



The Irish Accounting & Tax Summit 2020

Session 1

Financial Reporting Under COVID-19 - Post Balance Sheet Events & Consideration of Impairment



Presenter:

Colm Owens & Mike O'Halloran - OmniPro

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Core Technical Online CPD for Irish Accountants
Tax, Audit, Financial Reporting, Insolvency, Company Law, Regulation,
Management Accounting & Business Skills



OmniPro Education & Training
Main Street, Ferns, Enniscorthy, Co. Wexford
053 9100000
www.omnipro.ie info@omnipro.ie



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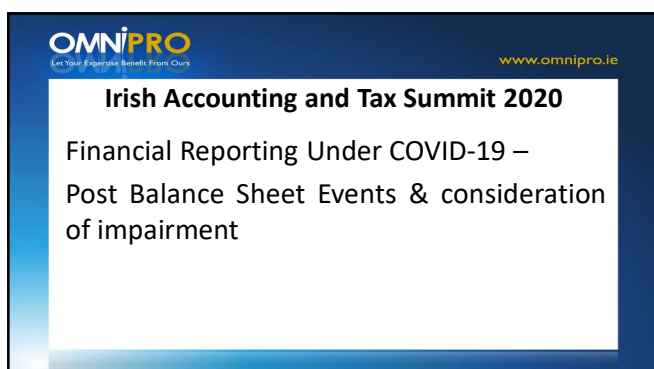
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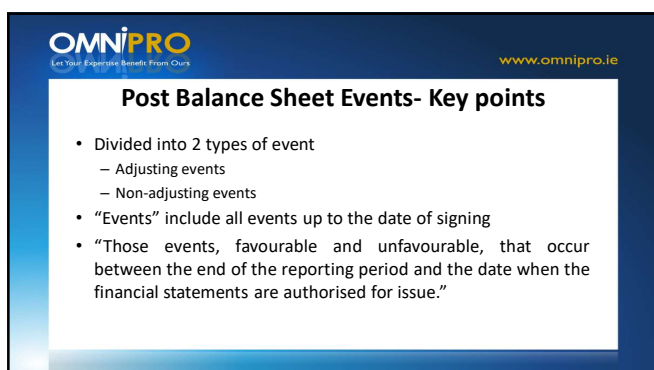





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Examples of adjusting events

- Settlement of court case that confirms the entity had an obligation at the year end.
- Bankruptcy of a customer after the year end **usually** confirms that a loss existed at the balance sheet date.
- Sale of inventory after year end which indicates that they are worth less than their carrying value.
- Details about profit sharing bonuses if the entity had a legal or constructive obligation at the year end
- Discovery of fraud or error that show the FS are incorrect

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Examples of non-adjusting events

- Decline in market value of investments between the end of the year and the date the FS were signed.
- Land sold subject to planning where planning was granted after the year end.
- Favourable court case where judgement was granted after the year end.
- Dividend declaration after the year end.
- Subsidiary disposal after year end.
- Destruction by fire/flood after year end.
- Changes in foreign exchange rates or tax rates after the year end.

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COVID-19 & Post Balance Sheet Events

- Section 32 of FRS 102.
- Adjusting event vs. non-adjusting event
- 31 December 2019 vs. March 2020 year ends.
- Interaction with Section 27 (Impairment) of FRS 102- "the receipt of information after the end of the reporting period indicating that an asset was impaired at the end of the reporting period." (FRS 102 32.5)
- Interaction with going concern- "An entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the entity or to cease trading....."

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When does it become an “adjusting event”?

- Some key dates
 - 7th December 2019- First confirmed case in Wuhan, China
 - 31st December 2019- Identified as new strain of Coronavirus & WHO notified
 - 24th January 2020- First European cases reported in France
 - Month of January 2020- Several new cases in China. 10,000 by end of month. First confirmed UK case on 31 January 2020
 - Month of February 2020- Several new cases in Europe during the month. 1,128 cases reported in Italy at the end of the month.
 - 29th February 2020- First reported case of COVID-19 in Ireland.
 - 12th March 2020- Irish schools, colleges & childcare facilities closed
 - 15th March 2020- Irish pubs & hotel bars asked to close
 - 27th March 2020- All non-essential staff to stay at home for 2 weeks

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FRC Guidance

Events after the reporting date

IAS 10 distinguishes between those events occurring after the balance sheet date that provide more information about the conditions that existed on the balance sheet date (“adjusting events”) and those that are indicative of conditions that arose after the balance sheet date (“non-adjusting events”). Amounts in the financial statements must be adjusted in response to adjusting events whilst only disclosures are required in response to material non-adjusting events.

There is a general consensus that the outbreak of COVID-19 in 2020 was a non-adjusting event for the vast majority of UK companies preparing financial statements for periods ended 31 December 2019. Companies will need to judge how much of the impact of COVID-19 should be considered to arise from non-adjusting events for subsequent reporting dates. This will be highly dependent on the reporting date, the specific circumstances of the company’s operations and the particular events under consideration.

In reaching this judgement, companies will need to focus on the importance of the conditions at the balance sheet date – does the event shine a brighter light on those conditions or did conditions change after the reporting date? If the judgement had a significant effect on the amounts in the financial statements, then this judgement should be disclosed and explained.

If an event is considered to be non-adjusting, then the nature of the event should be disclosed. Where an estimate of the financial effect on the company can be made, then this should be disclosed. Otherwise the fact that the financial effect cannot be estimated should be disclosed. The estimate does not need to be exact – a range of estimated effects is better than no quantitative information at all. In the absence of any quantitative estimate, a qualitative description should be provided.


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Post balance sheet case study

- X Ltd prepares financial statements to 31 December 2019.
- X Ltd has customers in the hospitality sector, including customer A who owns a hotel.
- In March 2020, customer A permanently goes out of business as a result of the restrictions placed on it from COVID-19. The debt of €10,000 will not be recovered.
- Does an adjusting event occur in the financial statements of X Ltd for December 2019 year end?
- What if we apply the same circumstances to a January 2020, February 2020 and March 2020 year end?
- What if the customer went out of business in January 2020? December year end implications?

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Post balance sheet events

- Documentation of post balance sheet events to support disclosures is key.
- Given the changeable nature of the Pandemic, it is more important than ever to consider post balance sheet events right up to the date of sign off.
- 2019 year ends not likely to be an adjusting event as substantive information about the virus did not emerge until 2020.
- 2020 year ends require a higher degree of judgement regarding the date the events became adjusting.

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Post balance sheet events- accounting treatment & disclosures

- Non-adjusting event
 - No adjustment required to reflect the events since the year end.
 - The nature of the event should be disclosed
 - An estimate of its financial effect or a statement that such an estimate cannot be made.
- Adjusting event
 - Adjustment is required for the amounts recognised in the financial statements, including related disclosures to reflect the adjustments.

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Between 31 December 2019 and the resolution of these annual financial statements, there have not been any events that have had any noticeable impact on IDEX's result in 2019 or the value of the group's assets and liabilities at 31 December 2019.

The World Health Organization has recently declared COVID-19 a global pandemic. This pandemic has led to an abrupt decrease in global commerce and a rapid deterioration of global financial markets.

IDEX has adopted the guidelines outlined by the relevant governments where the company operates, to ensure the health of its employees and their families. The company has established an internal virus response team, who are responsible for on-going contingency planning. All travel and face-to-face meetings have been stopped. New working practices, enabling the majority of staff to work from home, came into effect on 16 March 2020. Staff, with specific roles that need to work at an IDEX facility, are supported in-line with local government guidelines.

Through the date of this report, there have not been significant delays in development projects and IDEX has not incurred significant additional costs due to the preventive actions taken.

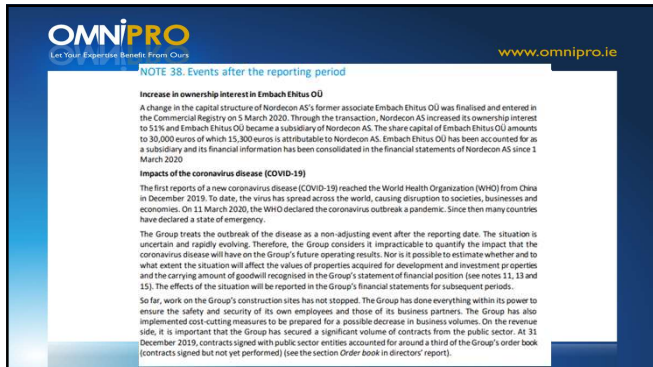
Earlier in the first quarter, many of IDEX's business partners in Asia were impacted but the IDEX team were in regular contact and today the vast majority, if not all, of these partners have returned to their offices and factories.

IDEX acknowledges that there could be a negative business impact of reduced customer contact, deferred activity at customers, and/or lower manufacturing capacity at the company's production partners. The company is not in a position to quantify the possible effects.

On the other hand, IDEX has observed that the pandemic has increased end-user awareness of the benefits of contactless payments without PIN.

While the financial impact to IDEX is difficult to predict at this time, IDEX has taken actions to delay or reduce costs to the extent possible while protecting the company's business prospects and development projects. Management and the board will continue to monitor closely and take further actions as appropriate.

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Post balance sheet events under FRS 105

- What is different?
- Measurement & recognition
 - Very few differences between FRS 102 & FRS 105
 - Adjusting vs. non-adjusting.
 - Going concern
- Disclosures
 - No disclosure of non-adjusting events required under FRS 105.

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Section 27 Impairment

- Section 27 of FRS 102
- Covers “impairment of inventories” and “impairment of assets other than inventories”

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Impairment of inventories

- Assess at each reporting date whether inventories are impaired
- Do this by comparing carrying amount with its selling price less costs to complete

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Impairment of assets other than inventories

- Carry out impairment review when impairment indicators exist.
 - See Section 27.9 of FRS 102 for Internal and External indicators
 - “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.”
 - “Evidence is available of obsolescence or physical damage of an asset.”

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Impairment indicators

- Decline in market value of asset;
- Significant adverse changes in technology, market, economic or legal environment;
- Market interest rates have increased during the period
- 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- plans to restructure, make idle or discontinue an operation;
- Reassessment of an asset from infinite to finite;

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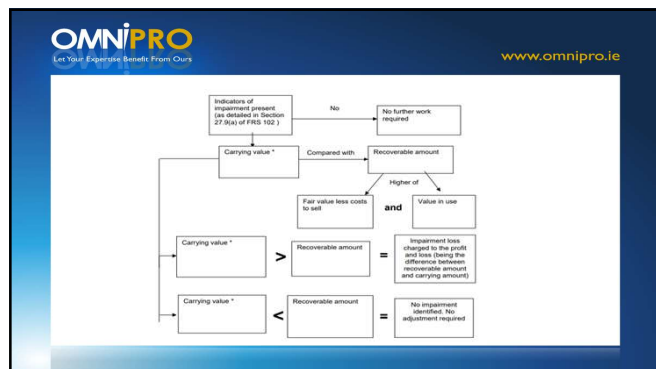
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Impairment

- Carrying amount Vs. Recoverable amount
- Carrying amount- balance in financial statements
- Recoverable amount- Higher of
 - Fair Value less costs to sell
 - Value in use

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Fair Value less costs to sell

- Sale at arms length less cost to sell.
- Knowledgeable willing parties
- In an active market
 - 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.


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Fair Value Measurement when there is no “active market”

- Appendix to section 2
- Best evidence is quoted price for an identical asset in an active market.
- Next, a binding sale agreement or a recent transaction for an identical asset....however this may not be a good estimate of fair value if there has been a significant change in economic circumstances
- Next, an alternative “valuation technique”- Fair value is based on the results of a valuation technique that makes maximum use of market inputs and relies as little as possible on entity determined inputs. This can only be used if;
 - It reliably reflects how the market could be expected to price the asset
 - The inputs to the valuation technique reasonably represent market expectations and measures the risk return factors inherent in the asset

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Fair Value Measurement when there is no “active market”

- If after all the steps, the outcome is that the range of reasonable fair values is significant and the probabilities of estimated outcomes cannot be reasonably assessed then the entity is precluded from measuring the asset at fair value.
 - If this is the case then the carrying amount of the asset on the last date the asset was reliably measured becomes its new cost.
 - Asset is carried at this amount less impairment.
 - “Recoverable amount” is determined by considering the asset’s value in use.

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Value in use

- “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.”

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What should estimates of cashflow include?

- Projections of cash inflows from continuing to use the asset.
- Projections for cash outflows that are necessary to generate the cash inflows and can be attributed to the asset
- Net cashflows expected on disposal of the asset (Terminal value).
- May use recent budgets/projections
 - Extrapolate the budgets using a steady or declining growth rate for subsequent years. Unless an increasing rate can be justified.

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What should value in use calculations include?

- Estimating the future cashflows to be derived from the asset.
- Expectations about the possible variations in the amount or timing of those future cashflows.
- The time value of money
- The price for bearing the uncertainty inherent in the asset
- Other factors such as illiquidity that would affect the pricing of future cashflows.

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What should estimates of cashflows not include?

- Cash inflows from financing activities
- Income tax receipts or payments
- Cashflows arising from a future restructuring to which an entity is not yet committed.
- Cashflows arising from improving or enhancing an assets performance.

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Cash Generating Unit

- 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.
- If not possible to estimate the cashflow from an asset then you look at the cashflow from the CGU.

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Section 11 Basic Financial Instruments

- Impairment of financial instruments as a result of COVID-19?
- Sections 11.21 to 11.24
- Assess each year for objective evidence of impairment
- Impairment indicators
 - Financial difficulty of obligor or issuer
 - Breach of contract (default, late payment)
 - Economic difficulties causing better settlement terms offered to creditor
 - Debtor in liquidation
 - Other factors such as adverse economic effects

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Section 11 Basic Financial Instruments

- Derecognition of current liabilities
 - Criteria in section 11.36
 - Only when the obligation is discharged, cancelled or expires

Disclosure of impairment
FRS 102
Section 1A

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Section 13 Inventories

- Measure at lower of cost and selling price less costs to complete. Section 13.4 FRS 102
- Impairment procedure set out in Section 27.2 to 27.4
 - At each reporting date assess whether inventories are impaired
 - Compare carrying amount with selling price less costs to complete.
 - If evidence of impairment, reduce the carrying amount to sales price less costs to complete.
 - The reduction is an impairment loss recognised in P&L.

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Section 13 Inventories

- Sudden closure of business
- Stock obsolescence
- Consumer demand
- Consider post balance sheet events
 - Adjusting
 - Non-Adjusting

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Sections of FRS 102 affected by impairment/FV

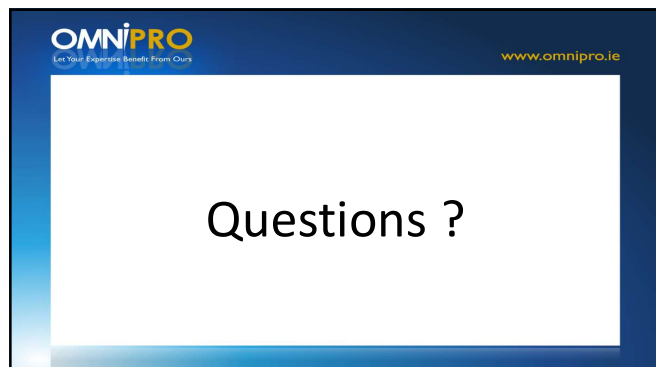
- Section 11 Basic Financial Instruments
- Section 13 Inventories
- Section 14 Investments in Associates
- Section 15 Investments in Joint Ventures
- Section 16 Investment Property
- Section 17 Property, Plant and Equipment
- Section 18 Intangible Assets other than Goodwill
- Section 19- Business Combinations and goodwill

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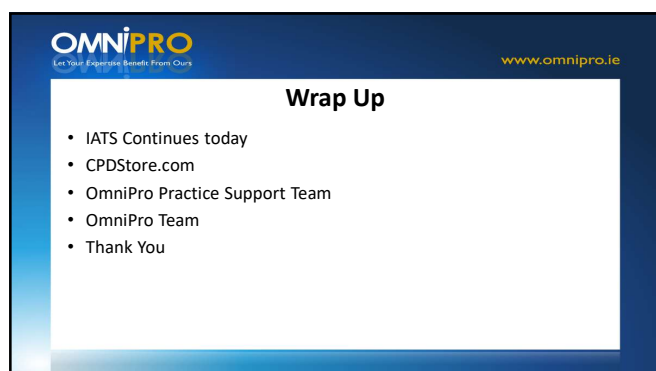
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• Example Financial Statements

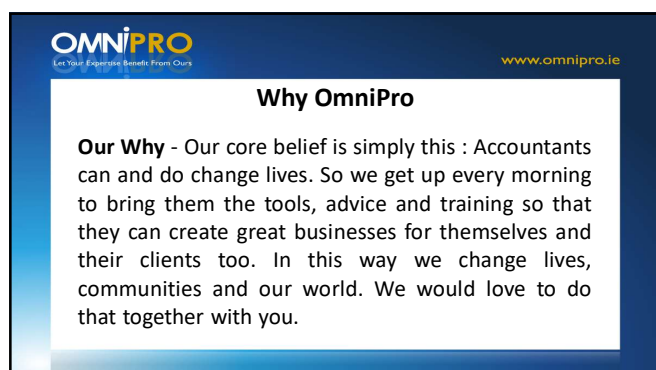
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Why OmniPro

How We Do That –

- We do accountants
- We connect with accountants.
- We learn about accountants so we can understand them.
- We work out what accountants want and need
- We find the best solution for accountants in any given situation

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Why OmniPro

What We Do -

We provide accountants with information products, consulting and training in the areas of;

- practice management, business development & marketing;
- company secretarial & taxation;
- audit & financial reporting;
- professional regulation and disciplinary defence.

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OmniPro Sample Medium/Large Company Limited (Updated for Companies (Accounting) Act 2017) – not on transition (ILLUSTRATIVE COVID-19 DISCLOSURES HIGHLIGHTED)

Directors' Report & Financial Statements

Year Ended 31 December 2019

Disclaimer

These financial statements are solely illustrative and intended to be used exclusively for educational and training purposes. They provide guidance in relation to the format and contents of FRS 102 company financial statements prepared under FRS 102 using the March 2018 version of FRS 102 and Companies Act 2014 as amended by Companies (Accounting) Act 2017. They do not purport to give definitive advice in any form. Despite taking every care in the preparation of this document OmniPro does not take any legal responsibility for the contents of these financial statements and the consequences that may arise due to any errors or omissions. OmniPro shall therefore not be liable for any damage or economic loss occasioned to any person acting on, or refraining from any action, as a result of or based on the material contained in this publication. **Items in italics and underlined identify the changes.**

Section 280F and Section 280G of CA 2014 as inserted by the Companies (Accounting) Act 2017, sets out that a company qualifies as a medium company if it fulfils at least two of the three qualifying conditions listed below (if the are above these thresholds then it is a large company):

- In relation to its first financial year; or
- In relation to its current financial year and the preceding financial year; or
- In relation to its current financial year and it qualified as a small/medium company in the preceding financial year; or
- In relation to the preceding financial year and it qualified as a small/medium company in the preceding financial year

	Medium Co	Medium Group
Turnover	≤€40 million	≤€40 million-net ≤€48 million-gross
Balance Sheet Total	≤€20 million	≤€20 million net ≤€24 million-gross
Employees	≤250	≤250

Under 280F-280G certain entities do not qualify as a medium company even if they meet the size criteria set out above and must prepare statutory financial statements on the basis of the large company provisions. S.280F & 280G does not apply to a company falling within any provision of Schedule 5 of the Act (Eg. Authorised investment firm, insurance intermediary of any other company carrying on of business by which is required to be authorised by the Central Bank) or they are a credit institution or insurance undertaking. The same applies for holding companies of medium groups even where they meet the thresholds if any of the entities in the group come within Schedule 5 etc. then they cannot claim to be a medium company. In addition a company that qualifies for the small & micro companies regime or is a holding company is excluded from being classified as a medium company.

Note CA 2014 as amended by Companies (Accounting) Act 2017 does not permit medium companies to file abridged financial statements.

The only difference between a medium company and a large company in relation to the disclosures in the notes to financial statements is that the medium company is exempt from the requirement to disclose auditors remuneration including fees for other services.

The small companies regime is detailed in Section 15 of CAA Act 2017. CAA 2017 inserts a new Section 280A-280C to CA 2014. The CAA 2017 changes are mandatory for periods commencing on or after 1 January 2017 but Section 14 of that Act permits the small companies regime (and S1A of FRS 102) to be early adopted for all periods commencing on or after 1 January 2015. Note S.1A is optional, it does not have to be applied. This section states that a company qualifies for the small companies regime if it fulfils at least two of the three qualifying conditions listed below:

- In relation to its first financial year; or
- In relation to its current financial year and the preceding financial year; or
- In relation to its current financial year and it qualified as a small/medium company in the preceding financial year; or
- In relation to the preceding financial year and it qualified as a small/medium company in the preceding financial year

	Small Co	Small Group
Turnover	≤€12 million	≤€12 million-net ≤€14.4 million-gross
Balance Sheet Total	≤€6 million	≤€6 million net ≤€7.2 million-gross
Employees	≤50	≤50

Note

In order to avail of the audit exemption the company must have met the criteria for audit exemption as set out in Sections 358 to Section 365 inclusive of the Companies Act 2014. For companies availing of the exemption for the first time the auditor's appointment should be terminated in accordance with the requirements of Section 399 of the Companies Act 2014. Specific attention should be paid to the exclusions from audit exemption under Section 362 of the Act.

Under New S.280A(4) and S.280B(5) certain entities do not qualify for the small companies regime/audit exemption even if they meet the size criteria set out above and must prepare statutory financial statements on the basis of the large company provisions and are not entitled to avail of the abridgement options as a small company. S.280A-280C does not apply to a company falling within any provision of Schedule 5 of the Act (Eg. Authorised investment firm, insurance intermediary of any other company carrying on of business by which is required to be authorised by the Central Bank) or they are a credit institution or insurance undertaking. The same applies for the holding company of small groups even where they meet the thresholds if any of the entities in the group come within Schedule 5 etc. then they cannot apply the small companies regime. Note for the purposes of abridged financial statements for such a small company, a holding company that prepares group financial statements cannot file small abridged financial statements under S.352 of CA 2014.

The Companies (Accounting) Act 2017 may be cited as the Companies (Accounting) Act 2017 but the legislative references in the financial statements do not need to be updated

Each set of Financial Statements should be specifically tailored for each client.

OmniPro Sample Medium/Large Company Limited

Year Ended 31 December 2019

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OmniPro Sample Medium/Large Company Limited

Year Ended 31 December 2019

Directors and Other Information

Directors	Mr A Director Ms B Director Mr C Director
Secretary	Mr A Director
Company registration number ¹	123456
Auditors	Compliant Accountant & Co, Statutory Audit Firm, Accountants Row, Any County
Bankers	Any Big Bank PLC, Money Street, Moneysville, Any County Deep Pockets Bank, Financial Services Sector, Ballycash, Any County
Solicitors	Legal Eagles & Co., Court Place, Judgestown Any County
Registered Office ²	Construction Place, Builders Lane, Dunblock Any County

¹ Required under S.17 of CA 2017 Act by inserting into S.291&295 of CA 2014

² Required under S.17 of CA 2017 Act by inserting into S.291&295 of CA 2014

OmniPro Sample Medium/Large Company Limited

Year Ended 31 December 2019

Directors' Report

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

Directors and secretary³

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

Mr A Director
Mr B Director
Mr C Director

Mr A Director held the position of company secretary for the duration of the financial year.

Principal Activities⁴ and Business Review⁵

The principal activity of the company is the provision of construction services to both the private and commercial sectors. From their operations base and depot in Construction Place, Builders Lane, Dunblock, Any County they also sell pre-cast concrete products to private individuals and the construction industry. The company is supplied with the pre-cast concrete products by a wholly owned subsidiary company, which operates independently from a separate location.

There have been no significant changes in the company's activities during the financial year but the company's activities have been negatively impacted since the year end by the effects of COVID-19 as described below. The company has continued to improve performance in recent years. Turnover has increased by xx% on prior year allowing the firm to maintain excellent profitability levels in a challenging and rapidly changing industry.

At the end of the year the company has assets of €XXX (2018: €XXX) and liabilities of €XXX (2018: €XXX). The net assets of the company have increased by €XXX (2018: €XXX) and the directors are satisfied with the level of retained reserves at the year end.

The key financial indicators of the company are:

XXX etc. etc.

Environmental and Employee Matters

Include assessment of environmental and employee matters where considered necessary for an understanding of the business.

³ The names of the persons who were directors during the financial year should be included for periods commencing on or after 1st of June 2015. Directors may be required to retire by rotation under the Co.s Constitution

⁴ 4 S.326(1)(b), CA 2014 – The directors report shall state the principal activities of the company during the year

⁵ S.327(1)(a), CA 2014 – The directors report shall include a fair review of the business of the company. As required under S.327(2), CA 2014 this shall include an analysis of the development and performance of the business during the financial year and the assets and liabilities and financial position of the company at the end of the year. Under S.327(3), CA 2014 this review shall be expanded to include financial and non-financial KPIs as needed for large and medium companies when considered necessary for providing the business review

OmniPro Sample Medium/Large Company Limited

Year Ended 31 December 2019

Directors' Report

Future Developments⁶

Illustrative paragraph- mildly affected by Covid-19

The directors are not expecting to make any significant changes in the nature of the business in the near future. At the time of approving the financial statements, the company is exposed to the effects of the Covid-19 pandemic which has had a negative effect on its trading activities since the year end and has resulted in a lower than expected level of trading activity since the year end. In planning its future activities, the directors will seek to develop the company's activities whilst managing the effects of the difficult trading period caused by this outbreak.

Illustrative paragraph- significantly affected by Covid-19

Since the year end, following restrictions placed on the company's business as a result of the outbreak of the Covid-19 pandemic, the company has temporarily ceased trading. This decision was taken to ensure the safety of all staff is preserved and to ensure that government recommendations and restrictions are complied with. The directors intend to recommence trading once all restrictions have been lifted and once it is safe for staff to return to work. Following the planned recommencement of trading, the directors plan to develop the activities of the company so that it will return to normal trading activities as soon as possible. In the intervening period, the company has reduced its cost base so that the burden of costs borne during the non-trading period is mitigated.

Results and Dividends⁷

The retained profit for the financial year amounted to €XXX (2018: €XXX) and this was transferred to reserves at the year end. The directors have not declared a dividend for the year.

Or

The retained profit for the financial year amounted to €XXX (2018: €XXX). An interim dividend of €xx.xx (2018: €XXX) per ordinary share, amounting to €XXX (2018: € XXX) was paid on 1 June 2019. A final dividend of € XXX (2018: € XXX) per ordinary share, amounting to € XXX (2018: € XXX) was declared and authorised on 30 November 2019 and will be paid on 1 March 2018. € XXX was transferred to reserves at the year end.

Principal Risks and Uncertainties⁸

In the first half of 2020, the outbreak of Covid-19 spread throughout Asia, Europe and Worldwide. The initial impact of this has been severe and has resulted in a significant worldwide slowdown in economic activity. In Ireland, the economic impact of this pandemic has been characterised by the temporary closure of many businesses in "non-essential" areas to ensure that people's movements are restricted in order to slow down the spread of the virus. The effect of Covid-19 presents many risks for the company, the effects of which cannot be fully quantified at the time of approving the financial statements.

Although the effects cannot be fully determined, the directors believe that the main risks and uncertainties associated with COVID-19 are as follows;

- a potential reduction in economic activity which may result in reduced consumer spending and demand for the company's services
- a reduction in asset values
- a prolonged period of government restrictions on the movement of people

⁶ 6 S.327(5), CA 2014 – The directors report shall include an indication of likely future developments facing the company

⁷ 7 S.326(1)(d), CA 2014 – The directors report shall include an indication of interim dividends paid and the amount, if any, that should be paid by way of final dividend

⁸ S.327(1)(b), CA 2014 – The directors report shall contain a description of the principal risks and uncertainties facing the company

OmniPro Sample Medium/Large Company Limited

Year Ended 31 December 2019

Directors' Report

OmniPro Sample Medium/Large Company Limited operates in a cyclical industry and is affected by factors beyond the control of the company for example level of construction activity.

OmniPro Sample Medium/Large Company Limited faces strong competition in the market and if the company fails to compete successfully market share may decline.

Financial Risk Management⁹

Through financial instruments held the company's operations expose it to a variety of financial risks that include price risk, credit risk, liquidity risk and interest rate risk.

To maintain stable cash out flows the company maintains 100% (2018: 100%) of its debt at fixed rate and to maintain 50% of its debt payable within one year. The company does not use derivative financial instruments to manage financial risk and no hedge accounting is applied.

Price Risk

The company is exposed to the price risk of commodities through its operations. The directors believe that the cost of managing this risk is in excess of the potential benefits given the size of the company. The directors, however, review the appropriateness of this policy on an annual basis.

Credit Risk

The company requires that appropriate credit checks are carried out on new customers before sales are made. All customers have individual credit limits that are reviewed on an ongoing basis by the board. Provisions for bad debts are made based on historical evidence and any new events which might indicate a reduction in the recoverability of cash flows.

Liquidity Risk

The company maintains a mix of long and short term finance to ensure the company has sufficient funds available to meet obligations as they fall due.

