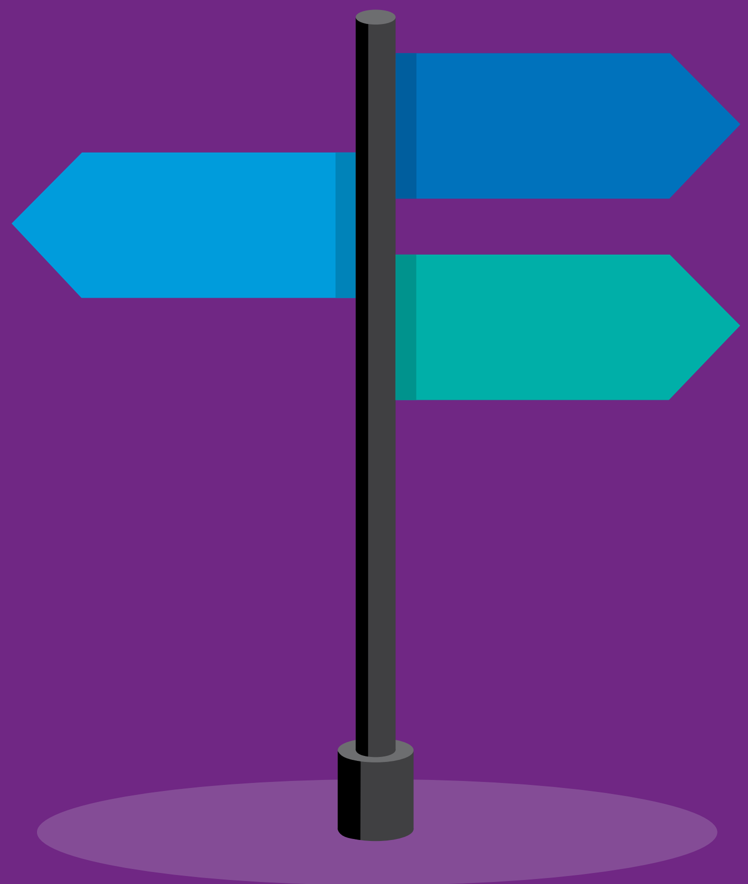
COVID-19 supplement

Guide to annual financial statements

IFRS® Standards



September 2020

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About this supplement

This supplement has been produced by the KPMG International Standards Group (part of KPMG IFRG Limited) to complement our Guide to annual financial statements – Illustrative disclosures (the September 2020 guide).

The September 2020 guide and this supplement may help you to prepare financial statements in accordance with IFRS Standards.

The September 2020 guide illustrates one possible format for financial statements based on a fictitious multinational listed corporation (the Group) involved in general business activities. The information contained herein is of a general nature and is not intended to address the circumstances of any particular entity.

This supplement focuses on the additional disclosures that entities may need to provide on accounting issues arising from the COVID-19 coronavirus pandemic. Each illustrative example deals with a specific, independent and unrelated fact pattern and is therefore not intended to reconcile to the other examples or the September 2020 guide. It provides disclosure examples for illustrative purposes only. This supplement does not illustrate all of the disclosures that may be warranted as a result of the COVID-19 coronavirus pandemic, which will depend on an entity's underlying facts and circumstances.

References to standards are included in the left-hand margin of this supplement. Generally, the references relate only to presentation and disclosure requirements.

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1 Going concern disclosures

1.1 Material uncertainty scenario

Fact pattern

The Group owns a sports goods retail chain with physical stores located all over the world. The outbreak of the COVID-19 coronavirus pandemic and the measures adopted by governments in countries worldwide to mitigate the pandemic's spread have significantly impacted the Group. These measures required the Group to close its retail stores in various locations for periods of three to five months during 2020, with the Group generating its only revenues during those periods from online sales through its website. Management has concluded that there are material uncertainties related to events and conditions that may cast significant doubt on the Group's ability to continue as a going concern.

