a possible impairment. As a result an impairment may be required. This drop in price does not automatically mean an impairment loss as it is likely the value in use of the asset when taken together with a CGU for the Company will be higher so therefore no impairment may be required.

If we assume that the piece of property is now abandoned and no longer in use within the CGU, then the fair value of that asset itself would be used to determine the amount of the impairment loss. The value in use for the CGU cannot be used as the asset is no longer providing any economic benefit, therefore its recoverable amount is the fair value of assets in the balance sheet relating to the property less cost to sell.

Similarly assume Company A has an office block which it uses. Due to a significant reduction in property prices, there are indications that this asset is stated above its carrying amount. In this case, this would be an indicator of an impairment, however, this does not necessarily mean a write down is required as it is part of a CGU (that being the overall factory etc.).

Prior to COVID-19, the CGU was showing a positive value in use with significant headroom between the carrying value of the assets and the value in use. The company has been hit hard by COVID-19 and part of the company's business has been lost. When it performs its value in use calculations, the results show that the current carrying value exceeds the value in use. As a result, an impairment is required.

Section 1A of FRS 102 disclosures

The impairment disclosure requirements under Section 1A of FRS 102 are similar to full FRS 102. Details of impairment of all types of all fixed assets held as well as the impairment charges during the year are required to be disclosed.

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FRS102.com- Covid-19 update

Section 28- Employee benefits

Summary of this section

Section 28 deals with the recognition, measurement and disclosure of employees benefits to include the recognition and measurement of defined benefit and contribution pension schemes, short term employee benefits and termination benefits.

What are the key points of this section of FRS 102?

Short term employee benefits must be recognised together with the deferred tax impact. This will require a transition adjustment where carryover of annual leave occurs.

In relation to defined contribution schemes contributions payable for each period are generally recognised as an expense and a liability. Where they are not likely to be paid for a further 12 months they should be discounted.

Defined benefit plans are post-employment benefit plans other than defined contribution plans. Generally, in a defined benefit plan, the employer has an obligation to provide an agreed level of benefits to employees. This means the employer bears actuarial risk and investment risk, and may be required to increase contributions if the plan assets are too low to fulfil promises to employees.

For an employer with a defined benefit scheme, the cost to recognise each period is the change in the value of the liability.

The liability on the defined benefit scheme is measured at the present value of the plan obligations less the fair value at the reporting date of the plan assets (there is detailed guidance in the section on measurement of these assets and liabilities).

The cost relating to movements in the net liability on the defined benefit scheme is recognised in profit or loss, except for the effects of re-measurement, which are recognised in other comprehensive income. Re-measurement comprises actuarial gains and losses and the return on plan assets, excluding amounts included in net interest on the net liability (calculated as a single item by multiplying the net defined benefit liability by the discount rate used to determine the present value of the scheme liabilities).

Group pensions schemes which are defined benefit in nature need to be accounted for in at least one of the group companies.

For multi-employer schemes where sufficient information is not available to use defined benefit accounting, then it can be treated as a defined contribution scheme unless there is an agreement in place stating that it will fund the deficit, if so, then this amount needs to be provided for.

Deferred tax on the pension scheme is shown as deferred tax on the balance sheet and not netted against the pension scheme carrying amount.

Curtailments and settlement should be accounted for in the period where the adjustment is certain and posted to the profit and loss with disclosure of the amount charged/credited in the notes.

An independent actuary is not required to perform the calculation and it does not dictate how often the comprehensive valuation must be performed.

How does COVID-19 impact on this section?

COVID-19 may impact on a few areas of this section. In particular, there should be consideration of the effect of redundancies, payment of bonuses and the accounting treatment of the government wage subsidy.

Depending on the nature of the above items, the accounting treatment may be impacted.

Practical implications

<u>Treatment of redundancies</u>

For the avoidance of doubt, references to being made redundant below refer to staff made permanently redundant (and not to be confused with staff temporarily laid off who availed of the government subsidy scheme).

If staff are made redundant as a result of COVID-19 then this should be recognised as a liability and an expense when the entity can demonstrate either of the following conditions;

That they have committed to either

(a) terminate the employment of an employee or group of employees before the normal retirement date; or

(b) to provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

To meet either of the above conditions, there must be a formal plan in place and it is not realistic that the firm can withdraw from this. This will usually occur after the staff have been notified in writing.

<u>Payment of bonuses (timing)</u>

Bonuses are usually treated as short term employment benefits as they are usually expected to be settled within 12 months after the end of the financial reporting period in which the services are rendered.

As a result of the economic impact of COVID-19, this may mean that some bonus schemes are re-negotiated or deferred to be paid at a later date. Where the bonus is not expected to be settled until after 12 months then this will need to be accounted for in line with section 28.29 of FRS 102 (Other long-term employee benefits).

For all employee benefits payable in periods greater than 12 months, these need to be present valued at a discount rate which reflects the time value of money.

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Examples

Treatment of redundancies

Company A has a year end of 31 March 2020. On 6th April 2020, they wrote to some employees informing them that they would be terminating their employment on 20th April 2020. The cost of the redundancies is CU20,000.

As the entity demonstrated its commitment to terminate employment on 6th April 2020, the conditions of section 28.34 of FRS 102 were met on this date and on this date the liability and cost are recognised in the financial statements.

Journal entry required on 6th April 2020 (Next financial year);

Dr. Termination costs (P&L)- CU 20,000

Cr. Liability (Balance Sheet)- CU 20,000

Bonus payment

Company B normally pay a bonus of CU 50,000 to key staff on completion of each financial year. Following the development of COVID-19, the company decided to preserve cashflow and not pay this bonus. Instead, they decided to reward staff with a bonus of CU50,000 which will be payable in 3 years.

As this bonus is not payable within 12 months of the year end, it should be classified in accordance with section 28.29 and 28.30 of FRS 102. A liability should be recognised on the balance sheet representing the present value of the obligation. Assume a year end of 31 March 2020, a present value rate of 5% and a bonus payment date of 31 March 2023.

Applying a 5% present value rate arrives at a present value of CU43,192 (CU50,000/1.05 ^3). The journals to recognise this are;

Year ended 31 March 2020

Dr. Wages and salaries (P&L)- CU 43,192

Cr. Long term liabilities- CU 43,192

Year ended 31 March 2021

Dr. P&L - 2,160

Cr. Long term liabilities- 2,160

Year ended 31 March 2022

Dr. P&L - 2,268

Cr. Long term liabilities- 2,268

Year ended 31 March 2023

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Dr. P&L - 2,380

Cr. Long term liabilities- 2,380

Section 1A of FRS 102 disclosures

If applying Section 1A of FRS 102, the provision for liabilities as shown in Sch 3A Formats for the balance sheet should show the split between; taxation (including deferred tax); retirement benefit obligations and other provision for liabilities.

The detailed reconciliation note required under FRS 102 is not required under section 1A.

DRAFT V3

Hostelworld.com Limited

Reports and Financial Statements for the financial year ended 31 December 2019

REGISTERED NUMBER 337103

HOSTELWORLD.COM LIMITED

DIRECTORS' REPORT

The directors present the audited financial statements for the financial year ended 31 December 2019.

PRINCIPAL ACTIVITY

The principal activity of the Company is the provision of software and data processing services which facilitates hostel, hotel, B&B and other accommodation bookings worldwide.

BUSINESS REVIEW

The directors consider that the overall business performed satisfactorily during the financial year covered by the financial statements.

On 12 March 2019, the Company purchased intellectual property assets from WRI Nominees DAC, a fellow group company at fair market value of €151m.

In July 2019, the Company purchased 7,645,554 shares (49% of the share capital) of Goki Pty Limited, an Australian resident company. Goki Pty Limited's principal activity is software development and principal place of business is Australia (note 13).

RESULTS AND DIVIDENDS

The results for the financial year and state of affairs of the Company are set out in the income statement and statement of financial position on pages 13 and 15 respectively. No dividends were paid or recognised during the current or prior financial year.

DIRECTORS AND SECRETARY

The directors and secretary, who served at any time during the financial year except as noted, were as follows:

Directors:
Gary Morrison
TJ Kelly

Secretary:
John Duggan

The current directors are listed on page 2.

DIRECTORS COMPLIANCE STATEMENT

The directors acknowledge that they are responsible for securing the Company's compliance with the Company's "relevant obligations" within the meaning of section 225 of the Companies Act 2014 (described below as the "Relevant Obligations").

The directors confirm that they have:

(a) drawn up a compliance policy statement setting out the Company's policies (that are, in the opinion of the directors, appropriate to the Company) in respect of the Company's compliance with its Relevant Obligations;

(b) put in place appropriate arrangements or structures that, in the opinion of the directors, provide a reasonable assurance of compliance in all material respects with the Company's Relevant Obligations; and

(c) during the financial year to which this report relates, conducted a review of the arrangements or structures that the directors have put in place to ensure material compliance with the Company's Relevant Obligations.

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AUDIT COMMITTEE

The Company has not established an audit committee on the basis that the Company is part of a group which has an Audit Committee. The Group Audit Committee performs the relevant functions as required by the Companies Act 2014 on a group wide basis, including periodic review of procedures and review of the Company's financial performance by the Group finance function.

DIRECTORS' AND SECRETARY'S INTERESTS IN SHARES

The directors and secretary who held office at 31 December 2019 had no interest in the share capital of the Company at 31 December 2019 and 1 January 2019.

The directors and secretary who held office at the end of the financial year have advised that as of 31 December 2019 they hold some shares in the Company's ultimate parent company, Hostelworld Group plc, however none of the directors or secretary hold 1% or more of the voting shares in Hostelworld Group plc or in any of Hostelworld Group's subsidiaries.

FUTURE DEVELOPMENTS

The COVID-19 pandemic has resulted in significant trading disruption for our business and the global travel industry. We entered the year in a strong position, having delivered a return to net bookings growth during Q4 2019, however, COVID-19 drove a sharp reduction in our trading performance. We reacted swiftly and purposefully to protect the business and to enable us to navigate through this crisis. Our initial efforts were focussed on cash preservation and in June we took action to strengthen our balance sheet, via a debt facility and a capital contribution received from Hostelworld Group PLC. Together these actions provide the Company with the financial strength to operate through this crisis and beyond.

Over the last few months we have taken the opportunity to accelerate our Roadmap for Growth program to strengthen our core platform, completing items planned for H2 2020 and 2021 ahead of schedule. Consistent with our growth strategy, which builds on our Roadmap for Growth, we also intend to broaden the catalogue of experiences and social features we offer our customers, beyond hostel accommodation. Given the current trading backdrop, we remain focused on organic initiatives in the near term, until a resumption of normal trading. While the short-term outlook for the travel industry remains extremely challenging, we remain confident that Hostelworld will emerge from the COVID-19 crisis stronger than before.

KEY PERFORMANCE INDICATORS

The directors view the number of bookings and EBITDA as their key performance indicators.

PRINCIPAL RISKS AND UNCERTAINTIES

In light of the COVID-19 pandemic the Company has considered the impact of COVID-19 on the business and reassessed risk factors accordingly.

The following risks and uncertainties could have an impact on the Company's future performance:

Macroeconomic conditions - Revenue is derived from the wider leisure travel sector. Perceived or actual economic conditions, including slowing or negative economic growth, rising unemployment rates, weakening currencies, higher taxes or tariffs could impair customer spending and adversely affect travel demand. In addition, events beyond our control such as unusual or extreme weather, travel related health concerns including pandemics and epidemics or travel-related accidents can disrupt travel and result in declines in travel demand.

COVID-19 impact: Given the recent COVID-19 pandemic, management have had to mitigate against the risk and through taking necessary actions to conserve cash. Cash conservation measures include vendor management; review of internal and external resources; review of customer refund policies; review of direct marketing spend; and sourcing of alternate forms of funding.

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Impact of terrorism threat on leisure travel - The continued threat of terrorist attacks in key cities and on aircraft in flight may reduce the appetite of the leisure traveller to undertake trips particularly to certain geographies, resulting in declining revenues. Increased incidence of terrorism impacts consumer confidence and can shift demand away from certain destinations.

Competition – The business operates in a highly competitive marketplace and our relative scale and size could impact our ability to keep pace with changes in customer behaviour and technology change. Failure to continue to innovate on our product offering and to compete effectively in our marketplace could have an adverse effect on our market share and the future growth of the business. Increased competition from other online travel agents ("OTAs") or from the alternative accommodation sector via websites, or a disruptive new entrant such as large hotel chains into the hostel segment or loss of key accommodation suppliers could impact revenue due to potential loss of traffic and/or could increase traffic and therefore customer acquisition costs. Demand for our services could suffer, reducing revenue and margins.

Search engines algorithms - A large proportion of traffic to our websites is generated through internet search engines such as Google, from non-paid (organic) searches and through the purchase of travel-related keywords (paid search). We therefore rely significantly on practices such as Search Engine Optimisation ("SEO") and Search Engine Marketing ("SEM") to improve our visibility in relevant search results. Search engines, including Google, frequently update and change the logic that determines the placement and display of results of a user's search, which can negatively impact placement of our paid and organic results in search results. This could result in a decrease in bookings and thus revenue. It could also result in having to replace free traffic with paid traffic, which would negatively impact margins.

Brand - Consumer trust in the Hostelworld brand is essential to ongoing revenue growth. Negative publicity around our products or services could negatively impact on traveller and accommodation provider confidence and result in loss of revenue.

COVID-19 impact: There is a risk that our brand could be impacted through measures we have taken through COVID-19, including our refund policy. Our brand portfolio is managed through social media channels and customer service team. There is a Crisis Management Policy in place which includes appropriate escalation where there is a risk of brand damage. Our Exceptional Refund Policy details COVID-19 refunds which are issued on a case-by-case.

Data security - We capture personal data from our customers, including credit card details and retain this on our systems. There is always a risk of a cyber security related attack or disruption, including by criminals, hacktivists or foreign governments on our systems or those of third party suppliers. Cybercrime including unauthorised access to confidential information and systems would have significant reputational impact and could result in financial and/or other penalties.

COVID-19 impact: The shift to remote working during COVID-19 (beginning 12 March 2020) changed the risk profile of certain data processing activities and gives rise to ongoing data security challenges. As we plan for a level of return of colleagues to our offices, the COVID-19 Return to Work Protocol (Ireland) and Working Safely During Coronavirus Guidelines (UK) require us to capture from colleagues and office visitors, new categories of sensitive personal health data that we would not have obtained before. The GDPR places significant data security and regulatory compliance obligations on us when processing such data. We manage these risks through level 1 PCI compliance with the guidelines of the payment card industry and preparing to comply with certain aspects of Payment Services Directive 2 (PSD2) in 2021 as it relates to customer payment – customer authentication security measures. We have in place a Comprehensive privacy compliance programme to align with our on-going obligations under the GDPR compliance. We have reviewed the impact on servers of increased remote access loads with teams working from home. We have issued guidance to all colleagues during COVID-19 regarding the personal data and data security implications of the pandemic and new remote working.

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PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Regulation - The global nature of the business means exposure to issues regarding competition, licensing of local accommodation, language usage, web-based trading, tax, intellectual property, trademarks, data security and commercial disputes in multiple jurisdictions. Compliance with new regulations can mean incurring unforeseen costs, and non-compliance could result in penalties and reputational damage.

COVID-19 impact: COVID-19 has led to increased focus by consumer rights regulators on the online sales practices of tourism and travel focussed companies and may have an impact on the Company's brand if the Company's sales practices were investigated and assessed to be non-compliant. COVID-19 has heightened our obligations under employment and health and safety laws to protect the safety, health and welfare of colleagues in the workplace. The GDPR imposes particular compliance obligations with respect to our COVID-19 response measures with risk of fines and other enforcement mechanisms being imposed by a data protection authority. We have responded to these evolving risks by monitoring the regulations and evolving landscape closely. In line with guidance from the Irish and UK governments, we have developed a robust COVID-19 Response Plan including adopting protocols around returning colleagues back to the office environment.