Interest Rate Risk

The company holds both interest bearing assets and liabilities. Assets include cash balances which earn a fixed rate of interest. The company policy is to maintain debt at a fixed rate to ensure future interest cash flows.

Director's & Secretary's interests¹⁰

The director's and secretary's interests, as at the year end, in the company at the beginning and end of the year were as follows;

Year ended 31 December 2019	Mr A Director €1 ordinary shares	Ms B Director €1 ordinary shares	Total
At the beginning of the year	50,000	50,000	100,000
At the end of the year	50,000	50,000	100,000
Year ended 31 December 2018	Mr A Director €1 ordinary shares	Ms B Director €1 ordinary shares	Total
At the beginning of the year	50,000	50,000	100,000
At the end of the year	50,000	50,000	100,000

⁹ S.326(3), CA 2014 – Only required where material for an assessment of the companies financial position and the use of financial instruments

¹⁰ 10 S.329 CA 2014 – Disclosure required of person's interests, who were in office at the end of the financial year, in shares and debentures of the company and any group undertaking of that company. References to director's and secretaries interests including shadow and de-factor directors as required under S.329(4), CA 2014.

OmniPro Sample Medium/Large Company Limited

Year Ended 31 December 2019

Directors' Report

Events after the Balance Sheet date¹¹

Illustrative example- Company in non-essential services who have temporarily ceased trading.

In the first half of 2020, the COVID-19 virus spread worldwide. In common with many other countries, the Irish government issued guidance and restrictions on the movement of people designed to slow the spread of this virus. In early March 2020, many businesses closed voluntarily and throughout the month more restrictions were placed on people and businesses. On 28th March, all "non-essential" businesses were ordered to close temporarily.

The impact on the company has initially been a lower than expected level of trading activity in March 2020 followed by a temporary closure of the business on 28th March 2020. In response to the restrictions, the company has laid off some staff and reduced working hours for some staff with a view to minimising the costs borne by the company during the period of closure. The directors intend to recommence trading when the restrictions are lifted and when it is safe for staff to return to work. Whilst the directors believe that the effect will be negative on the company & the full effect of the events since the balance sheet are difficult to determine, the directors are confident that the company will recommence trading once the period of restriction is lifted.

Illustrative example- Company continuing to trade during the lockdown period but are operating at a reduced level

In the first half of 2020, the COVID-19 virus spread worldwide. In common with many other countries, the Irish government issued guidance and restrictions on the movement of people designed to slow the spread of this virus. In early March 2020, many businesses closed voluntarily and throughout the month more restrictions were placed on people and businesses. On 28th March, all "non-essential" businesses were ordered to close temporarily.

The company reacted to these conditions by closing it's offices with staff working from home. Whilst this has resulted in the company remaining operational during the period, there has been a reduction in trading levels as a result of Covid-19. The directors are confident that the company will be fully operational once the period of restriction is lifted.

Research and Development¹²

The company was engaged in research and development activities in the development of patents, the cost incurred in the year was €xx,xxxx.

¹¹ S326(2)(a), CA 2104 – Disclosure in relation to important events after the balance sheet date are only required where deemed relevant

¹² Disclosure in relation to Research and Development Activity is only required if there have been any activities in this area in accordance with S.326(2)(b) of the Companies Act 2014

OmniPro Sample Medium/Large Company Limited

Year Ended 31 December 2019

Directors' Report

Political donations¹³

The company made the following disclosable political donations in the current year:

• Party A	-	€xx,xxx
• Party B	-	€xx,xxx
• Party C	-	€xx,xxx

Payment of Creditors¹⁴

The directors acknowledge their responsibility for ensuring compliance with the provisions of the European Communities (Late Payment in Commercial Transactions) Regulations 2012. It is the company's policy to agree payment terms with all suppliers and to adhere to those payment terms.

Accounting Records¹⁵

The Directors acknowledge their responsibilities under Section 281 to Section 285 of the Companies Act 2014 to keep adequate accounting records for the company.

In order to secure compliance with the requirements of the act, a full time management accountant is employed. The accounting records of the company are kept at the registered office¹⁶ and principal place of business at Construction Place, Builders Lane, Dunblock, Any County.

Directors Compliance Statement¹⁷

The directors confirm they are responsible for securing the company's compliance with its relevant obligations under Section 224 of the Companies Act 2014 and confirm:

- that a company compliance statement has been developed (Or if it has not state this fact in addition to stating why it has not); and
- have put in appropriate arrangements and structures that are in the directors' opinion designed to secure compliance with the company's relevant obligations; and
- a review of these procedures has been performed in the current financial year (or where a review has not been performed state that fact and the reasons why it has not been performed).

Audit Committee¹⁸

The directors confirm that the company has established an audit committee in accordance with the requirements of Section 167 of Companies Act 2014.

¹³ S.326(2)(d), CA 2014 – Disclose political donations made during the year as required under the Electoral Act 1997, disclosure is only required if political donations are in excess of €200 in the year under Section 17, Electoral (Amendment) (Political Funding) Act 2012

¹⁴ Disclose if the company or suppliers purport to trade under the terms of the EC (Late Payment in Commercial Transactions) Regulations 2012

¹⁵ S.326(1)(c), CA 2014 – The directors report is required to include a statement of measures taken by the directors to secure compliance with S.281 to 285 of the Companies Act 2014 for the keeping of accounting records and the location of those records

¹⁶ S283(1), CA 2014 – A company's accounting records shall be kept at its registered office or at such other place as the directors think fit

¹⁷ S.225, CA 2014 – A directors compliance statement is only required where the company's total assets exceeds €12.5m and turnover exceeds €25m. This is only required to be included for period beginning on or after 1 June 2015.

¹⁸ S.167, CA 2014 – (not applicable to medium companies) Requirement to establish an audit committee or if not established the reasons why the audit committee was not established must be stated. This requirement only applies to company's whose turnover is >=€50 million AND balance sheet is total is >=25 million. This applies to financial statements for periods commencing on or after the 1st of June 2015

OmniPro Sample Medium/Large Company Limited

Year Ended 31 December 2019

Directors' Report

OR

The directors confirm that the company has not established an audit committee as is permitted in Section 167 of Companies Act 2014. The reasons for the decision not to establish an audit committee is as follows:

XXXX etc etc.

Going Concern- Consider including this if the company has a material uncertainty relating to going concern¹⁹

The financial statements are prepared on a going concern basis. As outlined in note X, there are material uncertainties relating to the company's ability to continue as a going concern arising from the uncertainty caused by the outbreak of the COVID-19 pandemic.

Statement on Relevant Audit Information²⁰

In accordance with Section 330 of the Companies Act 2014:

- so far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is 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 auditor is aware of that information.

Auditors

In accordance with Section 383(2) of the Companies Act 2014, the auditors, Compliant Accountant & Co., Registered Auditors / Statutory Auditors / Statutory Audit Firm, Accountants Row, Any County will continue in office.

On behalf of the board²¹

Mr A Director
Director

Ms B Director
Director

DATE: _____

Additional information to be considered for disclosure if applicable

- S319(1), CA 2014 – Financial assistance for the purchase of own shares
- S.326(2)(c), CA 2014 – An indication of the existence of branches of the company outside the state and the country in which they are located.
- S.328, CA 2014 – Acquisition or disposal of own shares during the period. S.44 of CAA 2017

¹⁹ S.327 (1)- The directors report shall present a fair review of the business and a description of the principal risks and uncertainties facing the business. It may be appropriate to include a going concern note where there are material uncertainties relating to the company's ability to continue as a going concern

²⁰ S.330, CA 2014 – The statement on the provision of relevant audit information applies to financial statements for periods commencing on or after the 1st of June 2015

²¹ Where there is only 1 director as a new model private LTD that director may approve the financial statements

OmniPro Sample Medium/Large Company Limited

Year Ended 31 December 2019

Directors' Report

includes an additional requirement to disclose the reason for the acquisition and a disclosure of % of called up share capital held at the beginning and end of the year

- S.329(1) CA 2014 – Directors or secretaries interests in debentures at the start of the period during the period or in the preceding period

For periods commencing after the 1st of June 2015 a Directors Compliance Statement is required in accordance with S.225 of the Companies Act 2014

Under S.167 of the Companies Act 2014 the Board of Directors of a large company shall establish an audit committee to comply with the requirements of the Act or decide not to establish one.

OmniPro Sample Medium/Large Company Limited

Year Ended 31 December 2017

Directors' Responsibilities Statement

The directors' are responsible for preparing the directors' report and the financial statements in accordance with applicable Irish law and regulations.

Irish Company law requires the directors to prepare financial statements for each financial year. Under the law the directors have elected to prepare the financial statements in accordance with Companies Act 2014 and accounting standards issued by the Financial Reporting Council [*and promulgated by Chartered Accountants Ireland*²²] including FRS 102 The Financial Reporting Standard applicable in the UK and Ireland (Generally Accepted Accounting Practice in Ireland). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the company as to the financial year end and of the profit or loss of the company for the financial year and otherwise comply with the Companies Act 2014.

In preparing those 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, identify those standards and note the effect and the reasons for any material departure from those standards
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business²³

The directors are responsible for ensuring that the company keeps or causes to be kept adequate accounting records which correctly explain and record the transactions of the company, enable at any time the assets, liabilities, financial position and profit or loss of the company to be determined with reasonable accuracy, enable them to ensure that the financial statements and directors report comply with the Companies Act 2014 and enable the financial statements to be audited. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

*The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions*²⁴.

On behalf of the board²⁴

Mr A Director
Director

Ms B Director
Director

DATE: _____

²² Deemed best practice for firm's regulated by Chartered Accountants Ireland

This statement is based on the illustrative Director's Responsibilities Statement in FRC Bulletin 1(i) and is updated for new terminology as noted in the Companies Act 2014

²³ Include only- if accounts are available on the company website

²⁴ Where there is only 1 director as a new model private LTD that director may approve the financial statements

Independent Auditors Report to the Members of OmniPro Sample Medium/Large Company Limited for the year ended 31 December 2019

Audit report removed due to numerous audit report implications/disclosures
See separate guidance documents

Independent Auditors Report to the Members of OmniPro Sample Medium/Large Company Limited for the year ended 31 December 2019

OmniPro Sample Medium/Large Company Limited

Profit and Loss Account

For the Year ended 31 December 2019

	Notes	2019 €	2018 €
Turnover	3	6,074,690	6,236,154
Cost of sales		(2,907,124)	(3,665,856)
Gross profit		3,167,566	2,570,298
Administration expenses		(1,885,421)	(2,182,133)
Other operating income	5	220,000	230,000
Operating profit	4	1,502,145	618,165
Interest receivable and similar income	6	14,999	5,307
Interest payable and similar expenses	7	(205,784)	(199,721)
Profit on before taxation		1,311,360	423,751
Tax on profit	8	(266,994)	(119,414)
Profit for the financial year		1,044,366	304,337

Statement of Comprehensive Income²⁵

For the Year ended 31 December 2019

	Notes	2019 €	2018 €
Profit for the financial year		1,044,366	304,337
Total Comprehensive Income for the year		1,044,366	304,337

²⁵ A two statement approach has been adopted in accordance with Section 5 (FRS 102). The Statement of Comprehensive Income (SOCi) is included here for illustration purposes only as there are no movements in the example that require a SOCi. Should a SOCi be required it should be shown on a separate page. This profit and loss is prepared in accordance with Format 1 of Schedule 3 to CA 2014 as amended by CAA 2017. Formats 2, can also be used. The IFRS format can also be used Sch 3(2)(3) CA 2014 as amended by CAA 2017. This can also be called an income statement. This is prepared in accordance with Format 1 of Schedule 3 to the CA 2014, Format 2 can also be used as can IFRS format per Schedule 3(2)(3) CA 2014 as amended by CAA 2017 as long as it is equivalent to Schedule 3 formats and deals with all matters. This can also be called a statement of financial position. A not for profit entity can adopt the balance sheet and profit and loss account to suit its needs.

OmniPro Sample Medium/Large Company Limited

Balance Sheet

At December 2019

	Notes	31-Dec 2019 €	31-Dec 2018 €
Fixed assets			
Tangible assets	11	2,029,024	411,885
Investment properties ²⁶	12	1,100,725	3,490,201
Financial assets	13	185,640	209,200
		3,315,389	4,111,286
Current assets			
Stocks	14	699,709	392,166
Debtors	15	2,456,177	1,458,187
Cash at bank and in hand		356,772	147,723
		3,512,658	1,998,076
Creditors: amounts falling due within one year	16	(2,824,570)	(3,366,330)
Net current assets/(liabilities)		688,088	(1,368,254)
Total assets less current liabilities		4,035,477	2,743,032
 Creditors: amounts falling due after more than one year	17	 (2,166,210)	 (2,129,125)
 Provision for liabilities	19	 (214,206)	 (65,212)
		1,623,061	548,695
Net Assets			
Capital and reserves			
Called up share capital presented as equity	22	120,000	100,000
Share premium account	23	10,000	-
<u>Revaluation reserve **</u>	<u>XX</u>	<u>XXX</u>	<u>-</u>
Other reserves	23	126,000	128,625
Profit and loss account	23	1,367,061	320,070
		1,623,061	548,695

The financial statements were approved by the Board of Directors on (Insert date) and authorised for issue on (insert date). They were signed on its behalf by²⁷

Mr A Director²⁸
Director
DATE: _____

Ms B Director
Director

This is prepared in accordance with Format 1 of Schedule 3 to the CA 2014, Format 2 can also be used as can IFRS format per Schedule 3(2)(3) CA 2014 as amended by CAA 2017 as long as it is equivalent to Schedule 3 formats and deals with all matters. This can also be called a statement of financial position. A not for profit entity can adopt the balance sheet and profit and loss account to suit its needs.

²⁶ Sch3 Formats specifically require investment property to be shown separately on the face of the balance sheet and cannot be included within tangible fixed assets. This is prepared in accordance with Format 1 of Schedule 3 to the CA 2014, Format 2 can also be used.

²⁷ Section 32.9 - A company shall disclose the date when the financial statements were authorized for issue and who gave that authorisation

²⁸ Where there is only 1 director as a new model private LTD that director may approve the financial statements

**** Where Co. holds property used by other group members, previously accounted as investment property & option taken to treat previously valuation as deemed cost and reclassify to PPE**

OmniPro Sample Medium/Large Company Limited

Statement of Changes in Equity

For the Year Ended 31 December 2019

	Called up Share Capital €	Share Premium Account €	Other Reserves €	Profit and Loss Account €	<u>Revaluation reserve</u> €	Total Equity €
Balance at 1 January 2018	100,000	-	131,250	13,108	-	244,358
Profit for the year	-	-	-	304,337	-	304,337
Transfers net of deferred tax	-	-	(2,625)	2,625	-	-
Balance at 31 December 2018 and at 1 January 2019	100,000	-	128,625	320,070	-	548,695
Equity Shares Issued	20,000	10,000	-	-	-	30,000
Profit for the year	-	-	-	1,044,366	-	1,044,366
Transfers net of deferred tax	-	-	(2,625)	2,625	(XX)	-
<u>Transfer from P&L Reserve to revaluation reserve **</u>	-	-	-	(XXX)	XXX	-
Dividends on ordinary shares paid and declared (€XX per ordinary share)	-	-	-	-	-	-
Dividends on ordinary shares declared but unpaid in year (€XX per ordinary share)	-	-	-	-	-	-
Balance at 31 December 2019	120,000	10,000	126,000	1,367,061	XXXX	1,623,061

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²⁹ Section 6 FRS 102 requires a statement of changes to be presented. For simpler entities where there are only dividends and prior year restatements going through equity, the statement of income and changes in retained earnings is permitted under FRS 102-Section 6. However note Sch 3(53) of CA 2014 requires movement on the profit and loss reserves to be disclosed including details of dividend. Therefore where this SOCE is not presented the movement on P&L reserves must be presented in the notes, on the balance sheet or on the face of the P&L Sch 3(54) requires movement on any reserve to be shown inc revaluation reserves and fair value reserves to. In order to cover off these requirements it would make sense to include a SOCE. If it is not shown in the SOCE it will have to be shown in the notes. Companies Act also requires comparatives for each year showing the movements as per Sch3(5).

**** Where Co. holds property used by other group Co.'s, previously accounted as investment property & option taken to treat previously valuation as deemed cost and reclassify to PPE**

OmniPro Sample Medium/Large Company Limited

Statement of Cashflows For the Year ended 31 December 2019

	Notes	2019 €	2018 €
Cash flows from operating activities			
Cash generated from operations	29	440,343	502,225
Taxation refunded/(paid)		129,719	(88,388)
Net cash generated from operating activities		570,062	413,837
Cash flows from investing activities			
Payments to acquire Tangible Fixed Assets		(1,568,437)	(198,421)
Cash received on disposal of Investment Property		2,539,476	-
Payments to acquire government bond		(150,000)	-
Cash received on disposal of investments		173,560	-
Payments to acquire intangible assets		-	-
Net cash generated from/(used in) investing activities		994,599	(198,421)
Cash flows from financing activities			
Interest paid		(197,784)	(199,721)
Preference dividends paid		(8,000)	-
Proceeds received from issue of ordinary shares		30,000	-
Proceeds received from issue of preference shares		100,000	-
Repayment of capital element of finance leases		(57,335)	(3,725)
Movement on loans		(1,222,493)	104,112
Net cash used in financing activities		(1,355,612)	(99,334)
Net increase in cash and cash equivalents	30	209,049	116,082
Cash and cash equivalents at beginning of year		147,723	31,641
Cash and cash equivalents at end of year		356,772	147,723

OmniPro Sample Medium/Large Company Limited

Year Ended 31 December 2019 Accounting Policies

1. ACCOUNTING POLICIES

OmniPro Sample Medium/Large Company Limited is primarily engaged in the provision of construction services to both the private and commercial sectors. From their operations base and depot in Construction Place, Builders Lane, Dunblock, Any County they also sell pre-cast concrete products to private individuals and the construction industry. The company is supplied with the pre-cast concrete products by a wholly owned subsidiary company, which operates independently from a separate location.

The company is a limited liability company incorporated in the Republic of Ireland and its company registration number is XXXX.

The significant accounting policies³⁰ adopted by the Company and applied consistently³¹ in the preparation of these financial statements are as follows:

(a) Basis of preparation

The Financial Statements are prepared on the going concern basis³², under the historical cost convention, [as modified by the revaluation of certain tangible fixed assets] and comply with the financial reporting standards of the Financial Reporting Council [and promulgated by Chartered Accountants Ireland³³] including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102")³⁴ and the Companies Act 2014.

The FRC issued amendments to FRS 102 called 'Amendments to FRS 102- Triennial review incremental improvements and classifications adjustments' which can be applied for accounting periods beginning on or after 1 January 2019 with early adoption permitted. These amendments have been reflected in the March 2018 version of FRS 102. The company has early adopted these amendments in these financial statements.

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

(b) Consolidation³⁵

NOTE: the below is to be included where the parent company is exempt from consolidation due to its immediate parent company (which is in the EEA) preparing consolidated financial statements

Consolidated accounts

The company has not prepared consolidated accounts for the period as, being a wholly owned subsidiary of the ultimate parent company, XXXXXX Limited, it is exempted from doing so under Section 9 of FRS 102 which is accommodated under Section 299 of the Companies Act 2014.

³⁰ Changes in accounting policies must be identified and recorded in accordance with FRS 102, section 10

³¹ Para 13, Sch III, CA 2014 – Accounting policies shall be applied consistently from one period to another

³² Para 12, Sch III, CA 2014 – A company is deemed to be carrying on business as going concern. Sch3(19) requires a disclosure of the fact that it is not being carried on as a going concern to also be disclosed (also stated in S.291 CA 2014). Where uncertainties exist this should be stated.

³³ Deemed best practice for firm's regulated by Chartered Accountants Ireland

³⁴ Appendix 1AD.1 of FRS 102 encourages a statement of compliance to be included in the notes to the financial statements in order to show a true and fair view also.

Where the entity has made a decision to wind up the entity that is required to be disclosed, there is no choice. Where there is uncertainties about going concern CA 2014 requires this to be disclosed. Appendix D of Section 1A of FRS 102 also encourages this in order to show a true and fair view.

³⁵ Applicable to Group companies who do not meet the size criteria to prepare consolidated financial statements. Note S.22 of CAA 2017 requires where this exemption is claimed that where the company is owned 90% by one shareholder, the remaining 10% shareholder must also approve the exemption.

OmniPro Sample Medium/Large Company Limited

Year Ended 31 December 2019 Accounting Policies

NOTE: the below is to be included where the parent company is exempt from consolidation due to its ultimate parent company (which is in or outside the EEA) preparing consolidated financial statements

Consolidated accounts

The company has not prepared consolidated accounts for the period as, being a wholly owned subsidiary of the ultimate parent company, XXXXXX Limited, it is exempted from doing so under Section 9 of FRS 102 which is accommodated under Section 300 of the Companies Act 2014.

(c) Currency

(i) Functional and presentation currency

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the company operates ("the functional currency"). The financial statements are presented in euro, which is the company's functional and presentation currency and is denoted by the symbol "€".

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the profit and loss account within 'finance (expense)/income'. All other foreign exchange gains and losses are presented in the profit and loss account within 'Other operating (losses)/gains'.

(d) Turnover

Turnover is recognised to the extent that the company obtains the right to consideration in exchange for its performance. Turnover comprises the fair value of consideration received and receivable exclusive of value added tax and after discounts and rebates.

Where the consideration receivable in cash or cash equivalents is deferred, and the arrangement constitutes a financing transaction, the fair value of the consideration is measured as the present value of all future receipts using the imputed rate of interest.

Turnover from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods, the amount of turnover can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Turnover from the provision of services is recognised in the accounting period in which the services are rendered and the outcome of the contract can be estimated reliably. The company uses the percentage of completion method based on the actual service performed as a percentage of the total services to be provided.

(e) Interest income

Interest income is recognised using the effective interest method.

OmniPro Sample Medium/Large Company Limited

Year Ended 31 December 2019 Accounting Policies

(f) Dividend income

Dividend income from subsidiaries is recognised when the Company's right to receive payment has been established.

(g) Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the company's shareholders.

(h) Government grants

Government grants are recognised at their fair value in profit or loss where there is a reasonable assurance that the grant will be received and the Company has complied with all attached conditions.

Capital Grants received where the Company has yet to comply with all attached conditions are recognised as a liability (and included in deferred income within Creditors and accruals) and released to income when all attached conditions have been complied with.

Revenue Grants are credited to income so as to match them with the expenditure to which they relate. Government grants received are included in 'other income' in profit or loss.

(i) Taxation

Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

(i) Current tax

Current tax is calculated on the profits of the period. Current tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date.

(ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled. Deferred tax is recognised in the profit and loss account or other comprehensive income depending on where the revaluation was initially posted.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Current or deferred taxation assets and liabilities are not discounted.

OmniPro Sample Medium/Large Company Limited

Year Ended 31 December 2019 Accounting Policies

(j) **Tangible fixed assets**

(i) *Cost*

Tangible fixed assets are recorded at historical cost or deemed cost, less accumulated depreciation and impairment losses. Cost includes prime cost, overheads and interest incurred in financing the construction of tangible fixed assets. Capitalisation of interest ceases when the asset is brought into use.

Freehold premises are stated at cost ³⁶(or deemed cost for freehold premises held at valuation at the date of transition to FRS 102) less accumulated depreciation and accumulated impairment losses

The difference between depreciation based on the deemed cost charged in the profit and loss account and the asset's original cost is transferred from revaluation reserve to retained earnings.

Equipment and fixtures and fittings are stated at cost less accumulated depreciation and accumulated impairment losses.

(ii) *Depreciation*

Depreciation is provided on Tangible fixed assets, on a straight-line basis, so as to write off their cost less residual amounts over their estimated useful economic lives.

The estimated useful economic lives assigned to Tangible fixed assets are as follows:

Freehold Premises	2% straight line on cost
Motor vehicles	25% straight line on cost
Office Equipment, fixtures & fittings	12½% straight line on cost
Computer equipment	25%/33⅓% straight line on cost
Spare parts	25% straight line on cost

The company's policy is to review the remaining useful economic lives and residual values of Tangible fixed assets on an on-going basis and to adjust the depreciation charge to reflect the remaining estimated useful economic life and residual value.

Fully depreciated property, plant & equipment are retained in the cost of property, plant & equipment and related accumulated depreciation until they are removed from service. In the case of disposals, assets and related depreciation are removed from the financial statements and the net amount, less proceeds from disposal, is charged or credited to the profit and loss account.

(iii) *Impairment*

Assets not carried at fair value are also reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is defined as the present value of the future pre-tax and interest cash flows obtainable as a result of the asset's continued use. The pre-tax and interest cash flows are discounted using a pre-tax discount rate that represents the current market risk free rate and the risks inherent in the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

³⁶ 43 Para 20, Sch III, CA 2014 – Fixed assets shall be recorded at its purchase price or production cost

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If the recoverable amount of the asset (or asset's cash generating unit) is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the profit and loss account, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in profit or loss.

If an impairment loss is subsequently reverses, the carrying amount of the asset (or asset's cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the profit and loss account.

(k) Investment properties

The company owns a number of freehold office buildings that are held to earn long term rental income and for capital appreciation. Investment properties are initially recognised at cost. Investment properties whose fair value can be measured reliably are measured at fair value. Changes in fair value are recognised in the profit and loss account.

For properties which are owned by the Company but used by other members of the group in which the Company is a part of, the Company accounts for such properties as if they are property, plant and equipment instead of investment property and therefore carries these at deemed cost/ cost less accumulated depreciation and impairment. The Company has availed of the exemption in Section 1.19 of FRS 102 to elect to have the carrying amount of these properties at the 31 December 2018 deemed to be cost of the property.

(l) Investments in subsidiary undertakings

Investments in subsidiary undertakings are shown at historical cost less provision for impairments in value.

(m) Leases

(i) Finance leases

Leases in which substantially all the risks and rewards of ownership are transferred by the lessor are classified as finance leases.

Tangible fixed assets acquired under finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments and are depreciated over the shorter of the lease term and their useful lives. The capital element of the lease obligation is recorded as a liability and the interest element of the finance lease rentals is charged to the profit and loss account on an annuity basis.

Each lease payment is apportioned between the liability and finance charges using the effective interest method.

(ii) Operating leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

(iii) Lease incentives

Incentives received to enter into a finance lease reduce the fair value of the asset and are included in the calculation of present value of future minimum lease payments.

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Incentives received to enter into an operating lease are credited to the profit and loss account, to reduce the lease expense, on a straight-line basis over the period of the lease.

(n) Stocks

Stocks comprise consumable items and goods held for resale. Stocks are stated at the lower of cost and net realisable value. Cost is calculated on a first in, first out basis and includes invoice price, import duties and transportation costs. Net realisable value comprises the actual or estimated selling price less all further costs to completion or to be incurred in marketing, selling and distribution.

At the end of each reporting period Stocks are assessed for impairment. If an item of stock is impaired, the identified inventory is reduced to its selling price less costs to complete and sell and an impairment charge is recognised in the profit and loss account. Where a reversal of the impairment is recognised the impairment charge is reversed, up to the original impairment loss, and is recognised as a credit in the profit and loss account.

(o) Trade and other debtors

Trade and other debtors including amounts owed to group companies are recognised initially at transaction price (including transaction costs) unless a financing arrangement exists in which case they are measured at the present value of future receipts discounted at a market rate. Subsequently these are measured at amortised cost less any provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. All movements in the level of provision required are recognised in the profit and loss.

(p) Other financial assets

Other financial assets include investments which are not investments in subsidiaries, associates or joint ventures. Investments are initially measured at fair value which usually equates to the transaction price and subsequently at fair value where investments are listed on an active market or where non listed investments can be reliably measured. Movements in fair value are measured in the profit and loss.

When fair value cannot be measured reliably or can no longer be measured reliably, investments are measured at cost less impairment.

(q) Preference share capital

Redeemable preference shares have been classified as liabilities in the balance sheet. The preference dividend is charged in arriving at the interest cost in the profit and loss account. *(including the following where applicable)* However, no dividends will be paid on the cumulative preference shares until the company has positive profit and loss reserves.

(r) Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

(s) Creditors and accruals

Creditors and accruals are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

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(t) Borrowings

Borrowings are recognised initially at the transaction price (present value of cash payable to the bank, including transaction costs). Borrowings are subsequently stated at amortised cost. Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

Borrowings are classified as current liabilities unless the Company has a right to defer settlement of the liability for at least 12 months after the reporting date.

(u) Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as a finance cost.

(v) Contingencies

Contingent liabilities, arising as a result of past events, are not recognised when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the company's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

(w) Employee Benefits³⁷

The company provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined contribution pension plans.

(x) *Short term benefits*

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

(ii) *Annual bonus plans*

The company recognises a provision and an expense for bonuses where the company has a legal or constructive obligation as a result of past events and a reliable estimate can be made.

(iii) *Defined contribution pension plans*

Para 18, Sch III, CA 2014 – If there are special reasons for departing from any of the stated accounting policies the company shall note the reasons for departure and the effect on the balance sheet and profit and loss in that year scheme

³⁷ This policy relates to a defined contribution scheme, an expanded policy would be required for a defined benefit scheme

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The Company operates a defined contribution plan. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate fund. Under defined contribution plans, the company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the company pays contributions to privately administered pension plans on a contractual or voluntary basis. The company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(x) Dividend distribution

Dividend distribution to equity shareholders are recognised as a liability in the company's financial statements in the period in which the dividends are approved by the equity shareholders. These amounts are recognised in the statement of changes in equity.