Illustration of disclosures in the notes

Notes to the consolidated financial statements (extract)

1. Basis of accounting

A. Going concern basis of accounting[a]

IAS 1.25–26, Insights 1.2.80.10

The outbreak of the COVID-19 pandemic and the measures adopted by governments in countries worldwide to mitigate the pandemic's spread have significantly impacted the Group. These measures required the Group to close its retail stores in various locations for periods of three to five months during the year, with the Group generating its only revenues during those periods from its online sales through its website. This has negatively impacted the Group's financial performance for the year and also its liquidity position.

For the year ended 31 December 2020, the Group recognised a net loss of €18,248 thousand. The Group's net current assets as at 31 December 2020 were €6,533 thousand. The Group has €1,023 thousand of resources comprising cash and cash equivalents, other highly liquid assets and unused credit lines available at the date of authorisation of these financial statements.

There is still significant uncertainty over how the outbreak will impact the Group's business in future periods and customer demand for its retail goods assortment, both in-store and online. Management has therefore modelled a number of different scenarios considering a period of 12 months from the date of authorisation of these consolidated financial statements.[b] The assumptions modelled are based on the estimated potential impact of COVID-19 restrictions and regulations and expected levels of consumer demand, along with management's proposed responses over the course of the period. The base case scenario includes the benefits of actions already taken by management to mitigate the trading downsides brought by COVID-19, such as cancellation of dividends and renegotiation of property rents. It assumes that there is a re-closure of the Group's physical stores for a period of eight weeks, because of a lockdown due to a second wave of infections in the countries where the Group operates, followed by reduced physical store trading of 25% compared with last year for the remainder of the year. Under this base case scenario, the Group is expected to continue to have sufficient headroom relative to the funding available to it. The scenarios include a series of 'downside' case scenarios that are increasingly severe but plausible scenarios, the most severe of which assumes that there will be a re-closure of the Group's physical stores for a period of 16 weeks, because of a lockdown due to a second wave of infections in the countries where the Group operates, followed by reduced physical store trading of 40% against the business plan for the remainder of the year.

a. This supplement illustrates one possible example of disclosures in a 'material uncertainty' scenario.

IAS 1.26

b. The period for which management takes into account all available information about the future may need to be extended beyond the minimum specified in IAS 1 *Presentation of Financial Statements* (which is at least, but not limited to, 12 months from the reporting date) depending on the specific facts and circumstances. The Group's management has considered a period of 12 months from the date of authorisation of the financial statements given the rapidly changing economic and business circumstances and the impact of COVID-19 on its operations and financial resources.

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Notes to the consolidated financial statements (extract)

1. Basis of accounting (continued)

A. Going concern basis of accounting (continued)

The most severe downside case scenario, which is considered to be prudent but plausible, would have a significant adverse impact on sales, margin and cash flows. In response, management has the ability to take the following mitigating actions to reduce costs, optimise the Group's cash flow and preserve liquidity:

- reducing non-essential capital expenditure and deferring or cancelling discretionary spend; and
- freezing non-essential recruitment, reducing marketing spend and reducing the supply pipeline of merchandise to reflect the impact of the Group's temporary store closures.

Based on the Group's liquidity position as at the date of authorisation of these consolidated financial statements, and in light of the uncertainty surrounding the future development of the outbreak, management estimates that in the downside case, it will need additional financing to meet its financial obligations. The Group is currently in discussions with its bankers regarding additional financing arrangements. Other financing options, such as sale and leaseback of the Group's property, are also being considered. However, there is no assurance that financing can be obtained, and in the quantum needed, within the next six months. If the Group is unable to obtain financing or take other actions in response to these circumstances within that time, it may be unable to continue as a going concern.

As a result, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

These consolidated financial statements have been prepared on a going concern basis and do not include any adjustments to the carrying amounts and classification of assets, liabilities and reported expenses that may otherwise be required if the going concern basis was not appropriate.

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1.2 'Close-call' scenario

Fact pattern

The Group is domiciled in [*Country B*] and is in the business of manufacturing engines for cars. Its business has been impacted by the outbreak of the COVID-19 coronavirus pandemic and the measures adopted by the government in [*Country B*] to mitigate its spread. The Group has concluded that there are no material uncertainties that may cast significant doubt on its ability to continue as a going concern; however, reaching that conclusion involved significant judgement (a 'close-call' scenario).