Tax - The taxation of e-commerce businesses is constantly being evaluated and developed by tax authorities around the world. The taxation of online transactions in the travel space remains unsettled. Due to the global nature of the business, tax authorities in other jurisdictions may consider that taxes are due in their jurisdiction. This could result in the Company having to account for tax that it currently does not collect or pay, which could have a material adverse effect on the Company's financial condition and results of operation if it could not reclaim taxes already accounted for in the jurisdictions the Company considers relevant. Changes to tax legislation or the interpretation of tax legislation or changes to tax laws based on recommendations made by the OECD in relation to its Action Plan on Base Erosion and Profits Shifting ("BEPS") or national governments may result in additional material tax being suffered by the Group or additional reporting and disclosure obligations.

Business continuity - Failure in our IT systems or those on which we rely such as third party hosted services could disrupt availability of our booking engines and payments platforms, or availability of administrative services at our office locations, with an adverse impact to our customer service.

COVID-19 impact: The outbreak of COVID-19 led to substantial business and operational disruptions across the Company and resulted in Hostelworld and our third-party suppliers seeking to suspend or be excused from certain contractual obligations. We updated our standard contractual terms in early 2020 to provide more robust and comprehensive contractual provisions regarding force majeure (covering epidemics/ pandemics) and BCP (requiring suppliers to implement the provisions of our BCP at any time). As Part of COVID-19 BCP invocation all employees have been working from home via Hostelworld secured endpoint devices that were configured and rolled out in 2019. All teams had tested access and functionality and only small adjustment was needed to have all teams operational very quickly. All laptops are encrypted and protected with anti-virus and anti-malware software.

People – The Company is dependent on its ability to attract, retain and develop creative, committed and skilled employees so as to achieve its strategic objectives.

Brexit – The Company is exposed to Brexit-related risks and uncertainties in relation to its continued impact on global markets and currency exchange rate fluctuations. The uncertainties in relation to the movement of people may result in the reduction of bookings particularly into and from the UK travel market which could impact on revenue. Overall a decline in macroeconomic conditions in the UK could negatively impact consumer confidence and reduce spending in all areas including the wider leisure travel sector.

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PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Liquidity risk - Cash flow forecasting is monitored by rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Company does not breach covenants on any of its facilities. Such forecasting takes into consideration the Company's debt financing plans.

Interest rate risk - The Company is not materially exposed to interest rate risk.

Credit risk and foreign exchange risk - The directors monitor the credit rate risks associated with loans, trade receivables and cash and cash equivalent balances on an on-going basis. The majority of the Company's trade receivable balances are due for maturity within 5 days and largely comprise amounts due from the Company's payment processing agents. Accordingly, the associated credit risk is determined to be low. These trade receivable balances, which consist of Euro, US dollar and Sterling amounts, are settled within a relatively short period of time, which reduces any potential foreign exchange exposure risk. At 31 December 2019, all material cash balances are held with banks with a minimal credit rating of BBB-, as assigned by international credit rating agencies. As a result, the credit risk on cash balances is limited. The carrying value of trade receivables, trade payables and cash and cash equivalents is a reasonable approximation of their fair value. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Emerging risks

Going Concern - Risk that the Company will not be able to continue in operation and meet its liabilities as they fall due and that the company will not be able to source additional financing to remain viable. Risk that the travel sector will not return to trading volumes in line with expectations. Given that trading volumes are impacted, there is a risk that intangible assets may need to be impaired as cashflows don't support their current carrying values.
Management response: Robust assessment by Directors of principal risks facing group including those that threaten its business model, future performance, solvency or liquidity. Focus on working
capital management, cash generation and managing supplier and customer relationships. Review of all P&L, cashflow and balance sheet forecasting over short and medium term, including robust review of assumptions therein, with active accountability for performance established. Key metrics and reporting reviewed regularly in management accounts and at management meetings.

Capital Structure - The Company has reviewed its capital structure and strengthened its capital base with two landmark transactions in June 2020 – an Equity Placing resulting in a capital contribution being made from Hostelworld Group PLC to Hostelworld.com Limited and Debt Raising. Equity Placing leads to higher scrutiny from shareholders both participating and non-participating. Debt creates repayment obligations and covenants and requires constant monitoring of HWG leverage and liquidity.
Management response: We have corporate finance advisers regularly consulted to discuss optimal capital structure, we have adopted prudent forecasting of cash resources and we closely monitor of financial obligations created by debt raising.

ACCOUNTING RECORDS

The measures that the directors have taken to secure compliance with the requirements of sections 281 to 285 of the Companies Act 2014 with regard to the keeping of accounting records, are the employment of appropriately qualified accounting personnel and the maintenance of computerised accounting systems. The Company's accounting records are maintained at the Company's registered office at Floor 2, One Central Park, Leopardstown, Dublin 18.

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STATEMENT OF RELEVANT AUDIT INFORMATION

In the case of each of the persons who are directors at the time the Directors' Report and financial statements are approved:

(a) So far as the directors are aware, there is no relevant audit information of which the Company's statutory auditors are unaware; and

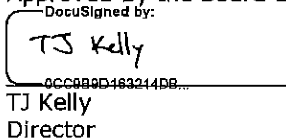
(b) Each director has taken all steps appropriate to make themselves aware of any relevant audit information, and to establish that the Company's statutory auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 330 of the Companies Act 2014.

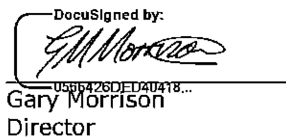
AUDITORS

The auditors, Deloitte Ireland LLP, Chartered Accountants and Statutory Audit Firm, continue in office in accordance with Section 383(2) of the Companies Act 2014.

Approved by the Board and signed on its behalf by:



TJ Kelly
Director



Gary Morrison
Director

17-Sep-20 | 12:53 PM BST

Date

HOSTELWORLD.COM LIMITED

INCOME STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Notes	**2019** **€**	2018 €
Revenue	2	**80,671,426**	82,071,849
Administrative expenses	4	**(78,067,719)**	(80,297,036)
Other operating income	5	**84,900**	377,962
Operating profit	6	**2,688,607**	2,152,775
Financial income		**58,996**	20,107
Financial costs	7	**(1,412,604)**	(53,431)
Profit before taxation		**1,334,999**	2,119,451
Taxation	8	**(808,801)**	(356,343)
Profit for the financial year		**526,198**	1,763,108

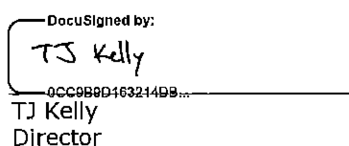
All recognised gains and losses for both the current financial year and the previous financial year are included in the income statement and arise from continuing operations.

HOSTELWORLD.COM LIMITED

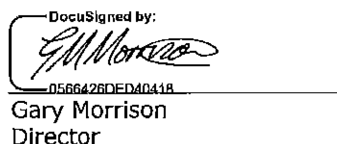
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Notes	**2019 €**	2018 €
Fixed assets			
Intangible assets	*10*	**165,400,026**	23,586,315
Property, plant and equipment	*11*	**4,480,993**	2,356,781
Investments in subsidiaries	*12*	**550**	499
Investment in associates	*13*	**2,838,834**	-
Deferred tax assets	*14*	**268,374**	98,575
		172,988,777	26,042,170
Current assets			
Debtors	*15*	**3,573,498**	37,894,365
Cash and cash equivalents		**18,627,219**	18,892,095
		22,200,717	56,786,460
Creditors: Amounts falling due within one year	*16*	**(12,725,329)**	(31,060,093)
Net current assets		**9,475,388**	25,726,367
Total assets less current liabilities		**182,464,165**	51,768,537
Creditors: Amounts falling due after more than one year	*17*	**(125,033,865)**	-
Net assets		**57,430,300**	51,768,537
Capital and Reserves			
Called up share capital presented as equity	*18*	**196**	196
Share premium		**33,503,904**	33,503,904
Capital contribution		**5,301,125**	-
Retained earnings		**18,625,075**	18,264,437
Shareholders' funds		**57,430,300**	51,768,537

The financial statements were approved and authorised for issue by the Board of Directors on 17-Sep-20 | 2:32 PM BST .... and signed on its behalf by:



TJ Kelly
Director



Gary Morrison
Director

HOSTELWORLD.COM LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

1. ACCOUNTING POLICIES

The significant accounting policies adopted by the Company are as follows:

BASIS OF PREPARATION

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. The financial statements have therefore been prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, fair value measurements, share based payments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, financial risk management, impairment of assets, related party transactions, leases and key management remuneration.

Hostelworld.com Limited is a private company limited by shares incorporated in Ireland under the Companies Act 2014. The address of the registered office is given on page 2. The nature of the company's operations and its principal activities are set out in the Directors' Report on pages 3-8. These financial statements are separate financial statements. The Company is exempt from the preparation of consolidated financial statements by virtue of Section 299 of the Companies Act 2014, because it is included in the group accounts of Hostelworld Group plc ("the Group").

Where relevant, equivalent disclosures have been given in the group accounts of Hostelworld Group plc. The group accounts of Hostelworld Group plc are available to the public and can be obtained as set out in note 22.

The financial statements are prepared on the historical cost basis.

GOING CONCERN

Subsequent to the financial year end, the outbreak of COVID-19 became a global pandemic, which resulted in the company incurring both operational and cashflow losses due to significant reductions in bookings and revenues. Immediate action was taken by the Directors in response to the breakout of COVID-19 to preserve the Company's cash position. Actions taken include a redundancy program, reduced hours and deferred pay for our employees and directors, the renegotiation of credit terms with key vendors, availing of debt warehousing of Irish employer taxes, the elimination of all non-essential operating costs including marketing, recruitment, travel and other variable overheads, and availing of Government COVID-19 supports.

The Company operates as the main revenue generating component within the Group. Since mid-March 2020 when the full force of the COVID-19 outbreak was felt on trading, the Group has been reforecasting on a bi-weekly basis its cash position for 2020 and 2021. The directors have reviewed a number of stress case cash flow scenarios which have evolved over time. These scenarios reflect changes in key assumptions in areas such as timing of recovery, cost conservation and availability of alternate sources of capital.

- Our base-case cashflow scenario assumes a moderate uptick in net bookings from H2 2020, with a steady yet modest recovery through 2021.
- Our 2nd wave case assumes a more conservative performance in 2020, with signs of progressive recovery from Q2 2021 onwards.

These scenarios include various mitigation measures including the deferral of certain cashflows supported by creditors and additional cost cutting measures. In both scenarios, there are sufficient cash reserves available to continue in operation for 12 months from the signing of the financial statements.

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1. ACCOUNTING POLICIES (CONTINUED)

GOING CONCERN (CONTINUED)

The Company has received a letter of support from the Group confirming that it will continue to support the Company's financial position for a period of 1 year from the date of signing of the financial statements.

The directors have taken steps to ensure adequate liquidity is available to the Company for the likely duration of the crisis and the recovery period. The Company has a cash balance of €23.3 million as at 31 August 2020 and has committed undrawn funds available of €7 million relating to a revolving credit facility. This funding was secured in June 2020. The Company availed of a short-term liquidity loan amounting to €3.5m in June 2020. The Company received a Capital Contribution of €14.6 million from Hostelworld Group in July 2020.

The Directors recognise that, there remains uncertainty around how the COVID-19 pandemic will evolve in the future and, thus, uncertainty around when the travel industry will return to substantial activity levels. This has been determined to represent a material uncertainty that may cast significant doubt as to the Company's ability to continue as a going concern. The Directors have a reasonable expectation that the Company will be able to successfully navigate the present uncertainties and are satisfied to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would be required if the Company were unable to continue as a going concern.

Having considered the cash flow forecasts, current and anticipated trading volumes, together with company current and anticipated levels of cash, debt and the availability of committed borrowing facilities, the directors are satisfied that the Company has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report, and accordingly, they continue to adopt the going concern basis in preparing the financial statements.

CHANGES IN ACCOUNTING POLICIES – IFRS 16

In the current year, the Company has applied IFRS 16 Leases which replaced IAS 17 Leases and related interpretations. IFRS 16 provides guidance on the classification, recognition and measurement of leases. The standard has primarily affected the accounting for the Company's operating leases relating to office premises. The Company has applied IFRS 16 from its effective date, 1 January 2019.

Under the new standard, the distinction between operating and finance leases is removed for lessees and almost all leases are reflected in the statement of financial position. As a result, an asset (the right of use of the leased item) and a financial liability to pay rental expenses are recognised. Fixed rental expenses are removed from the income statement and are replaced with finance costs on the lease liability and depreciation on the right of use asset. The only exemptions are short-term and low-value leases. The standard introduces new estimates and judgemental thresholds that affect the identification, classification and measurement of lease transactions. More extensive disclosures, both qualitative and quantitative, are also required.

The Company adopted the new standard by applying the modified retrospective approach and availed of the recognition exemption for short-term leases. Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. The Company has not restated the prior period on adoption, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On transition, the lease liability was based on the present value of remaining lease payments and the right of use asset was an amount equal to the lease liability adjusted for prepaid/accrued payments.

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1. ACCOUNTING POLICIES (CONTINUED)

LEASES (CONTINUED)

Cash paid on the interest portion of a lease liability is included as part of operating activities in the cash flow statement, cash payments for the principal portion of a lease liability are included as part of financing activities.

EXCEPTIONAL ITEMS

Exceptional items by their nature and size can make interpretation of the underlying trends in the business more difficult. Such items may include restructuring, material merger and acquisition costs, profit or loss on disposal or termination of operations, litigation settlements, legislative changes and profit or loss on disposal of investments. Judgment is used by the Company in assessing the particular items which by virtue of their scale and nature should be disclosed as exceptional items.

TAXATION

Current Tax

The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the financial year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred Tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

FOREIGN CURRENCIES

The financial statements of the Company are presented in the currency of the primary economic environment in which it operates (its functional currency euro). Transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement

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1. ACCOUNTING POLICIES (CONTINUED)

ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(a) Key sources of estimation that have been made that have the most significant effect on the amounts recognised in the financial statements are set out below:

Impairment of goodwill and intangible assets
The directors assess annually whether goodwill has suffered any impairment, in accordance with the relevant accounting policy and intangible assets are assessed for possible impairment where indicators of impairment exist. The recoverable amounts of cash-generating units ("CGUs") are determined based on value-in-use calculations. These calculations are prepared using cash flow projections based on five year budgets approved by the directors and are discounted to net present value using an appropriate discount rate. The tests are dependent on estimates in particular in relation to the forecasting of future cash flows, the discount rates applied to these cash flows, the expected long term growth rate of the applicable business and terminal values. Such estimates are subject to change as a result of changing economic conditions.

Useful lives for amortisation of intangible assets
Intangible assets are disclosed in note 10. The amortisation charge is dependent on the estimated useful lives of the assets. The directors regularly review estimated useful lives of each type of intangible asset and change them as necessary to reflect its current assessment of remaining lives and the expected pattern of future economic benefit embodied in the asset. Changes in asset lives can have a significant impact on the amortisation charges for that year.

Fair value Measurement of intra group loan
An amount due to group undertakings is disclosed in note 17. This arose as a result of a term loan issued between Hostelworld Group plc and the Company as part of the group reorganisation in March 2019. This loan is unsecured and non-interest bearing. The loan is repayable by 31 December 2024 and is carried at amortised cost. The fair value of the term loan was calculated using a market interest rate based on an external interest valuation as well as best estimates of a planned repayment schedule.

(b) Key sources of estimation that have been made that have the most significant effect on the amounts recognised in the financial statements are set out below (Continued):

Deferred tax asset recognition
Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available in future periods against which the reversal of temporary differences can be deducted. Recognition, therefore, involves judgement regarding the future financial performance of the particular legal entity or tax group in which the deferred tax asset exists. The directors have assessed that it is probable that the deferred tax asset will be utilised based on the approved five year budget and long term forecasts.