(y) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(z) Related party transactions

The company discloses transactions with related parties which are not wholly owned with the same group. It does not disclose transactions with members of the same group that are wholly owned.

(aa) Goodwill

Goodwill represents the excess of consideration paid for the acquisition of shares in associates and joint ventures over the fair value of the identifiable assets and liabilities. Goodwill is amortised to the profit and loss account on a straight line basis over its estimated useful life. The estimated useful lives of goodwill on acquired businesses are up to XX years. Useful life is determined by reference to the period over which the values of the underlying businesses are expected to exceed the values of their identifiable net assets.

Goodwill is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

(bb) Other Intangible Assets

Acquired intangible assets are capitalised at cost and are amortised using the straight-line basis over their useful lives up to a maximum of XX years.

Intangible assets acquired as part of a business acquisition are capitalised separately from goodwill if the fair value can be measured reliably. Internally generated intangible assets are only recognised where they have a readily ascertainable market value.

Intangible assets are reviewed for impairment at the end of the first full financial year following acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

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Year Ended 31 December 2019 Accounting Policies

(cc) Prior period adjustment – Change in accounting policy³⁸

Following the change made by the March 2018 edition of FRS 102 (which is mandatory for periods beginning on or after 1 January 2019) to not allow an entity to claim the undue cost or effort get out to treat property that would otherwise meet the definition of investment property as property, plant and equipment. As a result of this change, a retrospective adjustment was required to restate these properties to fair value at the 1 January 2017 and 31 December 2018 with the fair value movement being reflected in the profit and loss account. The impact of this change is as follows:

	<u>2018</u> <u>as previously stated</u>	<u>Adjustment</u>	<u>2018 As restated</u>
<u>Profit and Loss</u>			
<u>Turnover etc. etc.</u>	<u>XXX</u>	<u>XX</u>	<u>XX</u>
<u>Etc Etc</u>			

DISCLOSE CHANGE IN ACCOUNTING POLICY

(dd) Exceptional item (for illustrative purposes)³⁹

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.

Para 19, Sch 3, CA 2014 as amended by CAA Bill 2016 – If there are special reasons for departing from any of the stated accounting policies the company shall note the reasons for departure (stating why it shows more of a true and fair view where the change is voluntarily) and the effect on the balance sheet and profit and loss in that year and the prior period presented. FRS 102 Section 10.14 also requires the line items affected to be detailed including the aggregate for periods beginning before those presented and an explanation if any of these are impracticable.

³⁸ S.321 of CA 2014 as amended by S.37 of CAA Bill 2016 requires details of a change in accounting policy to be included in the accounting policy section of the financial statements detailing the reason for the change for it and the impact of the change on the current and prior years.

Para 19, Sch 3, CA 2014 as amended by CAA Bill 2016 – If there are special reasons for departing from any of the stated accounting policies the company shall note the reasons for departure and the effect on the balance sheet and profit and loss in that year.

³⁹ Exceptional item. Sch 3(63)(2) requires disclosure of all exceptional items in the notes to the financial statements so an accounting policy is also required where those exist. This should be adjusted depending on what the entity defines as exceptional.

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Year Ended 31 December 2019 Notes to the Financial Statements

2. 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 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.

Judgements

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 affect 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). 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

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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 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.

(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.

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Year Ended 31 December 2019 Notes to the Financial Statements

3. GOING CONCERN

Option 1- Going Concern basis is appropriate- consider one of the 3 illustrative examples 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 €xxxxxxx 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.

Omnipro Sample Medium/Large 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 €xxxxxxx 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, Omnipro Sample Medium/Large 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.

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

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The company made a profit of €xxxxxxx 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, Omnipro Sample Medium/Large 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.

Option 2- 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 (note- if there is a possibility that the company will continue to trade post Covid-19 then option 1 should be taken)

The company made a loss of €xxxxxxx, 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.

4. TURNOVER⁴⁰

All turnover derives from activities in the Republic of Ireland. The analysis of turnover by activity is as follows⁴¹.

	2019	2018
	€	€
Construction	4,689,227	4,938,596
Pre-cast Concrete Retail	1,385,463	1,297,558
	6,074,690	6,236,154

⁴⁰ Para 62(1) & (2), Sch III, CA 2014 – Where the company has carried on the business of 2 or more classes, or supplied 2 or more markets, which differ substantially from the other, the company shall state the amount of turnover attributable to that class/market

⁴¹ Para 62(6), Sch III, CA 2014 – Where in the opinion of the directors, the disclosure of separate information as required would be seriously prejudicial to the interests of the company, that information need not be disclosed. The fact that the information has not been disclosed must be stated

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5. OPERATING PROFIT

Operating profit is stated after charging:

	2019	2018
	€	€
Depreciation	149,999	170,037
Amortisation on intangibles	-	-
Directors' remuneration	212,000	225,600
Impairment OR reversal of impairment of assets/goodwill/intangibles	-	-
Loss of disposal of fixed assets/investments	51,299	-
Rentals under operating leases	-	-
Government grants amortised	-	-
Movement on stock provision	4,000	-
Revenue grants	-	-
Research and development expenditure	-	-
Foreign exchange gain/loss	-	-
Auditors' remuneration ^{42/43}		
Audit	13,000	13,000
Non audit services	3,000	3,000
Tax Advisory	3,225	3,225
<u><i>Stock still recognised as an expense *</i></u>	-	-

⁴² S.322(2), CA 2014 – A company shall disclose all fees for both audit and non-audit services received in the year. Remuneration includes benefits in kind, reimbursement of expenses and other payments in cash. There is an exemption for medium companies

⁴³ S.322(5), CA 2014 – A company which qualifies as small or medium in accordance with S.280F&S.280G CA 2014 as inserted by S.15 of CAA 2017 is not required to state the audit and non-audit fees earned by the company * no longer required

**No Longer Required*

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Year Ended 31 December 2019 Notes to the Financial Statements

6. OTHER OPERATING INCOME

	2019	2018
	€	€
Rent received	70,000	130,000
Fair value gain on movement on fair value of investment properties	150,000	100,000
	<u>220,000</u>	<u>230,000</u>

7. INTEREST RECEIVABLE AND SIMILAR INCOME⁴⁴

Interest and income earned on assets held at amortised cost:

Interest on Government bond	9,000	-
Interest income on other financial assets	5,999	5,307
	<u>14,999</u>	<u>5,307</u>

8. INTEREST PAYABLE AND SIMILAR EXPENSES⁴⁵

	2019	2018
	€	€
Interest charged on financial liabilities carried at amortised cost:		
On bank loans, overdrafts and other loans wholly repayable within five years ⁴⁶	192,384	199,221
Finance lease interest	5,400	500
Preference share dividend	8,000	-
	<u>205,784</u>	<u>199,721</u>

9. TAXATION

	2019	2018
	€	€
(a) Tax expense in profit and loss:		
Current tax expense:		
Irish corporation tax on profits for the year	215,500	99,722
Adjustments in respect of prior periods	-	-
	<u>215,500</u>	<u>99,722</u>
Deferred tax expense:		
Origination and reversal of temporary difference	51,494	19,692
	<u>266,994</u>	<u>119,414</u>

⁴⁴ Sch3(60) CA 2014 requires a split of income from listed and unlisted investments if applicable. FRS 102 Section 11/12 requires a split of income recognised on amortised cost basis or a fair value basis.

⁴⁵ Para 60, Sch III, CA 2014 – Required to disclose separately interest and similar expenses and split by amounts due on bank loans and overdrafts, loans from group undertakings and any other interest charged (note FRS 102 requires split further by preference shares treated as interest, finance lease interest etc. and to split amounts charged on amortised cost basis versus fair value basis. If the company capitalises interest into assets, the total interest cost for the year should be shown with the amount capitalised shown as a deduction in arriving at the net amount on the face of the Profit and Loss a/c

⁴⁶ If the company capitalises interest into assets, the total interest cost for the year should be shown with the amount capitalised shown as a deduction in arriving at the net amount on the face of the Profit and Loss a/c

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Year Ended 31 December 2019 Notes to the Financial Statements

(b) Reconciliation of tax charge

The tax assessed for the period is higher than the standard rate of corporation tax in Ireland for the year end 31 December 2019 of 12.5% (2018: 12.5%). The differences are explained below.

	2019 €	2018 €
Profit on ordinary activities before tax	1,311,360	423,751
Tax calculated at Irish tax rates of 12.5% (2018: 12.5%)	163,920	52,969
<i>Effects of:</i>		
Non deductible expenses	30,484	8,810
Income taxed at higher rates	19,750	16,250
Deferred tax recognised at higher rate	30,750	20,500
Corporation tax surcharge	22,090	20,885
Tax charge for year	266,994	119,414

10. EMPLOYEES

The average monthly number of employees was: ^{47/48}

	2019	2018
Administration	4	4
Distribution	2	2
Construction	8	8
	14	14

	2019 €	2018 €
Operating costs		
Staff costs: ⁴⁹		
- Wages and salaries	550,567	725,805
- Social welfare costs	61,133	76,189
- Retirement Benefits – defined contribution plans	46,746	43,289
- Other staff compensation – Benefit in Kind	-	-
Net staff costs included in operating costs	658,446	845,283

⁴⁷ S.317(1), CA 2014 – The company is required to disclose details of the average number of people employed in the financial year and the separately distinguish the category within which they were employed

⁴⁸ S317(5), CA 2014 – The average number of persons employed by the company shall be determined by dividing the relevant annual number by the number of months in the financial year

⁴⁹ S.317(2), CA 2014 – The company shall separately identify employment costs of all staff employed, expanded to include details of amounts capitalised into assets and treated as a revenue cost in the financial year

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Year Ended 31 December 2019 Notes to the Financial Statements

11. DIRECTORS REMUNERATION AND TRANSACTIONS

	2019 €	2018 €
Remuneration⁵⁰		
Salary	182,000	185,600
Retirement Benefits	30,000	30,000
	212,000	225,600
Directors' Loans⁵¹	Directors A	Director B
Opening Balance	4,332	100,000
Repayments to directors	9,301	-
Advances from directors	1,000	-
Closing balance	12,633	100,000
% of net assets	X%	X%

The loan is interest free and is repayable on demand⁵². The amount written off during the year was €XXX (2018: €xxx)⁵³. A provision of €XX (2018: €XX) was provided against this loan at year end.

During the year the company paid €XXX (€XXX) for rental of the directors premises⁵⁴.

⁵⁰ As required by Section 305 of CA 2014, S305, 305A require disclosure of remuneration payable to the directors/de facto directors and shadow directors and connected parties as defined in S.220 CA 2014 including share options exercised. S.305A also requires disclosure of the aggregate amounts including benefits in kind paid or payable to third parties for making require available the services of any person as a director to the company, its subsidiaries or to its holding company or any other person to include the split by each of these four parties. The services also includes services in connection with the management of the company's affairs. A third party is defined as any person other than: a) the director and connected persons; b) a body corporate controlled by that director; or c) the company and any of its subsidiary undertakings. Connected parties are defined by S 220 CA 14 as being connected if they are a) that director's spouse, civil partner, parent, brother, sister or child; b) a person acting in his or her capacity as the trustee of any trust, the principal beneficiaries of which are that director, the spouse (or civil partner) or any children of that director or any body corporate which that director controls; c) or in partnership with that director

⁵¹ S.307-308 CA 2014 requires disclosure of amounts owed from directors inc. connected persons to the company giving movement in the year by director to also include an provision made against these loans. Disclosure required under S.307(8) CA 2014 of the % the loans represents of the net assets at the beginning and end of each year. In addition where loan amount increased over 10% of the net of assets of the Co. in the year this % should also be stated.

⁵² CA 14 S.307(3)(g) & (h) require an indication of the interest rate and the arrangements' other main conditions.

⁵³ CA 14 S.307 as amended by CAA 2017 require details of amounts written off to be disclosed. The maximum balance in the year does not need to be disclosed.

⁵⁴ CA 14 S 309 (1) requires that subject to [section 310 \(section 10 relates to credit institutions\)](#) , the entity financial statements of a company shall disclose, both for the current and the preceding financial year, in the notes to the statements the particulars specified in [subsection \(3\)](#) of any other arrangement or transaction not dealt with by [section 305](#) , [307](#) or [308](#) entered into by the company in which a person, who at any time during the financial year was a director, a director of its holding undertaking or a person connected with such a director, had, directly or indirectly, a material interest. This can be included in this note or the related party note. It also deals with loans provided by the directors or connected persons to the company. Where the company is a credit institution refer to S.310-S.312 for further disclosures.

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During the year the company provided construction services to a company called Related Company Limited. Ms B Director who is a director of the company is also a director and 100% shareholder of Related Company Limited. The cost of the services was €XXXX (2018: €XXX).

12. TANGIBLE FIXED ASSETS⁵⁵

	Freehold Premises	Motor Vehicles	Fixtures & Fittings	Computer Equipment	Total
	€	€	€	€	€
Costs					
At beginning of year	507,473	149,039	310,978	157,523	1,125,013
<u>Transfer from investment property **</u>	<u>XXX</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>XXX</u>
Additions in year	1,519,000	165,000	99,733	34,704	1,818,437
Disposals in year	-	(93,359)	-	-	(93,359)
At end of year	2,026,473	220,680	410,711	192,227	2,850,091
Depreciation					
At beginning of year	187,723	111,836	278,802	134,767	713,128
Charge for Year	37,543	26,799	29,015	56,642	149,999
On disposals	-	(42,060)	-	-	(42,060)
At end of year	225,266	96,575	307,817	191,409	821,067
Net book value					
At 31 December 2019	1,801,207	124,105	102,894	818	2,029,024
At 31 December 2018	319,750	37,203	32,176	22,756	411,885

Included within freehold premises above is a property which is owned by the Company but used by another member of the XXX Group of which this Company is a part of. The carrying amount of this property at 31 December 2019 was €XXXX.

The following assets were held under finance lease:

	2019	2018
	€	€
Net Book Value	91,884	129,389
Depreciation Charge for the Year	34,015	11,317

Include the below if the revaluation option on fixed assets is chosen (not applicable here).

[The land and buildings of the company were revalued by [state name], [state qualification] to an open market value basis reflecting existing use [or state alternate basis if appropriate] on [state date] 20XX.

⁵⁵ Para 48, Sch III, CA 2014 – Requires the presentation of cost, accumulated depreciation and net book value. Sch 3(5)(2) no longer requires the movement on the prior year fixed asset note to be included ** Applicable where a company in a group which owns property used by other group members have elected with the option in Section 16.4A of FRS 102 to account for same as property, plant and equipment going forward and to account for the adjustment prospectively.

**** Applicable where a company in a group which owns property used by other group members have elected with the option in Section 16.4A of FRS 102 to account for same as property, plant and equipment going forward and to account for the adjustment prospectively**

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The valuation was carried out in accordance with the SCS Appraisal and Valuation Manual. {If the valuer is an officer or employee of the company or a group company this fact must be stated}.

These valuations have been incorporated into the financial statements and the resulting revaluation adjustments have been taken to the revaluation reserve. The revaluations during the year ended 30th December 2019 resulted in a revaluation surplus of €xx,xxx].⁵⁶

The historical cost, accumulated depreciation and net book value of the freehold premises is as follows. The depreciation charge on the historical cost basis is €XXXX⁵⁷:

	2019	2018
	€	€
Original cost	XXX	XXX
Accumulated depreciation	(XXX)	(XXX)
Net book amount	XXX	XXX

Include the below if the option is capitalise borrowing costs is chosen (not applicable here included for illustrative purposes only).

The company capitalised €XXX (2018: €XXXX) in borrowing costs during the year.

13. INVESTMENT PROPERTIES⁵⁸

	2019	2018
	€	€
Investment property at fair value at 1 January	3,490,201	3,390,201
Additions	-	-
Uplift in fair value recognised in the profit and loss (see note (i) below)	150,000	100,000
<u>Transfer to Tangible fixed assets **</u>	(XX)	-
Transfer from Tangible fixed assets (*for illustrative purposes only)	-	-
Transfer from Stocks (*for illustrative purposes only)	-	-
Disposal	(2,539,476)	-
Investment property at fair value at 31 December	1,100,725	3,490,201

- (i) The land and buildings of the company were valued by [state name], [state qualification] to open market value reflecting existing use [or state alternate basis if appropriate] on [state date] 20XX. The valuation was carried out in accordance with the SCS Appraisal and Valuation Manual. {If the valuer is an officer or employee of the company or a group company this fact must be stated}. The critical assumptions made relating to the valuations are set out below:

	2019	2018
Yields	4%	4%
Inflation rate	2%	2%

⁵⁶ Details of the historical cost of the asset and accumulated depreciation must be disclosed on revalued assets

⁵⁷ Details of the historical cost of the asset and accumulated depreciation must be disclosed on revalued assets as well as the additional amount recognised in the revaluation reserve.

⁵⁸ 65 Sch 3 Formats as adjusted by CAA 2017 requires investment property to be shown separately from land and buildings. Sch 3 as amended by CAA 2017 no longer requires disclosure of historical cost of investment properties or biological assets. ** Applicable where a company in a group which owns property used by other group members have elected with the option in Section 16.4A of FRS 102 to account for same as property, plant and equipment going forward and to account for the adjustment prospectively.

**** Applicable where a company in a group which owns property used by other group members have elected with the option in Section 16.4A of FRS 102 to account for same as property, plant and equipment going forward and to account for the adjustment prospectively.**

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Year Ended 31 December 2019 Notes to the Financial Statements

14. FINANCIAL ASSETS

	2019	2018
Cost:	€	€
Shares in subsidiary undertakings (see (i) below)	254	254
Other investments (see (ii) below)	185,386	208,946
	185,640	209,200
Impairment:		
At beginning of period	XXX	XXX
Additions/reversals	XXX	XXX
At end of period	XXX	XXXX
Carrying amount	185,640	209,200

i) Subsidiary⁵⁹ undertakings⁶⁰

<i>Company Name</i>	<i>Country of Incorporation⁶¹</i>	<i>Details of investment⁶²</i>	<i>Proportion held by company</i>	<i>Registered Office⁶³</i>	<i>Principle Activity</i>
Precast Concrete Ltd	Ireland	254 €1 ordinary shares	100%	Any Address	Manufacture of pre-cast concrete products

The capital and reserves and profit of the subsidiary was as follows: ⁶⁴

	2019	2018
	€	€
Profit	212,387	172,834
Capital and reserves	854,346	641,959

In the opinion of the directors the shares in the company's subsidiary are worth at least the amounts at which they are stated in the balance sheet.

⁵⁹ S.7(2), CA 2014 – The definition of a subsidiary is set out under Section 2 of the Companies Act 2014

⁶⁰ S.314(1), CA 2014 – Disclosure is required of interests in subsidiaries and undertakings of substantial interest (>20% of any class of equity shares)

⁶¹ If the company is unincorporated, the address of the principal place of business must be included

⁶² S.314(1)(ii) CA 2014 – The identity of each class of share held by the company in each subsidiary of undertaking of substantial interest and the proportion of the nominal value held must be disclosed

⁶³ S.314(1)(i) CA 2014 – The name and address of the registered office must be included, if there is no registered office the company must disclose the principal place of business

⁶⁴ S.314(1)(iii), CA 2014 – The notes must disclose the aggregate amount of the net assets and profit/loss of the subsidiary or undertaking of substantial interest

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ii) Other Investments

	2019	2018
Cost	€	€
At the beginning of the year	208,946	208,946
Purchased during the year	150,000	-
Disposed of during the year	(173,560)	-
At the end of the year	185,386	208,946

The company purchased €150,000 of government bonds during the year. This represents the fair value at 31 December 2019 (2018: €nil). These mature on 1 January 2020.

The other investment relates to an investment made by the company in an unlisted entity where less than a significant influence is held. The fair value of this investment cannot be reliably measured in line with the hierarchy in Section 11 of FRS 102, as a result it is held at cost. The cost of the investment at the year ended 31 December 2019 was €185,336 (2018: €208,946).

The directors are satisfied that no impairment is required.

15. STOCKS

	2019	2018
	€	€
Raw material	33,724	42,108
Work in progress	71,769	84,968
Finished goods	594,216	265,090
	699,709	392,166

Stocks are stated after provisions for impairment of €32,000 (2018: €28,000). ⁶⁵

16. DEBTORS

	2019	2018
	€	€
Trade debtors	432,789	1,077,815
Other debtors	279,008	57,864
Amounts due from group companies (see (i) below)	1,571,862	191,852
Prepayments	29,795	12,710
<u>Accrued income</u> ⁶⁶	-	-
Directors Loans (see note 10)	112,633	104,332
VAT recoverable	30,090	13,614
	2,456,177	1,458,187

The fair values of Debtors and Prepayments approximate to their carrying amounts. Trade debtors are stated after provisions for impairments of €105,000 (2018: €113,000).

(i) Amounts owed by group companies and directors are unsecured, interest free and are repayable on demand.

⁶⁵ Sch 3 as amended by CAA 2017 no longer requires a disclosure detailing If there is a material difference between the balance sheet amount of stock and its replacement cost.

⁶⁶ Sch 3 Formats as amended by CAA 2017 requires accrued income to be shown separately in the notes.

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17. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR⁶⁷

	2019	2018
	€	€
Trade creditors	969,675	887,073
Corporation tax due	410,031	64,812
Other taxation and social security (See (i) below) ⁶⁸	25,665	26,245
Other creditors and accruals	267,051	284,139
Deferred income	-	-
Amounts owed to credit institutions (see note 21)	1,066,950	2,064,128
Finance Lease (see note 18)	85,198	39,933
	2,824,570	3,366,330

(i) Other taxation and social security is made up as follows:

	2019	2018
	€	€
Value added tax	969,675	887,073
Relevant contracts tax	XX	XX
PAYE/PRSI	410,031	64,812
Dividend withholding tax	XX	XX
	25,665	26,245

Trade and other creditors are payable at various dates in the next X months in accordance with the usual suppliers usual and customary terms. ⁶⁹

Tax and social securities are repayable at various dates over the coming months in line with tax authority guidelines. ⁷⁰

18. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2019	2018
	€	€
Bank Loans (see note 21)	1,903,810	2,129,125
Finance Lease (see note 18)	147,400	-
8% Redeemable Shares (see note 22) presented as a liability	100,000	-
Share Appreciation Rights	15,000	-
Amounts due from parent company (see (i) below)	-	-
	2,166,210	2,129,125

⁶⁷ Sch 3(4)(7) of CA 2014 requires where an asset or liability relates to more than one of the items listed in either of the balance sheet formats, then its relationship to other items shall be disclosed under the item where it is shown or in the notes to the financial statements. In this instance for example finance leases have been shown separately under creditors within one year and creditors greater than one year. The same point applies for bank loan, grants etc.

⁶⁸ Sch 3 formats CA 2014 – requirement to split taxes out by type

⁶⁹ Section 11 requires terms of creditors etc. to be disclosed.

⁷⁰ Section 11 requires terms of creditors etc. to be disclosed.

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Year Ended 31 December 2019 Notes to the Financial Statements

- (i) The company received loans totalling €XXXX at non market rates from its parent company in 2013 which are interest free and repayable on 31 December 2019. Section 11 requires that all Financial Assets and Liabilities are initially recognised at their fair value. The Company estimates the fair value of interest free loan issued by calculating the present value of all future cash payments discounted using the prevailing rates of interest for a similar instrument. Upon initial recognition, the Company recognised the loan for €XXXX. The difference between the nominal amount of the loan and the initial fair value was €XXX which had reduced to €XXX at 1 January 2018. In accordance with Section 11 of FRS 102 the substance of this agreement is akin to a capital contribution from its parent company and therefore recognised in equity. The movement on the loan in the year of €XXXX (2018: €Nil) represented the unwinding of the discount for the year. The reason for no interest charge in 2018 was due to the fact that the company availed of the exemption in Section 35.10 to only recognise the transition adjustment at the start of the current year⁷¹.

19. FINANCE LEASE CONTRACTS – MATURITY

	2019	2018
	€	€
Future minimum payments under finance lease agreements are as follows:		
In one year or less	54,000	40,333
In more than one year, but not more than five years	193,198	-
In greater than 5 years	-	-
Total gross payments	247,198	40,333
Less finance lease charges included above	(14,600)	(400)
	232,598	39,933

20. PROVISION FOR LIABILITIES

	Warranty Provision (see note (i))	Deferred tax (See note (ii))	Total
	€	€	€
At 1 January 2018	-	45,520	45,250
Utilised during the year	-	-	-
Charged in the year	-	19,692	19,692
At 31 December 2018	-	65,212	65,212
	€	€	€
At 1 January 2019	-	65,212	65,212
Utilised during the year	-	-	-
Charged in the year	97,500	51,494	148,994
At 31 December 2019	97,500	116,706	214,206

⁷¹ Not specifically required

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(i) Warranty provision

A provision is recognised on warranty claims on certain products sold during the year. The warranty given by the company is for 3 years and the premium is based on the company's best estimate (using previous years' warranty claim details) and as such the amount included in the financial statements is expected to be fully utilised with 24 months of the year end. (€32,500 expected to be utilised in 2018 and €65,000 in 2019).

(ii) Deferred tax

The deductible and taxable temporary differences at the year end dates in respect of which deferred tax has been recognised are analysed as follows:

	2019 €	2018 €
Deferred tax liabilities/(assets) (deductible temporary differences)		
Accelerated capital allowance	20,856	22,462
Revaluation on investment property	107,250	57,750
Provisions	(11,400)	(15,000)
	<u>116,706</u>	<u>65,212</u>

Movement in deferred tax assets and liabilities, during the year, were as follows:

	Accelerated Capital allowances €	Provisions €	Revaluation on investment property €	Total €
2019				
At 1 January 2019	22,462	(15,000)	57,750	65,212
Recognised in profit and loss	(1,606)	3,600	49,500	51,494
Recognised in other comprehensive income (for illustrative purposes)	-	-	-	-
Disposals	-	-	-	-
At 31 December 2019	<u>20,856</u>	<u>(11,400)</u>	<u>107,250</u>	<u>116,706</u>

	Accelerated Capital allowances €	Provisions €	Revaluation on investment property €	Total €
2018				
At 1 January 2018	29,933	(9,163)	24,750	45,520
Recognised in profit and loss	(7,471)	(5,837)	33,000	19,692
Acquisitions	-	-	-	-
Recognised in other comprehensive income	-	-	-	-
Disposals	-	-	-	-
Foreign exchange and other	-	-	-	-
At 31 December 2018	<u>22,462</u>	<u>(15,000)</u>	<u>57,750</u>	<u>65,212</u>

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- i. The net deferred tax liability expected to reverse in the 2018 year is €XXXX. The reversal relates to the timing difference on tangible fixed assets and capital allowances through depreciation and amortisation.
- ii. The unused tax losses at year end are detailed above. There are no unused tax credits. There is no expiration date with regard to these losses (for illustrative purposes).

21. BORROWINGS^{72/73}

	Within 1 year	Between 1 & 2 years	Between 2 & 5 years	After 5 years	Total
	€	€	€	€	€
Repayable other than by installments					
Bank Overdrafts	-	-	-	-	-
Repayable by installments					
Term loan (variable rate of %) ⁷⁴	-	-	-	-	2,970,860

The bank facilities⁷⁵ are secured by a debenture incorporating fixed and floating charges over the assets of the company and personal guarantees from the Directors.

The facilities expiring within one year are annual facilities subject to review at various dates during 2020/2021.

22. SHARE CAPITAL

	2019 €	2018 €
Authorised Equity		
1,000,000 ordinary shares of €1 each	1,000,000	1,000,000
100,000 8% redeemable preference shares of €1 each	100,000	-
	<u>1,100,000</u>	<u>1,000,000</u>
Allotted, called up and fully paid– presented as equity		
120,000 ordinary shares of €1each (see (i) below)	<u>120,000</u>	<u>100,000</u>

⁷² Para 56(1)(a), Sch III, CA 2014 – Details of debts repayable after 5 years from the year end date. Provide details of interest rate, terms of payment or repayment. S11.42 of FRS 102 requires this but in addition the repayment schedule should be provided and any restrictions that the debt instrument imposes. FRS 102 also requires this details for all debt instruments not just those debt instruments repayable after 5 years which is what only company law requires.

Sch 3(56)(4) requires disclosure of the aggregate amount included in creditors where assets are pledged as security

⁷³ Para 56(3), Sch III, CA 2014 – If the number of debts would result in a note of excessive length, it will be sufficient to give a general indication of the terms of payment/repayment and the interest rates applicable

⁷⁴ Company assets pledged as security should be disclosed here, where the security is pledged in a personal capacity by the company directors this should be disclosed in the related party note (required by Sch3(56)(4) and Section 11 FRS 102)

⁷⁵ Company assets pledged as security should be disclosed here, where the security is pledged in a personal capacity by the company directors this should be disclosed in the related party note (required by Sch3(56)(3) and Section 11 FRS 102)

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Alloted, called up and fully paid– presented as liabilities

100,000 8% redeemable preference shares of €1 each
(see (ii) below)

100,000

-

(i) On 1 April a further 20,000 ordinary shares were issued at €1.50 each. A premium of €10,000 was recognised on the issue of these shares.