Illustration of disclosures in the notes

Notes to the consolidated financial statements (extract)

1. Basis of accounting

A. Going concern basis of accounting[a, b, c]

IAS 1.25–26, 122, IU 07-14, Insights 1.2.80.10

Management continues to have a reasonable expectation that the Group has adequate resources to continue in operation for at least the next 12 months and that the going concern basis of accounting remains appropriate. The outbreak of the COVID-19 pandemic and the measures adopted by the government in [*Country B*] to mitigate its spread have impacted the Group. These measures required the Group to shut down its manufacturing plants for a period of two months during 2020. This has negatively impacted the Group's financial performance during the year and also its liquidity position.

For the year ended 31 December 2020, the Group recognised a net loss of €2,125 thousand. The Group's net current assets as at 31 December 2020 were €5,123 thousand. The Group has €1,040 thousand of resources comprising cash and cash equivalents, other highly liquid assets and unused credit lines available at the date of authorisation of these financial statements.

There is still uncertainty over how the future development of the outbreak will impact the Group's business and customer demand for its products. The appropriateness of the going concern basis of accounting is dependent on the continued availability of borrowings by compliance with loan covenants. The Group has a term loan of €1,020 thousand requiring compliance with interest cover covenants. As at the tightest test date in management's forecasts, the Group could withstand a reduction in revenue of 61% compared with 31 December 2020 values before the covenant is breached. As at the date of authorisation of the financial statements, the Group had sufficient headroom on its facilities.

Also, to respond to a severe downside scenario, management has the ability to take the following mitigating actions to reduce costs, optimise the Group's cash flow and preserve liquidity:

- reducing non-essential capital expenditure and deferring or cancelling discretionary spend;
- freezing non-essential recruitment; and
- reducing marketing spend.

Based on these factors, management has a reasonable expectation that the Group has adequate resources and sufficient loan facility headroom.

IAS 1.25, 10.16(b)

a. This supplement illustrates one possible example of disclosures in a close-call scenario.

b. In some cases, management may conclude that there are no material uncertainties that require disclosure in accordance with paragraph 25 of IAS 1. However, reaching that conclusion involved significant judgement (i.e. a close-call scenario). In these cases, a question arises about whether any disclosures are required. The IFRS Interpretations Committee discussed this issue and noted that the disclosure requirements in paragraph 122 of IAS 1 apply to the judgements made in concluding that there are no material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

c. The location of the disclosures in a close-call scenario is not specified in IFRS Standards and in our experience such disclosure is provided as part of the basis of accounting note or elsewhere in the consolidated financial statements, either as a single note or in more than one note – e.g. as part of the liquidity risk disclosure etc. However, in view of the July 2014 IFRS Interpretations Committee agenda decision on *Disclosure requirements relating to assessment of going concern*, we would expect the information disclosed in a close call scenario to be appropriately cross-referenced to the note discussing significant judgements under paragraph 122 of IAS 1.

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Notes to the consolidated financial statements (extract)

2. Use of judgements and estimates

A. Judgements

IAS 1.122

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

IAS 1.122, IU 07-14, Insights 1.2.80.10

– Note 1(A) – going concern: whether there are material uncertainties that may cast significant doubt on the entity's ability to continue as a going concern;

– […]

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2 Valuation and impairment of non-financial assets

2.1 Investment property including a significant valuation uncertainty clause and sensitivity analysis

Fact pattern

The 31 December 2020 valuation of the Group's commercial property contains a 'material valuation uncertainty' clause due to the market disruption caused by the COVID-19 coronavirus pandemic. This clause does not invalidate the valuation but implies that there is substantially more uncertainty than under normal market conditions. In view of the uncertainty, the disclosure note includes a sensitivity analysis on the assumptions used in producing the valuation of the commercial property.