Exceptional items
Exceptional items by their nature and size can make interpretation of the underlying trends in the business more difficult. Such items may include restructuring, material merger and acquisition costs, profit or loss on disposal or termination of operations, litigation settlements, legislative changes, material acquisition integration costs and profit or loss on disposal of investments. Judgement is used in assessing the particular items which by virtue of their scale and nature should be disclosed as exceptional items.

2. REVENUE AND SEGMENTATIONAL ANALYSIS

The Company is managed as a single business unit which provides software and data processing services that facilitate hostel, hotel and other accommodation bookings worldwide, including ancillary on-line advertising revenue.

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Registered number: 418681

Doyle Hotels (Holdings) Limited

Directors' report and financial statements
For the Year Ended 31 December 2019

Doyle Hotels (Holdings) Limited

Directors' report
For the Year Ended 31 December 2019

The directors submit their Annual Report together with the audited financial statements of Doyle Hotels (Holdings) Limited ("the Company") and its subsidiary undertakings ("the Group") for the year ended 31 December 2019.

Principal activities

The Group operates hotels in prime city locations in Ireland, the United Kingdom and the United States of America. The Group caters for a wide market with the business and leisure sectors being the most important sources of revenue and profit.

The principal activity of the Company is that of an investment company.

Business review and Future Outlook

The Group has had a positive year's trading. Turnover increased year on year across the Group and amounted to €148.3 million (2018: €146.5 million). Earnings before interest, tax, depreciation and amortisation ("EBITDA") were €29.9 million, compared to €31.5 million in 2018.

The Group's hotel and investment property assets were revalued as at 31 December 2019 and a €23.2 million uplift in revaluations recognised, of which €8.8m was included in EBITDA. The Group continued its capital investment programme in 2019, further increasing the carrying value of the Group's assets.

Principal risks and uncertainties

Under the Companies Act 2014, the Directors are required to give a description of the Company's principal risks and uncertainties.

The principal risks and uncertainties that the Company and the Group face include Brexit, changes in inflation, an increase in interest rates, and fluctuations in exchange rates. The Directors have developed a range of strategies to address the risks to the Group including currency hedging and fixing of interest rates. The Covid-19 pandemic declared in March 2020 together with the resultant uncertainties around the short to medium term recovery of the global economy, also represents a principal risk of the Group.

Covid 19

The Group has considered the implications of the Covid 19 outbreak on its business and, in particular, the impact on its operations, cost base, material contracts, financing and working capital.

The particular risks identified include the impact of the temporary closure of the Group's hotel properties as a result of restrictions imposed by governments in Ireland, the United Kingdom and the United States. The Group has mitigated this risk by availing of government supports where available and obtaining further increases in its banking facilities, subject to documentation, thereby extending the considerable financial headroom the Group had as at 31 December 2019.

In recent weeks, there have been indications from governments in the three countries in which the Group operates that there will be some easing of restrictions which may enable the Group to reopen its properties on a phased basis over the coming months.

The Group has also considered the impact of the Covid 19 on its property values and believes that the locations and quality of its hotel operations, loyal staff and customer base in all of its markets will protect the Group from the most significant effects.

As this crisis evolves, its impact on the Group will be continually reassessed.

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Doyle Hotels (Holdings) Limited

Directors' report
For the Year Ended 31 December 2019

Results and dividends

Details of the results for the year are shown in the profit and loss account on page 7 and in the related notes forming part of the consolidated financial statements. There were no dividends declared during the year.

Directors

The names of the persons who were directors during the year are B. Gallagher, W. Beatty, B. Evans, J. Gallagher, P. King, N. Monahan and C. Roche. Except where indicated they served for the entire year. The interests of the directors in the share capital of the Company are set out below.

W. Beatty is a shareholder and director of Beatco Limited which is the ultimate beneficial owner of 1,600 ordinary shares in the Company.
B. Gallagher and J. Gallagher are shareholders and directors of Galtel Limited which is the ultimate beneficial owner of 1,600 ordinary shares in the Company.
N. Monahan is a shareholder in Monco Financial Limited which is the ultimate beneficial owner of 1,600 ordinary shares in the Company.
C. Roche is a shareholder in Rochefin Limited which is the ultimate beneficial owner of 1,600 ordinary shares in the Company.

Accounting records

The measures taken by the directors to ensure compliance with the requirements of Sections 281 to 285 of the Companies Act 2014 with regard to the keeping of accounting records are the employment of appropriately qualified accounting personnel and the maintenance of computerised accounting systems. The Company's accounting records are maintained at the Company's registered office at 156 Pembroke Road, Ballsbridge, Dublin 4.

Relevant audit information

The directors believe that they have taken all steps necessary to make themselves aware of any relevant audit information and have established that the Group's statutory auditors are aware of that information. In so far as they are aware, there is no relevant audit information of which the Group's statutory auditors are unaware.

Audit and Risk Committee

The Company has established an Audit and Risk Committee that is chaired by an independent director and its terms of reference include the:

- monitoring of the financial reporting process;
- monitoring of the effectiveness of the Group and Company's systems of internal control, internal audit and risk management;
- monitoring of the statutory audit of the Group and Company's statutory financial statements; and
- review and monitoring of the independence of the statutory auditors and in particular the provision of additional services to the Group and Company.

Directors' compliance statement

The directors acknowledge that they are responsible for securing compliance by the Company with its relevant obligations, as defined in the Companies Act 2014, (hereinafter, the "Relevant Obligations"). The directors confirm that they have drawn up and adopted a compliance policy statement setting out the Company's policies that, in the directors' opinion, are appropriate to the Company in respect of its compliance with its Relevant Obligations.

The directors further confirm that the Company has put in place appropriate arrangements or structures that are, in the directors' opinion, designed to secure material compliance with its Relevant Obligations and that they have reviewed these arrangements or structures during the financial period to which this report relates.

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Doyle Hotels (Holdings) Limited

Directors' report
For the Year Ended 31 December 2019

Post balance sheet events

In March 2020, the Group temporarily closed all hotels in response to government restrictions due to the Covid-19 pandemic. The Directors have considered the impact of this temporary closure on the applicability of the going concern basis of accounting in preparing the financial statements and concluded that this continued to be appropriate (See Note 1.1).

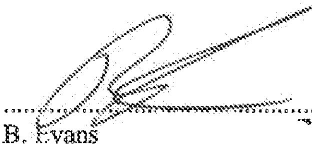
The impact of Covid-19 is deemed a non-adjusting event and there was no evidence of the event impacting on the Group balance sheet as at 31 December 2019.

There have been no other significant events affecting the Group since the year end.

Auditors

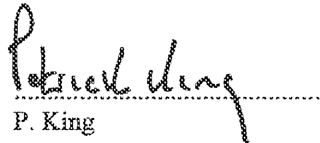
The auditors, KPMG, continue in office in accordance with section 383(2) of the Companies Act 2014.

This report was approved by the Board and signed on its behalf.



B. Evans

Date: 29 May 2020



P. King

Date: 29 May 2020

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Doyle Hotels (Holdings) Limited

Consolidated profit and loss account
For the Year Ended 31 December 2019

	Note	2019 €'000	2018 €'000
Turnover	3	**148,334**	146,529
Cost of sales - recurring		**(120,729)**	(115,236)
- non recurring	12	**-**	1,126
Gross profit		**27,605**	32,419
Administrative expenses		**(6,506)**	(6,734)
Net reversal of impairment of hotel properties	4	**8,920**	4,842
Revaluation of investment properties	13	**(168)**	1,017
Depreciation	13	**(12,903)**	(11,648)
Operating profit – continuing operations		**16,948**	19,896
Interest receivable and similar income	9	**572**	602
Interest payable and expenses	10	**(9,080)**	(8,881)
Profit on ordinary activities before tax		**8,440**	11,617
Tax charge on profit on ordinary activities	11	**(1,290)**	(1,312)
Profit for the financial year attributable to owners of the Company		**7,150**	10,305

The notes on pages 15 to 42 form part of these financial statements

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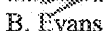
Doyle Hotels (Holdings) Limited

Consolidated balance sheet
As at 31 December 2019

	Note	€'000	2019 €'000	€'000	2018 €'000
Fixed assets					
Tangible fixed assets	13		671,483		622,782
			671,483		622,782
Current assets					
Stocks		2,143		2,223	
Debtors: amounts falling due within one year	15	8,668		7,781	
Cash at bank and in hand		35,019		38,443	
		45,830		48,447	
Creditors: amounts falling due within one year	16	(39,119)		(37,699)	
Net current assets			6,711		10,748
Total assets less current liabilities			678,194		633,530
Creditors: amounts falling due after more than one year	17		(236,102)		(225,477)
Provisions for liabilities					
Deferred tax	21		(77,120)		(72,001)
Retirement benefit obligations	23		(3,048)		(1,620)
Net assets			361,924		334,432
Capital and reserves					
Called up share capital presented as equity	22		2		2
Revaluation reserve			134,904		116,387
Convertible securities	22		383,335		383,335
Foreign exchange reserve			(28,358)		(31,757)
Cash flow hedge reserve	20		(120)		85
Profit and loss account			(127,839)		(133,620)
Shareholders' funds			361,924		334,432

The financial statements were approved and authorised for issue by the Board on 29 May 2020.

Signed on behalf of the Board:



B. Evans

Date: 29 May 2020

P. King

Date: 29 May 2020

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1. Accounting policies

Doyle Hotels (Holdings) Limited is a company limited by shares and incorporated, domiciled and registered in Ireland. The address of its registered office is 156 Pembroke Road, Ballsbridge, Dublin 4 and the registered number of the company is 418681.

These Group and holding undertaking ("Company") financial statements were prepared in accordance with Financial Reporting Standard 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"). The presentation currency of these financial statements is Euro. All amounts in the financial statements have been rounded to the nearest €1,000.

Judgments made by the directors, in the application of these accounting policies, that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

The holding undertaking is included in the consolidated financial statements and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. The following exemptions available under FRS 102 in respect of certain disclosures for the holding undertaking financial statements have been applied:

- No separate holding undertaking Cash Flow Statement with related notes is included; and
- Key Management Personnel compensation has not been included a second time.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, investment properties, and freehold and long leasehold hotel property assets.

1.2 Going concern

The Group and Company's business activities, together with the factors likely to affect their future development, performance and market position are set out in the Business Review in the Directors Report on page 1. The financial position of both the Group and Company, including cash flows, liquidity position, borrowing and details of financial instruments, are included in the financial statements.

Since the year end, the COVID-19 pandemic has become a worldwide crisis and at the date of this report the impact on the global economy is still evolving. The Directors have considered the appropriateness of the going concern basis of accounting in preparing these financial statements in the context of the resultant impact on the Group and Company's businesses in the short to medium term, including the temporary closure of all hotels. In recent weeks, Governments in the countries in which the Group operates have announced plans for the easing of restrictions for businesses in those countries, which may enable the Group to re-open its hotels, restaurants and bars on a phased basis over the coming months, although the timing and extent of reopening remains uncertain.

In assessing going concern, the Directors noted that, as at 31 December 2019, the Group had considerable financial resources as a result of having €35m of cash on hand as well as having completed a refinancing of its debt in December 2019. In addition, in response to the uncertainties created by the pandemic, the Group obtained further financial support from its bank, subject to documentation, in order to create further financial headroom available to the Group and Company in the event of a prolongation of the global crisis.

Based on their assessment of the Group's and Company's business plans together with the financial resources and headroom available to the Group, the Directors have a reasonable expectation that the Group and Company have sufficient resources to continue in operational existence for at a period not less than 12 months from the date of approval of these financial statements, and therefore concluded it is appropriate to adopt the going concern basis in preparing the financial statements.

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1. Accounting policies (continued)

1.17 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

2. Key sources of estimation uncertainty

The preparation of consolidated financial statements requires management to make estimates and judgements that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period.

Estimates and judgements are based on historical experience and on other factors that are reasonable under current circumstances. Actual results may differ from these estimates if these assumptions prove to be incorrect or if conditions develop other than as assumed for the purposes of such estimates. The following are the critical areas requiring estimates and judgements by management.

Pension assumptions
The valuation of the defined benefit pension schemes is a significant estimate in the financial statements, particularly in the current uncertain market. Further details are given in note 23. The directors have reviewed and assessed as reasonable the assumptions made by independent professional actuaries in assessing the fair value of the defined benefit pension schemes.

Carrying amount of property plant and equipment
The valuation of the property plant and equipment is a significant estimate in the financial statements. A full valuation was performed at 31 December 2019. The valuations as performed by professional independent valuers have been recognised in these financial statements. Further details are given in note 13. The directors have reviewed and assessed as reasonable the assumptions made by independent professional valuers in assessing the fair value of property plant and equipment.

Carrying amount of investment property
The valuation of the investment properties is a significant estimate in the financial statements. Valuations were performed as at 31 December 2019. The valuations as performed by professional independent valuers have been recognised in these financial statements. Further details are given in note 13. The directors have reviewed and assessed as reasonable the assumptions made by independent professional valuers in assessing the fair value of investment properties.

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Doyle Hotels (Holdings) Limited

Notes to the financial statements
For the Year Ended 31 December 2019

27. Capital commitments

At 31 December 2019, the Group had authorised capital commitments of €14.8 million (2018: €9.2 million) of which €3.4 million (2018: €4.7 million) was contracted for.

28. Post balance sheet events

On 11 March 2020, the World Health Organization declared the Coronavirus (COVID-19) outbreak to be a pandemic in recognition of its rapid spread across the globe, with over 150 countries now affected. There is a significant increase in economic uncertainty coupled with more volatile asset prices and currency exchange rates. The duration and severity of the outbreak is unknown and, as a result the full impact on the Group's trade and on the carrying value of its property assets is uncertain.

The impact of Covid-19 is deemed a non-adjusting event and there was no evidence of the event impacting on the Group balance sheet as at 31 December 2019.

In March 2020, the Group temporarily closed all hotels in response to government restrictions due to the Covid-19 pandemic. The directors have considered the impact of this temporary closure on the applicability of the going concern basis of accounting in preparing the financial statements and concluded that this continues to be appropriate (See Note 1.1).

Further details are contained in the Business Review section of the Directors Report and in section 1.1 of Note 1: Accounting Policies dealing with Going Concern.

There have been no other significant events affecting the Group since the year end.

29. Controlling parties

The Company is a wholly-owned subsidiary of Pembase Holdings Limited.

30. Approval of financial statements

The Board of directors approved these financial statements for issue on 29 May 2020.

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Company registration number: 273474

Ebookers.ie Limited

Financial statements

for the financial year ended 31 December 2019

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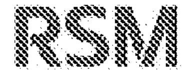

Ebookers.ie Limited

Directors' report

Financial year end 31 December 2019

The directors present their annual report and the audited financial statements of the company for the financial year ended 31 December 2019.

Directors

The names of the persons who at any time during the financial year were directors of the company are as follows:

Robert Dzielak
Philip Pentland (Resigned 11 October 2019)
Lance Soliday
Frances Erskine

Robert Dzielak held the position of company secretary throughout the financial period.

Principal activities

The principal activity of the company was the provision of services to the Expedia Group companies. The company was not active during 2019.

Results for the year and state of affairs at 31 December 2019

The results for the year ended 31 December 2019 are set out on pages 8 and 9. The loss on ordinary activities for the year before taxation amounted to €803 (31 December 2018: loss of €531). After taxation of €- (31 December 2018: charge of €35,061) the loss of €803 (31 December 2018: loss of €35,592) was transferred to reserves.

Non-going concern

The directors have considered the use of the going concern basis in the preparation of the financial statements and have concluded that it is more appropriate to prepare them on a basis other than going concern. There have been no alterations to the carrying value of assets as a result.

Dividends

During the financial year the directors have not paid any dividends or recommended payment of a final dividend.

Events after the end of the reporting period

On 1 April 2020 the company entered into a loan agreement with another group entity whereby the company provided funding in the amount of €1,400,000.