(ii) The redeemable preference shares are classified as liabilities in accordance with Section 22 (liabilities and equity). The rights attaching to these preference shares are as follows⁷⁶:

- to payment of a fixed dividend of an amount equivalent to 8% of the nominal value of such shares held; the shares are mandatorily redeemable on 31 December 2019 at par.
- on a winding up of the company or on a redemption thereof or repayment of capital thereon to a return of capital paid up or deemed paid up on each such share and otherwise shall not be entitled to participate further in the assets or profits of the company
- the preference shares carry no right to vote at general meetings of the company.

⁷⁶ Sch 3 & FRS 102 requires rights of shares to be disclosed where there is more than one class of share

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Year Ended 31 December 2019 Notes to the Financial Statements

23. RESERVES⁷⁷

	Called Up Share Capital €	Share Premium Account €	Other Reserves	Profit and Loss Account €	<u>Revaluation reserve</u> €	Total Equity €
Balance at 1 January 2018	100,000	-	-	162,000	-	487,000
Profit for the year	-	-	-	362,818	-	362,818
Balance at 31 December 2018	100,000	-	131,250	317,445	-	548,695
Balance at 1 January 2019	100,000	-	-	317,445	-	548,695
Equity Shares Issues	20,000	10,000			-	30,000
Profit for the year				1,044,366	-	1,044,366
<u>Transfer from P&L Reserve to revaluation reserve **</u>	-	-	-	(XXX)	XXX	-
Dividends on ordinary shares paid and declared (€XX per ordinary share) ⁷⁸	-	-	-	-	-	-
Dividends on ordinary shares declared but unpaid in year (€XX per ordinary share) ⁷⁹	-	-	-	-	-	-
Balance at 31 December 2019	120,000	10,000	131,250	1,361,811	XXX	1,623,061

i) Other reserves⁸⁰

This reserve arose on transition to FRS 102, where the entity applied the exemption in Section 35 of FRS 102 to deem a previous revaluation on property as deemed cost. The amount included in the reserve is net of deferred tax at the rate the asset is expected to be realised. The transfer in the year related to the transfer of the depreciation charge on the profit net of deferred tax recognised in the profit and loss account to the other reserve to reflect the fact that this amount is a realised profit.

⁷⁷ If a statement of changes in equity is not presented and instead a statement of income and retained earnings was only presented on the face of the P&L (Sch 3(53) of CA 2014 requires not only movement on the profit and loss reserves to be disclosed (which would be dealt with in the statement of income and retained earnings) but in addition Sch3(54) requires an analysis of the movement in the all reserves inc. the revaluation reserve and fair value reserve and shareholders funds, then in order to cover off these requirements it would make sense to include the above reserves note (assuming an SOCE has not been presented). Companies Act also requires comparatives for each year showing the movements as per Sch3(5).

⁷⁸ Para 53 of Sch 3, CA 2014— disclosure of dividend declared and paid in year and any dividend declared but accrued at year end. This can be disclosed in a separate note if preferred.

⁷⁹ Para 53 of Sch 3, CA 2014 – disclosure of dividend declared and paid in year and any dividend declared but accrued at year end. This can be disclosed in a separate note if preferred.

⁸⁰ Section 6 FRS 102 requires a narrative for how the reserves originally arose and what the movements on the reserves related to during the years

** Arises if a change of accounting policy is required (e.g. no longer able to claim undue cost of effort for investment property)

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ii) **Share premium**

The share premium reflects the premium received on shares issued by the company. The increase arises due to the allotment of 20,000 shares above par during the year as detailed in Note 24.

iii) **Revaluation reserve⁸¹**

This reserve arose on adoption of the March 2018 version of FRS 102 where the entity adopted the policy to account for property owned by the Company but used by another company in the group in which the Company is a member as property plant and equipment instead of investment property as is permitted by Section 16.4A of FRS 102. Prior to the adoption of the March 2018 version of FRS 102 the Company treated this as an investment property and carried it at fair value with movement in fair value recognised in the profit and loss account. The Company availed of the exemption in Section 1.19 of FRS 102 to deem a previous valuation on investment property as deemed cost and to account for this prospectively. As a result a revaluation reserve was created as is required by Company law. The amount included in the reserve is net of deferred tax at the rate the asset is expected to be realised. The transfer in the year related to the transfer of the depreciation charge on the profit net of deferred tax recognised in the profit and loss account to the other reserve to reflect the fact that this amount is a realised profit.

24. CONTINGENCIES

A legal action is pending against the company for alleged unfair dismissal. The directors under advisement from their legal team expect that the claim will be successfully defended. Should the company be unsuccessful in the action the maximum estimated settlement is not expected to exceed €10,000.

It is not anticipated that any material liabilities will arise from the contingent liabilities other than those provided for.

The company has entered into a guarantee for the benefit of its subsidiary/holding company/sister company/joint venture/associate. The total amount of this guarantee was €XX.⁸²

25. CAPITAL COMMITMENTS

There were no capital commitments at the year ended 31 December 2019.

⁸¹ Section 6 FRS 102 requires a narrative for how the reserves originally arose and what the movements on the reserves related to during the years

⁸² Only applicable if company adopts a policy to treat property rented or used by other group members as property plant and equipment under Section 17 of FRS 102 and there was an uplift on the property prior to the adoption of this policy.

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26. COMMITMENTS

At 31 December 2019, the company had the following commitments under non-cancellable operating leases that expire as follows:

	2019	2018
	€	€
Within one year	145,000	145,000
Within two to five years	100,000	100,000
Greater than five years	-	-
Total	XXXX	XXXX

ii) An amount of €XX was included in accruals for future payments required to fund a deficit which the company has committed to⁸³.

iii) An amount of €XX (2018:€XX) was included in accruals with regard to pension contributions payable to the pension scheme for past directors of the company⁸⁴.

27. DIRECTORS' SECRETARY'S INTERESTS

The director's interests in the company at the beginning and end of the year were as follows;

	Mr A Director €1 ordinary shares	Ms B Director €1 ordinary shares	Total
At the beginning of the year	50,000	60,000	100,000
At the end of the year	60,000	60,000	120,000

28. RETIREMENT BENEFITS INFORMATION⁸⁵

	2019	2018
	€	€
Retirement Benefit costs	46,746	43,289

The company operates an externally funded defined contribution scheme that covers substantially all the employees of the company. The assets of the scheme are vested in independent trustees for the sole benefit of these employees.

[Provide an explanation of any material variation in the pension charge from that of the previous period. Provide also any commitment by the company to make additional contributions for a limited number of years – for example, the pension charge for the year 2019 included €(AMOUNT) in respect of past

⁸³ Para 58, Sch 3, CA 2014

⁸⁴ Para 58, Sch 3, CA 2014 requires commitment to pension for past directors to be disclosed separately

⁸⁵ Note is applicable to defined contribution schemes only, defined benefit schemes require further detailed disclosures.

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service liabilities that are being written off over ten years being the average remaining service les of the current employees.] Contributions outstanding at year end amounted to €1,000 (2018: €500).^{86 87}

29. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2019	2018
	€	€
Profit after taxation	1,044,366	304,337
Addback/Deduct		
Tax expense	266,994	119,414
Interest receivable and similar income	(14,999)	(5,307)
Interest cost	205,784	199,721
Operating Profit	1,502,145	618,165
Adjustment for		
Depreciation	149,999	170,037
Movement in fair value of investment properties	(150,000)	(100,000)
Notional interest on financial assets carried at amortised cost	5,999	5,307
Loss on disposal of tangible fixed assets	51,299	-
Changes in working capital		
(Increase)/decrease in Stocks	(307,543)	61,023
Increase in debtors and prepayments	(988,990)	(623,857)
Increase in creditors and accruals	177,434	376,857
Cash generated from operations	440,343	502,225

⁸⁶ Section 28 FRS 102 requires the nature of the scheme, contributions paid during the year and the amount outstanding at year end disclosed. Sch 3(58) requires disclose of pension items included in accruals

⁸⁷ Note is applicable to defined contribution schemes only, defined benefit schemes require further detailed disclosures.

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30. ANALYSIS OF CASH & CASH EQUIVALENT AND NET DEBT⁸⁸

	At 31 Dec 2018	Cash flow	Other non- cash items	At 31 Dec 2019
	€	€	€	€
Cash in hand	147,723	209,049	-	356,772
Bank Overdraft	-	-	-	-
	<u>147,723</u>	<u>209,049</u>	<u>-</u>	<u>356,772</u>
<i>Loans due within one year</i>	<i>(2,064,128)</i>	<i>997,178</i>	<i>=</i>	<i>(1,066,980)</i>
<i>Loans due after one year</i>	<i>(2,129,125)</i>	<i>225,315</i>	<i>=</i>	<i>(1,903,810)</i>
<i>Finance leases</i>	<i>(39,933)</i>	<i>(57,335)</i>	<i>(250,000)</i>	<i>(232,598)</i>
<i>Total</i>	<i>(4,193,253)</i>	<i>1,488,877</i>	<i>(250,000)</i>	<i>(3,203,358)</i>

(i) The non-cash item refers to assets purchased on finance lease which did not result in an out flow of cash.

<u>Reconciliation of net cash flow to movement in net debt</u>	<u>2019</u>	<u>2018</u>
	€	€
<i>Increase in cash</i>	<i>209,049</i>	<i>XXX</i>
<i>Loan movement</i>	<i>(1,222,493)</i>	<i>XXX</i>
<i>Movement in finance leases and hire purchase agreements</i>	<i>57,335</i>	<i>(XXX)</i>
<i>Movement in directors' loans</i>	<i>(XXX)</i>	<i>(XXX)</i>
<i>Changes in net debt</i>	<i>(956,109)</i>	<i>(XXX)</i>
<i>Net debt at 1 January</i>	<i>(XXX)</i>	<i>(XXX)</i>
<i>Net debt at 31 December</i>	<i>(XXXXXX)</i>	<i>(XXXX)</i>

• ~~No Financial Instruments Note Required~~

⁸⁸ Net debt rec is not specifically required under FRS 102. The analysis of cash and cash equivalents is only required where the cash movements cannot be seen from reviewing the balance sheet.

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31. RELATED PARTY TRANSACTIONS ^{89/90/91}

The company regards OmniPro plc, a company incorporated in Ireland, as the ultimate parent company.

The following transactions were carried out with related parties which are not 100% wholly owned within the group:

	Sales to related party	Purchases from related party	Amounts owed from related party	Amounts owed to related party
	€	€	€	€
Entities with control, joint venture or significant influence over the Company				
2019	-	-	-	-
2018	-	-	-	-
Entities over which the company has control, joint control or significant influence				
2019	-	-	-	-
2018	-	-	-	-

⁸⁹ Para 65(1), Sch III, CA 2014 - Financial statements should disclose transactions with related parties which are material and which have not been concluded under normal market conditions, disclosures should include:

- the names of the transacting related parties;
- a description of the relationship between the parties;
- a description of the transactions;
- the amounts involved;
- any other elements of the transactions necessary for an understanding of the financial statements;
- the amounts due to or from related parties at the balance sheet date and the provisions for doubtful debts due from such parties at that date; and
- amounts written off in the period in respect of debts due to or from related parties.

Note FRS 102 Section 33 goes further and requires disclosures of all transactions regardless of whether they were concluded under normal market conditions. It requires disclosure of amounts due from group companies which were not 100% owned within the group including the transactions during the year. These can be done in total where separate disclosure is not required to show a true and fair view. Section 33 does not require disclosure of transactions with companies owned 100% within the group however the year end balance in total must be disclosed (this disclosure in total is usually shown in the debtors/creditors note i.e. amounts due from/to group undertakings).

Note as per Section 33.1A FRS 102 and Sch 3(65)(3) of CA 2014 does not require disclosure where the transactions are with 100% owned companies within the group.

⁹⁰ Para 65(2), Sch II, CA 2014 – The provision of particulars and other information about individual transactions may be aggregated according to their nature, except where separate information is required is necessary for an understanding of the effects of related party transactions on the financial position of the company

⁹¹ Para 65(3), Sch III, CA 2014 – Disclosure of related party transactions is not required between group members where any party to the transactions is a wholly owned subsidiary

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The following transactions were carried out with other related parties:

	2019 €	2018 €
Other related parties		
Sales of goods and services		
OmniPro plc		119,632
Other related parties		
Purchase of goods and services		
OmniPro plc		15,987
Year end balances arising from sale/purchase of goods/services		
Receivable from related parties		
OmniPro plc	1,571,862	191,852

⁹²Key management includes the Board of Directors (executive and non-executive), all members of the Company Management and the Company Secretary. The compensation paid or payable to key management for employee services is shown below:

	2019 €	2018 €
<u>Key management compensation</u>		
<u>Salaries and other short-term employee benefits</u>	268,000	257,000
<u>Post-employment benefits</u>	19,000	12,000
	<u>287,000</u>	<u>269,000</u>

No provision has been made in 2019 and 2018 for the loans made to key management personnel.

32. HOLDING OF OWN SHARES/HOLDING COMPANY SHARES (for illustrative purposes)

The company holds the following class of its own shares⁹³:

	2019 €	2019 Number	2018 Number	2018 €
A Ordinary shares of €1 each				
At 1 January (consideration paid of €XXX)	XX	XXX	XXXX	XX
Cancellations	(XX)	(XX)	(XXXXXX)	(XX)
Redemptions from members	XX	XXXXXX	XXXXXX	XX
Closing balance	<u>XXX</u>	<u>XXXXXX</u>	<u>XXXXXX</u>	<u>XXX</u>
% of own shares held		X%	X%	

The amount of profits available for distribution which are restricted as a result is €XXX (2018:€XX).

⁹² This note is only required where the directors and key management personnel are not the same persons and the directors remuneration is required to be disclosed under Company Law. Section 33.7A of FRS 102 refers.

⁹³ S.320(4) and S.328 of CA 2014 requires disclosure of the details of owns shares by class held including movement in the year, a disclosure of the restrictions on profits as a result of this and the reason for acquisition of own shares in the year and the % of called up share capital held at beginning and end of each year.

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The reason for the acquisition/redemption of shares in the year was due to the buyback of shares from its former shareholder and director in order to allow him to retire etc. etc.

The company holds the following class of its parent company shares⁹⁴:

	2019 Number	2018 Number
A Ordinary shares of €1 each		
At 1 January	XXX	XXXX
Acquisitions	(XX)	(XXXXXX)
Disposals	XXXXX	XXXXX
Closing balance	<u>XXXXX</u>	<u>XXXXX</u>

The amount of profits available for distribution which are restricted as a result is €XXX (2018:€XX).

33. POST BALANCE SHEET EVENTS⁹⁵

Where COVID-19 is a non-adjusting event (use for periods up to 31 December 2019 & consider thereafter)

In the first half of 2020, the COVID-19 virus spread worldwide. In common with many other countries, the Irish government issued guidance and restrictions on the movement of people designed to slow the spread of this virus. In early March 2020, many businesses closed voluntarily and throughout the month more restrictions were placed on people and businesses. On 28th March, all “non-essential” businesses were ordered to close temporarily.

This has had a negative impact on the company since the year end and trading activity has reduced as a result.

Choose one of the below

Where an estimate of the financial effect cannot be made

At the time of approving the financial statements, there is uncertainty regarding how long working restrictions will be in place until and the full extent of the impact that this will have on the financial statements for the year and as a result an estimate of its financial effect cannot be made.

Or

Where an estimate of the financial effect can be made

In light of the above event, the directors believe that the financial effects of Covid-19 between the year end and the date of approving the financial statements are as follows;

- Decline in market value of property plant and equipment- €xxxx
- Decline in value of stock due to Impairment of stock- €xxxx
- Impairment of trade debtors balance of €xxxxx

As it is the directors opinion that Covid-19 is a non-adjusting event, the above financial effects have not been adjusted for the impact of the above events since the balance sheet date.

Where Covid-19 is an adjusting event (consider for periods of 31 January 2020 and after)⁹⁶

In the first half of 2020, the Covid-19 virus spread worldwide. In common with many other countries, the Irish government issued guidance and restrictions on the movement of people designed to slow the

⁹⁴ S.320(4) of CA 2014 requires disclosure of the details of shares of its holding company held by class including movement in the year, a disclosure of the restrictions on profits as a result of this and the reason for acquisition of own shares in the year

⁹⁵ Required by S.32 FRS 102 and Sch 3(67) CA 2014

⁹⁶ Section 32.4 of FRS 102 requires entities to adjust the amounts recognised in its financial statements, including related disclosures, to reflect adjusting events after the end of the reporting period. If preferable, this could be addressed in the individual note affected.

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spread of this virus. In early March 2020, many businesses closed voluntarily and throughout the month more restrictions were placed on people and businesses. On 28th March, all “non-essential” businesses were ordered to close temporarily.

This has had a negative impact on the company since the year end and trading activity has reduced as a result.

The following adjustments relate to events or conditions that existed at the balance sheet date and as a result have been adjusted for in these financial statements:

- Decline in market value of property plant and equipment- €xxxx
- Decline in value of stock due to Impairment of stock- €xxxx
- Impairment of trade debtors balance of €xxxxx

34. ULTIMATE CONTROLLING PARTY

The company is a wholly owned subsidiary of OmniPro Holdings Limited a company incorporated in Ireland with a registered office at XXX⁹⁷.

35. TRANSITION TO FRS 102⁹⁸

The company previous to this had originally applied FRS 102 but in 201X, the directors decided to change to the FRS 105/IFRS framework for the following reasons:

- XXX
- XXX

The company has this year decided to re-transition to FRS 102 from FRS 105/IFRS/FRS 101 for the following reasons:

- XXXX
- XXXX

⁹⁷ When the reporting entity is controlled by another party, there should be disclosure of the related party relationship and the name of that party and, if different, that of the ultimate controlling party. If the controlling party or ultimate controlling party of the reporting entity is not known, that fact should be disclosed.

⁹⁸ Section 35 of FRS 102 requires this disclosures on top of the usual transition disclosures. If this is a transition, then this note would also give detail of whether there was or was not adjustments and details of what they were

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36. APPROVAL OF THE FINANCIAL STATEMENTS

The directors approved the financial statements on_____.

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.

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

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 its 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 determined 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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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.

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;

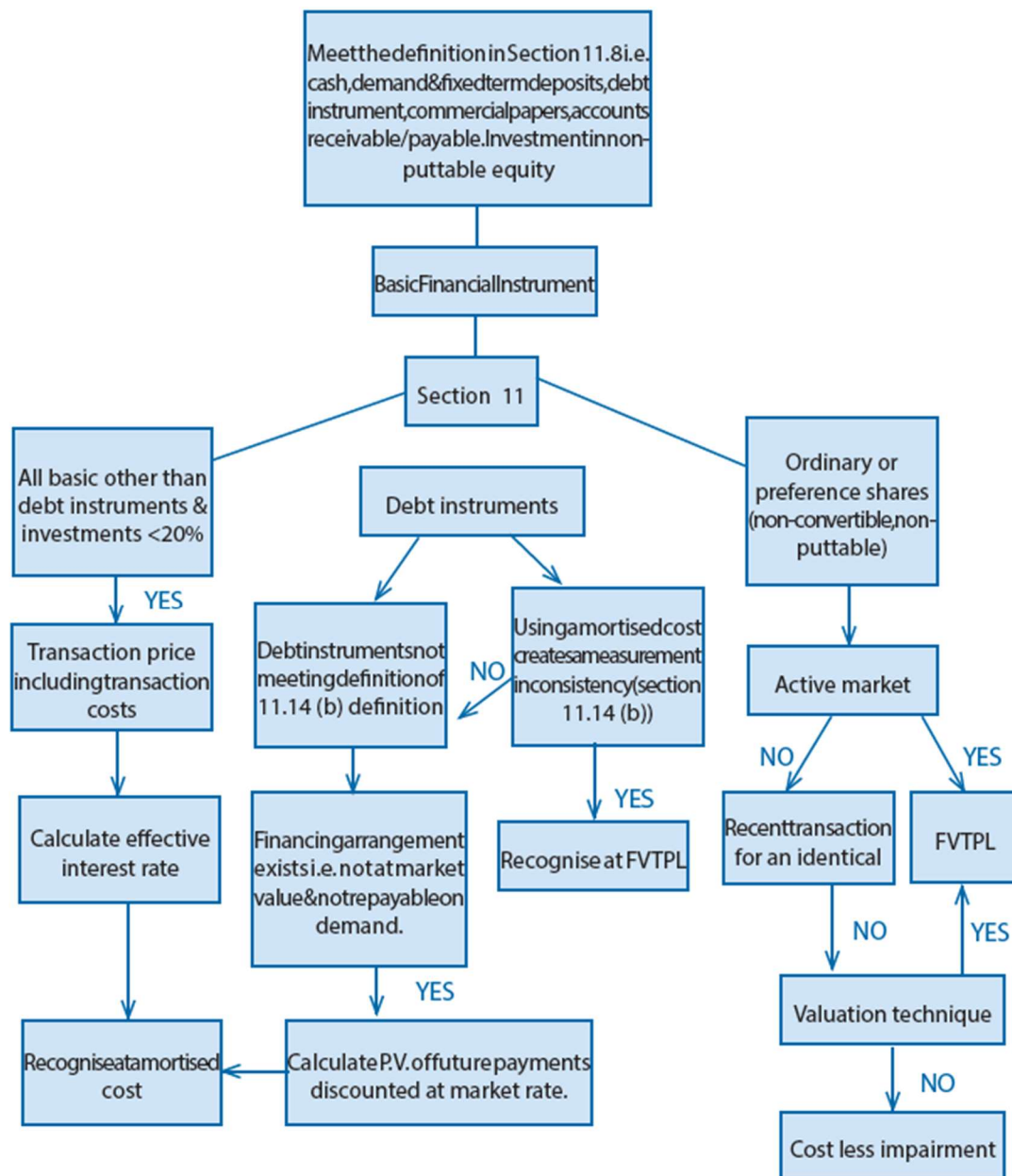
Need to fair value equity investments where they can be measured reliably based on the hierarchy detailed in Section 11.27 and Section 11.14 (d) (i) if not then they are carried at cost less impairment.

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.

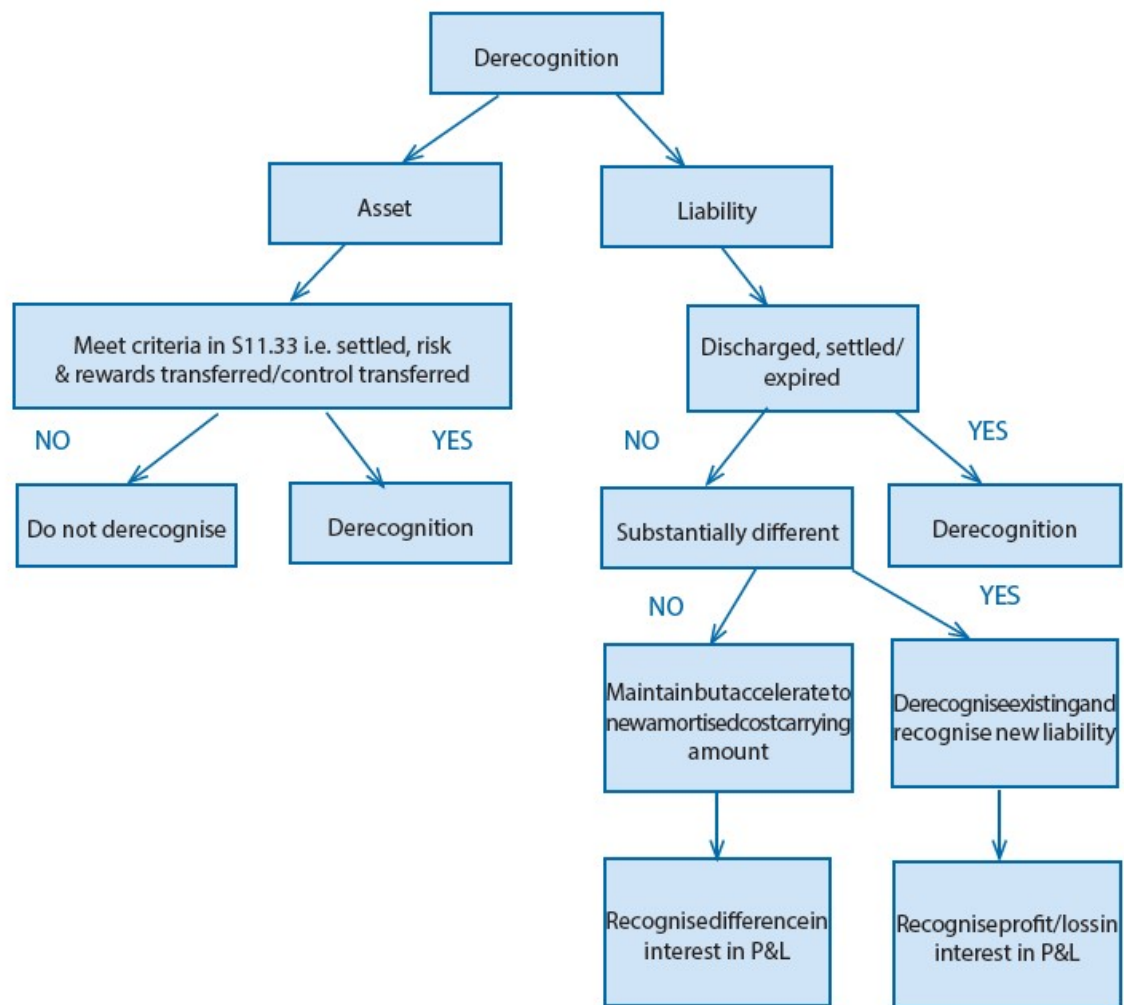
Rules in relation to substantial modifications of the terms of an existing financial liability where there is a substantial change then the existing liability is derecognised/ extinguished and a new financial liability is recognised. Where a modification occurs, the difference between the carrying amount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

See below choices and a summary of the standard.



Section 11 – Derecognition rules



DR

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 criteria 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 difficulty 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 result 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

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).

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 dealt 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.

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

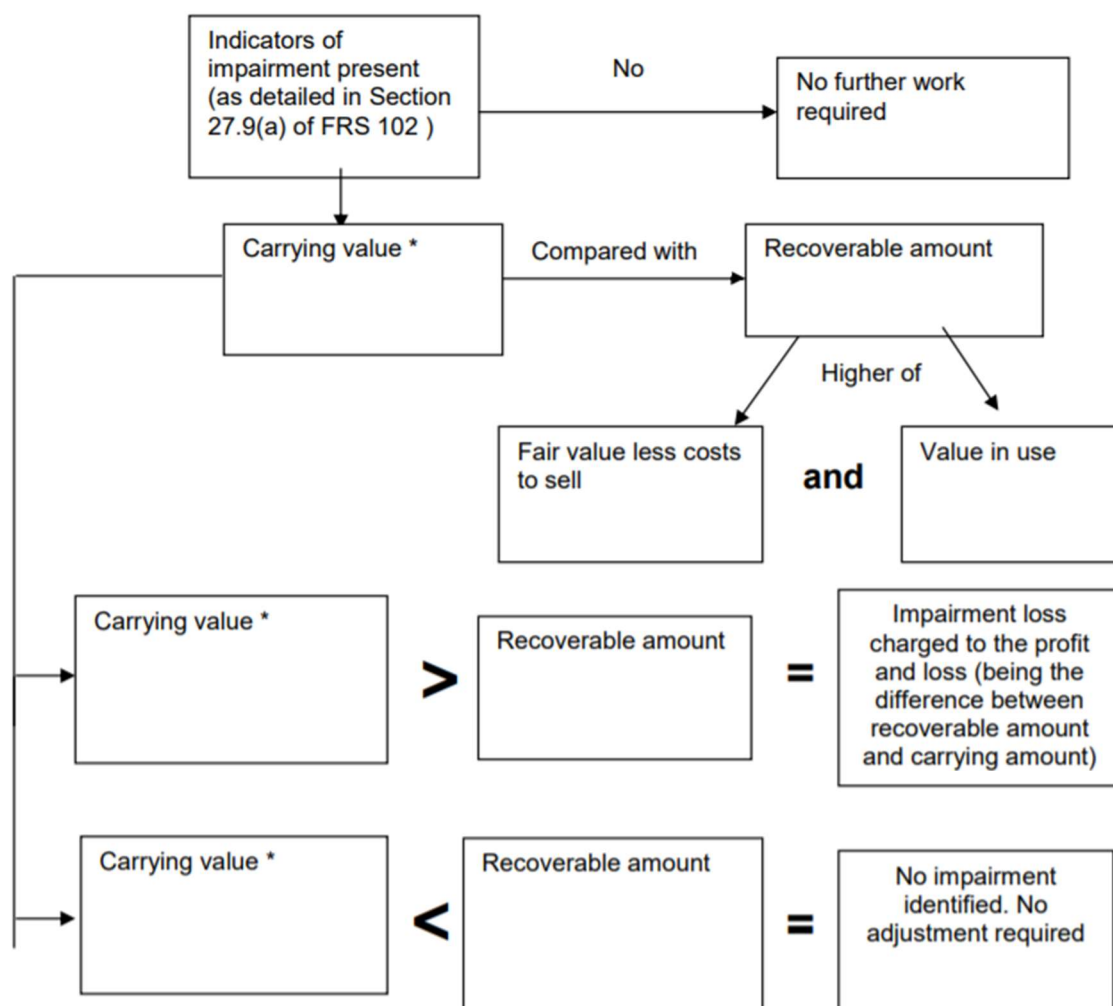
Detailed in section 27.15 of FRS 102

“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

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 or 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.