Illustration of disclosures in the notes

Notes to the consolidated financial statements (extract)

1. Use of judgements and estimates

A. Assumptions and estimation uncertainties

IAS 1.125, 129–130

Information about assumptions and estimation uncertainties at 31 December 2020 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following notes:

– Note 2 – investment property: key assumptions affecting the valuation of investment property;

– […]

2. Investment property[a]

A. Reconciliation of carrying amount

	In thousands of euro	Commercial property	Industrial building	Total
IAS 40.76, IFRS 13.93(e)	Balance at 1 January 2019	1,480	700	2,180
IAS 40.76(d), IFRS 13.93(e)(i)	Change in fair value	20	5	25
IAS 40.76, IFRS 13.93(e)	**Balance at 31 December 2019**	**1,500**	**705**	**2,205**
IAS 40.76(d), IFRS 13.93(e)(i)	Change in fair value	**(200)**	**(18)**	**(218)**
IAS 40.76, IFRS 13.93(e)	**Balance at 31 December 2020**	**1,300**	**687**	**1,987**

Investment property comprises two properties:

– a commercial property in [*Country X*] that is leased to third parties (mainly apparel retailers). Each of the leases contains an initial non-cancellable period of 10 years; and

– an industrial building in [*Country X*] that is leased to a third party for a non-cancellable period of 25 years.

IFRS 13.93(e)(i), (f)

Changes in fair values are recognised as gains or losses in profit or loss and included in 'other income' or 'other expenses' as appropriate. All gains or losses are unrealised.

Insights 3.4.260.40

a. Because IAS 40 *Investment Property* makes no reference to making disclosures on a class-by-class basis, it could be assumed that the minimum requirement is to make the disclosures on an aggregate basis for the whole investment property portfolio. If investment property represents a significant portion of the assets, then it may be appropriate to disclose additional analysis – e.g. portfolio by types of investment property.

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Notes to the consolidated financial statements (extract)

2. Investment property (continued)

B. Measurement of fair values

i. Fair value hierarchy

IAS 40.75(e)

The fair value of investment property was determined by an external, independent property valuer, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued.

IFRS 13.93(b)

The fair value measurement of the investment property has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

ii. Valuation technique and significant unobservable inputs[a]

IFRS 13.93(d), (h)(i), 99

Commercial property

The commercial property held by the Group in [*Country X*] is leased out to 10 tenants, mainly apparel retailers. Due to the economic disruption caused by the COVID-19 coronavirus pandemic, the Group has granted a two-month rent holiday to several tenants that have been significantly hit by the pandemic. The highly uncertain economic outlook for the period may have a material adverse effect on the tenants' operations, the viability of their business and their ability to meet their rental obligations. This uncertainty is factored into the valuation of investment property, specifically in estimating rent payments from existing tenants, the void periods, occupancy rates, expected market rental growth rates and the discount rate, all of which are significant inputs into the fair value determination.

As at 31 December 2020, the valuer has factored in the potential impact of the COVID-19 pandemic by modifying the previous year's assumptions for the period 2021–22 as follows:

- prolonged void periods (increased by three months);
- lower expected market rental growth (decreased to 1%);
- lower levels of occupancy rates (decreased by 5%); and
- a decrease in sales-based rents.

Furthermore, the discount rate has increased by 1%, despite lower inflation prospects, to reflect greater uncertainty over long-term cash flows and long-term growth prospects and increased risk of defaults and non-payment of rent. The estimated market rents in 2021–22 have not been significantly adjusted downwards (only the growth rate has decreased to zero) in view of the property's age, high quality and prime location.

The 31 December 2020 valuation contains a 'material valuation uncertainty' clause due to the market disruption caused by the COVID-19 pandemic, which resulted in a reduction in transactional evidence and market yields. This clause does not invalidate the valuation but implies that there is substantially more uncertainty than under normal market conditions. Accordingly, the valuer cannot attach as much weight as usual to previous market evidence for comparison purposes, and there is an increased risk that the price realised in an actual transaction would differ from the value conclusion. As a result of this increased uncertainty, the assumptions may be revised significantly in 2021. A sensitivity analysis on these assumptions is included in Note 2(C).