During the first quarter of 2020, the Covid-19 pandemic spread initially from Asia to Europe and subsequently worldwide. The initial economic effect of this has been a worldwide slowdown in economic activity and the loss of jobs across many businesses. As the company is not active, the pandemic has had no direct impact on the results of the company.

There were no other events since the year-end which would have an impact on the results reported for the financial period or require disclosure in the financial statements.

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RSM

Ebookers.ie Limited

Directors' report (continued)

Financial year end 31 December 2019

Directors and secretary and their interests

The directors and the secretary, at the financial year end, had no interests in shares, or debentures of, the company. At year end and during the financial year, the directors and secretary held interests in the share capital of the ultimate parent company, Expedia Group, Inc., however these interests in aggregate do not represent more than 1% of the nominal value of Expedia Group, Inc's issued share capital, and are therefore not disclosed in accordance with Section 260 of the Companies Act 2014. Apart from the above, the directors and the Company Secretary had no beneficial interest in the share capital of any other group

The directors, the secretary and their families had no significant transactions with the company during the year within the meaning of the Companies Act 2014.

Accounting records

The measures taken by the directors to secure compliance with the requirements of sections 281 to 285 of the Companies Act 2014 with regard to the keeping of accounting records are the implementation of necessary policies and procedures for recording transactions, the employment of competent accounting personnel with appropriate expertise and the provision of adequate resources to the financial function. The accounting records of the company are located at Angel Square, Block 1, Torrens Street, London, EC1A United Kingdom and at 1111 Expedia Group Way West, Seattle, WA 98119, USA. The company's accounting records are sent to and kept in their registered office at a place in the State (Republic of Ireland) so at any time they disclose with reasonable accuracy the assets, liabilities, financial position and profit or loss of the company at intervals not exceeding six months.

Relevant audit information

In the case of each of the persons who are directors at the time this report is approved in accordance with section 332 of Companies Act 2014:

- so far as each director is aware, there is no relevant audit information of which the company's statutory auditors are unaware, and
- each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's statutory auditors are aware of that information.

Auditors

In accordance with the Section 383(2) of the Companies Act 2014, RSM Ireland Business Advisory Limited T/A RSM Ireland will continue in office.

This report was approved by the Board of Directors on September 4, 2020 and signed on behalf of the Board by:

DocuSigned by: Robert J. Dzielak

Robert Dzielak
Director

DocuSigned by:

Lance Soliday
Director

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Independent auditor's report to the members of
Ebookers.ie Limited

Financial year end 31 December 2019

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Ebookers.ie Limited (the 'company') for the financial year ended 31 December 2019 which comprise the profit and loss account, balance sheet, statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies set out in note 3. The financial reporting framework that has been applied in their preparation is Irish law and FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, applying Section 1A of that Standard.

In our opinion, the financial statements:

- give a true and fair view of the assets, liabilities and financial position of the company as at 31 December 2019 and of its loss for the financial year then ended;
- have been properly prepared in accordance with FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, applying Section 1A of that Standard; and
- have been prepared in accordance with the requirements of the Companies Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority (IAASA), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in the accounting policies concerning the basis of preparation of the financial statements. As the company has ceased to trade, the financial statements have been prepared on a non-going concern basis. There have been no alterations to the carrying value of assets as a result of this decision.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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Ebookers.ie Limited

Balance sheet
As at 31 December 2019

	Note	2019 €	2019 €	2018 €	2018 €
Current assets					
Cash at bank and in hand		1,406,778		1,408,265	
		1,406,778		1,408,265	
Creditors: amounts falling due within one year	4	(2)		(686)	
Net current assets			1,406,776		1,407,579
Total assets less current liabilities			1,406,776		1,407,579
Net assets			1,406,776		1,407,579
Capital and reserves					
Called up share capital presented as equity			250,001		250,001
Other reserves			3,948		3,948
Capital contribution			200,000		200,000
Profit and loss account			952,827		953,630
Shareholder's funds			1,406,776		1,407,579

These financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime and in accordance with Section 1A of FRS 102 Financial Reporting Standard applicable in the UK and Republic of Ireland'.

These financial statements were approved by the Board of Directors on September 4, 2020 and signed on behalf of the Board by:

DocuSigned by:
Robert J. Dzielak

Robert Dzielak
Director

DocuSigned by:

Lance Soliday
Director

The notes on pages 11 to 13 form part of these financial statements.

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1. General information

The financial statements comprising of the Profit & Loss Account, the Balance Sheet, the Statement of Changes in Equity and the related notes constitute the individual financial statements of Ebookers.ie Limited for the financial year ended 31 December 2019.

Ebookers.ie Limited is a limited company incorporated and registered in Ireland, (CRO number 272474). The address of the registered office is Riverside One, Sir John Rogerson's Quay, Dublin 2.

The nature of the company's operations and its principal activities are set out in the Directors' Report.

2. Statement of compliance

These financial statements have been prepared in compliance with FRS 102 Section 1A, 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

3. Accounting policies and measurement bases

The following accounting policies have been applied consistently in dealing with the items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared on the historical cost basis, as modified by the revaluation of certain financial assets and liabilities and investment properties measured at fair value through profit or loss.

The financial reporting framework that has been applied in their preparation is the Companies Act 2014 (the Act) and FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland. The company qualified as a small company for the period, as defined by Section 280A of the Act, in respect of the financial year, and has applied the rules of the 'Small Companies Regime' in accordance with Section 280C of the Act and Section 1A of FRS 102

The financial statements are prepared in Euro, which is the functional currency of the entity.

Non-Going concern

The directors have considered the use of the going concern basis in the preparation of the financial statements and have concluded that it is more appropriate to prepare them on a basis other than going concern. There have been no alternations to the carrying value of assets as a result.

Judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

MUSGRAVE GROUP PLC

Annual Report
Financial Year Ended 28 December 2019

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DIRECTORS' REPORT

The directors have pleasure in submitting their annual report to the shareholders, together with the audited financial statements, for the financial year ended 28 December 2019.

The Group's reporting period ends on the Saturday closest to 31 December, being 28 December 2019 for the current year and 29 December 2018 for the prior year. These financial statements are prepared for the 52-week period ended 28 December 2019. Comparatives are for the 52-week period ended 29 December 2018. The balance sheets for 2019 and 2018 are drawn up as at 28 December 2019 and 29 December 2018 respectively.

These consolidated financial statements have been prepared in accordance with Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Ireland" ("FRS 102") and Irish law. For 2018 year end, the entity chose to early adopt the provisions of *"Amendments to FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' – Triennial Review 2017 – Incremental Improvements and Clarifications"* (December 2017), as set out in the accounting policies herein.

These financial statements are presented in the currency units of the Republic of Ireland, the euro (€).

The holding company is a public limited company and is incorporated in Ireland. The address of its registered office is Ballycurreen, Airport Road, Cork. The principal subsidiaries are listed in note 35.

Principal activities and review of the business
Musgrave owns twelve brands on the island of Ireland and in Spain across food retail, wholesale and foodservice. The business was founded in 1876 and is family and employee owned. Musgrave's business model is to co-create brands with its retail partners and equip them with the sales, marketing, technology, finance and logistical expertise that comes with the most advanced retail models. The Group leverages its scale to help retailers compete on quality and price, aimed at providing consumers with a retail offer that is different and better. The Group also operates cash and carry and retail outlets in Ireland and Spain, developed to meet the needs of independent retailers, foodservice professionals and consumers.

The Group operates through Musgrave Retail Partners Ireland (MRPI), Musgrave Wholesale Partners (MWP), Musgrave Retail Services (MRS), Musgrave Northern Ireland (MNI) and Musgrave España (ME). The brands operated by the Group are SuperValu, Centra, Frank and Honest, Drinks Inc (from December 2019), Donnybrook Fair, MarketPlace, La Rousse Foods, Chipmongers, Daybreak, Mace, Dialsur and Dialprix.

Group turnover amounted to €3.9 billion, up 2.4 per cent on last year when normalised for the impact of currency movements. Profit before tax was €88.0 million, which is €3.5 million higher than 2018. Gross profit increased by €39.8 million due to increased sales and net rate movements of €28.3 million and non-recurring income from certain suppliers on legacy matters of €11.5 million. Operating profit has decreased by €1.2 million to €89.4 million and includes a €10.1 million goodwill impairment charge in respect of certain of the Group's acquisitions. Profit after tax is €76.0 million, an increase of €0.6 million (0.8 per cent) on last year.

The Group's net assets were €449.0 million, an increase of €39.2 million on the prior year. The increase relates to retained profit (profit after tax less dividends paid) of €57.6 million less net other costs, primarily arising from actuarial losses on the Group's pension schemes, of €18.4 million. The Group ended the year with net cash of €7.9 million (2018: €15.6 million), with €72.6 million (2018: €66.6 million) spent on the purchase of tangible assets during the year.

Future developments
The Group has a way of working that is founded on the support offered to entrepreneurial retailers and it will continue to invest in its brands.

Profits, dividends and reserves
The profit for the financial year ended 28 December 2019 was €76.0 million.

Aggregate dividends of 32.6 cent (2018: 31.8 cent) per €0.50 ordinary share amounting to €18.4 million (2018: €17.9 million) were paid during the year. The dividends were paid on a quarterly basis.

Other movements on reserves are shown in the Consolidated Statement of Changes in Equity on page 30.

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DIRECTORS' REPORT - continued

Principal risks and uncertainties

The principal risks and uncertainties faced by the Group are as follows:

- Pandemic – the Covid-19 pandemic has impacted the Group's employees, customers and supply chain. The Group's retail business has experienced higher demand and increased costs while there has been a significant reduction in sales to foodservice customers. The Group continues to manage the impact of this crisis through the implementation of wage supports to retain employees and business continuity programme for employees, working with suppliers to maintain range availability, implementing new work practices to comply with government guidelines and prioritising operating and capital spend.
- Brexit – we have established a project team to manage the impact of the departure of the United Kingdom from the European Union on our purchases from outside of Ireland and on our business in the Republic of Ireland and Northern Ireland.
- Information security – we are investing in our IT systems to minimise the threat from cyber-attacks.
- Food safety – we monitor the supply chain of our products from primary producer to store shelves.
- Credit risk – these risks are subject to credit control policies as set out below.
- Customer loss – each division is focused on maintaining an ongoing successful commercial relationship with its key customers.
- Talent management – succession planning and talent management initiatives are implemented in respect of all senior management positions across the Group.
- Operational disruption – the Group has taken facility protection measures and has contingency plans in place working closely with our insurance providers.
- Laws and regulations – we have training and awareness programmes in place to ensure compliance with all regulations impacting the Group.
- Defined benefit pension schemes – all schemes are closed to future accrual and pension investments are carefully managed.

Financial risk management

The Group's operations expose it to a variety of financial risks that include liquidity risk, credit risk, interest rate risk, foreign exchange risk and commodity price risk. The Group has a risk management programme in place that seeks to manage the financial exposures of the Group and a treasury policy that has been approved by the board. The policies set out are implemented by the Group's finance departments and include specific guidelines to manage credit risk and interest rate risk and circumstances where it would be appropriate to use financial instruments to manage these risks.

The Group maintains adequate medium-term committed facilities that ensure that the Group has sufficient funds available for operations and planned expansion. The Group has a revolving credit bank facility in place of €250 million with a five-year term ending in 2024, and has a fixed interest senior note amounting to €25 million which matures in 2025. The Group has additional debt facilities of €110 million, consisting of a €50 million Accordion bank facility and a €60 million Private Placement Shelf facility which are available for drawdown subject to certain lender approvals. Accordingly, the Group has access to total debt facilities of up to €385 million.

Musgrave has implemented credit control policies in each of its divisions and governance is in place that requires Group approval of any material credit or other support being offered to a customer. Debtor ageing, arrears and returned direct debits are monitored and action is taken to minimise any potential loss to the Group. Credit checks are carried out on new customers and the overall exposure to any customer is managed through credit limits or other measures.

The Group has a policy of minimising exposure to adverse movements in interest rates by maintaining an appropriate balance of fixed and floating interest rates on debt. The interest rates can be fixed using hedging instruments or the fixing of the rate with the lender in the case of senior notes.

The Group is exposed to foreign exchange risk in the normal course of business on transactions outside the eurozone. The Group mitigates the effect of this currency exposure by hedging certain foreign currency transactions using forward foreign exchange contracts. The total principal amount of such contracts at year end was €2.2 million (2018: €3.8 million) and they had a fair value of €Nil million (2018: €Nil million).

The Group's reserves are exposed to the gain or loss arising on its investment in UK subsidiaries when translated from sterling to euro. The Group reduces this risk by using sterling denominated long term intercompany balances as a hedge against this exposure so that the gain or loss is taken on the net amount. A net gain of €3.7 million was recorded in other comprehensive income in 2019 (2018: €0.9 million loss).

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DIRECTORS' REPORT - continued

Financial risk management - continued
The Group is exposed to movements in the price of fuel and energy and uses commodity forward contracts to mitigate this risk. The total principal amount of these contracts at year end was €10.1 million (2018: €11.9 million). Their fair value was a loss of €0.2 million (2018: €2.4 million loss) and the gain of €2.2 million (2018: €2.9 million loss) was credited to other comprehensive income along with a deferred tax charge of €0.2 million (2018: €0.4 million credit).

Directors
The names of the persons who were directors at any time during the year ended 28 December 2019 are set out below. Except where indicated, they served as directors for the entire year.

N Hartery
C Musgrave
N Keeley
D O'Flynn
C N Martin (resigned 23 March 2020)
S Buckley
M Kelleher
R Brennan
W Mackeown
P J Musgrave (alternate director)
H N Mackeown (alternate director)
C Pilling
J Thierry

N Hartery, D O'Flynn and C Pilling will retire in accordance with the Articles of Association at the next Annual General Meeting of the Company, and being eligible, intend to offer themselves for re-election

Statement of directors' responsibilities
The directors are responsible for preparing the annual report in accordance with Irish law.

Irish law requires the directors to prepare financial statements for each financial year that give a true and fair view of the Group and Company's assets, liabilities and financial position as at the end of the financial year and of the profit or loss of the Group and Company for the financial year. Under that law the directors have prepared the financial statements in accordance with Irish Generally Accepted Accounting Practice (accounting standards issued by the UK Financial Reporting Council, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and Irish law).

Under Irish law, the directors shall not approve the financial statements unless they are satisfied that they give a true and fair view of the Group and Company's assets, liabilities and financial position as at the end of the financial year and the profit or loss of the Group and Company for the financial year.

In preparing these financial statements, the directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with applicable accounting standards and identify the standards in question, subject to any material departures from those standards being disclosed and explained in the notes to the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to:
- correctly record and explain the transactions of the Group and Company;
- enable, at any time, the assets, liabilities, financial position and profit or loss of the Group and Company to be determined with reasonable accuracy; and
- enable the directors to ensure that the financial statements comply with the Companies Act 2014 and enable those financial statements to be audited.

The directors are also responsible for safeguarding the assets of the Group and Company, hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DIRECTORS' REPORT - continued

Disclosure of information to auditors
The directors in office at the date of this report have each confirmed that:

- As far as he/she is aware, there is no relevant audit information of which the Company's statutory auditors are unaware; and
- He/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's statutory auditors are aware of that information.

Directors' compliance statement
The directors acknowledge that they are responsible for securing the company's compliance with its relevant obligations (as defined by section 225 of the Companies Act, 2014).

The directors confirm that:

1) A compliance policy statement setting out the Company's policies, that in our opinion are appropriate to the Company, respecting compliance by the Company with its relevant obligations has been drawn up.

2) Appropriate arrangements or structures that are designed to secure material compliance with the Company's relevant obligations have been put in place and additional arrangements and structures were adopted prior to the signing of this Directors' Report.

3) A review of the arrangements and structures referred to in the preceding paragraph has been conducted during the financial year ended 28 December 2019.

Audit Committee
The Company has an Audit Committee in place for the year ended 28 December 2019 as required by section 167 of the Companies Act, 2014.