FRS102.com- Covid-19 update

Section 32- Events after the end of the reporting period

Summary of this section

Section 32 deals with the treatment of events after the balance sheet date and whether they are considered an adjusting or non-adjusting post balance sheet event.

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

Events after the end of the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue.

Events after the end of the reporting period are divided into two types:

- Adjusting events – these provide evidence of conditions that existed at the end of the reporting period; or
- Non-adjusting events – these relate to conditions that arose after the end of the reporting period

Adjusting events require adjustment at the financial reporting date for the effect of the post balance sheet event. Non adjusting events are required to be disclosed in the financial statements.

Examples of adjusting events include:

- the settlement of a court case that retrospectively confirms the existence of a year-end obligation;
- the determination of the value of profit-sharing or bonus payments; and
- the receipt of information indicating that an asset was impaired as at the year

Examples of non-adjusting events include a decline in the market value of investments and a favourable decision on a court case that had been in progress at the year end. If dividends are declared after the year end they are not included as a liability.

The going concern basis of preparation may not be used if management determines after the balance sheet date that it either intends to liquidate or cease trading, or has no realistic alternative but to do so.

Section 32.11 gives further examples of non-adjusting events.

How does COVID-19 impact on this section?

This is one of the key sections of FRS 102 impacted by COVID-19 and interacts with many other sections of FRS 102 also. Given the events of early 2020, many companies balance sheet assets and trading activities will be heavily impacted. In addition to this, the sudden decline in economic activity may cause many companies to re-assess the use of the going concern basis and the related disclosures to address this.

Companies who have a year end of, for example, 31 January 2020 will need to consider the effects of COVID-19 on the company up until the date of approval of the financial statements. Where post balance sheet events have occurred after the balance sheet date, such as a debtor going out of business as a result of COVID-19, the company will need to consider whether there was evidence of events or conditions that existed at the end of the reporting period. This consideration is key as it will determine if the matter requires adjustment at 31 January 2020 or not. In the event that it does not require adjustment, the matter will require to be disclosed in the notes to the financial statements.

Practical implications

The first thing to consider is whether the events caused by COVID-19 are adjusting or non-adjusting events.

December 2019 year ends

It is unlikely that the post balance sheet effects of COVID-19 will be adjusting events as although some cases of the virus had been recorded in China, the virus had not become widespread at that point. In addition, the preventative measures taken by many governments in response to COVID-19 had not been put in place at 31 December 2019. A significant amount of human to human transmission of the virus was not recorded at that point.

January 2020 year ends

By the end of the month, there had been a significant increase in the number of recorded cases in China and some cities had been put into lockdown. It is unlikely that adjusting post balance sheet events will occur for January 2020 year ends. However, the particular circumstances around the post balance sheet event will need to be considered. For example, if a debtor based in China were to go out of business in February 2020, it could be argued that this related to events or conditions that existed at 31 January 2020.

February 2020 year ends

By the end of February 2020, COVID-19 was widely recorded across Europe. On 29th February 2020, the first case was recorded in Ireland. It is possible that these events could give rise to events or conditions existing at 29 February 2020 and it is likely that post balance sheet events arising from COVID-19 after this year end will be adjusting.

March 2020 year ends and subsequent

By the end of March 2020, many “non-essential” trading had ceased and other businesses had been severely impacted by measures aimed at containing the virus. At this point it is likely that all post balance sheet events arising from COVID-19 will be adjusting and should be provided for at the year end.

There is no clear distinction of when events become “adjusting” and determining this will require a significant degree of professional judgement. It will also require consideration of events and circumstances (for example, the write off of a debtor based in China will likely be an earlier adjusting event than the write off of a debtor in Ireland).

Disclosure issues arising from COVID-19

Where an event is non-adjusting, the nature of the event, including

Example 1

Company A is an Irish company who prepares financial statements to 31 December 2019. In February 2020, a debtor based in Italy goes out of business as a result of COVID-19 lockdown measures put in place by the Italian government. The debtor owed €20,000 to company A. Is this an adjusting event for year ended 31 December 2019 in the books of company A?

As the virus was not present in Italy in December 2019 and there had not been a significant amount of human to human transmission of the virus at that date, the events or conditions giving rise to the post balance sheet event did not appear to be present at the year end. As a result, the post balance sheet bad debt should be treated as a non-adjusting post balance sheet event.

Illustrative disclosure note to address the above point

“In the first half of 2020, the Covid-19 virus spread worldwide. In common with many other countries, the Italian government issued guidance and restrictions on the movement of people designed to slow the spread of this virus.

This has had a negative impact on the company since the year end and has resulted in a bad debt write off of €20,000 in February 2020.

As it is the directors opinion that the events or conditions relating to the bad debt did not exist at 31 December 2020, the above financial effects have not been adjusted for the impact of the events since the balance sheet date.”

Example 2

Company B is an Irish garden centre with €200,000 of stock held at cost at 29th February 2020. On March 14th, it temporarily closed in response to government recommendations to contain the spreading of the disease. At the date of closing, they still had €100,000 worth of the year end stock. To avoid having to dispose of their stock, they agreed to sell the remaining stock to an unconnected online garden centre for €50,000. Is the stock write down an adjusting event for the year ended 29th February 2020?

This circumstance requires some judgement to determine whether the event is adjusting or non-adjusting. As COVID-19 had been recorded in Ireland by 29th February 2020, this would be evidence that events or conditions existed at the balance sheet date. Therefore, the event could meet the

definition of an adjusting event which would require adjustment in the financial statements for the year ended 29th February 2020.

Section 1A of FRS 102 disclosures

The disclosure requirements under full FRS 102 and Section 1A are similar. The particulars and financial impact of material events that have occurred after the end of the reporting period shall be given in the notes to the financial statements.

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BT

Beyond Limits

BT Group plc
Annual Report 2020

Group performance continued

	Outlook provided in July 2019 ^a	Result	Performance in line with outlook
Change in adjusted ^b revenue	Down c.2%	down 2.7%	✗
Adjusted ^c EBITDA	£7.9bn - £8.0bn	£7.9bn	✓
Capital expenditure ^d (excluding BDUK clawback)	£3.7bn - £3.9bn	£3.9bn	✓
Normalised free cash flow ^e	£1.9bn - £2.1bn	£2.0bn	✓

^a Outlook originally provided in May 2019 was updated in July 2019 for the effect of IFRS 16. The range of group adjusted^b EBITDA was updated from £7.2bn - £7.3bn to £7.9bn - £8.0bn.

^b Items presented as adjusted are stated before specific items. See page 204 for more information.

^c Adjusted (being before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense), as explained in the Additional information on page 204.

^d Additions to property, plant and equipment and intangible assets in the period.

^e Free cash flow after net interest paid and payment of lease liabilities, before pension deficit payments (including the cash tax benefit of pension deficit payments) and specific items.

Alternative performance measures

We assess the performance of the group using various alternative performance measures. As these are not defined under IFRS they are termed 'non-GAAP' or 'alternative performance' measures. We reconcile these to the nearest prepared measure in line with IFRS on pages 204 to 206. The alternative performance measures we use may not be directly comparable with similarly-titled measures used by other companies.

IFRS 16

IFRS 16 'Leases' replaced IAS 17 'Leases' with effect from 1 April 2019. We present current year results on the new IFRS 16 basis but prior year comparatives on an IAS 17 basis. For this reason, certain measures may not be directly comparable. EBITDA has increased under IFRS 16 because operating lease expense has been replaced by interest expense and depreciation. See note 1 to the financial statements for further information.

Performance

Overall our results for the year were in line with guidance.

Reported revenue was £22.9bn, down 2% and adjusted^b revenue was £22.8bn, down 3%. This mainly reflects the impact of regulation, declines in legacy products, strategic reductions of low margin business and divestments. This was partially offset by growth in new products and services and higher rental bases of fibre-enabled products and Ethernet.

Reported profit before tax was £2.4bn, impacted by the higher upfront interest expense associated with IFRS 16 lease liabilities recognised on 1 April 2019.

Adjusted^c EBITDA of £7.9bn was up 7%. This was mainly driven by the impact of IFRS 16. Excluding this, adjusted^c EBITDA was down 3%, mainly driven by the fall in revenue, increased business rates, investments in customer experience and increased salary costs in Openreach to support FTTP rollout and better service, partially offset by savings from our ongoing transformation programme.

We have recognised £95m of Covid-19 impacts on various balance sheet items as a specific item. These primarily relate to an increase in our expected credit loss provisions against trade receivables and contract assets, mainly within our enterprise units.

Outlook for 2020/21

Given the uncertainty created by Covid-19 we will not be providing an outlook statement for 2020/21.

Covid-19 will have an impact on our business. The full impact on the group will depend on the duration of this unique crisis and how deeply it impacts the economy, with a range of potential outcomes too large to provide a meaningful quantification at this point.

This fiscal year and beyond we expect the primary trading impact in five areas:

- We are seeing lower revenue from our BT Sport propositions in Consumer, due to the impact of customer credits, pubs and clubs closures, and reduced advertising revenues. We will continue to offer bill credits while there isn't live sport.
- We expect an impact from sharply reduced business activity and rising insolvencies, specifically among the SME segment served by Enterprise and to a lesser extent Global.
- We are seeing an adverse impact on Openreach trading. While we anticipate lower churn, we expect significant reductions in the volume of broadband and Ethernet upgrades and provisioning, due to reduced business activity, including fewer new site builds, and restrictions on provisioning activity under current stay-at-home guidelines.
- Retail trading in Consumer and the volume end of Enterprise is being adversely impacted, with fewer sales and upgrades across fixed and mobile products, partly offset by lower churn. In addition, we are seeing lower mobile roaming volumes.
- We are seeing a reduction in spending and a more cautious approach from our multinational customers resulting in cancellations and delays to purchasing cycles, primarily impacting trading in Global.

Of these, we expect the vast majority of the financial impact will derive from lower revenue from the impacts on our BT Sport propositions, the SME segment and Openreach trading.

We will continue to evaluate the potential impacts as the situation develops further and hope to provide an outlook statement later in the year.

Dividend

To create capacity for BT's value-enhancing investment opportunities, including our strategic intent for an accelerated FTTP build and our extensive transformation and modernisation programme, coupled with the shorter term impact of Covid-19, the Board has decided that it is appropriate to suspend the final dividend for 2019/20 and all dividends for 2020/21. The Board expects to resume dividend payments in 2021/22 at 7.7 pence per share.

The Board expects to continue with a progressive dividend policy from this re-based level for future years. The Board continues to expect to declare two dividends per year with the interim dividend being fixed at 30% of the prior year's full year dividend. The Board believes that suspending and re-basing the dividend and then maintaining a progressive dividend policy is the right thing to do for the long-term future of BT and that the headroom generated by this decision is prudent given the Covid-19 pandemic, while the investments will create significant additional value for shareholders.

Simon Lowth

Chief Financial Officer

6 May 2020

Group performance continued

Our customer-facing units continued

Global

Adjusted^b revenue
£4,361m
(8)%

Adjusted^b operating profit
£155m
+135%

Year ended 31 March	2020 (IFRS 16) £m	2019 ^a (IAS 17) £m	Change £m	%
Adjusted ^b revenue	4,361	4,735	(374)	(8)
Adjusted ^b operating costs	3,727	4,291	(564)	(13)
Adjusted^c EBITDA	634	444	190	43
Depreciation & amortisation	479	378	101	27
Adjusted^b operating profit	155	66	89	135
Capital expenditure	223	245	(22)	(9)
Normalised free cash flow ^d	255	235	20	9

Revenue^b for the year was down 8% reflecting our strategic decisions to reduce low margin business, divestments and legacy portfolio declines, partially offset by growth in Security and a £13m positive impact from foreign exchange movements.

EBITDA^c was up 43%, primarily reflecting the impact of IFRS 16. Excluding IFRS 16 EBITDA^c was up 5% as lower revenue was more than offset by a reduction in operating costs^b reflecting ongoing transformation and certain one-offs.

Depreciation and amortisation and operating profit movements primarily reflect the impact of IFRS 16.

Capital expenditure was down 9% reflecting ongoing rationalisation and our strategy to become an asset light business. Normalised free cash flow^d improved by £20m to an inflow of £255m, reflecting higher EBITDA^c and lower capital expenditure offset by adverse working capital.

Order intake was £4.3bn, up 32% benefiting from a number of large renewals but also reflecting increased new business wins. We expect a slow down in order intake during 2020/21 due to a reduction in expected renewals, combined with the impact of Covid-19 on growth opportunities.

🌸 Covid-19 has not materially impacted our 2019/20 trading results, although additional loss provisions of around £35m were taken against trade receivables and contracts at 31 March 2020 primarily in relation to SME and regional enterprise customers where the insolvency risk is expected to be more pronounced. These provisions were recognised through specific items and are therefore not reflected in the above results which are on an adjusted basis.

Looking forward, we are seeing a reduction in spending and a more cautious approach from our multinational customers resulting in cancellations and delays to purchasing cycles impacting trading.

Openreach

Adjusted^b revenue
£5,112m
+1%

Adjusted^b operating profit
£1,146m
(15)%

Year ended 31 March	2020 (IFRS 16) £m	2019 ^a (IAS 17) £m	Change £m	%
Adjusted ^b revenue	5,112	5,075	37	1
Adjusted ^b operating costs	2,254	2,331	(77)	(3)
Adjusted^c EBITDA	2,858	2,744	114	4
Depreciation & amortisation	1,712	1,398	314	22
Adjusted^b operating profit	1,146	1,346	(200)	(15)
Capital expenditure	2,108	2,081	27	1
Normalised free cash flow ^d	670	1,006	(336)	(33)

Revenue^b growth was driven by higher rental bases in fibre-enabled products (driven by commercial offers), up 20%, and Ethernet, up 11%. This was partially offset by price reductions (both the impact of Openreach's commercial offer of fibre volume discounts, and regulated price reductions), and higher service level guarantee payments due to implementation of auto-compensation.

Operating costs^b were down 3% driven by the impact of IFRS 16. Excluding this, operating costs^b were up 5% primarily driven by higher business rates and higher salary costs as Openreach invested in more colleagues to support FTTP rollout and better service, and pay inflation. These drivers were partly offset by efficiency savings and certain one-off items. Excluding the impact of IFRS 16, EBITDA^c was down 3% reflecting the above.

Depreciation and amortisation and operating profit movements primarily reflect the impact of IFRS 16.

Capital expenditure was up 1%, however excluding BDUK gainshare, it was up £223m, or 12%, driven by investments in the network (predominantly fibre enabled infrastructure) partially offset by efficiency savings. Normalised free cash flow^d was down 33% due to higher cash capital expenditure and costs, and timing of working capital.

🌸 Looking forward, Openreach is seeing an adverse impact on trading as a result of Covid-19. While Openreach anticipate lower churn, significant reductions in the volume of broadband and ethernet upgrades and provisioning are expected, due to reduced business activity, including fewer new site builds, and restrictions on provisioning activity under current stay-at-home guidelines. Openreach is prioritising service and maintenance to support vulnerable customers.

^a All prior year comparatives have been restated for the change in the allocation of group overhead costs and the transfer of the Emergency Services Network contract from Consumer to Enterprise. For more information please see note 1 to the financial statements on page 129.

^b Adjusted measures exclude specific items, as explained in the Additional information on page 204.

^c Adjusted (being before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense), as explained in the Additional information on page 204.

^d Free cash flow after net interest paid and payment of lease liabilities, before pension deficit payments (including the cash tax benefit of pension deficit payments) and specific items as explained in the Additional information on page 206.

Our principal risks and uncertainties

Covid-19 pandemic

Movement NEW

- Covid-19 is impacting our colleagues, operations, suppliers and customers, with the extent dependent on factors including, but not limited to, length of UK and international lockdowns, levels of employee absence, virus recurrence, insolvency rates, unemployment levels, nature and extent of any government interventions, severity of economic effects and the speed and nature of the recovery.

Link to business model

F P C N B R I S

Link to strategy

1 2 3

Link to KPIs

1 2 3 5 6 7 8 11

How this could impact our strategy or business model

- Adverse impacts on sales activity and demand, including reduced roaming and continued suspension of sport; impacts are likely to be partially offset by reduced churn and increasing use of connectivity products.
- Disruption to our ability to deliver products and services to customers in the event of supply shortages and/or widespread loss of key employee resource, with adverse impacts on customer volumes and experience.
- Prolonged economic downturn could materially increase our pension deficit and associated contributions.
- Material bad debts if a significant number of our SME and large corporate customers experience financial distress or insolvency.
- Adverse impacts on our cash position and ability to fund investment projects and ongoing operations.

Examples of how we manage this risk


- An *Executive Committee* Command group meet regularly to identify emerging exposures and review our ability to manage them, defining and agreeing actions as required. The group is supported by an operational working group, and equivalent command groups in each customer-facing and corporate unit.
- Introduction of various measures to protect the health and safety of our colleagues, ensuring continuity of critical services, and our customers; measures are continually evaluated and adjusted to reflect World Health Organisation, Public Health England, European Centre for Disease Prevention and Control and UK Government guidelines.
- Response planning to manage any prolonged unavailability of key resources in our network and field engineering teams, maintaining existing network resilience levels.
- Close dialogue with our critical suppliers, with sufficient inventories held to deal with anticipated scenarios.
- Provision of flexible arrangements to vulnerable households and businesses that are at risk of harm and/or financial distress to ensure they remain connected.

Focus areas for 2020/21

- Continued modelling of Covid-19 scenarios to identify and evaluate financial impacts, with an assessment of potential liquidity mitigation options.
- Conduct risk assessments for each customer-facing unit to identify potential strategic, operational, regulatory and colleague related exposures.
- Define 2020/21 assurance activities.
- Review our Covid-19 response for 'lessons learned', implementing identified opportunities to strengthen our crisis management capability.

Notes to the consolidated financial statements continued


2. Critical accounting estimates and key judgements

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying our accounting policies. We continually evaluate our estimates, assumptions and judgements based on available information and experience. As the use of estimates is inherent in financial reporting, actual results could differ from these estimates. Management has discussed its critical accounting estimates and associated disclosures with the *Audit and Risk Committee*. The areas involving a higher degree of judgement or complexity are described in the applicable notes to the financial statements. Critical accounting estimates and key judgements can be identified throughout the notes by the following symbol .

We have the following critical accounting estimates (E) and key judgements (J):

- Current and deferred income tax, see note 10 (E, J).
- Goodwill impairment, see note 13 (E, J).
- Government grants relating to Building Digital UK (BDUK) contracts, see note 14 (J).
- Reasonable certainty and determination of lease terms, see note 15 (J).
- Provisions and contingent liabilities, see note 19 (E, J).
- Pension obligations, see note 20 (E, J).

Judgements made in assessing the impact of Covid-19 on the financial statements

We have exercised judgement in evaluating the impact of Covid-19 on the financial statements. A number of areas have been recognised as being potentially affected. These are identified throughout the notes by the following symbol .

- The impact on our contract loss provisions, see notes 5, 19 & 31.
- **Impairment of contract assets, see note 5.**
- One-off charges arising from Covid-19 meeting the criteria for classification as specific items, see note 9.
- **Impact on future cash flows included within our value in use calculations used in impairment assessments, see note 13.**
- Impact on reasonable certainty used in determining the lease term, see note 15.
- Retirement benefit plans, see note 20.
- Programme rights assets and commitments affected by postponement or cancellation of events, see notes 16 & 31.
- Assumptions within our expected credit losses on trade receivables, see note 17.
- Impact on hedge effectiveness for any cash flow hedges if cash flows are no longer 'highly probable', see note 28.
- Contingent liabilities, see note 31.

3. Significant accounting policies that apply to the overall financial statements

The significant accounting policies applied in the preparation of our consolidated financial statements are set out below. Other significant accounting policies applicable to a particular area are

disclosed in the most relevant note. We have applied all policies consistently to all the years presented, unless otherwise stated.

Basis of consolidation

The group financial statements consolidate the financial statements of BT Group plc and its subsidiaries, and include its share of the results of associates and joint ventures using the equity method of accounting. The group recognises its direct rights to (and its share of) jointly held assets, liabilities, revenues and expenses of joint operations under the appropriate headings in the consolidated financial statements.

All business combinations are accounted for using the acquisition method regardless of whether equity instruments or other assets are acquired. No material acquisitions were made in the year.

A subsidiary is an entity that is controlled by another entity, known as the parent or investor. An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Non-controlling interests in the net assets of consolidated subsidiaries, which consist of the amounts of those interests at the date of the original business combination and non-controlling share of changes in equity since the date of the combination, are not material to the group's financial statements.

The results of subsidiaries acquired or disposed of during the year are consolidated from and up to the date of change of control. Where necessary, accounting policies of subsidiaries have been aligned with the policies adopted by the group. All intra-group transactions including any gains or losses, balances, income or expenses are eliminated in full on consolidation.

When the group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. The profit or loss on disposal is recognised as a specific item.

Inventories

Network maintenance equipment and equipment to be sold to customers are stated at the lower of cost or net realisable value, taking into account expected revenue from the sale of packages comprising a mobile handset and a subscription. Cost corresponds to purchase or production cost determined by either the first in first out (FIFO) or average cost method.

Government grants

Government grants are recognised when there is reasonable assurance that the conditions associated with the grants have been complied with and the grants will be received.

Grants for the purchase or production of property, plant and equipment are deducted from the cost of the related assets and reduce future depreciation expense accordingly. Grants for the reimbursement of operating expenditure are deducted from the related category of costs in the income statement. Estimates and judgements applied in accounting for government grants received in respect of the BDUK programme and other rural superfast broadband contracts are described in note 14.

Notes to the consolidated financial statements continued

5. Revenue continued

Contract assets and liabilities

Significant accounting policies that apply to contract assets and liabilities

We recognise contract assets for goods and services for which control has transferred to the customer before consideration is due. These assets mainly relate to mobile handsets provided upfront but paid for over the course of a contract. Contract assets are reclassified as receivables when the right to payment becomes unconditional and we have billed the customer.

Contract liabilities are recognised when we have received advance payment for goods and services that we have not transferred to the customer. These primarily relate to fees received for connection and installation services that are not distinct performance obligations.

Where the initial set-up, transition or transformation phase of a long-term contract is considered to be a distinct performance obligation we recognise a contract asset for any work performed but not billed. Conversely a contract liability is recognised where these activities are not distinct performance obligations and we receive upfront consideration. In this case eligible costs associated with delivering these services are capitalised as fulfilment costs, see note 17.


We provide for expected lifetime losses on contract assets following the policy set out in note 17.

Contract assets and liabilities recognised are as follows:

Year ended 31 March	2020 £m	2019 £m
Contract assets		
Current	1,442	1,353
Non-current	279	249
	1,721	1,602
Contract liabilities		
Current ^a	972	1,225
Non-current ^a	179	200
	1,151	1,425

^a Contract liabilities recognised at 31 March 2019 include balances relating to Openreach, the majority of which are now presented as trade and other payables following adoption of IFRS 16 on 1 April 2019, see note 1.

£1,094m of the contract liability recognised at 31 March 2019 was recognised as revenue during the year (2018/19: £1,216m). Impairment losses of £59m were recognised on contract assets during the year (2018/19: £36m).


 These impairment losses included £21m of impairments to contract assets recognised at 31 March 2020 reflecting increased expected credit losses above our standard provisioning policies as a result of Covid-19. This increase above our standard contract loss provisioning policies was recorded as a specific item (note 9).

9. Specific items

Significant accounting policies that apply to specific items

We separately identify and disclose those items that in management's judgement need to be disclosed by virtue of their size, nature or incidence (termed 'specific items'). Specific items are used to derive the adjusted results as presented in the consolidated income statement presented on page 124. Adjusted results are consistent with the way that financial performance is measured by management and assist in providing an additional analysis of the reporting of the trading results of the group. Specific items may not be comparable to similarly titled measures used by other companies.

In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors. Examples of charges or credits meeting the above definition and which have been presented as specific items in the current and/or prior years include acquisitions/disposals of businesses and investments, retrospective regulatory matters, historical insurance or litigation claims, business restructuring programmes, asset impairment charges, property rationalisation programmes, net interest on pensions and the settlement of multiple tax years.

 In the event that items meet the criteria, which are applied consistently from year to year, they are treated as specific items. We have also included the impacts of Covid-19 on various balance sheet items as at 31 March 2020 as specific. The impact of Covid-19 on underlying trading is recognised in our underlying (adjusted) results and not as a specific item.

Year ended 31 March	2020 £m	2019 £m	2018 £m
Revenue			
Retrospective regulatory matters	(81)	31	23
	(81)	31	23
Operating costs			
Restructuring charges	322	386	287
Divestment-related items	199	5	(1)
Covid-19	95	–	–
Property rationalisation	(131)	36	28
Spectrum annual licence fee refund	(82)	–	–
Retrospective regulatory matters	9	(4)	26
Italian business investigation	2	(55)	22
Provision for claims	(5)	–	–
Pension equalisation costs	–	26	–
EE acquisition warranty claims	–	–	225
	409	394	587
Operating loss	328	425	610
Net finance expense			
Interest expense on retirement benefit obligation	145	139	218
Interest on spectrum annual license fee refund	(5)	–	–
	140	139	218
Associates and joint ventures	39	–	–
Net specific items charge before tax	507	564	828
Taxation			
Tax credit on specific items above	(73)	(112)	(87)
Tax charge on re-measurement of deferred tax	156	–	–
	83	(112)	(87)
Net specific items charge after tax	590	452	741

Notes to the consolidated financial statements continued

9. Specific items continued

Restructuring charges

During the year we incurred charges of £322m (2018/19: £386m, 2017/18: £287m), primarily relating to leaver costs. These costs reflect projects within our group-wide cost transformation programme. Of this £8m (2018/19: £29m; 2017/18: £46m) relates to the completion of our EE integration activities and £22m (2018/9: £23m; 2017/2018: nil) costs to close the BT Pension Scheme and provide transition payments to affected employees.

Divestment-related items

During the year we entered into agreements to sell our domestic operations in France, our domestic operations in Spain and selected domestic operations and infrastructure in 16 countries in Latin America. These divestments are expected to complete in financial year 2020/21. We have classified the assets and liabilities of these operations as held for sale at the lower of their carrying amount and fair value less costs to sell, which has resulted in an impairment charge of £127m relating to the France and Latin America divestments. See note 23.

In addition we have recognised losses on disposal of £36m (2018/19: £5m) relating to the completed divestments of BT Fleet Solutions and Tikit, and £36m of costs relating to ongoing divestment projects.

Covid-19

During the year we recognised one-off charges of £95m relating to the impact of Covid-19 on various balance sheet items as at 31 March 2020. This comprises an £88m increase in our expected credit loss provisions for receivables due from customers and contract assets, and £7m contract loss provisions in respect of revenue contracts that are expected to become loss-making as a result of Covid-19 impacts.

Should we recover the amounts owed, for which we have provided, this recovery would be reversed back through the income statement as a specific item.

Property rationalisation costs

We have recognised a net credit of £(131)m (2018/19: charge £36m, 2017/18: charge £28m) relating to the rationalisation of the group's property portfolio under our Better Workplace Programme including the gain on sale of BT Centre of £115m.

Spectrum annual licence fee refund

In May 2019 we received a payment of £87m from Ofcom, relating to overpaid fees that were charged during the period 2015-2017 under the previous 2015 fees regulation that was quashed by the Court of Appeal in 2017. Ofcom obtained permission to appeal the judgment to the Court of Appeal and in February 2020 the Court of Appeal ruled in our favour. Ofcom have informed us that they are not planning to pursue an appeal to the Supreme Court and we have therefore released our £87m provision and recognised this in the income statement as a specific item including interest on the refund of £5m.

Retrospective regulatory matters

We have recognised a net credit of £(72)m (2018/19: charge £27m, 2017/18: charge £49m) in relation to regulatory matters. This reflects the settlement of various matters. Of this, £(81)m credit is recognised in revenue and £9m charge in operating costs.

Italian business investigation

During the year we recognised £2m costs relating to the historical investigation in our Italian business (2018/19: a credit of £(55)m, 2017/18: a charge of £22m).

Provision for claims

We have recognised a credit of £5m (2018/19: £nil) in relation to release of provisions for claims created through specific items in 2012/13 which have now been fully settled.

Pension equalisation costs

During 2018/19 we recognised a charge of £26m in relation to the high court requirement to equalise pension benefits between men and women due to guaranteed minimum pension (GMP).

EE acquisition warranty claims

In 2017/18 we reached settlements with Deutsche Telekom and Orange in respect of any warranty claims under the 2015 EE acquisition agreement, arising from the issues previously announced regarding our operations in Italy. This represents a full and final settlement of these issues and resulted in a specific item charge of £225m.

Interest expense on retirement benefit obligation

During the year we incurred £145m (2018/19: £139m, 2017/18: £218m) of interest costs in relation to our defined benefit pension obligations. See note 20 for more details.

Associates and joint ventures

Following renegotiation of a contract, an amount of £39m (2018/19: £nil, 2017/18: £nil) owed by an associate has been determined irrecoverable. The resulting impairment has been recognised as a specific item.