IFRS 13.93–94, Insights 2.4.510.25

a. The disclosures required under IFRS 13 *Fair Value Measurement* are made for each class of asset, which may require an entity's investment property portfolio to be disaggregated instead of being disclosed as a single class of asset.

Under IFRS 13, a class of assets is determined based on: (a) the nature, characteristics and risks of the asset; and (b) the level of the fair value hierarchy within which the fair value measurement is categorised. In our view, other relevant factors to consider in this situation include:

- differences in valuation inputs and techniques used to determine fair value measurements; and
- the sensitivity of measurements to changes in unobservable inputs.

The Group has determined that each of the two properties is a separate asset class due to differences in their nature, characteristics and risk profiles. Consequently, the disclosures about the valuation technique and significant unobservable inputs are provided separately for each of the properties.

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Notes to the consolidated financial statements (extract)

2. Investment property (continued)

B. Measurement of fair values (continued)

ii. Valuation technique and significant unobservable inputs (continued)

Commercial property (continued)

The following table shows the valuation technique used in measuring the fair value of the commercial property, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs	Relationship between key unobservable inputs and fair value measurement
Discounted cash flows: The valuation model considers the present value of net cash flows to be generated from the property, taking into account the expected rental growth rate, void periods, occupancy rate, lease incentive costs such as rent-free periods and other costs not paid by tenants. The expected net cash flows are discounted using risk-adjusted discount rates. Among other factors, the discount rate estimation considers the quality of a building and its location (prime vs secondary), tenant credit quality and lease terms.	– Expected market rental growth (2020: 1–2% (average 1.8%); 2019: 2%). – Void periods (2020 and 2019: average 3.5 and 3 months after the end of each lease, respectively). – Occupancy rate (2020: 86–95%, weighted average 92%; 2019: 91–95%, weighted average 92.8%). – Rent-free periods (2020 and 2019: 0–6 months; weighted average 3 months on new leases). – Risk-adjusted discount rates (2020: 6.5%; 2019: 5.5%).	The estimated fair value would increase (decrease) if: – expected market rental growth were higher (lower); – void periods were shorter (longer); – the occupancy rate were higher (lower); – rent-free periods were shorter (longer); or – the risk-adjusted discount rate were lower (higher).

Industrial property

The industrial building held by the Group in [*Country X*] is leased out to an industrial company that has not been significantly affected by the COVID-19 pandemic.

As at 31 December 2020, the valuer has factored in the potential impact of the COVID-19 pandemic by increasing the discount rate by 0.5% and by adjusting the expected market rental rates to reflect lower inflation expectations.

The following table shows the valuation technique used in measuring the fair value of the industrial building, as well as the significant unobservable inputs used.

IFRS 13.93(d), (h)(i), 99

Valuation technique	Significant unobservable inputs	Relationship between key unobservable inputs and fair value measurement
Discounted cash flows: The valuation model considers the present value of net cash flows to be generated from the property, taking into account the expected rental growth rate and occupancy rate. The expected net cash flows are discounted using risk-adjusted discount rates. Among other factors, the discount rate estimation considers the quality of a building and its location (prime vs secondary), tenant credit quality and lease terms.	– Expected market rental growth (2020: 1–2% (average 1.8%); 2019: 2%). – Occupancy rate (2020 and 2019: 100%) – Risk-adjusted discount rates (2020: 5.5%; 2019: 5%).	The estimated fair value would increase (decrease) if: – expected market rental growth were higher (lower); – the occupancy rate were higher (lower); or – the risk-adjusted discount rate were lower (higher).

IFRS 13.93(h)(i)

There is a degree of inter-relationship between the unobservable inputs used in the fair value measurement of the commercial and industrial properties. An increase in demand may increase the market rental rates and may result in shorter void periods and higher occupancy rates. A decrease in occupancy rates may result in longer void periods and a decrease in market rental rates.