Accounting records
The measures taken by the directors to secure compliance with the Company's obligation to keep adequate accounting records are the use of appropriate systems and procedures and employment of competent persons. The accounting records are kept at Ballycurreen, Airport Road, Cork, Ireland.

Political donations
The Electoral (Amendment) (Political Funding) Act 2012 requires companies to disclose all political donations over €200 in aggregate made during the financial year. The directors, on enquiry, have satisfied themselves that no such donations in excess of this amount have been made by the Company.

Going concern
The Directors have assessed going concern in the context of both current performance and projections for the next twelve months from the date the directors approved the annual report, which considered the potential impact of the Covid-19 pandemic under varying scenarios. This includes an 'extreme' scenario which assumed a prolonged period of government restrictions followed by a deep economic recession. These projections model the impact of the pandemic on the Group's working capital and overall cash flow including borrowing facilities available to the Group. Additional details are set out in the "Events after the balance sheet date" section below.

Specifically, in respect of the Company the directors are satisfied that subsidiary undertakings will continue to provide the necessary financial support to enable the company to continue to meet its liabilities as they fall due.

As a result of the above, the Directors consider that it is appropriate to adopt the going concern basis of accounting in preparing the Company and Consolidated Financial Statements.

Events after the balance sheet date (Covid-19 impact)
The Covid-19 pandemic has impacted the Group since mid-March 2020 and will continue to impact trading for the next twelve months from the date the directors approved the annual report. While it is extremely difficult to predict the specific impact of Covid-19, based on the stress testing performed under the scenarios as outlined below, the directors are of the view that the business has sufficient resources to cope with the crisis.

DIRECTORS' REPORT - continued

Events after the balance sheet date (Covid-19 impact) - continued
There are three key uncertainties relating to the pandemic: the duration of the lock-down period; the duration and nature of the transition to a normal operating environment; and the depth and duration of the economic recession that will follow. Stress tests have been prepared under three scenarios: "base case", "pessimistic" and "extreme", which are outlined as follows:

- "Base case" - virus is contained within a few months and the economy begins to recover.
- "Pessimistic" - there is long-term impact to certain areas of the business and lower long-term economic growth.
- "Extreme" – the transition to a normal operating environment is prolonged with a sharp recession, widespread external business failures and credit defaults.

The evidence from the Group's trading year-to-date is that: the impact of the lock-down is greatest in the Group's foodservice business with most customers not able to trade; there is also a significant impact on retail stores based in locations that relied on trade from customers who are now restricted to their homes; and this has been offset by increased sales in other retail stores with customers purchasing food and groceries to consume at home.

The Group's priority is to keep its locations as safe as possible for customers and staff while complying with government restrictions. Technology has been used to facilitate home working and all vital operations and projects are continuing. The Group is engaging with suppliers to help ensure that product availability can be maintained through a prolonged pandemic. The Group is also working with customers to support them through the challenges they face as a result of Covid-19.

The Group is managing its cash position carefully and has stress-tested the effects of differing levels of sales declines along with appropriate measures to control costs and conserve cash.

The method used to stress test the business was to consider three sets of assumptions over the next twelve months. In each case a continuation of current trends for the first half of the year has been assumed. In the second half of the year in the "base-case" model we assumed retail volumes unchanged on last year with foodservice sales below last year; in the "pessimistic" model retail sales were assumed to decline versus last year with foodservice significantly below last year and in the "extreme" scenario retail is further below last year with foodservice sales less than half of last year's levels.

The conclusion of our stress test is that even in the extreme scenario there is adequate headroom on the Group's existing borrowing facilities.

Own shares
Own shares held by the Group and Company are detailed in note 26.

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DIRECTORS' REPORT - continued

Directors' and secretary's interests in shares
The beneficial interests, including family interests, of any director or secretary of Musgrave Group plc in office at 28 December 2019 were:

	Musgrave Group plc	
	At 28 December 2019	At 29 December 2018 (or date of appointment if later)
	Ordinary shares of €0.50 each	Ordinary shares of €0.50 each
Directors		
P J Musgrave (alternate director)	7,241,909	7,112,909
H N Mackeown (alternate director)	6,661,428	6,661,428
C N Martin	530,610	910,631
W Mackeown	810,123	860,123
C Musgrave	600,000	600,000
S Buckley	340,014	261,414
M Kelleher	220,505	219,590
N Keeley	228,717	199,512
D O'Flynn	57,876	49,603
N Hartery	-	-
R Brennan	-	-
C Pilling	-	-
J Thierry	-	-

Of the shares above, Osprey Holdings Limited holds 6,532,174 shares and is 100 per cent owned by trusts set up by P J Musgrave and his immediate family. W Mackeown holds 809,123 shares through his 100 per cent owned company, Aphorism Holding Limited.

Non-financial information statement
This report has been prepared in relation to the Non-Financial Reporting requirements contained in Statutory Instrument No. 360/2017. This legislation requires a statement on a company's business model and general information, policies, risks and key performance indicators in relation to environmental matters, social and employee matters, respect for human rights and bribery and corruption. This report is intended to help stakeholders understand Musgrave Group's position on these key non-financial matters. The Group's business model is set out in the paragraph headed: Principal activities and review of the business.

Environmental matters
'Taking Care of our World' is the Group's sustainability strategy, set out on the Group's website. The Group has developed policies on:

- Sustainability (relating to the main sustainability impacts of Musgrave's business activities)
- Energy & Natural Resources Management (which sets out Musgrave's approach to energy and natural resource conservation)
- Water Conservation (which sets out Musgrave's commitment to sustainable operations and the importance of water as an important natural resource)
- Packaging (relating to the selection and design of sustainable packaging for own brand products)

Musgrave's primary facilities in Ireland are supplied with green electricity. Musgrave collaborates with Bord Bia and Origin Green to ensure that its Irish meat and dairy comply with the required standards of production and sustainability. Musgrave avoids sending waste to landfill through a combination of primary recycling on site and further processing of materials by approved contractors. Musgrave funds domestic recycling through its membership of Repak. Frank & Honest coffee cups were made fully compostable during 2018.

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DIRECTORS' REPORT - continued

Non-financial information statement - continued
Musgrave's risk in this area is its ability to maintain and enhance its reputation as a good corporate citizen in the environmental area. This area is managed by the Group Commercial function and action owners in each of the relevant businesses, supported by third party experts in energy and sustainability management. The risks inherent in each non-financial area are included in the Group's risk management register and subject to the Group's Risk Management Policy. Musgrave is a member of Business in the Community Ireland (BITC) which aims to embed sustainable practices in Irish companies. Musgrave holds the Business Working Responsibly Mark, based on ISO 26000, which verifies Musgrave performance across a range of indicators including corporate governance, community, employee welfare and sustainability. In 2019, Musgrave was appointed a UN Sustainable Development Goal Champion by the Department of Communications, Climate Action and Environment in recognition of the work Musgrave has done to embed these goals in its sustainability strategy and to promote the goals amongst the public.

The key sustainability performance indicators include: carbon footprint, fleet emissions, building electrical energy, total solid waste generation, total kilo tonnes recycled on Musgrave sites and food distributed to charities.

Social and employee matters
Musgrave's activities have an important social impact and the core of its business is a network of local food and grocery entrepreneurs across the island of Ireland. Musgrave introduced Food Academy over ten years ago which is run in conjunction with Bord Bia and the Local Enterprise Offices to support and nurture small Irish producers. There are now over 400 producers in Food Academy. Musgrave supports initiatives such as Tidy Towns and various local charities.

Musgrave wants to inspire healthy food choices amongst its shoppers and, working with suppliers, it has reduced salt and sugar in own brand products and certain branded products by reformulating recipes. Musgrave has put measures in place to comply with the Sugar Tax introduced in Ireland during 2018.

Musgrave's main risks in relation to social matters are the quality of product ranges that are a key feature of Musgrave brands such as own brand ranges and Food Academy products and the maintenance of its reputation as an important part of local communities. The key performance indicators measured include: retail sales with Food Academy producers, charitable donations to community causes, and voluntary time given by Musgrave employees.

Musgrave is Ireland's largest private sector employer and employs more than 7,000 people directly with a multiple of that employed by Musgrave brand operators. Musgrave's aim is to be a great place for people to work, grow and thrive. Musgrave's 'Be Well, Work Well' initiative provides colleagues with the opportunity to focus on their health and wellbeing in the workplace. Musgrave's Graduate Programme has a strong track record in developing talented leaders and was recognised as graduate employer of the year in 2019.

Musgrave believes that embracing diversity helps create a culture that fosters individual contribution and achievement. The Group has published its Diversity and Inclusion Policy to engage and educate colleagues and integrate diversity and inclusion into the workplace. The values of treating colleagues with respect and fairness are set out in the Group's recruitment and selection policy.

Health and safety are a key priority and all colleagues are given the appropriate level of training appropriate for their role. Musgrave also maintains other compliance-based policies. The key risks in relation to employee matters are Musgrave's ability to attract and retain talented people to manage and grow the business and the provision of a safe and healthy work environment for all colleagues. These risks are managed by the HR functions within the Group.

The key performance indicators measured include: internal promotion rate, investment in training, accident frequency rate, graduate intake and people engagement scores.

Respect for human rights
Musgrave believes that its product sourcing should minimise the impact on the environment and that all supply chain stakeholders are treated with respect. In 2004, Musgrave became the first Irish company to sign up to the ten principles of the United Nations Global Compact (UNGC) in the areas of human rights, labour, the environment and anti-corruption. Musgrave has made a commitment to manage its environmental and social impacts through its Sustainability Policy. Musgrave also has an Anti-Slavery and Human Trafficking Statement which is set out on its website. Policies are in place in relation to ethical trading and animal welfare.

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DIRECTORS' REPORT - continued

Non-financial information statement - continued
Musgrave's main risk in this area relate to breaches of ethical, human rights or labour standards by suppliers or contractors. The key performance indicator is the record of supplier site inspections and monitoring of any possible breaches.

This area is managed by the Commercial and Legal functions within the Group and an annual report is provided to the UNGC.

Anti-bribery and anti-corruption
Musgrave is opposed to all forms of corruption, including extortion and bribery. Musgrave will not engage in such practices nor will it accept its suppliers engaging in corrupt activities.

Musgrave has a Code of Business Conduct for all colleagues outlining important legal obligations and the policies that guide conduct in relation to: behaviour and integrity; conflicts of interest; anti-fraud policy; gifts and hospitality policy; behaviours opposite competitors; company resources; and health and safety. All colleagues receive a copy of this document on joining the Group. Musgrave has put "Speaking up" arrangements in place through an external company, Safecall, that allows colleagues or third parties to raise a concern confidentially and anonymously.

Musgrave's main risks in this area relate to a potential breach of laws and regulations. The Criminal Justice (Corruption Offences) Act 2018 provides that a company may be held liable for the corrupt actions committed for its benefit by any employee or agent. Similar legislation is in effect in Northern Ireland and Spain. Musgrave is also subject to the Grocery Goods Undertakings Regulations 2016 in Ireland which deals with the conduct of business relationships with suppliers and has a Grocery Regulations Compliance Policy in place. The key performance indicator is the record of any breaches and monitoring of speaking-up issues. This area is managed by the Group Commercial and Legal functions.

Statutory auditors
The statutory auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office and a resolution that they be re-appointed will be proposed at the Annual General Meeting.

On behalf of the board

N Keeley

D O'Flynn

22 April 2020

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ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation
These financial statements have been prepared on the going concern basis and in accordance with accounting standards issued by the UK Financial Reporting Council and the Companies Act 2014. The entity complies with FRS 102 "The Financial Reporting Standard applicable in the UK and the Republic of Ireland" and Irish law. For 2018 year end, the entity chose to early adopt the provisions of *"Amendments to FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' – Triennial Review 2017 – Incremental Improvements and Clarifications"* (December 2017). The principal effective date for these amendments is accounting periods beginning on or after 1 January 2019, with early application permitted provided all amendments are applied at the same time.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, the revaluation of land and buildings in tangible assets (in accordance with the deemed cost exemption availed of on transition to FRS 102) and the measurement of certain financial assets and liabilities at fair value.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires judgement to be exercised in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3. Actual results could differ from those estimates.

The consolidated financial statements comprise the financial statements of the holding company and all of its subsidiary undertakings. The Group's reporting period ends on the Saturday closest to 31 December, being 28 December 2019 for the current year and 29 December 2018 for the prior year. The financial statements of all Group undertakings are prepared to this date each year except for Pineglade Limited and Fringeglade Limited who report their results to a 30 November year end and Musgrave España (ME) and Musgrave Finance BV (MFBV) who report their results to a 31 December year end. The attributable results of acquisitions are included in the financial statements from the date of acquisition. Similarly, the attributable results of disposals are included in the financial statements to the date of disposal.

Going concern
The Directors have assessed going concern in the context of both current performance and projections for the next twelve months from the date the directors approved the annual report, which considered the potential impact of the Covid-19 pandemic under varying scenarios. This includes an 'extreme' scenario which assumed a prolonged period of government restrictions followed by a deep economic recession. These projections model the impact of the pandemic on the Group's working capital and overall cash flow including borrowing facilities available to the Group. Additional details are set out in note 37.

Specifically, in respect of the Company the directors are satisfied that subsidiary undertakings will continue to provide the necessary financial support to enable the company to continue to meet its liabilities as they fall due.

As a result of the above, the Directors consider that it is appropriate to adopt the going concern basis of accounting in preparing the Company and Consolidated Financial Statements.

Disclosure exemptions for qualifying entities under FRS 102
FRS 102 allows a qualifying entity certain disclosure exemptions and the following exemptions have been taken by the Company:

(i) Preparation of a statement of cash flows
The Company has not prepared a cash flow statement, as required by Section 7 of FRS 102 and FRS 102 Paragraph 3.17(d), on the basis that it is a qualifying entity and the Consolidated Statement of Cash Flows, included in these financial statements, includes the Company's cash flows.

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CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE FINANCIAL YEAR ENDED 28 DECEMBER 2019

	Notes	2019 €m	2018 €m
Turnover	4	3,947.6	3,850.4
Cost of sales		(3,229.2)	(3,171.8)
Gross profit		718.4	678.6
Distribution costs		(493.2)	(470.1)
Administration expenses		(143.2)	(127.1)
Other operating income		7.4	9.2
Operating profit	5	89.4	90.6
Net interest expense	7	(1.4)	(6.1)
Profit before taxation		88.0	84.5
Tax charge on profit	8	(12.0)	(9.1)
Profit for the financial year		76.0	75.4

Turnover and operating profit arose solely from continuing operations.

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CONSOLIDATED BALANCE SHEET
AS AT 28 December 2019

	Notes	2019 €m	2018 €m
Fixed assets			
Intangible assets	11	83.1	103.1
Tangible assets	12	421.9	400.2
Investment properties	12	38.1	37.3
		543.1	540.6
Current assets			
Stocks	14	157.5	146.2
Debtors - Amounts falling due within one year	15	532.1	486.6
Debtors - Amounts falling due after more than one year	16	43.9	29.3
Cash at bank and in hand	20	58.6	54.3
		792.1	716.4
Creditors - Amounts falling due within one year	18	(754.7)	(704.7)
Net current assets		37.4	11.7
Total assets less current liabilities		580.5	552.3
Creditors - Amounts falling due after more than one year	19	(28.4)	(33.8)
Provisions for liabilities	21	(36.4)	(42.3)
		515.7	476.2
Pension liability	30	(66.7)	(66.4)
Net assets		449.0	409.8
Capital and reserves			
Called-up share capital presented as equity	23/24	28.8	28.8
Share premium account	24	2.7	2.7
Capital redemption reserve	24	2.5	2.5
Revaluation reserve	24	20.5	20.6
Other reserves	24	1.1	2.0
Profit and loss account	24/25	393.4	353.2
Equity shareholders' funds		449.0	409.8

The notes on pages 31 to 56 form an integral part of these financial statements.