Tax on specific items

A net tax charge of £83m (2018/19: credit of £112m, 2017/18: credit of £87m) was recognised in relation to specific items. During the period, legislation was enacted to maintain the UK corporation tax rate at 19% (see note 10). Accordingly the group has re-measured its deferred tax balances which has resulted in a charge of £156m.

13. Intangible assets

Significant accounting policies that apply to intangible assets

We recognise identifiable intangible assets where we control the asset, it is probable that future economic benefits attributable to the asset will flow to the group, and we can reliably measure the cost of the asset. We amortise all intangible assets, other than goodwill, over their useful economic life. The method of amortisation reflects the pattern in which the assets are expected to be consumed. If the pattern cannot be determined reliably, the straight line method is used.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the identifiable net assets (including intangible assets) of the acquired business. Our goodwill impairment policy is set out later in this note.

Acquired intangible assets – customer relationships and brands

Intangible assets such as customer relationships or brands acquired through business combinations are recorded at fair value at the date of acquisition and subsequently carried at amortised cost. Assumptions are used in estimating the fair values of these relationships or brands and include management's estimates of revenue and profits to be generated by them.

Telecommunications licences

Licence fees paid to governments, which permit telecommunications activities to be operated for defined periods, are initially recorded at cost and amortised from the time the network is available for use to the end of the licence period or where our usage can extend beyond the initial licence period, over the period we expect to benefit from the use of the licences, which is typically 20 years. Licences acquired through business combinations are recorded at fair value at the date of acquisition and subsequently carried at amortised cost. The fair value is based on management's assumption of future cash flows using market expectations at acquisition date.

Computer software

Computer software comprises computer software licences purchased from third parties, and also the cost of internally developed software. Computer software licences purchased from third parties are initially recorded at cost. We only capitalise costs directly associated with the production of internally developed software, including direct and indirect labour costs of development, where it is probable that the software will generate future economic benefits, the cost of the asset can be reliably measured and technical feasibility can be demonstrated, in which case it is capitalised as an intangible asset on the balance sheet. Costs which do not meet these criteria and research costs are expensed as incurred.

Our development costs which give rise to internally developed software include upgrading the network architecture or functionality and developing service platforms aimed at offering new services to our customers.

Other

Other intangible assets include website development costs and other licences. Items are capitalised at cost and amortised on a straight line basis over their useful economic life or the term of the contract.

Estimated useful economic lives

The estimated useful economic lives assigned to the principal categories of intangible assets are as follows:

– Computer software	2 to 10 years
– Telecommunications licences	2 to 20 years
– Customer relationships and brands	1 to 15 years

Impairment of intangible assets

Intangible assets with finite useful lives are tested for impairment if events or changes in circumstances (assessed at each reporting date) indicate that the carrying amount may not be recoverable. When an impairment test is performed, the recoverable amount is assessed by reference to the higher of the net present value of the expected future cash flows (value in use) of the relevant cash generating unit and the fair value less costs to dispose.

Goodwill is reviewed for impairment at least annually as described below. Impairment losses are recognised in the income statement, as a specific item. If a cash generating unit is impaired, impairment losses are allocated firstly against goodwill, and secondly on a pro-rata basis against intangible and other assets.

Notes to the consolidated financial statements continued

13. Intangible assets continued

	Goodwill £m	Customer relationships and brands £m	Telecoms licences and other £m	Internally developed software ^a £m	Purchased software £m	Total £m
Cost						
At 1 April 2018	7,945	3,410	2,951	4,822	1,574	20,702
Additions	–	–	304	520	160	984
Disposals and adjustments ^b	(2)	–	(3)	(945)	(141)	(1,091)
Transfers	–	–	4	120	(80)	44
Exchange differences	63	7	(4)	1	(8)	59
At 31 March 2019	8,006	3,417	3,252	4,518	1,505	20,698
Reclassification of assets held under finance leases ^c	–	–	(185)	–	–	(185)
At 1 April 2019	8,006	3,417	3,067	4,518	1,505	20,513
Additions	–	–	–	598	192	790
Disposals and adjustments ^b	(30)	(28)	(34)	(765)	(541)	(1,398)
Transfers	–	–	(2)	14	(3)	9
Exchange differences	52	8	1	2	10	73
Transfer to assets held for sale ^d	(83)	–	–	(13)	(45)	(141)
At 31 March 2020	7,945	3,397	3,032	4,354	1,118	19,846
Accumulated amortisation						
At 1 April 2018	–	1,191	421	3,680	963	6,255
Charge for the year	–	377	142	525	110	1,154
Disposals and adjustments ^b	–	–	(3)	(941)	(147)	(1,091)
Transfers	–	–	3	(43)	43	3
Exchange differences	–	3	(3)	–	(8)	(8)
At 31 March 2019	–	1,571	560	3,221	961	6,313
Reclassification of assets held under finance leases ^c	–	–	(115)	–	–	(115)
At 1 April 2019	–	1,571	445	3,221	961	6,198
Charge for the year	–	373	177	538	85	1,173
Disposals and adjustments ^b	–	(22)	(49)	(786)	(529)	(1,386)
Transfers	–	–	–	(15)	15	–
Exchange differences	–	8	1	1	9	19
Transfer to assets held for sale ^d	–	–	–	(8)	(39)	(47)
At 31 March 2020	–	1,930	574	2,951	502	5,957
Carrying amount						
At 31 March 2020	7,945	1,467	2,458	1,403	616	13,889
At 31 March 2019	8,006	1,846	2,692	1,297	544	14,385

^a Includes a carrying amount of £538m (2018/19: £668m) in respect of assets in course of construction, which are not yet amortised.

^b Fully depreciated assets in the group's fixed asset registers were reviewed during the year, as part of the group's annual asset verification exercise, and certain assets that were no longer in use have been written off, reducing cost and accumulated depreciation by £1.1bn (2018/19: £1.0bn).

^c On adoption of IFRS 16 on 1 April 2019, assets held under finance leases were reclassified as right-of-use assets. See note 1.

^d Assets transferred to held for sale during 2019/20 relate to our domestic operations in France, our domestic operations in Spain and selected domestic operations and infrastructure in 16 countries in Latin America. On reclassification to held for sale, goodwill associated with the France and Latin America disposals was impaired by £58m, and other intangible assets associated with these disposals were impaired by £1m. See note 23.

Impairment of goodwill

Significant accounting policies that apply to impairment of goodwill

We perform an annual goodwill impairment review.

Goodwill recognised in a business combination does not generate cash flows independently of other assets or groups of assets. As a result, the recoverable amount, being the value in use, is determined at a cash generating unit (CGU) level. These CGUs represent the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other groups of assets. Our CGUs are deemed to be legacy BT Consumer, legacy EE, Enterprise, and Global.

We allocate goodwill to each of the Cash Generating Units (CGUs) that we expect to benefit from the business combination. Each CGU to which goodwill is allocated represents the lowest level within the group at which the goodwill is monitored for internal management purposes.

The value in use of each CGU is determined using cash flow projections derived from financial plans approved by the Board covering a five-year period. They reflect management's expectations of revenue, EBITDA growth, capital expenditure, working capital and operating cash flows, based on past experience and future expectations of business performance. Cash flows beyond the fifth year have been extrapolated using perpetuity growth rates.

13. Intangible assets continued

Critical accounting estimates and key judgements made in reviewing goodwill for impairment

Determining our CGUs

The determination of our CGUs is judgemental. The identification of CGUs involves an assessment of whether the asset or group of assets generate largely independent cash inflows. This involves consideration of how our core assets are operated and whether these generate independent revenue streams. The legacy BT Consumer and EE CGUs remain as two separate CGUs due to their having independent cash flows.

Estimating value in use

Our value in use calculations require estimates in relation to uncertain items, including management's expectations of future revenue growth, operating costs, profit margins, operating cash flows, and the discount rate for each CGU. Future cash flows used in the value in use calculations are based on our latest Board-approved five-year financial plans which reflect the anticipated impact of Covid-19. Expectations about future growth reflect the expectations of growth in the markets to which the CGU relates. The future cash flows are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money. The discount rate used in each CGU is adjusted for the risk specific to the asset, including the countries in which cash flow will be generated, for which the future cash flow estimates have not been adjusted.

We tested our goodwill for impairment as at 31 March 2020. The carrying value of goodwill and the key assumptions used in performing the annual impairment assessment are disclosed below.

Cost	Legacy BT Consumer £m	Legacy EE £m	Enterprise £m	Business and Public Sector £m	Wholesale and Ventures £m	Global £m	Total £m
At 1 April 2018	1,183	2,768	–	2,562	942	490	7,945
Transfer	–	–	3,504	(2,562)	(942)	–	–
Exchange differences	–	–	5	–	–	58	63
Acquisitions and disposals	–	–	–	–	–	(2)	(2)
At 31 March 2019	1,183	2,768	3,509	–	–	546	8,006
Exchange differences	–	–	4	–	–	48	52
Acquisitions and disposals	–	–	(30)	–	–	–	(30)
Transfer to assets held for sale	–	–	–	–	–	(83)	(83)
At 31 March 2020	1,183	2,768	3,483	–	–	511	7,945

In connection with disposals of BT Fleet Ltd and Tikit Ltd, £30m of goodwill in the Enterprise CGU has been eliminated. As discussed in note 23, we have recorded the net assets of certain Global businesses as held for sale. As a result, goodwill impairment charges of £58m in respect of France and Latin America have been recorded, and £25m of goodwill related to Spain has been reclassified. There are no reasonably possible changes to our assumptions that would result in the carrying value exceeding the value in use.

What discount rate have we used?

The pre-tax discount rates applied to the cash flow forecasts are derived from our post-tax weighted average cost of capital. The assumptions used in the calculation of the group's weighted average cost of capital are benchmarked to externally available data. The pre-tax discount rate used in performing the value in use calculation in 2019/20 was 8.0% (2018/19: 8.2%). We've used the same discount rate for all CGUs except Global where we have used 8.6% (2018/19: 8.7%) reflecting higher risk in some of the countries in which Global operates.

What growth rates have we used?

The perpetuity growth rates are determined based on the forecast market growth rates of the regions in which the CGU operates, and they reflect an assessment of the long-term growth prospects of that market. The growth rates have been benchmarked against external data for the relevant markets. None of the growth rates applied exceed the expected long-term average growth rates for those markets or sectors. We used a perpetuity growth rate of 2.4% (2018/19: 2.4%) for Global and 2.0% (2018/19: 2.0%) for Enterprise and our legacy BT Consumer and EE CGUs.

Has Covid-19 had a material impact on the impairment assessment?

Covid-19 is not considered to have a significant impact on the assessment of impairment. Its impact on the group is considered to be short-term, and it is not anticipated to have a significant impact on the terminal year which is a key driver of our value in use calculations.

Notes to the consolidated financial statements continued

14. Property, plant and equipment

Significant accounting policies that apply to property, plant and equipment

Our property, plant and equipment is included at historical cost, net of accumulated depreciation, government grants and any impairment charges. Property, plant and equipment acquired through business combinations are initially recorded at fair value and subsequently accounted for on the same basis as our existing assets. We derecognise items of property, plant and equipment on disposal or when no future economic benefits are expected to arise from the continued use of the asset. The difference between the sale proceeds and the net book value at the date of disposal is recognised in operating costs in the income statement.

Included within the cost of network infrastructure and equipment are direct and indirect labour costs, materials and directly attributable overheads.

We depreciate property, plant and equipment on a straight line basis from the time the asset is available for use, to write off the asset's cost over the estimated useful life taking into account any expected residual value. Freehold land is not depreciated.

Estimated useful economic lives

The estimated useful lives assigned to principal categories of assets are as follows:

Land and buildings

– Freehold buildings	14 to 50 years
– Short-term leasehold improvements	Shorter of 10 years or lease term
– Leasehold land and buildings	Unexpired portion of lease or 40 years, whichever is the shorter

Network infrastructure

Transmission equipment	
– Duct	40 years
– Cable	3 to 25 years
– Fibre	5 to 20 years
Exchange equipment	2 to 13 years
Other network equipment	2 to 20 years

Other assets

– Motor vehicles	2 to 9 years
– Computers and office equipment	3 to 7 years

Residual values and useful lives are reassessed annually and, if necessary, changes are recognised prospectively.

Network share assets

Certain assets have been contributed to a network share arrangement by both EE and Hutchison 3G UK Limited, with legal title remaining with the contributor. This is considered to be a reciprocal arrangement. Our share of the assets on acquisition of EE were recognised at fair value within tangible assets, and depreciated in line with policy. Subsequent additions are recorded at cost.

Impairment of property, plant and equipment

We test property, plant and equipment for impairment if events or changes in circumstances (assessed at each reporting date) indicate that the carrying amount may not be recoverable. When an impairment test is performed, we assess the recoverable amount by reference to the higher of the net present value of the expected future cash flows (value in use) of the relevant asset and the fair value less costs to dispose. If it is not possible to determine the recoverable amount for the individual asset then we assess impairment by reference to the relevant cash generating unit as described in note 13.

Key judgements made in accounting for our BDUK contracts

We receive government grants in relation to the Building Digital UK (BDUK) programme and other rural superfast broadband contracts. Where we have achieved certain service levels, or delivered the network more efficiently than anticipated, we have an obligation to either re-invest or repay grant funding. Where this is the case, we assess and defer the income with a corresponding increase in capital expenditure.

Assessing the timing of whether and when we change the estimated take-up assumption is judgemental as it involves considering information which is not always observable. Our consideration on whether and when to change the base case assumption is dependent on our expectation of the long-term take-up trend.

Our assessment of how much grant income to defer includes consideration of the difference between the take-up percentage agreed with the local authority and the likelihood of actual take-up. The value of the government grants deferred is disclosed in note 18.


16. Programme rights

Significant accounting policies that apply to programme rights

Programme rights are recognised on the balance sheet from the point at which the legally enforceable licence period begins. They are initially recognised at cost and are amortised from the point at which they are available for use, on a straight line basis over the programming period, or the remaining licence term, as appropriate, which is generally 12 months. Programme rights are tested for impairment in accordance with our impairment policy as set out in note 13.

Additions reflect TV programme rights for which the legally enforceable licence period has started during the year. Rights for which the licence period has not started are disclosed as contractual commitments in note 31. Payments made to receive commissioned or acquired programming in advance of the legal right to broadcast the programmes are classified as prepayments (see note 17).

	Total £m
At 1 April 2018	272
Additions	879
Amortisation	(841)
At 1 April 2019	310
Additions	870
Amortisation	(870)
At 31 March 2020	310

 £310m of programme rights recognised on the balance sheet at 31 March 2020 relate to sporting events postponed as a result of Covid- 19. These are not considered to be impaired at the balance sheet date as sporting governing bodies, for example the Premier League and UEFA, are still determining how, or if, to complete the current season. Whether and how the seasons are completed could have an impact on whether there is any impairment. The majority of programme rights assets affected by Covid- 19 relate to domestic and European football leagues which are amortised over 12 months from August and which will be fully amortised by July 2020. If any impairment is recognised in future periods we would also seek compensation in respect of rights which have not been fulfilled. Until this is established any potential recoveries would represent contingent assets and would not meet the criteria for recognition until this is virtually certain.

Covid- 19 is not anticipated to have an impact on commissioned or acquired programming for which we have made an advance payment. At 31 March 2020 these total £110m and are classified as prepayments within trade and other receivables (note 17).


17. Trade and other receivables

Significant accounting policies that apply to trade and other receivables

We initially recognise trade and other receivables at fair value, which is usually the original invoiced amount. They are subsequently carried at amortised cost using the effective interest method. The carrying amount of these balances approximates to fair value due to the short maturity of amounts receivable.

We provide services to consumer and business customers, mainly on credit terms. We know that certain debts due to us will not be paid through the default of a small number of our customers. Because of this, we recognise an allowance for doubtful debts on initial recognition of receivables, which is deducted from the gross carrying amount of the receivable. The allowance is calculated by reference to credit losses expected to be incurred over the lifetime of the receivable. In estimating a loss allowance we consider historical experience and informed credit assessment alongside other factors such as the current state of the economy and particular industry issues. We consider reasonable and supportable information that is relevant and available without undue cost or effort.

Once recognised, trade receivables are continuously monitored and updated. Allowances are based on our historical loss experiences for the relevant aged category as well as forward-looking information and general economic conditions, this includes the impact of Covid- 19. Allowances are calculated by individual customer-facing units in order to reflect the specific nature of the customers relevant to that customer-facing unit.

 Following the outbreak of Covid- 19 we have reassessed our expected loss provisions including assessing the risk factors associated with various industry sectors and applying a risk weighting to each sector.

Contingent assets such as any insurance recoveries, or prepaid programme rights which we expect to recoup, have not been recognised in the financial statements as these are only recognised within trade and other receivables when their receipt is virtually certain.

20. Retirement benefit plans continued

How is the BTPS governed and managed?

BT Pension Scheme Trustees Limited (the Trustee) has been appointed by BT as an independent trustee to administer and manage the BTPS on behalf of the members in accordance with the terms of the BTPS Trust Deed and Rules and relevant legislation (principally the Pension Schemes Act 1993, the Pensions Act 1995 and the Pensions Act 2004).

Under the terms of the Trust Deed there are nine Trustee directors, all of whom are appointed by BT, as illustrated below. Trustee directors are usually appointed for a three-year term but are then eligible for re-appointment.



Chairman of the Trustees
Appointed by BT after consultation with, and with the agreement of, the relevant trade unions.



Member nominated Trustees
Appointed by BT based on nominations by trade unions.



Employer nominated Trustees
Appointed by BT. Two normally hold senior positions within the group and two normally hold (or have held) senior positions in commerce or industry.

BTPS assets




Critical accounting judgements and key estimates made when valuing our pension assets

Under IAS19, plan assets must be valued at the bid market value at the balance sheet date. Our pension assets include quoted and unquoted investments. A portion of unquoted investments are valued based on inputs that are not directly observable, which require more judgement. The assumptions used in valuing unquoted investments are affected by current market conditions and trends which could result in changes in fair value after the measurement date.


Valuation of main quoted investments

- Equities listed on recognised stock exchanges are valued at closing bid prices.
- Bonds that are regularly traded are valued using broker quotes.
- Exchange traded derivative contracts are valued based on closing bid prices.

Valuation of main unquoted investments (prior to estimated adjustments)

- Equities are valued using the IPEVC guidelines where the most significant assumptions are the discount rate and earnings assumptions.
-  Property investments are valued on the basis of open market value by an independent valuer. The significant assumptions used in the valuation are rental yields and occupancy rates. In light of the negative impact of the Covid-19 pandemic on financial markets, the independent valuers included material uncertainty clauses in respect of £2bn of the UK Property asset valuations. The directors still consider these valuations to be the best estimate of the valuation of the Property investments, but there is a higher degree of uncertainty compared to previous years.
- Bonds that are not regularly traded are valued by an independent valuer using pricing models making assumptions for credit risk, market risk and market yield curves.
- Over the counter derivatives are valued by an independent valuer using cashflows discounted at market rates. The significant assumptions used in the valuation are the yield curves and cost of carry.
- Holdings in investment funds are valued at fair value which is typically the Net Asset Value provided by the fund administrator or investment manager. The significant assumption used in the valuation is the Net Asset Value.
- Infrastructure investments are valued by an independent valuer using a model-based valuation such as a discounted cash flow approach. The significant assumptions used in the valuation are the discount rate and the expected cash flows.
- The value of the longevity insurance contract held by the BTPS is measured by discounting the projected cash flows payable under the contract (projected by an actuary, consistent with the terms of the contract). The significant assumptions used to value the asset are the discount rate and the mortality assumptions.

Estimated adjustments to the valuation of main unquoted investments

 Under IAS 19, around £6bn of these unquoted assets have been initially measured using the most recent valuations, adjusted for cash movements between the last valuation date and 31 March 2020. As the latest valuations for these assets precede the negative impact of the Covid-19 pandemic on financial markets, we have applied an estimated adjustment by reference to either market indices or estimated 31 March 2020 valuations provided by the portfolio investment manager.



BT Beyond Limits Brand Launch, London, Wembley Arena.

October 2019. BT launched its new brand ambition – Beyond Limits – with an epic World Record-breaking indoor drone show coded by school children from St Joseph’s School, Islington.

BT Group plc

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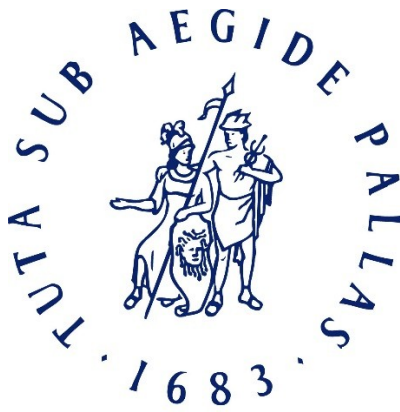
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BRILL

ANNUAL REPORT 2019
KONINKLIJKE BRILL NV

MANAGEMENT BOARD'S REPORT FOR THE YEAR 2019

Introduction by the CEO

We are happy to present you with our annual report for 2019, reflecting significant progress from last year. Driven by our renewed mission and strategy, we showed growth above our expectations, resulting in Brill's best year ever in terms of revenue and EBITDA.

Organically, Brill's revenue grew by 2.5% and the total revenue growth was 3.3%. Operating profit increased by 39.5% against 2018. In view of these positive results, but also considering the recent developments around the Covid-19 pandemic, we propose an all-cash ordinary dividend of EUR 0.50 per (certificate of) ordinary share at the General Meeting of Shareholders that will be held on 25 June, 2020.

Strategic Progress in 2019

During 2019, we continued to make progress in achieving our strategic objectives as laid out in our mission statement and corporate strategy (refer to Mission, Core values and Corporate strategy).

Brill's new mission statement, which underlines the relevance of humanities research in today's world, is being promoted and shared online with all our stakeholders through blogs, podcasts, and interviews, and has been very well received.

Strategic progress is reflected in the further increase of our digital revenue, in the expansion of our Open Access publishing program, and in the launch of a new open source text editions platform developed in-house. Brill expanded its portfolio by acquiring several journals from competitors and by launching a range of new reference works and primary sources. Furthermore, we started a collaboration with *Jus Mundi*, a start-up company that has developed a specialized search engine in the field of international law, which will strengthen our digital capabilities. The German imprints Schöningh & Fink have developed their portfolios to include more English language publications, journals, and Open Access books, and have started to generate increasingly more revenue from digital publications.

Operational Progress in 2019

The migration to the new Brill.com platform was successful and made it possible to fully retire the previous platform, putting an end to the double costs we had to bear in 2018. At the end of the year, we launched a new project to perform a company-wide digital health check. The goal of this project is to ensure that our digital and IT infrastructure is future proof and able to support our strategic objectives. Many improvements have been made to the organization of our finance and accounting processes and reporting. We are thankful for Wim Dikstaal's contribution as interim CFO and we were very happy to see Olivier de Vlam return as full-time CFO in September to continue to lead improvements to Brill's financial workflows. Our gross margin increased yet again, to 70%. Our profit improvement plan, launched in 2018, delivered savings as anticipated, which helped us to restore profitability to our targeted level.

People and Society

Again in 2019, more valuable content and primary sources were made digitally available for the scholarly community and for society at large due especially to Open Access models and new technologies. We continued our global activities under the Research4Life and UN Global Compact banners and locally, we supported various cultural institutions and events.

In the publishing industry, people still make the greatest impact. Therefore, I would like to thank all our employees, authors, editors, freelancers and suppliers for their contribution and dedication throughout the year.

Last year we published an article together with the Annual Report about the relevance of the humanities for today's challenges. This year's article features Joseph Justus Scaliger, one of the pioneers of Oriental Studies in the Netherlands. His carefully curated book collection became the foundation of the great library at Leiden University. The collection not only provided an important impetus to academia in the region and beyond, but also to Brill's publishing program. Even today, Brill remains connected to Scaliger in various ways. We share his curiosity for foreign languages and cultures, and his idea of universal scholarship. And for more than ten years, we have been proud sponsors of the Brill scholarship at the Scaliger Institute, which provides funding for research in the Special Collections of the Leiden University Library.

Outlook

Although we made significant progress in 2019, we currently face material uncertainties concerning the impact of the Covid-19 pandemic. The operational and commercial effects may significantly affect our ability to generate sufficient revenues in this year and we may not be able to decrease costs enough to mitigate the loss of income. Management is addressing the crisis by implementing measures in Publishing, Operations, Financing and Sales and is adjusting its policy as the situation develops (refer to going concern disclosure "The entity's ability to continue as a going concern – Covid-19" in the notes to the consolidated financial statements). Given these uncertainties we do not provide an outlook for 2020. Once the crisis subsides, we will continue to pursue our strategic roadmap in order to achieve our long-term financial objectives and yield sustainable value for all our stakeholders. As always, Pallas Athena and Hermes will be on our side, making sure that, while striving to reach these objectives, we maintain the same balance between them as in the past 336 years.

Leiden, 7 April, 2020

Peter Coebergh
Chief Executive Officer

(in EUR million)	2019	2018	Growth
Profit before tax	3,107	2,181	42.5%
Cost of profit improvement plan	85	216	
Underlying profit before tax	3,192	2,397	33.2%
Tax, at the statutory rate	-798	-599	
Underlying profit	2,394	1,797	32.2%
Profit improvement plan, after tax	-64	-162	
Change in deferred tax liability and other	-169	699	
Profit attributable to shareholders of Koninklijke Brill NV	2,162	2,304	-6.2%
Underlying earnings per share	1.28	0.96	
Earnings per share	1.15	1.23	

Operating Working Capital and Cash Flow

Book inventories declined further due to our POD policy (EUR -0.3 million). Deferred income increased as a result of higher and earlier e-book renewal rates. In sum, working capital improved and consequently, cash flow improved by EUR 0.8 million versus 2018, also as a result of lower capital investments and better operating income.

Return on Invested Capital

Return on Invested Capital (ROIC) improved to 10.1% versus 7.6% (restated) in 2018, driven by an improvement in operating margin and a stable asset turnover. The implementation of IFRS 16 had no net impact on ROIC.

Solvency and Liquidity

Total assets (EUR 51.8 million) increased versus 2018 (EUR 48.9 million). Solvency (Shareholders' equity divided by total assets) declined to 41.0% in 2019 (2018: 42.5%; target range of 40-60%). The increase in total assets was largely due to the implementation of IFRS 16, which led to capitalized leased assets of EUR 1.9 million. Adjusted for the total impact of IFRS 16, solvency was 43.0%.

Cash flow from both operating and investing activities improved significantly. Gross debt was reduced by EUR 1.1 million to EUR 4.8 million; net debt improved from EUR 3.5 million to EUR 3.1 million.

Dividend

We wish to adhere to our corporate solvency policy of 40-60% and to the covenants agreed upon with our corporate bank. Also, we will continue to pursue our capital management policy where regular investments must be funded within free cash flow. Finally, the emerging Corona virus outbreak prompts us to exert increased caution in preserving liquidity within the company. Consequently, we will propose at the General Meeting of Shareholders that will be held on 25 June 2020 an all-cash ordinary dividend of EUR 0.50 per (certificate of) ordinary share. Based on our net profit attributable to our shareholders, this is a 43% payout ratio based on net profit and a 39% payout based on underlying net profit.

Risk Update: Expected Impact of Covid-19

In 2020, we face material uncertainties concerning the impact of the Covid-19 pandemic. The operational and commercial effects may significantly affect our ability to generate revenues in this year and we may not be able to decrease costs sufficiently to mitigate the loss of income. Management is addressing the crisis by implementing measures in Publishing, Operations, Financing and Sales and is adjusting its policy as the situation develops (refer to going concern disclosure "The entity's ability to continue as a going concern – Covid-19" in the notes to the consolidated financial statements). For an assessment as per reporting date, refer to going concern disclosure "The entity's ability to continue as a going concern – Covid-19" in the notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER, 2019

In thousands of euros

	<u>31-12-2019</u>	<u>31-12-2018</u>
ASSETS		
Non - current assets		
Tangible fixed assets [4]	339	389
Right of use assets [5]	1,914	0
Intangible fixed assets [6]	33,366	32,785
Financial assets	<u>12</u>	<u>12</u>
	35,631	33,186
Current assets		
Inventories [8]	3,217	3,465
Trade and other receivables [9]	10,029	9,046
Income tax to be received [7]	1,110	752
Cash and cash equivalents [10]	1,788	2,383
Derivative financial instruments [15]	<u>0</u>	<u>75</u>
	16,144	15,721
Total assets	<u>51,775</u>	<u>48,906</u>
EQUITY AND LIABILITIES		
Equity attributable to owners of Koninklijke Brill NV		
Share capital [11]	1,125	1,125
Share premium [11]	343	343
Retained earnings [11]	20,033	19,520
Other reserves [11]	<u>-289</u>	<u>-203</u>
	21,212	20,785
Non-current liabilities		
Interest bearing loans [12]	3,765	4,843
Lease liabilities [5]	1,757	
Provisions [14]	0	45
Deferred tax liabilities [7]	<u>3,583</u>	<u>3,093</u>
	9,105	7,981
Current liabilities		
Interest bearing loans	1,083	1,083
Trade and other payables [13]	10,785	10,245
Deferred income	8,851	8,402
Lease liabilities	684	
Provisions [14]	50	100
Derivative financial instruments [15]	<u>5</u>	<u>310</u>
	21,458	20,141
Total equity and liabilities	<u>51,775</u>	<u>48,906</u>

GENERAL INFORMATION

1. Reporting entity

Koninklijke Brill NV (together with its subsidiaries referred to as 'Brill' or the 'Group') is established as a Naamloze Venootschap (Public Limited Company), based at Plantijnstraat 2 in Leiden, the Netherlands and registered at the chamber of commerce under number 28000012. Its registered depository receipts are traded publicly at Euronext in Amsterdam. The main activities are academic publications with a focus on the humanities and social sciences, international law and selected areas in the Sciences. These financial statements were authorized for issue by decision made on 7 April, 2020, by Brill's Supervisory Board and Management Board.