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Notes to the consolidated financial statements (extract)

2. Investment property (continued)

C. Sensitivity analysis

IAS 1.125, 129

Commercial property

Significant judgement is required when evaluating the inputs into the fair value determination of the investment property. Reasonably possible changes at the reporting date to one of the relevant assumptions, holding other assumptions constant, would have affected the fair value of the commercial property by the amounts shown below. The effect of the COVID-19 pandemic has meant that the range of reasonably possible changes is wider for the 2020 figures than for the comparative year.

	31 December 2020		31 December 2019	
Effect in thousands of euro	Increase	Decrease	Increase	Decrease
Discount rate (2020: 2% movement; 2019: 1% movement)	**(170)**	**173**	(95)	97
Occupancy rate (2020: 10% movement; 2019: 5% movement)	**123**	**(121)**	75	(72)
Rent-free periods (2020: 6-month change; 2019: 3-month change)	**(42)**	**43**	(20)	22
Void periods (2020: 12-month change; 2019: 6-month change)	**(84)**	**85**	(30)	31
Market rental growth rate (2020: 10% movement; 2019: 5% movement)	**131**	**(129)**	79	(77)

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2.2 Expected cash flow approach

Fact pattern

The Group operates a restaurant chain with two cash-generating units (CGUs) containing goodwill. The CGUs have been severely affected in 2020 by the COVID-19 coronavirus pandemic, which resulted in an impairment in the Group's half-yearly interim financial statements as at 30 June 2020 and an additional impairment as at 31 December 2020. During the year, the Group changed its valuation technique used to estimate the recoverable amount from the traditional approach (the discount rate adjustment method), which uses a single cash flow scenario, to the expected cash flow approach, which uses multiple, probability-weighted cash flow scenarios.[a]

Illustration of disclosures in the notes

Notes to the consolidated financial statements (extract)

1. Use of judgements and estimates

A. Assumptions and estimation uncertainties

IAS 1.125, 129–130

Information about assumptions and estimation uncertainties at 31 December 2020 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following notes:

- Note 2 – impairment test of CGUs containing goodwill: key assumptions underlying recoverable amounts;
- […]

2. Intangible assets and goodwill

A. Impairment testing for CGUs containing goodwill[b]

IAS 36.134(a)–(b)

Z Ltd is a wholly owned subsidiary domiciled in [*Country X*] that operates a restaurant chain comprising 10 restaurants – five in [*City B*] and five in [*City C*]. Z's operations were severely affected in 2020 by the COVID-19 coronavirus pandemic and the measures taken to contain it. These measures, which included a lockdown period of three months, constituted a triggering event leading to an impairment test in the interim condensed financial statements for the six months ended 30 June 2020. The interim impairment test resulted in a goodwill impairment of €1,000 thousand. The Group tests goodwill for impairment annually in December by comparing the recoverable amount of goodwill-carrying CGUs with their carrying amount. The annual impairment test resulted in a further impairment of €400 thousand (2019: nil). The impairment was recognised in 'other expenses'.[c] No asset other than goodwill was impaired.

The assumptions used in performing the interim impairment test have been updated to reflect lower budgeted earnings before interest, tax, depreciation and amortisation (EBITDA) in 2021–23 and a delay in the return to the pre-crisis levels of turnover and profitability. Due to the high level of uncertainty, it was very challenging to predict the full extent and duration of the COVID-19 pandemic's impact on Z's operations.

IFRS 13.66

a. Under IFRS 13, a revision resulting from a change in the valuation technique or its application is accounted for as a change in accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and therefore it is accounted for prospectively. However, the disclosures in IAS 8 for a change in an accounting estimate are not required.

IAS 36.134

b. Separate disclosures are required for each CGU (or group of CGUs) for which the carrying amount of goodwill or intangible assets with an indefinite useful life allocated to the CGU is significant in comparison with its carrying amount.

IAS 36.126, Insights 3.10.410.20

c. The Group has classified expenses by function and has therefore allocated the impairment loss to the appropriate function. In our view, in the rare case that an impairment loss cannot be allocated to a function, it should be included in 'other expenses' as a separate line item if it is significant (e.g. impairment of goodwill), with additional information given in a note.