On behalf of the board

N Keeley

D O'Flynn

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COMPANY BALANCE SHEET
AS AT 28 December 2019

	Notes	2019 €m	2018 €m
Fixed assets			
Financial assets	13	284.2	59.5
Current assets			
Debtors - Amounts falling due within one year	15	53.1	252.4
Cash at bank and in hand	20	-	0.1
		53.1	252.5
Creditors - Amounts falling due within one year	18	(253.5)	(227.2)
Net current (liabilities)/assets		(200.4)	25.3
Net assets		83.8	84.8
Capital and reserves			
Called-up share capital presented as equity	23/24	28.8	28.8
Share premium account	24	2.7	2.7
Capital redemption reserve	24	2.5	2.5
Other reserves	24	-	0.9
Profit and loss account	24/25	49.9	49.9
Equity shareholders' funds		83.8	84.8

The notes on pages 31 to 56 form an integral part of these financial statements.

On behalf of the board

N Keeley

D O'Flynn

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NOTES TO THE FINANCIAL STATEMENTS

1 General information

Musgrave Group is a leading partner to entrepreneurial retailers in the Republic of Ireland, Northern Ireland and Spain. It operates a network of retail brands and cash and carry outlets.

The holding Company is a public limited company and is incorporated in Ireland. The address of its registered office is Ballycurreen, Airport Road, Cork and its registered number is 105820. The principal subsidiaries are listed in note 35.

2 Statement of compliance

The financial statements have been prepared on a going concern basis and in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ('FRS 102') and Irish Law. For 2018 year-end, the entity chose to early adopt the provisions of *"Amendments to FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' – Triennial Review 2017 – Incremental Improvements and Clarifications"* (December 2017).

These financial statements are presented in euro (€).

3 Critical accounting judgements and estimation uncertainty

Estimates and judgements are required when applying accounting policies. These are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future, in the process of preparing the Group financial statements, which can involve a high degree of judgement or complexity. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

a) Recoverability of debtors

Estimates are made in respect of the recoverable value of trade and other debtors. When assessing the level of provisions required, factors including current trading experience, historical experience and the ageing profile of debtors are considered. See notes 15 and 16 for the net carrying amount of debtors.

b) Supplier income accrued

Accounting for the amount and timing of recognition of supplier income (as defined in the accounting policies) requires the exercise of judgement. Where volume-related allowances span different accounting periods, the amount of income recognised is estimated based on historical and forecast performance. Where supplier income is conditional on performance, it is recognised over time as the obligations are met or when all obligations are met, depending on the contractual requirements.

Supplier income accrued is included in accrued income in note 15.

c) Impairment of intangible and tangible assets

The carrying value of intangible and tangible assets, are assessed for impairment based on the presence of impairment indicators – where events or changes in circumstances indicate that the carrying amount may not be recoverable. Where impairment indicators are present, impairment tests are conducted. This is done by comparing the asset's carrying value to the higher of its value in use and net realisable value (fair value less costs to sell). Any shortfall is recorded as an impairment charge. The asset's value-in-use is assessed based on estimates of future cash flows discounted appropriately. Net realisable value is estimated using a valuation process. Intangible assets are included in note 11 and tangible assets are included in note 12.

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NOTES TO THE FINANCIAL STATEMENTS - continued

3 Critical accounting judgements and estimation uncertainty - continued

d) Provisions for liabilities

Provisions by their nature are liabilities with an uncertain timing or amount. Estimates are made in relation to the future cash outflows likely to arise in connection with obligations existing at the reporting date including those relating to onerous leases and other business and property exposures, restructuring, self-insurance and guarantees. See note 21 for provisions for liabilities.

e) Defined benefit pension scheme obligations

Pension scheme obligations are an estimate of the amount required to pay the benefits that employees have earned in exchange for past service, assessed and discounted to present value using the assumptions shown in note 30. The Group seeks advice from independent actuaries to assist in determining the assumptions used which reflect historical experience and current trends.

4 Turnover	2019 €m	2018 €m
By class of business:		
Wholesale and retail distribution of food and general merchandise	3,947.6	3,850.4
By geographical market:		
Republic of Ireland	3,314.6	3,245.8
Northern Ireland	434.6	414.5
Spain and other	198.4	190.1
	3,947.6	3,850.4

5 Operating profit	2019 €m	2018 €m
Operating profit has been arrived at after charging/(crediting):		
Amortisation of intangible assets (note 11)	14.5	12.3
Provision for impairment of intangible assets (note 11)	10.1	-
Depreciation of tangible assets (note 12)	44.6	40.6
Provision for impairment of tangible assets (note 12)	0.1	3.9
(Profit)/loss on disposal of tangible assets (note 12)	(0.4)	0.1
Impairment of financial assets that are debt instruments measured at amortised cost	2.4	8.5
Non-recurring income from certain suppliers on legacy matters	11.5	-
Operating lease expense for land and buildings	21.1	19.6
Operating lease expense for plant and equipment and other assets	16.6	10.9
Operating lease income for land and buildings	(9.2)	(7.9)
Self insurance charge (note 21)	5.6	5.4
Restructuring charge	-	0.4
Onerous contacts and other obligations charge/(credit) (note 21)	2.0	(1.8)
Defined benefit pension schemes settlement gain – net of costs (note 30)	(4.2)	(8.9)
Currency (gain)/loss	(0.2)	0.2

	2019 €m	2018 €m
Other operating income has been arrived at after charging/(crediting):		
Deficit/(surplus) on revaluation of investment properties (note 12)	0.5	(1.0)
Other income from retailers	(1.0)	(2.1)

Carton Bros Unlimited Company

Directors' Report and Financial Statements

Financial Year Ended 31 December 2019

DIRECTORS' REPORT

The directors present their annual report together with the audited financial statements of Carton Bros Unlimited Company ("the company") for the year ended 31 December 2019. The prior year comparatives relate to the 12 month period ended 31 December 2018.

Principal activities, business review and future developments in the business

The principal activities of the company are poultry processing, distribution of poultry and chilled products, feed manufacture, and the manufacture and distribution of value added poultry products.

The principal risks and uncertainties facing the company are similar to those facing other companies in the industry sector, namely disease, cost increases, availability of finance, competition and significant reliance on key suppliers and customers. Significant investment in plant, production processes and customer relationship management has enabled the company to mitigate these risks. The company is one of the largest chicken processors in Ireland, providing a wide range of safe, competitively priced products to customers.

Key performance indicators which are focused on by management include; sales value, sales volume, net sales value per kg, production volume, raw material cost per tonne, food conversion rate (FCR), average live weight (ALW), day old cost, weight give away, production yield, labour, packaging, collection and repair costs per kg, grower performance, stocks, profitability, capital expenditure, EBITDA and cash headroom.

The directors are satisfied with the performance of the company for the year and have no plans to change the current activities of the company.

Financial instruments

Due to the nature of its business, the company is exposed to the effects of fluctuation in foreign currency exchange rates and contain commodity prices. In order to manage these exposures, the company has entered into various hedging arrangements with its banker and suppliers. These arrangements comprise the use of forward currency contracts and forward purchase contracts for certain commodities. Further details are set out in note 15 to these financial statements.

Results and dividends

The results for the year are set out in the profit and loss account on page 9. Dividends of €nil were declared by the directors during the year (2018: €nil).

Research and development

The company is involved in research and development activities and during the period incurred €117,173 (2018: €116,354) of research costs that were expensed.

Directors and Secretary and their interests

Leif Bergvall Hansen owned 717,891 shares in Scandi Standard AB at 31 December 2019. Vincent Carton has a shareholding in Themvar Holding ULC, which holds 6 million shares in Scandi Standard AB through a subsidiary, Themvar 8. Other than these, the directors had no interests in the shares of the company or fellow group companies.

The names of the persons who were directors at any time during the year are set out below. Except where indicated, they served as directors for the entire period:

Vincent Carton
Leif Bergvall Hansen
Anders Hagg (part period to May 19)
Julia Lagerqvist (part period from May 19)

Political and charitable donations

The company made no political or charitable donations during the period nor incurred any political expenditure during the year.

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DIRECTORS' REPORT - continued

Post balance sheet events

Coronavirus disease 2019 (COVID-19) is an infectious disease caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2). The disease was first identified in 2019 in Wuhan, the capital of China's Hubei province, and has since spread globally, resulting in the ongoing 2019–20 coronavirus pandemic. The earliest known infection occurred on 17 November 2019 in Wuhan, China. The World Health Organization (WHO) declared the 2019–20 coronavirus outbreak a Public Health Emergency of International Concern (PHEIC) on 30 January 2020 and a pandemic on 11 March 2020.

We have considered the risks that coronavirus poses to the company and the actions we are taking to mitigate the impact. Although all non - essential services are temporarily closed in Ireland at this time, the services provided by Carton Bros are considered to be essential, and we are continuing to operate, albeit that we have had to introduce various social distancing and other health and safety protocols while continuing operations. At this time, it is unclear how long the government mandated closures and social distancing measures will be in place for, however it is likely that they will continue to impact on how our operations are performed for some time.

To date, although we have had a number of suspected cases of COVID 19 in our workforce and have had to introduce a number of changes to our work practices, we are continuing to operate with new protocols in place. We have a COVID 19 task force in place, which meets virtually every day. Overall demand continues to be broadly in line with 2019 with decreases in food service being offset by an increase in retail.

We have no experience of a similar crisis so there is no way of predicting the extent that the full effect coronavirus will have on the company in general, our customers and the resulting demand for our products. It is not yet clear how widespread the virus will be at any one time, how long the pandemic will last and what the medium to long term effect of this pandemic will be on availability of staff.

Our priority is to do all we can to keep our workplace as safe as possible for staff. We are likely to remain at risk to the possibility that members of our teams could go out sick, resulting in the need for other members of the team to self-isolate, and thereby require additional staff to fill vacancies. So far, we have been able to fill any such vacancies from within our own staff complement.

We have modelled the likely effects of COVID 19 on our cash forecast for the next 12 months, and we are comfortable that there is unlikely to be any significant impact on our revenues, and that any incremental COVID related costs will be manageable.

We have also considered various measures we could take to control costs and conserve cash within the company, if certain activities were to be temporarily suspended, which we do not see as likely.

Management are comfortable that the forecasts they have prepared have considered a number of sensitivities, including a range of outcomes, and that in all cases there remains sufficient mitigation measures available to management to ensure that cash-flows are managed and that the company can continue to meet its obligations as they fall due for the period of at least 12 months from signing the financial statements.

There will be many challenges to our working practices as the pandemic develops and we are continuing to put plans in place to protect our employees and to comply with differing levels of Government restrictions and cope with illness throughout the company. In particular, we are adapting our procedures to facilitate home working among our administration and finance staff. We are confident that as a company we have the ability to manage through this challenging time.

Accounting records

The directors believe that they have complied with the requirements of Section 281 to 285 of the Companies Act 2014 with regard to maintaining adequate accounting records by employing accounting personnel with appropriate expertise and by providing adequate resources to the financial function. The accounting records of the company are maintained at Bracetown Business Park, Clonee, Co. Meath.

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DIRECTORS' REPORT - continued

Relevant audit Information

The directors believe that they have taken all steps necessary to make themselves aware of any relevant audit information and have established that the company's statutory auditor is aware of that information. In so far as they are aware, there is no relevant audit information of which the company's auditor is unaware.

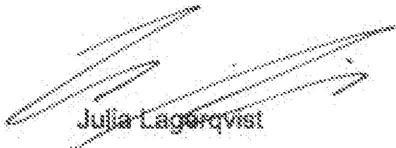
Audit committee

As required by Section 167(3) of the Companies Act 2014, the directors confirm that the company has not established an audit committee. The company's parent holding company, Scandi Standard AB, has established an audit committee which has at least the responsibilities specified in Section 167(7) and otherwise meets the requirements of Section 167 in relation to Scandi Standard AB. Scandi Standard AB consolidates the financial performance of the company and its other subsidiaries into its group financial statements, and as a result, the scope of the Scandi Standard AB audit committee oversight function necessarily extends to oversight and review of group subsidiaries including the company. Furthermore, any proposal of the board of directors of the company with respect to the appointment of statutory auditors to the company shall be based on a recommendation made to the board by the audit committee of Scandi Standard AB. For these reasons, the directors believe that the oversight of the company by Scandi Standard AB's audit committee is sufficient such that a company specific audit committee is not required.

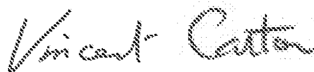
Statutory auditors

The statutory auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office, and a resolution that they be re-appointed will be proposed at the Annual General Meeting.

On behalf of the board



Julia Lagerqvist



Vincent Carton

June 5, 2020

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NOTES TO THE FINANCIAL STATEMENTS – continued

23 Ultimate parent undertaking

The company is a wholly owned subsidiary of Scandi Standard AB, a company registered and operating in Sweden.

The results of the company are consolidated into the financial statements of Scandi Standard AB. The financial statements of Scandi Standard AB are available to the public at www.scandistandard.com.

24 Post balance sheet event

Coronavirus disease 2019 (COVID-19) is an infectious disease caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2). The disease was first identified in 2019 in Wuhan, the capital of China's Hubei province, and has since spread globally, resulting in the ongoing 2019–20 coronavirus pandemic. The earliest known infection occurred on 17 November 2019 in Wuhan, China. The World Health Organization (WHO) declared the 2019–20 coronavirus outbreak a Public Health Emergency of International Concern (PHEIC) on 30 January 2020 and a pandemic on 11 March 2020.

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To date, although we have had a number of suspected cases of COVID 19 in our workforce and have had to introduce a number of changes to our work practices, we are continuing to operate with new protocols in place. We have a COVID 19 task force in place, which meets virtually every day. Overall demand continues to be broadly in line with 2019 with decreases in food service being offset by an increase in retail.

We have no experience of a similar crisis so there is no way of predicting the extent that the full effect coronavirus will have on the company in general, our customers and the resulting demand for our products. It is not yet clear how widespread the virus will be at any one time, how long the pandemic will last and what the medium to long term effect of this pandemic will be on availability of staff.

Our priority is to do all we can to keep our workplace as safe as possible for staff. We are likely to remain at risk to the possibility that members of our teams could go out sick, resulting in the need for other members of the team to self-isolate, and thereby require additional staff to fill vacancies. So far, we have been able to fill any such vacancies from within our own staff complement.

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There will be many challenges to our working practices as the pandemic develops and we are continuing to put plans in place to protect our employees and to comply with differing levels of Government restrictions and cope with illness throughout the company. Amongst other initiatives we are adapting our procedures

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c&c group plc

Annual Report 2020

Directors Compliance Statement (Made In Accordance With Section 225 of the Companies Act, 2014)

The Directors acknowledge that they are responsible for securing compliance by the Company with its relevant obligations as are defined in the Companies Act, 2014 (the 'Relevant Obligations').

The Directors confirm that they have drawn up and adopted a compliance policy statement setting out the Company's policies that, in the Directors' opinion, are appropriate to the Company with respect to compliance by the Company with its relevant obligations.

The Directors further confirm the Company has put in place appropriate arrangements or structures that are, in the Directors' opinion, designed to secure material compliance with its relevant obligations including reliance on the advice of persons employed by the Company and external legal and tax advisers as considered appropriate from time to time and that they have reviewed the effectiveness of these arrangements or structures during the financial year to which this report relates.

Financial Instruments

In the normal course of business, the Group has exposure to a variety of financial risks, including foreign currency risk, interest rate risk, liquidity risk, and credit risk. The Company's financial risk objectives and policies are set out in Note 23 of the financial statements.

Post Balance Sheet Events

As outlined in the Group's viability statement on pages 20 to 21, COVID-19 is having a material impact on the Group's business post year end. In response to this, the Group has implemented a series of measures to reduce operating costs, maximise available cash flow, and maintain and strengthen the Group's liquidity position.