2. Basis of preparation of the Financial Statements

The consolidated financial statements of Koninklijke Brill NV have been prepared in accordance with IFRS as endorsed by the EU (IFRS) and the statutory provisions of Part 9, book 2, of the Dutch Civil Code. The consolidated financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

The entity's ability to continue as a going concern – Covid-19

These financial statements are prepared on the assumption that the Group is a going concern. However, there is a material uncertainty due to non-adjusting subsequent events caused by the Covid-19 pandemic that may cast significant doubt upon the Group's ability to continue as a going concern.

The key uncertainty caused by the Covid-19 is the possible long-term impact on Brill's ability to generate income through revenue. If the Covid-19 pandemic, contrary to management's current expectations, extends beyond 2020 and significantly impacts the Group's long-term ability to generate income through revenue, the going concern assumption may be threatened, as cumulative losses over time may lead to a negative equity position. Upon request of the supervisory board, the management of Brill has conducted a stress test in which scenarios on liquidity were developed in relation to Brill's current credit facilities at the bank. However, as at 7 April, 2020 we have noted no current observable consequences and therefore believe that a going concern assumption is justified.

Brill's publications are generally purchased for professional use and therefore have an element of 'need to have'. Funding for Brill's activities generally originates from publicly funded sources. Consequently, Brill and the scientific and scholarly publishing industry at large are usually only indirectly, with delay and moderately, impacted by economic recessions. Brill's revenues depend for around 40% on subscription income. This should remain relatively unaffected in 2020 since most subscription income has been paid up at the time of writing. However, in the medium term there may be an impact on Brill's ability to renew subscriptions. Print books represent around 40% of revenues. This part could be affected by lower orders and issues that may occur in the supply chain although at the time of writing, there are no indications of a severe downturn or issues occurring. Also, we see a potential impact on our ability to sell e-book and e-book packages in 2020, although this segment of the business has no physical dependency on the supply chain. It does however depend on the ability of our salesforce to meet with purchasing staff at academic institutions either in person or through digital means.

The second element in our ability to generate income is the continuation of the publishing flow and output of new materials to be sold. This depends on our author's continued ability to produce manuscripts and journal articles and on our staff and outsourcing partners to process them into publication-ready materials. As at 7 April, 2020 there is no indication of a significant bottleneck at authors, staff or outsourcing partners. However, this might change if the situation deteriorates caused by Covid. For example, if acquisition editors are not able to attend scholarly conferences anymore (these are an important channel for attracting new material).

Being a media company with digital work processes, the impact of staff working from home in the short-term is limited. Key logistical processes have been outsourced to parties who are currently still in operation. If the pandemic leads to loss of key staff due to illness or worse this may impact our long-term ability to attract, process and sell publications.

If a significant short-term loss of revenue occurs, Brill may not be able to reduce expenses to such an extent that a negative profit (result) can be avoided. This scenario may come in force in case of a revenue loss over 15%. In that case, Brill will be in breach of its debt covenants and contractually, Brill's long-term loan may become payable on demand. However, current conversations with our bank do not indicate that they intend to enforce the covenants under these circumstances. A significant loss of revenue may in the future require the group to revise key assumptions, estimates and judgements made in preparing these financial statements, such as the valuation of intangible assets under IAS 38, Expected Credit Loss on trade debtors under IFRS 9 and return provisions under IFRS 15.

As at 7 April, 2020 it is not possible to make a reliable estimate of the impact of the described events and conditions. Nevertheless, Brill has taken measures to warrant the continuity of the business.

These measures can be divided as follows:

1. Operational – expansion of possibilities for staff to work at home. Regular updates with key vendors on functioning of supply chain related processes;
2. Publishing – seeking alternatives to face to face meetings at conferences;
3. Financial – Brill is in conversation with its key bank in order to ensure continued liquidity in the event of a material impact on liquidity. Furthermore, Brill has taken measures to defer corporate income tax payments and is preparing a broad range of measures that are assistive in further conservation of liquidity which may include the use of facilities provided by governments in the Netherlands and abroad. Also, the developing events were taken in consideration in the determination of the dividend proposal that will be submitted to the AGM. Brill's key financial obligation exists of a long-term loan which amortizes in annual payments. As at 7 April, 2020 there are no indications that Brill will not be able to meet its annual obligations under the loan agreement. Cash is monitored on an ongoing basis in order to prevent unexpected cash outflows;
4. Commercial – Brill is identifying alternative opportunities for sales lead generation and follow up and is increasing social media activity as a measure to counter potential loss of sales.

As at 7 April, 2020, based on the facts and circumstances known at this moment and the possible scenarios about how the Covid-19 virus and resulting government measures could evolve, management has determined that the use of the going concern assumption is appropriate, but that Covid-19 arouses a material uncertainty that in the longer term may cast significant doubt upon the entity's ability to continue as a going concern.

Based on the circumstances described above, the financial statements are prepared on the assumption that the Group is a going concern.

Basis of consolidation

The consolidated financial statements contain the financial statements of Brill and its subsidiaries per 31 December, 2019. The financial statements of Brill's subsidiaries have been prepared for the same period as Brill's, using consistent standards of accounting. Note 23 to the consolidated financial statements contains information on Brill's subsidiaries.

24. Events after balance sheet date

The key significant matter prevailing over all other at the time of writing the report is the developing situation around Covid-19. An extensive description of the impact of the pandemic on Brill's business can be found in the continuity paragraph in the General Information.

In January 2020, Brill obtained, by participating in a capital issuance, a 2.4% stake in the French startup Jus Mundi. The company develops and markets a database on International Law.

25. Reconciliation of non-GAAP information

Brill's Management Board believes an understanding of the company's performance is enhanced by using several Non-GAAP measures, respectively EBITDA, ROIC and free cash flow. In this note these measures are reconciled to GAAP measures.

EBITDA

Brill uses the term EBITDA to evaluate the performance of the total company and the operating segments.

Reconciliation of Revenue and profit before tax		
	2019	2018
Revenue	37,128	35,951
Cost of goods sold	-11,206	-11,568
Selling and distribution costs	-7,366	-6,930
General and administrative expenses	-13,373	-13,830
EBITDA	5,183	3,623
Depreciation and Amortization	-1,806	-1,047
Restructuring costs	-85	-216
Operating profit	3,292	2,360

Return on invested capital (ROIC)

Koninklijke Brill NV uses the term ROIC to evaluate the performance of the total company. ROIC shows both our ability to generate profitable revenue as well as our ability to control the consolidated statement of financial position. Return on investment is calculated by dividing net operating profit less adjusted tax by average Invested capital.

	31-12-2019	31-12-2018
Reconciliation assets		
Fixed assets	35,631	33,186
Deferred tax liabilities	-3,583	-3,093
Current assets	15,842	15,721
Current liabilities	-21,156	-20,141
Net working capital	-5,314	-4,420
Short-term portion interest bearing loan included in current liabilities	1,083	1,083
Net tax	-1,110	-752
Net derivative financial instruments	5	235
Cash and cash equivalents	-1,788	-2,383
Invested Capital	24,924	23,856

In 2019, the calculation for 2018 was adjusted to correctly reflect the impact of our long-term loan. Fixed assets increased mostly due to the implementation of IFRS 16, adding Right of Use assets with a total value of EUR 1.9 million.



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Taxes paid	2019	2018
Corporation tax	1.6%	4.6%
Business rates	12.9%	11.5%
Land transaction tax	3.3%	6.3%
Employer NICs	20.6%	18.7%
Irrecoverable VAT and Customs duty	61.3%	58.8%
Other	0.3%	0.1%
Total taxes paid	£78.2m	£78.4m
Taxes collected	2019	2018
Employees NICs	23.6%	22.3%
PAYE	62.1%	61.2%
Net VAT	14.3%	15.4%
Other	–	1.1%
Total taxes collected	£44.9m	£41.9m

In 2019 our tax expense recognised in the income statement was £51.8 million (2018: £13.5 million). This primarily relates to the derecognition of the deferred tax asset for unused tax losses. This has no impact on our regulatory capital position. The derecognition reflects the impact on our short-term results of the investment announced as part of our strategy. Our effective tax rate for the year was (39.5%) (2018: 33.2%).

ADOPTION OF IFRS 16

On 1 January 2019 we adopted IFRS 16 'Leases'. This had the impact of bringing £313 million of RWAs onto our balance sheet. We implemented IFRS 16 in the most capital efficient manner, which meant there was no reduction to equity at the point of transition. IFRS 16 has the impact of front-loading charges in the first half of a lease compared to IAS 17 (the previous accounting standard under which they were measured). As our lease portfolio is relatively young, this will lead to increased charges in the income statement for the medium term.

 For more information on our implementation of IFRS 16 go to page 126

CAPITAL

We have maintained a robust capital position throughout 2019, supported by the £375 million equity capital raise in May 2019 and a slowdown in the pace of RWA growth, up 2% to £9.2 billion. Although the January 2019 adoption of IFRS 16 and RWA adjustment resulted in one-off capital impacts, our CET1 ratio remained above both our 12.0% minimum target and our 10.6% minimum regulatory requirement at 31 December 2019. Our 15.6% CET1 ratio and 18.3% total capital ratio demonstrate the strength of our capital position

and provide headroom for controlled growth and the delivery of our strategy.

Reconciliation	
Total capital ratio at 31 December 2018	15.9%
IFRS 16 adoption	(0.5%)
Annual operational risk increment	(0.3%)
Organic lending growth	(0.4%)
Profit and loss account	(0.7%)
Intangibles/other	(0.6%)
Asset disposals	1.0%
Equity raise	3.9%
Total capital ratio at 31 December 2019	18.3%
Senior unsecured debt (issued October 2019)	3.8%
Total capital plus MREL ratio at 31 December 2019	22.1%

The senior non-preferred debt issuance in October 2019 ensured compliance with our interim MREL requirement of 18% of RWAs plus 3.5% regulatory buffers, with the Bank closing 2019 with a total capital plus MREL ratio of 22.1%.

In March 2020, the BOE announced a package of measures in response to the economic shock posed by COVID-19. First, cutting the base rate to 0.1% to support business and consumer confidence. Secondly, introducing a new Term Funding Scheme with incentives to support lending to SMEs. Finally, reducing the countercyclical capital buffer ('CCyB') to 0% from 1%, that had been due to reach 2% by December 2020. The adjustment to CCyB reduces our minimum CET1 requirement to 9.6% and our interim total capital plus MREL requirement (including regulatory buffers) to 20.5%.

	2019 £'million	2018 £'million	Growth
CET1 capital	1,427	1,171	22%
Risk-weighted assets ('RWAs')	9,147	8,936	2%
CET1 ratio	15.6%	13.1%	
Total regulatory capital ratio	18.3%	15.9%	
Total regulatory capital plus MREL ratio	22.1%	n/a	
Regulatory leverage ratio	6.6%	5.4%	1.2pps
Leverage	8.3%	6.4%	0.9pps

 A reconciliation between our statutory balance sheet and our RWAs can be found on page 176

Further to the commitment made to the market in February 2019 to externally assure our RWAs, we are pleased to confirm that this undertaking is now complete and the Board has received a reasonable assurance opinion from PwC on the 2019 CET1 and total capital ratios. The relevant capital ratios are disclosed above.

The work we have undertaken, including significant investment of time and resources, supplemented with specialist advice and external assurance, allows us to demonstrate to the market that last year's RWA misreporting was taken seriously. On the basis of a materiality threshold of 35bps, meaning that a misstatement of the capital ratios of that level or greater would be considered material, we confirm that our capital ratios are materially correct.

LOOKING AHEAD

2019 has been a difficult year, due to both external headwinds as well as internal challenges. In order to face into these challenges we have developed a new strategy. This will see us focus on five key areas:

- Costs
- Revenue
- Infrastructure
- Balance sheet optimisation
- Internal and external communications

This will allow us to grow into our existing cost base as well as become more focused on delivering risk-adjusted returns and seek to deliver a greater than 8.5% statutory return on tangible equity ('RoTE') by 2024.

 For more information on our strategic priorities go to page 10

In late January 2020 the first incidence of the COVID-19 was reported in the UK. This is clearly a serious situation impacting not just the UK, but also the global economy. The position has been, and continues to be, rapidly evolving and difficult to predict with any certainty. It is not possible at this point to quantify the impact and no adjustment has been made. However, our immediate focus has been to support our colleagues and customers.

David Arden
Chief Financial Officer
16 April 2020

Risk report

The management of risk lies at the heart of everything we do. Our overall risk strategy is maintained by the CRO and approved by the Board. We have a set of risk management principles that must be followed across the Bank, and robust controls in place to ensure risk is managed effectively. Our risk strategy and Risk Management Framework are under continuous review.

We will continue to embed improved risk management, processes and procedures and will make further improvements over the course of 2020.

We set out to align our people, processes, and systems to the way we manage the risks inherent in our business activities. This supports management of the business in a safe and compliant way.

Our approach to risk management consists of:

- A robust compliance and control environment
- Fair and consistent customer treatment and outcomes
- Maintaining a strong risk culture, with the right expertise

OVERVIEW

We know that a culture that truly focuses on delivering our purpose of creating FANS will reduce the risk of customer harm as well as deliver consistently fair outcomes.

All colleagues are responsible for managing risk as part of their day-to-day role. Customer-facing colleagues are at the forefront of risk management, along with their line managers with oversight by the Risk team.

Our risk and control framework is designed to ensure that:

- all principal and emerging risks are identified, assessed, mitigated, monitored and reported;
- risk appetite is clearly articulated and policies aligned to it; appropriate processes, systems and controls are in place to support all colleagues in performance of their roles within risk appetite; and
- ongoing analysis of the environment in which we operate takes place to identify emerging risks and regulatory requirements.

Everything at Metro Bank starts with our culture, which supports risk awareness by encouraging every colleague to think about the relationship between their role and our purpose of creating FANS whilst growing safely and sustainably; and to be comfortable asking questions to ensure their actions do not result in financial loss, reputational damage or customer harm.

DEVELOPMENTS IN 2019

The announcement in January 2019 ('the RWA announcement') that we had adjusted the risk-weighting of certain commercial loans secured on commercial property and certain specialist buy-to-let loans, with the combined effect of increasing RWAs by £900 million, has had a substantial effect. In response, the Board established a Working Group, supported by a major professional services firm, to review and assess the issues and factors that led to them in more detail. The objective of the Working Group was to identify and assess root causes; and determine what short-term tactical solutions, as well as long-term strategic solutions, are required.

Over the course of 2019 we made a considerable investment in remediation activity to enhance regulatory reporting processes, systems and controls as well as enhancing the risk management framework more broadly (details of which are set out later in this report).

2019 also saw us complete an equity capital raise in the second quarter of the year. The intense speculation that preceded it resulted in a concentrated period of net reductions in deposits, reflected in total customer deposits closing the year at £14.5 billion. The reductions were concentrated in May 2019 and we demonstrated a return to net growth in the second half of the year. The adverse sentiment that the speculation created mostly impacted a limited number of larger commercial customers, with retail and small business customer deposits remaining resilient throughout the year.

In response to the reductions in deposits, we took actions to manage capital and liquidity positions with loan and treasury asset disposals, management of lending volumes and initiatives to regain momentum in deposit growth. Though not without its own challenges, the senior non-preferred debt issuance in October 2019 also further strengthened the total loss-absorbing capital position, whilst ensuring compliance with interim MREL requirements ahead of the 1 January 2020 deadline.

These challenges demonstrated the robustness of our risk management and mitigation approach as we were able to successfully manage these events. We have, however, learnt valuable lessons from these events and have put in place a programme of investment in risk infrastructure going forward to assist with this. This investment in our risk infrastructure is a key component of our refreshed strategy.

BOARD ROLE

The Board is responsible for setting strategy, corporate objectives and risk appetite. The strategy and risk appetite consider the interests of our customers, shareholders and other stakeholders. Each principal area of risk to which we are exposed has a Risk Appetite statement detailing the metrics by which we measure the level of risk we are prepared to accept. Depending on the risk measure, the maximum acceptable risk may be zero. On the advice of the Risk Oversight Committee ('ROC'), the Board approves the risk appetite for each principal risk category, whilst providing oversight to ensure there is an adequate framework in place for reporting and managing those risks. The Board has delegated responsibility for reviewing the effectiveness of this framework to the ROC.

The Board is also responsible for maintaining an appropriate control environment to manage risk effectively, and for ensuring that capital, liquidity and other resources are adequate to achieve our objectives within risk appetite.

INTERNAL CONTROLS FRAMEWORK

The Board has delegated responsibility for reviewing the effectiveness of the internal control framework to the Audit Committee. This committee monitors and considers the internal control environment, internal and external audits and risk assurance, and is assisted in its oversight role by our Internal Audit function. Internal Audit carries out both regular and ad-hoc reviews of risk management controls and procedures; and reports the results to the Audit Committee.

The Director of Internal Audit's reporting line is to the Chair of the Audit Committee, with a dotted line to the CEO, and therefore supports the function's independence. As part of their work in 2019, Internal Audit and the Audit Committee reviewed the commercial RWA controls enhancement programme.

CHIEF RISK OFFICER AND THE RISK FUNCTION

Our Chief Risk Officer ('CRO') leads the Risk function, which is independent from operational and commercial functions. The CRO is responsible for ensuring that appropriate risk management processes, policies and controls are in place, that they are sufficiently robust, that key risks are identified, assessed, monitored and mitigated, and that we are operating within our risk appetite.

The Risk team provides specialist knowledge and support to colleagues, acting as a reference point for advisory queries, whilst also overseeing colleagues and the risk management and controls in place. It operates themed, targeted and ad-hoc reviews to provide assurance to the leadership team, and ultimately to the Board, that risks are properly managed, controls are effective, and that we are not exceeding our risk appetite.

We have invested and will continue to invest in risk management to ensure that the risk function can continue to provide independent assurance to the ROC, Board and other stakeholders that risks in the Bank are being appropriately controlled and managed. During 2019 and early 2020 we have strengthened our risk senior leadership team with the addition of two new senior roles reporting to the CRO: a Director of Prudential Risk and a Risk Chief Operating Officer. We have also made a series of experienced hires across all lines of defence to boost the strength in depth of risk management capability, and enable the transfer of best practice knowledge across the Bank.

As part of our Strategy and Long Term Plan we have allocated additional investment to support delivery of key initiatives to enhance risk management capability, systems and infrastructure.

RISK MANAGEMENT POLICIES

We have established risk management policies to identify and analyse key risks, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Risk team regularly reviews these policies and controls to verify compliance and to reflect changes in market conditions and business activities. Policies have annual or biennial review, depending on materiality, with a schedule maintained and presented at every ROC meeting to ensure reviews are tracked. We use training and management standards and procedures to develop a robust and effective control environment – one where all colleagues understand their roles and obligations.

Viability statement

Assessment of prospects and viability

In accordance with provision 31 of the revised UK Corporate Governance Code, the Board has assessed the prospects of the Company and Group over a longer period than the 12 months that has in practice been the focus of the 'going concern' provision.

The Directors have chosen to assess prospects and viability over a four year period. This compares to a five year time horizon over which the Group forecasts for financial and business planning purposes and which the strategic targets and guidance have been issued on page 11 cover. A shorter period is deemed appropriate for assessing viability as it is the period over which the financial forecasts have greater certainty.

Planning process

The Group's planning process includes an annual update to its forecast. This forecast is built to reflect the Group's business model which is outlined on pages 6 and 7.

The forecast takes account of the Group's strategy, risk appetite and objectives in the context of its operating environment including actual and reasonably expected changes in the UK interest rate and broader economic environment. It also incorporates the Group's new strategic priorities and long term plans, further details of which can be found on pages 10 and 11.

This forecast, including the assumptions used, is subject to rigorous review and challenge both from within the business and by the Board. The planning process is supported by a stress testing framework which assesses the base forecast to ensure the Group maintains a robust capital, liquidity and funding position in the event of stress by subjecting the base forecast to appropriate downside stress and sensitivity analysis over the assessment period. This takes into account the Group's current position, its experience of managing change and the impact of a number of severe yet plausible scenarios, based on the risks outlined in the risk factors and management section of this report.

Both the base case and stressed forecast plans are reviewed against the Group's risk appetite which is outlined on pages 22 to 37. This includes ensuring that the risk mitigants available to the Group (also detailed on pages 22 to 37) remain appropriate.

Assumptions

Key assumptions in the Group's base forecast include lending mix and growth, customer account and deposit growth, the Group's ability to achieve its cost saving plans, as well as anticipated liquidity requirements and projections. The Group has also assumed significant investment to achieve these goals, and that it will remain appropriately capitalised.

As highlighted on page 11, the Group reasonably expects to raise qualifying debt over the forecast period to fund anticipated growth and to continue to meet regulatory requirements. This comprises debt to meet requirements for own funds and eligible liabilities ('MREL'), which may require changes to the organisational structure of the Group, as well as various regulatory approvals.

These assumptions have been re-evaluated in respect of the emerging risks outlined below and the Board considers that these remain reasonable.

Emerging risks

In reaching their assessment of viability the Directors have considered emerging risks and these are reflected in the stress tests performed. This includes the UK's departure from the EU.

The Board has also considered the impact of the current and rapidly evolving situation surrounding the COVID-19 pandemic as well as the associated government and regulatory fiscal, monetary and other actions, as taken within the UK and internationally, on both the Group's prospects and viability. This includes the reduction in the base rate to 0.10% (from 0.75%) and government schemes to support British households and businesses.

As the situation surrounding COVID-19 arose after the Group had completed its planning process, additional work has been undertaken to examine the potential impact. This included a review of the economic assumptions used within the stress tests previously performed based on severe yet plausible scenarios.

In particular, the Group had previously undertaken a comprehensive severe stress on its expected credit losses, capturing a significant deterioration in customers' ability to pay. The current situation is uncertain but it is reasonably expected that this assessment is more severe than the economic impact widely commented upon in the market regarding COVID-19. While the response to COVID-19 has featured low interest rates and substantial announced government intervention, both of which are expected to support continued repayment, and the Group benefits from relatively low exposure to unsecured lending and a conservative debt to value profile, it is nonetheless reasonable to expect the economic situation to have a significant adverse impact on credit quality and collateral values.

In reaching their conclusions, as well as the modelling outlined above, the Directors have also considered many other factors. These include, but are not limited to:

- The Group's conservative approach to credit risk – further details of which can be found in the risk report on pages 22 to 26;
- The Group's robust capital position – TCR plus MREL ratio as at 31 December 2019 of 22.1%;
- The Group's strong liquidity position – LCR as at 31 December 2019 of 197% – and access to the BOE's liquidity support schemes;
- A declining loan to deposit ratio from 2019 highs – LTD ratio at 31 December 2019 of 101%; and
- The fact the Group has continued to operate effectively to date, as has its key suppliers, and that it is well prepared should the situation worsen.

The Directors are also assured that there are further levers available to the Group should the situation evolve with greater severity than modelled. This includes as a result of non-credit related impacts to the Group's profitability, liquidity and capital position arising from COVID-19.

Further details of the Group's emerging risks can be found on pages 37 to 39. As the situation evolves the Group will continue to update and refine its models to reflect the most up to date information.

Conclusion

Based on the assessment completed, the Directors have a reasonable expectation that the Company and Group will be able to continue in operation and meet their liabilities as they fall due over the period of the assessment.

Risk report

continued

2. Operational risk continued

Monthly Business Risk Committees are the business governance forums used to escalate risks and issues that are outside of appetite to the ERC and the ROC. Monitoring and oversight, along with compliance to policy, is provided on an ongoing basis by the Operational Risk Oversight team.

Targeted deep dive, thematic and desktop operational risk reviews are completed as part of an annual assurance plan completed by the Risk and Compliance Assurance team.

3. Liquidity and funding risk

Definition

Liquidity risk is the risk that future financial obligations are not met or future asset growth cannot occur because of an inability to obtain funds at a reasonable price within a reasonable time.

We consider liquidity and funding risk to have increased year on year due to observed adverse movements in deposits and liquidity throughout the year, and the enhanced rates required to raise debt and deposits during 2019.



Change since 2018:
Increase



Link to business model:
Diversified low-cost deposits

 For more information on our business model please see pages 6 to 9

APPETITE

Our liquidity risk appetite is based on the principle that we will ensure we maintain liquidity resources which are sufficient, both as to amount and quality, to ensure that liabilities can be met as they fall due; and to ensure that we maintain a prudent funding profile, appropriately diversified within the context of a deposit-led bank. Our approach is to ensure that we can both meet payments as they fall due and support asset growth in line with plan, in both normal conditions and in the event of a liquidity stress, and that we can survive a severe liquidity stress event and continue as a going concern.

CHANGE IN YEAR

Liquidity and funding risk has increased during the year owing to deposit outflows experienced prior to our equity capital raise, increased competition in the deposit market, and higher volatility of large commercial deposits. Additionally, in 2020 we expect the impact of COVID-19 to have a negative effect, however given the inherent uncertainty over the length and scale of the pandemic it is too early to fully evaluate the impact of the situation.

MITIGATION

Deposit-funded approach

Our mid-term guidance as set out on page 11 underlines our approach of having a long-term loan-to-deposit ratio of less than 100%. Our retail deposit-led approach means we do not currently have reliance on wholesale funding to enable our ongoing lending.

We aim to attract deposits that are diverse and are low cost, which are less sensitive to competition within the deposit market. At 31 December 2019 40% of our deposits came from commercial customers (31 December 2018: 53%) with the remaining 60% (31 December 2018: 47%) coming from retail customers. Additionally, 29% of deposits at year end (31 December 2018: 30%) were in the form of current accounts, with the remainder split between a combination of instant access and fixed-term savings products. In 2019 our cost of deposits was 0.78% (2018: 0.61%).

Despite large adverse movements in deposits during short periods of the year, our deposit base at year end is stable and resilient, and retail deposits form a higher portion of our balance sheet than commercial deposits.

Liquidity management

We aim to hold a prudent level of liquidity to cover unexpected outflows, ensuring that we are able to meet financial commitments for an extended period. We recognise the potential difficulties in monetising certain assets, so set higher-quality targets for liquid assets for the earlier part of a stress period. We have assessed the level of liquidity necessary to cover both systemic and idiosyncratic risks and maintain an appropriate liquidity buffer at all times. Our Liquidity Coverage Ratio ('LCR') ensures that we comply with our own risk appetite as well as regulatory requirements.

Our liquidity portfolio consists of cash and balances at the BOE as well as high-quality liquid assets ('HQLAs') that are available to monetise in the event of stress.

The tables below set out the maturity structure of our financial assets and liabilities by their earliest possible contractual maturity date; this differs from the behavioural maturity characteristics in both normal and stressed conditions. The behavioural maturity of customer deposits is much longer than their contractual maturity. On a contractual basis these are repayable on demand or at short notice, however in reality are static in nature and provide long-term stable funding for our operations and liquidity. Equally, our loans and advances to customers, specifically mortgages, are lent on longer contractual terms, however are often redeemed or remortgaged earlier.

4. Market risk

Definition

Market risk is the risk that earnings or the economic value of equity will underperform due to changes in interest rates, foreign exchange rates, or other financial market asset prices. Our ability to manage market risks contributes to our overall capital management.

 For more information on our business model please see pages 6 to 9



Change since 2018:
No change



Link to business model:
Low-risk diversified lending

APPETITE

As maturity transformation is one of the primary roles of a bank, we are exposed to interest rate risk by many of our activities. Our Market Risk Policy is set with a view to ensuring that our funding resources are invested in assets that satisfy our earnings risk and economic value risk appetites.

CHANGE IN YEAR

There have been no changes to the risk level during 2019. Market volatility has increased during the start of 2020, driven by global economic uncertainty resulting from the COVID-19 pandemic.

MITIGATION

Interest rate risk

We benefit from natural offsetting between certain assets and liabilities, which may be based on both contractual and behavioural characteristics of these positions. Where natural hedging is insufficient we hedge net interest rate risk exposures appropriately, including, where necessary, with the use of interest rate derivatives. We enter into derivatives only for hedging purposes and not as part of customer transactions or for speculative purposes.

Our Treasury and Treasury Risk teams work closely together and ensure that risks are managed appropriately – and that we're well positioned to avoid losses outside our appetite, in the event of unexpected market moves.

Foreign exchange exposure

We have very limited exposure to foreign exchange risk. Foreign exchange assets and liabilities are matched off closely in each of the currencies we operate and less than 5% of our assets and liabilities are in currencies other than pounds sterling. We do not have any operations outside the United Kingdom. We offer currency accounts and foreign exchange facilities to facilitate customer requirements but do not perform speculative trading activities.

We have hedge accounting solutions in place to reduce the volatility in the income statement arising from these hedging activities.

Treasury management

We are mindful of upcoming regulatory changes, as we shape the investment portfolio in 2020 and beyond – and are working to reduce the proportion of our assets that are ineligible for a ring-fenced entity. Natural roll-off of ineligible assets is expected to continue, and we will cease to acquire assets which a ring-fenced entity may not hold.

MEASUREMENT

We measure interest rate risk exposure using methods including:

- economic value sensitivity: calculating repricing mismatches across our assets and liabilities and then evaluating the change in value arising from a change in the yield curve. Our risk appetite scenario is based on a parallel rate movement of 2% to all interest rates, but we evaluate based on a series of other parallel and non-parallel rate changes. The scenarios are designed to replicate severe but plausible economic events and to have regard to risks which would not be evident through the use of parallel shocks alone.
- interest income sensitivity: the impact on 12-month future income arising from various interest rate shifts. Our risk appetite scenarios are based on parallel rate movements of 2% and of divergences of up to 1.15% between BOE base rate and LIBOR against a constant balance sheet. We also evaluate a series of other parallel, non-parallel and non-instantaneous rate changes.
- interest rate gaps: calculating the net difference between total assets and total liabilities across a range of time buckets.

The frequency of calculating and reporting each measure varies from daily to quarterly appropriate to each risk type.

We use an integrated ALM system which consolidates all our positions and enables the measurement and management of interest rate repricing profiles for the entire Bank. The model takes into account behavioural assumptions as specified in our Market Risk Policy. Material assumptions can be updated more frequently at the request of business areas, in response to changing market conditions or customer behaviours. The model also takes into account future contracted or expected growth in lending and deposits.

We measure and monitor our exposures to foreign exchange risk daily and do not maintain net exposures overnight in any currency other than pounds sterling, above 5% of our total assets and liabilities.

Risk report

continued

In addition to our principal risks, we monitor other potentially significant or emerging risks

Emerging risks

CREDIT CYCLE/CYCLICAL RISK

The credit cycle is the expansion and contraction of access to credit over time. Credit cycle risk is the risk of our customers not being able to access credit in adequate quantities when required, causing pressure on their cash flow and ability to meet credit obligations when due.

Cycle risk is systemic, affecting a number of providers of finance, but also idiosyncratic, affecting specific individuals, businesses and sectors. It typically does not have a tangible measure.

Credit cycles tend to drive the economic cycle which, over a period of time, has four distinct stages.

- Economic growth when credit is readily available
- Cycle peak when credit availability exceeds the underlying market demand causing over-gearing
- Economic contraction when credit availability is restricted
- Cycle trough when credit is severely restricted, preventing economic growth

It is widely accepted in the absence of a more direct measure that the impact of credit cycle risk is instead reflected in the value of real estate assets.

Management and mitigation are achieved through our robust lending policies ensuring appropriate customer gearing levels are maintained throughout the credit cycle. Additionally, the performance of individual exposures and the quality of supporting real estate assets and other tangible assets are monitored regularly.

Portfolio monitoring and analysis are governed by a set of credit risk appetite metrics measuring key areas such as performance and sector concentrations. Portfolio monitoring reports are provided monthly for review and challenge at senior management and Board level.

COVID-19 PANDEMIC

Given the inherent uncertainty over the length and scale of the pandemic it is too early to fully evaluate the impact of the situation. The short term economic disruption, and potential for longer term economic slowdown, will result in a deterioration in credit risk profile and higher than expected credit risk impairments. Additionally the situation has the potential to increase both the likelihood and impact of our other key risks including operational, market and funding and liquidity risks although there has been no immediate significant increase in our risk exposure in these areas. Our mitigation approach to all our key risks is outlined through pages 22 to 37 and these mitigants will support the Bank in managing the effects of the pandemic.

We continue to focus on supporting our colleagues and customers through this period and the initiatives we have introduced, including providing temporary forbearance as well as participation in other Government support measures, should also assist in reducing the potential impacts.

CYBER RISK

Cyber risk management continues to be an area of key focus. We aim to maintain robust cyber security systems and control measures, and seek a low level of risk in both of these areas.

To mitigate the risk we combine traditional information security controls with a cyber intelligence capability, and a proactive partnership with law enforcement.

We continue to develop and embed our approach to managing cyber risk across the Bank, learning from intelligence sources and industry peers to identify new and emerging cyber risks. We use a combination of automated tooling metrics with intelligence-led insight to manage our cyber risk profile, enabling us to stay ahead of the continuously evolving threat of cyber threats in order to protect our customers and the Bank.

Notes to the financial statements

continued

36. Earnings per share continued

Diluted EPS has been calculated by dividing the (loss)/profit attributable to ordinary equity holders of Metro Bank by the weighted average number of ordinary shares in issue during the year plus the weighted average number of ordinary shares that would be issued on the conversion to shares of options granted to colleagues. As we made a loss during the year to 31 December 2019, the share options would be antidilutive, as they would reduce the loss per share. Therefore, all the outstanding options have been disregarded in the calculation of dilutive EPS.

	2019	2018
(Loss)/profit attributable to ordinary equity holders of Metro Bank (£'million)	(182.6)	27.1
Weighted average number of ordinary shares in issue – diluted ('000)	147,420	95,853
Diluted (loss)/earnings per share (pence)	(123.9)	28.2

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these financial statements which would require the restatement of EPS.

37. Investment in subsidiaries

Accounting policy

We apply the acquisition method to account for business combinations. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Inter-Company transactions and balances are eliminated upon consolidation. All subsidiaries follow the same accounting policies as the Group.

The Group had the following subsidiaries at 31 December 2019:

Name	Country of incorporation and place of business	Nature of business	Proportion of ordinary shares directly held by the Parent (%)	Proportion of ordinary shares directly held by the Group (%)
SME Invoice Finance Limited	UK	Invoice financing and factoring	100	–
SME Asset Finance Limited	UK	Asset finance	–	100
RDM Factors Limited	UK	Dormant	–	100

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the Company do not differ from the proportion of ordinary shares held.

Transactions between the Company and Group subsidiaries

	2019 £'million	2018 £'million
Interest on inter-Company loan with SME Asset/Invoice Finance	7.4	6.1
Amounts outstanding as at 31 December owed by SME Asset/Invoice Finance	291	305

The expected credit loss recognised within the Company's financial statements in respect of the inter-Company loan facility is less than £0.1 million (31 December 2018: less than £0.1 million).

Details of the registered offices of all our Group companies can be found on page 180.

38. Post balance sheet events

Capability and Innovation fund

Following changes to our strategy, a revised business case was submitted to BCR in respect of the £120 million grant it previously awarded us as part of the Capability and Innovation Fund (part of the RBS alternative remedies package). The proposal we put forward was accepted by BCR on 25 February 2020, as part of which our public commitments were amended. As part of this it was agreed that £50 million of the grant would be returned to BCR. The approval of the new proposal by the Board and its acceptance by BCR post year end is considered an adjusting event and, as such, the £50 million to be repaid is classified within other liabilities as at 31 December 2019. All of the sums recognised to date, either in the income statement or offset against capital expenditure, are still components of the revised commitments and, as such, no adjustments to these amounts have been made.

COVID-19

In late January 2020 the first incident of the coronavirus (COVID-19) was reported in the UK. This is clearly a serious situation impacting not just the UK, but also the global economy. The position has been, and continues to be, rapidly evolving and difficult to predict with any certainty. We do not consider COVID-19 to be an adjusting event and as such any impacts are not reflected within these financial statements. At present it is not possible to fully quantify the impact COVID-19 will have. Our focus has and will be to continue to support our colleagues and customers during this period. As part of this we have temporarily waived overdraft fees for personal current account customers, offered payment holidays to customers who need them and supported colleagues with flexible working arrangements.

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Notes to the consolidated financial statements

General

Koninklijke Luchtvaart Maatschappij N.V. (the "Company" or "the Group") is a public limited liability company incorporated and domiciled in The Netherlands. The Company's registered office is located in Amstelveen.

The Company is a subsidiary of AIR FRANCE KLM S.A. ("AIR FRANCE KLM"), a company incorporated in France. The Company financial statements are included in the financial statements of AIR FRANCE KLM which can be obtained from the AIR FRANCE KLM Financial communication department. AIR FRANCE KLM's shares are quoted on the Paris and Amsterdam stock exchanges.

These financial statements have been authorised for issue by the Board of Managing Directors on April 8, 2020 and will be submitted for approval to the Annual General Meeting (AGM) of shareholders on April 23, 2020.

Subsequent events and going concern

COVID-19 impact and uncertainties

The worldwide spreading of COVID-19 in the first quarter of 2020 has had and continues to have a major impact on air traffic around the world. Many countries have taken increasingly stringent measures in an attempt to slow the expansion rate of the epidemic. Some countries have imposed constraints on the movement of travellers from the Netherlands or, more broadly from Europe. Consequently, air traffic to most of KLM's destinations will be significantly reduced for a period of time to some 20 to 10 per cent of normal traffic levels. KLM's financial performance for at least 2020 will be affected severely by a loss of revenue, sales of tickets and significant negative cash flows to an extent and for a duration that are currently uncertain.

As at the date of this Annual Report, the crisis is still evolving, bringing many uncertainties, which makes it impossible to predict the scale of impact of the COVID-19 crisis on KLM and its future including our operations, financial performance and liquidity. Various scenarios are possible with no consensus on how the recovery will actually evolve, when the direct impact will end and how the economy will recover.

Our scenario

From the start of the COVID-19 crisis, the KLM Group has been monitoring its evolution by the hour and implemented measures to protect its passengers and staff, as well as to limit the impact of the virus on its profitability and to preserve its financial sustainability. In the course of the developments, decisions were necessary to reduce our flight schedule, currently by drastic proportions.

The KLM Group has already taken a number of strong measures and continues to closely monitor and evaluate further developments. Our actions include, amongst others, secure cash, save cost, reassessing capital expenditures, identifying additional financing opportunities, delaying payment of the employee's profit sharing scheme and of variable income for part of the employee's, application for the 'Temporary Emergency Bridging Measure for Sustained Employment' (NOW), delaying internal projects in order to meet ongoing commitments during the COVID-19 crisis.

Based on our current best estimates KLM developed a scenario analysis and projected the related cash flows. The current projections include the following main assumptions: (i) the actual flight operations will be a fraction of planned operations for the coming three months with gradual recovery to normal traffic levels previously projected; (ii) as a liquidity shortage is projected in the course of the third quarter of 2020, we assume we will be successful in obtaining sufficient additional long term debt financing to cover, at a minimum, our forecasted 12 months of substantial cash flow needs; (iii) we will be successful in significantly reducing our cost base and participate in, and obtain support from, the government, based on initiatives such as NOW and tax relief payments; and (iv) decisions to extend payment terms for suppliers and to effectively manage our customers refund requests and other creditors.

Process to obtain additional funding needs

Within the Netherlands, the government is demonstrating strong support and commitment to help KLM and other companies to face the challenges. We started the process (in conjunction with AIR FRANCE KLM) of negotiating debt funding from financial institutions, with guarantees from the Dutch government, and direct debt and/or equity funding by the Dutch government, under the European Commission's temporary framework for state aid, recently put in place, to ensure adequate liquidity levels and balance sheet for the coming two years.

At this stage it is unclear what the additional funding terms and conditions will be, if and when the funding will be approved by the financial institutions, Dutch government and the European Commission and whether it will be sufficient for all possible scenarios. Further debt and/or equity funding may be required at a later stage and therefore we are in ongoing conversations with AIR FRANCE KLM and the Dutch government.

Uncertainties and going concern assumption

Whilst the impact is material in the coming months and, at this time a clear determination and evaluation of all possible scenario's, of the full impact for the next 12 months as of the signing date of this Annual Report, cannot be made, and therefore a material uncertainty exists in relation to the financial impact of the COVID-19 crisis and outcome of the process to obtain additional funding. Consequently, this may cause significant doubt on the KLM Group's ability to continue as a going concern.

However, these financial statements have been prepared on the going concern assumption. Based on our available liquidity, including full utilisation of the revolving facility of EUR 665 million which was received on March 19, 2020, whereby the related debt covenants may trigger mandatory repayment in December 2020 requiring a waiver or re-negotiations with the related financial institutions, the ongoing negotiations and successful closure of the anticipated additional debt funding and our current cash flow projections, management believes that KLM will be able to continue to fulfill its financial obligations and as such continue on going concern basis.

Basis of presentation

The consolidated financial statements have been prepared in conformity with International Financial Reporting Standards adopted by the European Union (EU-IFRS) and effective at the reporting date December 31, 2019. The consolidated financial statements have also been prepared in accordance with Section 362(9) of Book 2 of the Dutch Civil Code. As permitted by Section 402 of Book 2 of the Dutch Civil Code the Company statement of profit or loss has been presented in condensed form.

All amounts (unless specified otherwise) are stated in millions of Euros (EUR million).

Significant accounting policies

The consolidated financial statements are prepared on historical cost basis unless stated otherwise. The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented in these financial statements, unless stated otherwise.

Restatement of 2018 financial statements

Since January 1, 2019, the Company and its subsidiaries (the "Group") have applied the two following changes:

» Customer compensation

On September 17, 2019 the IFRS Interpretations Committee published a clarification of IFRS 15 concerning compensation for delays or cancellations. Obligations to compensate customers for delayed or cancelled flights

Business segments

The activities of each segment are as follows:

» Network

Includes air transport of passengers and cargo activities:

» Passenger main activity is the transportation of passengers on scheduled flights that have the Company's airline code. Passenger revenues include receipts from passengers for excess baggage and inflight sales. Other passenger revenues are derived from commissions from SkyTeam alliance partnership arrangements and revenues from block-seat sales; and

» Cargo activities relate to the transportation of freight on flights under the Company's code and the sale of cargo capacity to third parties.

» Maintenance

Maintenance revenues are generated through maintenance services (engine services, component services and airframe maintenance) provided to other airlines and clients around the world.

» Leisure

This segment covers primarily the provision of charter flights and (low-cost) scheduled flights operated by transavia.com.

» Other

This segment covers primarily catering and handling services to third-party airlines and clients around the world.

Geographical segments

Revenues are allocated to geographical segments on the basis of destination as follows:

» Direct flights: Revenue is allocated to the geographical segment in which the destination falls; and

» Flights with stopovers: Revenue is allocated to the geographical segments in which the various sections of the route fall in accordance with IATA guidelines (based on weighted Passenger-kilometers).

The greater part of the Group's assets comprises aircraft and other assets that are located in The Netherlands. Inter-segment revenues are determined using the prices actually used for invoicing. These prices have been determined on a consistent basis.

Distinction between income from current operations and income from operating activities

The Group considers it relevant to the understanding of its financial performance to present on the face of the statement of profit or loss a subtotal within the income from operating activities. This subtotal, named "Income from current operations", excludes those elements that have less predictive value due to their nature, frequency and/or materiality. Such elements are as follows:

- » Sales of aircraft equipment and disposals of other assets;
- » Income from the disposal of subsidiaries and affiliates;
- » Restructuring costs when they are significant;

- » Significant and infrequent elements such as the recognition of goodwill in the statement of profit or loss, the recording of an impairment loss on goodwill and significant provisions for litigation.

Aggregates used within the framework of financial communication

EBITDA (Earnings Before Interests, Taxes, Depreciation, Amortisation and movements in provision): by extracting the main line of the statement of profit or loss which does not involve cash disbursement ("Amortisation, depreciation and movements in provision") from income from current operations, EBITDA provides a simple indicator of the Group's cash generation on operational activities.

Operating free cash flow corresponds to the net cash flow from operating activities net of purchase of (prepayments in) aircraft, property plant and equipment and intangible assets less the proceeds on the disposal of aircraft, property plant and equipment and intangible assets. It does not include the other cash flows linked to investment operations, particularly investments in subsidiaries and other financial assets and net cash flow from the operating activities of discontinued operations.

Operating free cash flow adjusted: this corresponds to operating free cash flow net of the repayment of lease debts.

Near cash: corresponds to financial assets that can be transferred to cash on short notice. Includes bonds, long-term deposits and commercial paper with an original maturity of 3-12 months.

Other information

Independent Auditors' Report

To: the General Meeting of Shareholders and the Supervisory Board of KLM Royal Dutch Airlines ('Koninklijke Luchtvaart Maatschappij N.V.')

Report on the audit of the financial statements 2019 included in the annual report

Our opinion

In our opinion:

- » the accompanying consolidated financial statements give a true and fair view of the financial position of KLM Royal Dutch Airlines as at December 31, 2019 and of its result and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union ('EU-IFRS') and with Part 9 of Book 2 of the Dutch Civil Code.
- » the accompanying company financial statements give a true and fair view of the financial position of KLM Royal Dutch Airlines as at December 31, 2019 and of its result for 2019 then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the financial statements 2019 of KLM Royal Dutch Airlines ('the Company') based in Amstelveen. The financial statements include the consolidated financial statements and the company financial statements.

The consolidated financial statements comprise:

1. the consolidated balance sheet as at December 31, 2019;
2. the following consolidated statements for 2019: the statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows; and
3. the notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

1. the company balance sheet as December 31, 2019;
2. the company statement of profit or loss for 2019; and
3. the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of KLM Royal Dutch Airlines in accordance with the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to the subsequent events and going concern paragraphs in the notes to the consolidated and company financial statements which indicate that the Company is severely impacted by the worldwide spreading of COVID-19 and the stringent measures taken by many countries which has major impact on air traffic around the world. The main uncertainties relate to the financial impact of the COVID-19 crisis and outcome of the process to obtain additional funding. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

The appropriateness of the going concern assumption depends on management's assessment of the future economic environment and the company's future prospects and performance. Our procedures to assess the appropriateness of management's assessment primarily consisted of:

- » challenge and evaluation of the aforementioned management's assessment;
- » discussion with management to evaluate its plans for future actions and whether management's plans are feasible in the circumstances;
- » evaluation of management's cash flow forecast, including the underlying data and assumptions, as a basis for the

requested debt funding from financial institutions and the Dutch Government;

- » obtaining and inspecting reports of regulatory bodies relating to restricting air traffic and application of vouchers for cancelled flights;
- » corroboration with and evaluating statements made by representatives of certain financial institutions and government officials;
- » analysing and assessing the Company's latest available interim financial information.

Furthermore, we have evaluated the situation and uncertainties as described in the aforementioned disclosure and consider the disclosure to be adequate. However, an audit cannot predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to the impact of COVID-19.

Audit approach

Summary

Materiality

- Materiality of EUR 60 million
- 0.5% of revenue

Group audit

- 96% of revenue
- 96% of total assets

Key audit matters

- Revenue recognition for issued but unused passenger tickets
- Provisions for litigation and contingent liabilities

Opinion

- Unqualified

Materiality

Based on our professional judgment we determined the materiality for the financial statements as a whole at EUR 60 million (2018: EUR 50 million). The materiality is primarily determined with reference to revenue (0.5%). We consider revenue as the most appropriate benchmark because of the volatility of the profit before tax. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of EUR 3 million which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

KLM Royal Dutch Airlines is the head of a group of components and has as its principal business segments: network activities, which include air transport of passengers and cargo, aircraft maintenance, leisure and any other activities linked to air transport. The financial information of this group is included in the financial statements of KLM Royal Dutch Airlines.

In establishing the overall group audit strategy and plan, we determined the type of work that needed to be performed at the components by the component auditors working under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components.

Our group audit mainly focused on the components that are (i) of individual financial significance to the group, or (ii) that, due to their specific nature or circumstances, are likely to include significant risks of material misstatement of the group financial statements. We have considered in this respect, amongst others, the Company's business volatility and its internal and external environment.

We have:

- » performed audit procedures ourselves in respect of areas such as the group consolidation, financial statements disclosures and topics related to litigations and claims, the group's tax position, intangible assets, property, plant and equipment and external expenses;
- » selected 9 components (2018: 9 components) to perform audits for group reporting purposes on a complete set of financial information as well as 6 components (2018: 6 components) to perform audit procedures for group reporting purposes on selected account balances. The group audit team provided detailed instructions to all component auditors who were part of the group audit, covering the significant audit areas, including the relevant risks of material misstatement, and set out the information required to be reported back to the group audit team. For all components in scope of the group audit, we held physical meetings with the auditors of the components. During these visits the audit approach, the findings and observations reported to the group audit team were discussed in more detail. Also file reviews were performed for most of these components; and
- » performed analytical procedures on components not in scope for audit procedures to validate our assessment that there are no significant risks of material misstatement within these components.

By performing the procedures mentioned above at group components, together with additional procedures at group level, we have been able to obtain sufficient and

appropriate audit evidence about the group's financial information to provide an opinion about the financial statements.

The audit coverage as stated in the section 'Summary' can be further specified as follows:

Total revenues

96%

Audit of the complete reporting package

0%

Audit of specific items

Total assets

77%

Audit of the complete reporting package

19%

Audit of specific items

Audit scope in relation to fraud

In accordance with the Dutch standards on auditing we are responsible for obtaining a high (but not absolute) level of assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

As part of our risk assessment process we have evaluated events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud ('fraud risk factors') to determine whether fraud risks are relevant to our audit. We have exercised professional judgement and have maintained professional scepticism throughout our audit in identifying and assessing the risks of material misstatement of the financial statements due to fraud.

We communicated identified fraud risks throughout our team and remained alert to any indications of fraud throughout the audit. This also included communication from the group to component auditors of relevant fraud risks identified at group level.

In accordance with the auditing standard we evaluated the fraud risks that are relevant to our audit:

- » fraud risk in relation to the revenue recognition specifically focused on issued but unused passenger tickets as explained in the related key audit matter; and
- » fraud risk in relation to management override of controls.

We performed the relevant procedures as required by the Dutch auditing standards and our audit procedures included:

- » inquiries of management, those charged with governance and others within the Company notably legal counsel, internal audit and other senior officers regarding their process for identifying and responding to the risk of fraud, the internal communication regarding their views on business practices and ethical behaviour and whether they have knowledge of any actual, suspected or alleged fraud affecting the Company;
- » obtaining an understanding based on inquiries and inspection of minutes of relevant meetings, for example of the Fraud Management Table, and reports of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the Company and the internal control that management has established to mitigate these risks;
- » evaluating whether unusual or unexpected relationships have been identified in performing analytical procedures, including those related to revenue accounts, that may indicate risks of material misstatement due to fraud;
- » an evaluation of the design, implementation as well as the operating effectiveness of certain internal controls relevant to mitigate these risks;
- » inspected the incident register, which includes whistle blowing reports, and follow up by management;
- » tested the appropriateness of high risk journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; and
- » evaluated whether the judgments and decisions made by management in making certain accounting estimates included in the financial statements indicate a possible bias that may represent a risk of material misstatement due to fraud. Reference is also made to the key audit matter regarding revenue recognition.

In determining the audit procedures we made use of the Company's evaluation in relation to fraud risk management (prevention, detections and response), including the set-up of ethical standards.

We communicated our risk assessment and audit response to management and the Audit Committee of the Supervisory Board. Our audit procedures differ from a specific forensic fraud investigation, which investigation often has a more in-depth character.

Audit scope in relation to non-compliance with laws and regulations

We have evaluated facts and circumstances in order to assess laws and regulation relevant to the Company. We identified laws and regulations that could reasonably be expected to have a material effect on the financial statements based on our general understanding and sector experience, through discussion with relevant management and those charged with governance (as required by auditing standards) and evaluated the policies and procedures regarding compliance with laws and regulations.

Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the auditing standards. Ordinarily, the further removed non-compliance is from the events and transactions reflected in the financial statements, the less likely the auditor is to become aware of it or to recognise the non compliance.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to component auditors of relevant laws and regulations identified at group level. The potential effect of these laws and regulations on the financial statements varies considerably:

- » the Company is subject to laws and regulations that directly affect the financial statements including taxation and financial reporting. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.
- » the Company is subject to many other laws and regulations where the consequences of non-compliance could have an indirect material effect on amounts recognised or disclosures provided in the financial statements, or both, for instance through the imposition of fines or litigation.

We identified the following areas as those most likely to have such an indirect effect: Trade sanctions and export controls sanctions regulation, Anti-bribery and corruption regulation, Anti-competition regulation and Data Privacy regulation.

Auditing standards limit the required audit procedures to identify non-compliance with laws and regulations that have an indirect effect to inquiry of relevant management and inspection of regulatory and legal correspondence, if any. Through these procedures, we did not identify any additional actual or suspected non-compliance other than those previously identified by the Company in each of the above areas. We considered the effect of actual or suspected non-compliance as part of our procedures on the related financial statement items.

We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations. Management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud, including compliance with laws and regulations. The more distant non-compliance with indirect laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In comparison to prior year implementation of IFRS 16 is no longer considered a key audit matter anymore due to completion of the implementation in 2018.

We refer to the paragraph with regard to the material uncertainty related to going concern as that matter, by its nature, is also considered a key audit matter.

Revenue recognition for issued but unused passenger tickets

Description

Revenue from the passenger transport amounts to EUR 7,952 million. The revenue related to passenger transport is recognised when the transportation service is provided in accordance with IFRS 15.

On issuance, passenger tickets are recorded as "Advance ticket sales". However, a portion of these sales relate to tickets that have been issued and paid but which will never be used and, consequently, should be recognised as revenue. The revenue recognition is based on a statistical rate which is regularly updated. The rate is determined by the Company based on historical data taken from the information systems and adjusted for non-recurring and specific events of the periods considered, if any.

We considered revenue recognition for issued but unused passenger tickets to be a key audit matter due to the importance of management judgment in determining the recognition assumptions. There is a risk that revenue may be overstated due to fraud through manipulation of the estimated percentage of tickets which will never be used.

Our response

Our procedures primarily consisted of:

- » evaluation of the design and implementation of key controls implemented by the Company that we considered the most relevant in determining the statistical rates for "Advance ticket sales";
- » assessing the appropriateness and consistency of the methodology adopted by the Company;
- » agreeing the statistical rate calculations, for the estimated percentage of tickets which will never be used, with the underlying data from the information systems;
- » comparing actual revenue from unused passenger tickets with prior year-end estimates;
- » analysing the age of deferred revenue on ticket sales presented on the consolidated balance sheet to assess the appropriateness of the revenue recognized in the period.

In determining the statistical rate used for revenue recognition management relies on the Company's IT systems. As a response we have included IT specialists in our audit team to evaluate the relevant IT controls.

Our observation

Based on our procedures performed for revenue recognition for issued but unused passenger tickets we consider that management judgment is reasonable and revenue recognition accounting and disclosure (note 24) is in accordance with EU-IFRS.

Provision for litigation and contingent liabilities

Description

The Company is involved in several governmental, judicial or arbitration procedures and litigations, particularly concerning anti-trust laws. The outcome of these procedures and litigations depends on future events. The Company's positions taken are inherently based on the use of assumptions and judgments.

We considered the measurement of the litigation provisions and the related disclosure to be a key audit matter due to the uncertainty surrounding the outcome of current procedures, potentially material nature of the impact of provision amounts on consolidated net income and equity and the degree of estimates and judgment required should these estimates change.

Our response

Our audit procedures included, amongst others, assessment of management's use of external counsel, the assessment of management's process for the identification, evaluation and disclosure of claims, proceedings and investigations and the recording and continuous re-assessment of the related (contingent) liabilities and provisions and disclosures, in accordance with EU-IFRS.

We also inquired with both legal and financial staff in respect of claims, proceedings and investigations, inspected relevant documentation such as the minutes of the Audit Committee, the Supervisory Board and the Executive Committee and obtained legal confirmation letters from a selection of external legal counsel.

Furthermore, we challenged the estimates and assumptions applied by the Company in determining the need to recognise a provision and, where applicable, its amount.

Based on these items, we assessed the estimates and positions adopted by the Company. We also assessed the appropriateness of the disclosures in note 23 to the consolidated financial statements including for those claims for which a provision could not be reasonably estimated.

Our observation

We consider the estimates and management's judgment applied for the litigation provision and contingent liabilities to be reasonable and determined that the related disclosure (note 23) is in accordance with EU-IFRS.

Report on the other information included in the annual report

In addition to the financial statements and our auditors' report thereon, the annual report contains other information.

Based on the following procedures performed, we conclude that the other information:

- » is consistent with the financial statements and does not contain material misstatements; and
- » contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

The Board of Managing Directors is responsible for the preparation of the other information, including the information as required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

KLM Royal Dutch Airlines engaged us, Deloitte Accountants B.V. and KPMG Accountants N.V., to perform a joint audit. We were re-engaged by the General Meeting of Shareholders as auditors of KLM Royal Dutch Airlines on April 25, 2019 for the audit of the year 2019, and have operated as statutory auditors ever since financial year 2005/2006.

Description of responsibilities regarding the financial statements

Responsibilities of Board of Managing Directors and the Supervisory Board for the financial statements

The Board of Managing Directors is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Board of Managing Directors is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Board of Managing Directors is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Managing Directors should prepare the financial statements using the going concern basis of accounting unless the Board of Managing Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Board of Managing Directors should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A further description of our responsibilities for the audit of the financial statements is included in the appendix of this auditors' report. This description forms part of our auditors' report.

Amstelveen/Amsterdam, April 8, 2020

KPMG Accountants N.V.
B.S. Geerling RA

Deloitte Accountants B.V.
M.J. van der Vegte RA

Appendix: Description of our responsibilities for the audit of the financial statements