In March 2020, the Group completed the successful issue of approximately €140 million of new US Private Placement ('USPP') notes.

The Group has also received confirmation from the Bank of England that it is eligible to issue commercial paper under the COVID-19 Corporate Financing Facility scheme. The Group had not drawn down on this facility as at 3 June 2020.

Due to the emergence of COVID-19 and the impact this has on global economies and on business generally, the Board concluded, post year-end, that it was not appropriate to pay a final dividend for FY2020.

See note 29 (Post Balance Sheet Events) to the financial statements for further information.

Annual General Meeting

Your attention is drawn to the letter to shareholders and the notice of meeting accompanying this report which set out details of the matters which will be considered at the Annual General Meeting. In particular, please ensure to read additional disclosures relating to restrictions at the Annual General Meeting due to government and health authority guidance on COVID-19 social distancing.

Other Information

Other information relevant to the Director's Report may be found in the following sections of the Annual Report:

Information	Location in the Annual Report
Results	Financial Statements – pages 104 to 110.
Principal risks & uncertainties including risks associated with recent emergence of COVID-19	Principal Risks & Uncertainties – pages 13 to 21.
Directors' remuneration, including the interests of the directors and secretary in the share capital of the Company	Directors' Remuneration Report – pages 77 to 92.
Long-Term Incentive Plan, share options and equity settled incentive schemes	Directors' Remuneration Report – pages 77 to 92.
Significant subsidiary undertakings	Financial Statements – Note 28.

The Directors' Report for the year ended 29 February 2020 comprises these pages and the sections of the Annual Report referred to under 'Other information' above, which are incorporated into the Directors' Report by reference.

Signed
On behalf of the Board

Stewart Gilliland
Interim Executive Chairman

Jonathan Solesbury
Group Chief Financial Officer

3 June 2020

Consolidated Income Statement
For the financial year ended 29 February 2020

	Notes	Year ended 29 February 2020 Before exceptional items €m	Exceptional items (note 5) €m	Total €m	Year ended 28 February 2019 Before exceptional items €m	Exceptional items (note 5) €m	Total €m
Revenue	1	**2,145.5**	**-**	**2,145.5**	1,997.3	-	1,997.3
Excise duties		**(426.2)**	**-**	**(426.2)**	(422.4)	-	(422.4)
Net revenue	1	**1,719.3**	**-**	**1,719.3**	1,574.9	-	1,574.9
Operating costs	2	**(1,598.5)**	**(91.0)**	**(1,689.5)**	(1,470.4)	(7.8)	(1,478.2)
Group operating profit/(loss)	1	**120.8**	**(91.0)**	**29.8**	104.5	(7.8)	96.7
Profit on disposal	5	**-**	**0.9**	**0.9**	-	-	-
Finance income	6	**0.5**	**-**	**0.5**	0.1	-	0.1
Finance expense	6	**(20.3)**	**-**	**(20.3)**	(15.7)	-	(15.7)
Share of equity accounted investments' profit/(loss) after tax	13	**3.1**	**(2.4)**	**0.7**	4.0	(3.3)	0.7
Profit/(loss) before tax		**104.1**	**(92.5)**	**11.6**	92.9	(11.1)	81.8
Income tax (expense)/credit	7	**(12.3)**	**9.8**	**(2.5)**	(10.8)	1.1	(9.7)
Group profit/(loss) for the financial year		**91.8**	**(82.7)**	**9.1**	82.1	(10.0)	72.1
Attributable to:							
Equity holders of the parent		**91.8**	**(82.7)**	**9.1**	82.3	(10.0)	72.3
Non-controlling interests		**-**	**-**	**-**	(0.2)	-	(0.2)
Group profit/(loss) for the financial year		**91.8**	**(82.7)**	**9.1**	82.1	(10.0)	72.1
Basic earnings per share (cent)	9			**2.9**			23.4
Diluted earnings per share (cent)	9			**2.9**			23.4

All of the results are related to continuing operations.

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Consolidated Balance Sheet
As at 29 February 2020

	Notes	2020 €m	2019 €m
ASSETS			
Non-current assets			
Property, plant & equipment*	11	**223.4**	144.5
Goodwill & intangible assets	12	**652.9**	683.7
Equity accounted investments	13	**83.9**	71.4
Retirement benefits	22	**8.8**	9.0
Deferred tax assets	21	**11.9**	4.0
Trade & other receivables	15	**25.8**	25.7
		1,006.7	938.3
Current assets			
Inventories	14	**145.8**	184.1
Trade & other receivables	15	**166.0**	162.6
Cash		**123.4**	144.4
		435.2	491.1
TOTAL ASSETS		**1,441.9**	1,429.4
EQUITY			
Capital and reserves			
Equity share capital	24	**3.2**	3.2
Share premium	24	**171.0**	152.6
Treasury shares	24	**(36.6)**	(37.1)
Other reserves	24	**102.4**	96.4
Retained income		**315.4**	383.7
Equity attributable to equity holders of the parent		**555.4**	598.8
Non-controlling interests		**-**	(0.8)
Total Equity		**555.4**	598.0
LIABILITIES			
Non-current liabilities			
Lease liabilities	18	**74.4**	-
Interest bearing loans & borrowings	19	**323.8**	390.8
Retirement benefits	22	**16.7**	12.2
Provisions	17	**5.1**	11.1
Deferred tax liabilities	21	**16.5**	16.9
		436.5	431.0
Current liabilities			
Lease liabilities	18	**18.9**	-
Derivative financial liabilities	23	**0.3**	2.0
Trade & other payables	16	**390.7**	336.3
Interest bearing loans & borrowings	19	**33.2**	55.2
Provisions	17	**4.1**	4.6
Current income tax liabilities		**2.8**	2.3
		450.0	400.4
Total liabilities		**886.5**	831.4
TOTAL EQUITY & LIABILITIES		**1,441.9**	1,429.4

* Includes leased right-of-use assets with net carrying amount of €76.7m (see note 18).

On behalf of the Board

S Gilliland
Interim Executive Chairman

J Solesbury
Chief Financial Officer

3 June 2020

Statement of Accounting Policies
For the year ended 29 February 2020 (continued)

reflected in the Group's consolidated tax charge and provision and any such differences could have a material impact on the Group's income tax charge and consequently financial performance. The determination of the provision for income tax is based on management's understanding of the relevant tax law and judgement as to the appropriate tax charge, and management believe that all assumptions and estimates used are reasonable and reflective of the tax legislation in jurisdictions in which the Group operates. Where the final tax charge is different from the amounts that were initially recorded, such differences are recognised in the income tax provision in the period in which such determination is made.

Deferred tax assets in respect of deductible temporary differences are recognised only to the extent that it is probable that taxable profits or taxable temporary differences will be available against which to offset these items. The recognition or non-recognition of deferred tax assets as appropriate also requires judgement as it involves an assessment of the future recoverability of those assets. The recognition of deferred tax assets is based on management's judgement and estimate of the most probable amount of future taxable profits and taking into consideration applicable tax legislation in the relevant jurisdiction.

Impact of COVID-19

There is a significant judgement in whether the impact of COVID-19 should be considered in the measurement of assets and liabilities at year end. This judgement is based on whether COVID-19 is considered an adjusting or non-adjusting event, which is based on the facts and circumstances at the balance sheet date. The global spread of COVID-19 began before the balance sheet date and the Group concluded that the impact of COVID-19 should be reflected in the measurement of assets and liabilities in the Consolidated Balance Sheet.

Sources of estimation uncertainty

Business combinations

Upon acquisition, the Group makes estimates to determine the purchase price of businesses acquired, taking into account contingent consideration, as well as its allocation to acquired assets and liabilities. The Group is required to determine the acquisition date and fair value of the identifiable assets acquired, including intangible assets such as brands, customer relationships and liabilities assumed. The estimated useful lives of the acquired amortisable assets, the identification of intangible assets and the determination of the indefinite or finite useful lives of intangible assets acquired will have an impact on the Group's future profit or loss.

The Group did not make any acquisitions in the current year. In the prior year the Group acquired the entire share capital of Matthew Clark (Holdings) Limited and Bibendum PLB (Topco) Limited. Significant estimates were made in the prior year as to the fair value of acquired assets and liabilities on acquisition as discussed in the Group's Annual Report for the financial year ended 28 February 2019.

Recoverable amount of goodwill

The impairment testing process requires management to make significant estimates regarding the future cash flows expected to be generated by cash-generating units to which goodwill has been allocated. Future cash flows relating to the eventual disposal of these cash-generating units and other factors may also be relevant to determine the fair value of goodwill. Management periodically evaluates and updates the estimates based on the conditions which influence these variables. The assumptions and conditions for determining impairments of goodwill reflect management's best assumptions and estimates (discount rates, terminal growth rates, forecasted volume, net revenue, operating profit) but these items involve inherent uncertainties described above, many of which are not under management's control. As a result, the accounting for such items could result in different estimates or amounts if management used different assumptions or if different conditions occur in future accounting periods.

The inputs to the value-in-use calculations are disclosed in note 12.

Incremental borrowing rates on leases

Management use estimation in determining the incremental borrowing rates for leases which has a significant impact on the lease liabilities and right-of-use assets recognised. The incremental borrowing rates are calculated using a portfolio approach, based on the risk profile of the entity holding the lease and the term and currency of the lease. The weighted average incremental borrowing rate applied to lease liabilities on the Consolidated Balance Sheet on transition was 4.07% at 1 March 2019.

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Pension valuation

Significant estimates are used in the determination of the pension obligation, the amounts recognised in the Income Statement and Statement of Other Comprehensive Income and the valuation of the defined benefit pension net surplus or deficit are sensitive to the assumptions used. The assumptions underlying the actuarial valuations (including discount rates, rates of increase in future compensation levels, mortality rates, salary and pension increases, future inflation rates and healthcare cost trends), from which the amounts recognised in the Consolidated Financial Statements are determined, are updated annually based on current economic conditions and for any relevant changes to the terms and conditions of the pension and post-retirement plans. These assumptions can be affected by (i) for the discount rate, changes in the rates of return on high-quality corporate bonds; (ii) for future compensation levels, future labour market conditions and (iii) for healthcare cost trend rates, the rate of medical cost inflation in the relevant regions. The weighted average actuarial assumptions used and sensitivity analysis in relation to the significant assumptions employed in the determination of pension and other post-retirement liabilities are contained in note 22 to the Consolidated Financial Statements.

Whilst management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect the obligations and expenses recognised in future accounting periods. The assets and liabilities of defined benefit pension schemes may exhibit significant period-on-period volatility attributable primarily to changes in bond yields and longevity. In addition to future service contributions, cash contributions may be required to remediate past service deficits. A sensitivity analysis of the change in these assumptions is provided in note 22.

Expected credit losses

Further to the impact of COVID-19 on the Group, estimates have been made around the credit losses expected to be incurred on the Group's financial assets – principally being trade receivables and trade loans. In determining the expected credit losses, the Group has considered different sources of financial information, including comparisons to the financial crash and current market data, and concluded a suitable benchmark as being credit default swaps on industry-appropriate companies. Market data for credit default swaps on listed entities in the on-trade has been adjusted for yield-curves and Group customer risk weightings in determining an appropriate proxy for expected credit losses.

For international, listed customers, without evidence to the contrary, (known as "low risk") the expected credit loss is considered to be similar to the credit risk implied from credit default swaps of similar entities. However, for smaller, regional customers with less access to finance, the expected credit loss applied is leveraged by reference to historical Group losses for these customers as a ratio to Group losses for "low risk" customers.

Provision for obsolete stock

As a result of COVID-19, the Group has been required to consider its provision for obsolete inventory. For inventory which has no alternate use or right of return to the supplier, and is not expected to be sold during lockdown, the provision for obsolescence has been calculated by reference to the shelf life of products compared with the expected period of lockdown. The Group has made an estimate of the period of lockdown based on the Geography of its operations on a case-by-case basis. The period of lockdown estimated for any region is not in excess of six months from year end.

Notes forming part of the financial statements
(continued)

4. SHARE-BASED PAYMENTS (continued)

A summary of activity under the Group's equity settled share option schemes with the weighted average exercise price of the share options is as follows:-

	2020 Number of options/ equity Interests	2020 Weighted average exercise price €	2019 Number of options/ equity Interests	2019 Weighted average exercise price €
Outstanding at beginning of year	**5,491,198**	**1.33**	3,250,587	1.39
Granted/correction to opening balance	**1,415,187**	**-**	2,708,599	1.04
Exercised	**(259,166)**	**1.40**	(64,445)	-
Forfeited/lapsed	**(1,859,083)**	**1.16**	(403,543)	-
Outstanding at end of year	**4,788,136**	**1.00**	5,491,198	1.33

The aggregate number of share options/equity Interests exercisable at 29 February 2020 was 345,015 (2019: 113,045).

The unvested share options/equity Interests outstanding at 29 February 2020 have a weighted average vesting period outstanding of 1.3 years (2019: 1.8 years). The weighted average contractual life outstanding of vested and unvested share options/equity Interests is 7.1 years (2019: 7.5 years).

The weighted average market share price at date of exercise of all share options/equity Interests exercised during the year was €4.39 (2019: €3.11); the average share price for the year was €4.03 (2019: €3.17); and the market share price as at 29 February 2020 was £3.28 or €3.84 euro equivalent (28 February 2019: €3.06 or £2.63 sterling equivalent).

5. EXCEPTIONAL ITEMS

	2020 €m	2019 €m
Operating costs		
COVID-19 (a)	**(47.6)**	-
Impairment of intangible assets (b)	**(34.2)**	-
Contract termination (c)	**(4.4)**	-
Restructuring costs (d)	**(3.0)**	(5.3)
Impairment of property, plant & equipment (e)	**(1.0)**	(0.4)
Acquisition related expenditure (f)	**(0.2)**	(2.1)
Other (g)	**(0.6)**	-
Operating profit exceptional items	**(91.0)**	(7.8)
Profit on disposal (h)	**0.9**	-
Share of equity accounted investments' exceptional items (i)	**(2.4)**	(3.3)
Total loss before tax	**(92.5)**	(11.1)
Income tax credit (j)	**9.8**	1.1
Total loss after tax	**(82.7)**	(10.0)

(a) COVID-19

The Group has accounted for the COVID-19 pandemic as an adjusting event in the current financial year and has incurred an exceptional charge of €47.6m at 29 February 2020 in this regard. In light of the closure of on-trade premises in both Ireland and the UK, the Group reviewed the recoverability of its debtor book and advances to customers and booked an expected credit loss provision directly associated with COVID-19 of €19.4m and €5.8m respectively. The Group also reviewed the stock balances and in particular stock that was due to expire in the short to medium term and booked a provision of €10.6m. The balance of €11.8m relates to trade and marketing contracts now deemed to be onerous of €9.4m and the write off of an IT intangible asset where the project will now not be completed, as a direct consequence of COVID-19, of €2.4m.

5. EXCEPTIONAL ITEMS (continued)

(b) Impairment of intangible assets

To ensure that goodwill and brands considered to have an indefinite useful economic life are not carried at above their recoverable amount, impairment reviews are performed annually or more frequently if there is an indication that their carrying amount(s) may not be recoverable, comparing the carrying value of the assets with their recoverable amount using value-in-use computations.

With regard to the Group's North America segment and in particular the Woodchuck suite of brands, the projected cash flows no longer supported the carrying value of the brand and an impairment of €34.1m was taken at 29 February 2020. Despite some signs of volume growth last summer on the back of innovation launches, the Woodchuck brands continue to struggle in an ever more crowded market place. The overall Cider category remains under pressure and is declining in value terms. The success of the relatively new Hard Seltzers' category in particular has squeezed other categories and resulted in less space being made available for our brands. In the short and medium term the outlook is not positive for growth in Cider in the US and the COVID-19 crisis and linked restrictions has further restricted our ability to innovate and trade our way back to sustainable profit growth.

An impairment of €0.1m was taken with respect to the Group's Matthew Clark Bibendum cash generating unit directly attributable to a discontinued brand.

(c) Contract termination

During the current financial year, the Group terminated a number of its long term apple contracts incurring a cost of €4.4m. These apple contracts were deemed surplus to requirements.

(d) Restructuring costs

Restructuring costs of €3.0m were incurred in the current financial year. These costs were primarily relating to severance costs arising from the acquisition and subsequent integration of Matthew Clark and Bibendum of €2.3m. Restructuring costs of €0.5m related to the centralisation of accounting services. Other restructuring initiatives across the Group in the current financial year resulted in a further charge of €0.2m.

In the prior financial year, restructuring costs of €5.3m were incurred primarily relating to severance costs arising from the acquisition and subsequent integration of Matthew Clark and Bibendum and the previously acquired Orchard Pig into the Group, of €3.4m and €0.5m respectively. Other restructuring initiatives across the Group in the prior financial year resulted in a further charge of €1.4m.

(e) Impairment of property, plant & equipment

Property (comprising land and buildings) and plant & machinery are valued at fair value on the Balance Sheet and reviewed for impairment on an annual basis. During the current financial year, as outlined in detail in note 11, the Group engaged external valuers to value the freehold land & buildings and plant & machinery at the Group's Clonmel (Tipperary), Wellpark (Glasgow), Vermont (USA) and Portugal sites, along with the Group's various Depots. Using the valuation methodologies, this resulted in a net revaluation loss of €1.0m accounted for in the Income Statement and a gain of €1.1m accounted for within Other Comprehensive Income.

In the prior financial year, the Group took the decision to impair an element of its IT system at a cost of €0.4m which had become redundant following a system upgrade.

(f) Acquisition related expenditure

During the current financial year, the Group incurred €0.2m of costs associated with a previous acquisition.

During the prior financial year, the Group incurred €2.1m of acquisition and integration related costs, primarily with respect to professional fees associated with the acquisition and subsequent integration of Matthew Clark and Bibendum into the Group.

(g) Other

Other costs of €0.6m were incurred during the current financial year with respect to incremental costs related to the dual running of warehouse management systems in Scotland due to system implementation delays.

Notes forming part of the financial statements
(continued)

13. EQUITY ACCOUNTED INVESTMENTS/FINANCIAL ASSETS (continued)

Canadian Investment

During the current financial year, the Group disposed of its equity accounted investment in a Canadian company for cash proceeds of €6.1m, realising a profit of €2.6m on disposal.

Whitewater Brewing Company Limited

On 20 December 2016, the Group acquired 25% of the equity share capital of Whitewater Brewing Company Limited, an Irish Craft brewer for £0.3m (€0.3m).

Other

During the current financial year, on 5 March 2019, the Group made a 10% investment in an English registered entity Jubel Limited, a craft beer producer for €0.3m (£0.3m).

In the current financial year, the Group made an additional investment in CVBA Braxatorium Parcensis of €0.2m following on from a less than €0.1m investment in the prior year. The Group has a 33% investment in the Belgium entity.

The Group also has an equity investment in Shanter Inns Limited, Beck & Scott (Services) Limited (Northern Ireland) and The Irish Brewing Company Limited (Ireland). The value of each of these investments is less than €0.1m in the current and prior financial year.

(b) Financial Assets – Company

	2020 €m	2019 €m
Equity investment in subsidiary undertakings at cost		
At beginning of year	**982.1**	980.2
Capital contribution in respect of share options granted to employees of subsidiary undertakings	**2.5**	1.9
At end of year	**984.6**	982.1

The total expense of €2.5m (2019: €1.9m) attributable to equity settled awards granted to employees of subsidiary undertakings has been included as a capital contribution in financial assets.

In the opinion of the Directors, the shares in the subsidiary undertakings are worth at least the amounts at which they are stated in the Balance Sheet. Details of subsidiary undertakings are set out in note 28.

14. INVENTORIES

	2020 €m	2019 €m
Group		
Raw materials & consumables	**46.2**	47.2
Finished goods & goods for resale	**99.6**	136.9
Total inventories at lower of cost and net realisable value	**145.8**	184.1

An analysis of the Group's cost of sale expense is provided in Note 2 to the financial statements.

Inventory write-down recognised within operating costs amounted to €2.2m (2019: €3.2m). The inventory write-down in the current financial year was with respect to breakages and write off of damaged and obsolete stock. The inventory write-down in the prior financial year of €3.2m was primarily due to the write-down of obsolete stock of €1.7m as a result of a change in a distribution company and the write-down of obsolete stock in our newly acquired distribution business of €1.5m due to a discontinued product. During the current financial year, the Group has reviewed the stock balances and in particular stock that was due to expire in the short to medium term and booked a provision of €10.6m as a result of COVID-19 (note 5).

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Notes forming part of the financial statements
(continued)

15. TRADE & OTHER RECEIVABLES (continued)

The Group applies the simplified approach permitted by IFRS 9 *Financial Instruments* to measure expected credit losses for trade receivables, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

To measure the expected credit losses, trade receivables are assessed collectively in groups that share similar credit risk characteristics, such as customer segments, historical information on payment patterns, terms of payment and days past due. The expected loss rates are based on the payment profiles of sales and the corresponding historical credit loss experience. The historical loss rates are adjusted to reflect current and forward-looking information on customer specific and macroeconomic factors, which affect the ability of customers to settle receivables. COVID-19 had a material impact on the assessment of credit losses of the Group's receivables balances at year end and the Group booked an exceptional provision of €19.4m in this regard (note 5).

Regarding advances to customers, the Group applies the general approach to measure expected credit losses which requires a loss provision to be recognised based on twelve month or lifetime expected credit losses, provided a significant increase in credit risk has occurred since initial recognition. The Group assesses the expected credit losses for advances to customers based on historical information on payment patterns, monitoring customer ordering activities, concentration maturity, and information about the current or forecasted general economic conditions, which affect the ability of customers to settle advances. The credit risk on advances to customers can be reduced through the value of security and/or collateral given. COVID-19 had a material impact on the assessment of credit losses with regard to advances to customers at year end and the Group booked an exceptional provision of €5.8m in this regard (note 5).

Trade receivables are on average receivable within 21 days (2019: 18 days) of the balance sheet date, are unsecured and are not interest bearing. For more information on the Group's credit risk exposure refer to note 23.

The movement in the allowance for impairment in respect of trade receivables and advances to customers during the year was as follows:

	Trade receivables 2020 €m	Advance to customers 2020 €m	Total 2020 €m	Total 2019 €m
Group				
At beginning of year	**11.5**	**5.7**	**17.2**	13.3
Arising on acquisition	**-**	**-**	**-**	6.9
Recovered during the year	**(3.9)**	**-**	**(3.9)**	(6.5)
Provided during the year	**25.6**	**6.7**	**32.3**	6.3
Written off during the year	**(3.6)**	**(2.0)**	**(5.6)**	(2.7)
Translation adjustment	**-**	**-**	**-**	(0.1)
At end of year	**29.6**	**10.4**	**40.0**	17.2

At 29 February 2020, regarding the impact of the expected loss model on trade receivables and advances to customers, the Group has provided for expected credit losses over the next twelve months of €22.3m (2019: €1.4m) and expected lifetime losses of €17.7m (2019: €15.8m).

25. COMMITMENTS

(a) Capital commitments

At the year end, the following capital commitments authorised by the Board had not been provided for in the financial statements:-

	2020 €m	2019 €m
Contracted	**2.3**	3.8
Not contracted	**7.7**	15.7
	10.0	19.5

The contracted capital commitments at 29 February 2020 primarily relate to an improved drainage system and waste water treatment plant in Clonmel amounting to €1.4m (2019: €0.7m), a waste water treatment plant in Wellpark of €0.7m (2019: €2.1m) and other of €0.2m (2019: €1.0m).

(b) Other commitments

At the year end, the value of contracts placed for future expenditure was:-

2020	Apples €m	Glass €m	Marketing* €m	Barley €m	Aluminium €m	Polymer €m	Wheat €m	Sugar/ glucose €m	Natural gas	Electricity	Total** €m
Payable in less than one year	**8.1**	**4.7**	**7.6**	**7.6**	**0.8**	**0.3**	**0.9**	**7.5**	**0.3**	**0.1**	**37.9**
Payable between 1 and 5 years	**13.3**	**-**	**6.4**	**14.8**	**-**	**-**	**-**	**-**	**-**	**-**	**34.5**
Payable greater than 5 years	**23.6**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**23.6**
	45.0	**4.7**	**14.0**	**22.4**	**0.8**	**0.3**	**0.9**	**7.5**	**0.3**	**0.1**	**96.0**

* An element of committed marketing spend is now deemed to be onerous in light of COVID-19 (note 5).
** Commitment obligations range from between 1 year to 25 years.

2019	Apples €m	Glass €m	Marketing €m	Barley €m	Aluminium €m	Polymer €m	Wheat €m	Sugar/ glucose €m	Natural gas	Electricity	Total* €m
Payable in less than one year	7.6	3.0	4.2	7.8	0.6	0.2	0.9	7.9	-	0.7	32.9
Payable between 1 and 5 years	11.7	-	3.4	17.9	-	-	-	-	-	-	33.0
Payable greater than 5 years	23.0	-	-	-	-	-	-	-	-	-	23.0
	42.3	3.0	7.6	25.7	0.6	0.2	0.9	7.9	-	0.7	88.9

* Commitment obligations range from between 1 year to 26 years.

Notes forming part of the financial statements
(continued)

28. SUBSIDIARIES AND EQUITY ACCOUNTED INVESTMENTS (continued)

Equity accounted investments

	Notes	Nature of business	Class of shares held as at 29 February 2020 (100% unless stated)
Joint venture			
Beck & Scott (Services) Limited (Northern Ireland)	(a)	Wholesale of drinks	Ordinary, 50%
Brady P&C Limited (England)	(b)	Holding Company	Ordinary, 49.9%
Drygate Brewing Company Limited (Scotland)	(c)	Brewing	B Ordinary, 49%
The Irish Brewing Company Limited (Ireland)	(d)	Non-trading	Ordinary, 45.61%
Associate			
CVBA Braxatorium Parcensis	(e)	Brewing	33.33%
Shanter Inns Limited (Scotland)	(f)	Public houses	Ordinary, 33%
Whitewater Brewing Co. Limited (Northern Ireland)	(g)	Brewing	25%
Jubel Limited	(h)	Brewing	10%

Notes:
(a) – (h)
The address of the registered office of each of the above equity accounted investments is as follows:
(a) Unit 1, Ravenhill Business Park, Ravenhill Road, Belfast, BT6 8AW, Northern Ireland.
(b) 49 Berkeley Square, 2nd Floor, London W1J 5AZ.
(c) 85 Drygate, Glasgow, G4 0UT, Scotland.
(d) Bulmers House, Keeper Road, Crumlin, Dublin 12, D12 K702, Ireland.
(e) 3001 Leuven-Heverlee, Abdij van Park 7, Belgium.
(f) 230 High Street, Ayr, KA7 1RQ, Scotland.
(g) Lakeside Brae, Castlewellan, Northern Ireland, BT31 9RH.
(h) Office 311 Edinburgh House, 170 Kennington Lane, London, England, SE11 5DP.

29. POST BALANCE SHEET EVENTS

As outlined in the Group's viability statement on page 20, COVID-19 is having a material impact on the Group's business and the Group has accounted for this as an adjusting event in the current year's financial statements. Post year end COVID-19 continues to have an impact on the Group's financial statements. In response to this, the Group has implemented a series of measures to reduce operating costs, maximise available cash flow, and maintain and strengthen the Group's liquidity position.

In March 2020, the Group completed the successful issue of approximately €140 million of new US Private Placement ('USPP') notes. The unsecured notes have maturities of 10 and 12 years and diversify the Group's sources of debt finance. The Group's Euro term loan included a mandatory prepayment clause from the issuance of any Debt Capital Market instruments. A waiver of the prepayment was successfully negotiated post year end in addition to a waiver of a July 2020 repayment which now becomes payable with the last instalment in July 2021. The Group also received a waiver on its debt covenants from its lending group for FY2021, to be replaced by a minimum liquidity covenant and monthly gross debt cap.

The Group has also received confirmation from the Bank of England that it is eligible to issue commercial paper under the COVID-19 Corporate Financing Facility ('CCFF'') scheme. The Group had not drawn down on this facility as at 3 June 2020.

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Annual Report & Financial Statements
+ Notice of Annual General Meeting 2020

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Grafton Group plc

Grafton Group plc
Annual Report and Accounts 2019

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Risk Management (continued)
Key Risks

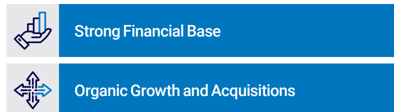
The Audit and Risk Committee and the Board have carried out a robust assessment of the principal risks facing the Group. It is not practical to document every risk that could affect the Group in this report. The risks identified below are those that could have a material adverse effect on the Group's business model, future performance, solvency or liquidity. The actions taken to mitigate the risks cannot provide assurance that other risks will not materialise and adversely affect the operating results and financial position of the Group.

These principal risks are incorporated into the modelling activity performed to assess the ability of the Group to continue in operation and meet its liabilities as they fall due for the purposes of the Viability Statement on page 74.

Macro-Economic Conditions in the UK, Ireland and the Netherlands including the impact of Brexit

Risk movement

Link to Strategy



Risk Description

Trading in the Group's businesses is influenced by macro-economic conditions in the UK, Ireland, and the Netherlands. The Group's markets are cyclical in nature and a proportion of revenue is dependent on the willingness of households to incur discretionary expenditure on home improvement projects. Investments of this nature closely correlate with general economic conditions. A deterioration in economic conditions in the UK, Ireland, or the Netherlands could result in lower demand in the Group's businesses.

The Group's customers are mainly professional tradespeople engaged in residential, commercial and industrial maintenance and new-build projects. These markets are affected by trends in improvements, remodelling and maintenance and construction. Demand in these markets is also influenced by economic factors including interest rates, the availability of credit, inflation, changes in property values, demographic trends, tax policy, employment levels and gross domestic product. Any negative movement in one or more of these factors could adversely affect demand in the Group's business.

The result of the UK referendum to leave the European Union ("EU") has created significant uncertainty about the near term outlook and prospects for the UK economy. Due to this uncertainty it is not possible to assess with confidence the likely impact on the UK economy of the UK leaving the EU or the extent to which any possible fall in investment and a potentially softer housing market could impact employment and household spending. This uncertainty could negatively impact the UK economy, reduce demand in the Group's markets, impact the Group's workforce and adversely affect the financial performance of the Group.

In addition, the potential disruption to the Group's supply chain which could result from Brexit could have a short-term impact on the ability of businesses in both the UK and Ireland to meet their customers' product requirements and could consequently lead to a reduction in revenue and profit.

Mitigation

The Group has taken significant action in previous years in response to the downturn in its markets to increase the operating efficiency of its business which leaves it well positioned to benefit from the continuing recovery. Exposure to the more resilient and less cyclical Repair, Maintenance and Improvement ("RMI") market has increased through ongoing expansion of the network of Selco stores particularly in the Greater London Area.

The merchanting branches in Ireland were refocused on the residential RMI market during the downturn but are equally well positioned to respond to an increase in the new house build markets. Branch showrooms have been upgraded and the product portfolio expanded to meet the needs of customers engaged in residential RMI projects which currently account for a higher proportion of revenue.

The mitigation strategy also incorporates proactive cost control in response to changes in market conditions. An assessment of macro-economic, construction and residential market conditions informs the allocation of capital resources to new projects.

With specific regard to the risks relating to Brexit, the Group has performed a robust risk assessment and established a set of actions to address the key risks identified. These include working with suppliers to provide for continuity of supply of key products and where practical building up stock level of certain lines; evaluating the impact of changes to tariffs and customs arrangements to the Group; making appropriate provision for any data flows between the UK and EU; and actions to assist EU nationals working in the UK businesses in obtaining settled status.

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