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Notes to the consolidated financial statements (extract)

2. Intangible assets and goodwill (continued)

A. Impairment testing for CGUs containing goodwill (continued)

IAS 36.134(a)

For the purposes of impairment testing, goodwill has been allocated to two groups of CGUs based on the level at which management monitors goodwill as follows.

IAS 36.134(a)

In thousands of euro	2020	2019
CGU B (restaurants in [*City B*])	**60**	780
CGU C (restaurants in [*City C*])	**40**	720
Goodwill	**100**	1,500

IAS 36.130(e)

At 31 December 2020, the recoverable amount of each of the two CGUs was lower than the carrying amount.

In thousands of euro	2020	2019
Recoverable amount – CGU B	**16,300**	20,000
Recoverable amount – CGU C	**15,900**	19,500

IAS 36.130(d)(ii), 134(c)

The recoverable amount of each CGU was based on its fair value less costs of disposal (FVLCD), which is higher than the CGU's value in use. Due to the increase in the level of uncertainty, the FVLCD was estimated in 2020 using a discounted cash flow (DCF) analysis applying the expected cash flow approach. This approach uses multiple cash flow projections taking into consideration assumed probabilities of different future events and/or scenarios instead of a single cash flow scenario. While many scenarios and probabilities may exist, management ultimately believes that the four scenarios detailed below (base case, upside, downside and worst case) reflect a representative sample of possible outcomes.

IAS 36.134(e)(ii)

The calculations use cash flow projections that are based on financial budgets and business plans prepared by management and approved by the board of directors. The budgets and business plans are updated to reflect the most recent developments as at the reporting date. Management's expectations reflect performance to date and are based on its experience in times of recession and consistent with the assumptions that a market participant would make. The four scenarios are based on the scenarios published by the [*Country X*] finance ministry in December 2020 on the economic impacts of the COVID-19 pandemic on unemployment, gross domestic product (GDP) and inflation. The scenarios reflect different recovery paths specific to [*Country X*].

IAS 36.134(e)(iiA)

For each scenario, management has assigned probability weights. The recoverable amount was estimated by calculating the present value of the probability-weighted expected cash flows. The fair value measurement was categorised as a Level 3 fair value based on the inputs the valuation technique used.

IAS 36.134(e)(iiB)

In 2020, the Group changed its valuation technique used to estimate the recoverable amount from the traditional approach (the discount rate adjustment method), which uses a single cash flow scenario, to the expected cash flow approach, which uses multiple, probability-weighted cash flow scenarios. The change in valuation technique is due to the significantly higher degree of estimation uncertainty and wider range of possible cash flow projections following the impact of the COVID-19 pandemic.

IAS 36.134(e)(ii)

- The upside scenario reflects a return to the pre-crisis levels of turnover and profitability (8% operating profit margin) at the end of 2021. The budgeted operating profit margins in 2021 are 7% (2019: 8%) due to the decrease in turnover.
- The base case scenario reflects a return to the pre-crisis levels of turnover and profitability towards the end of 2022. The budgeted operating profit margins in 2021–22 are 7% due to the decrease in turnover.

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Notes to the consolidated financial statements (extract)

2. Intangible assets and goodwill (continued)

A. Impairment testing for CGUs containing goodwill (continued)

- The downside scenario reflects the closure of two restaurants by the end of 2021 (one in each CGU) and a return to the pre-crisis levels of turnover and profitability for the remaining restaurants towards the end of 2023. The budgeted operating profit margins in 2021–23 are 6% due to the decrease in turnover.
- The worst case scenario assumes bankruptcy of Z because of significant operating losses that cause the Group's banks, other creditors and shareholders not to continue to provide financing. The recoverable amount under this scenario is minimal based on the liquidation value of the assets.[a]

IAS 36.134(e)(iii)

The cash flow projections included specific estimates for five years and a terminal growth rate thereafter.

IAS 36.134(e)(i)

The same assumptions were used in performing the impairment test for both CGUs because the turnover and profit margins are very similar. The key assumptions used in estimating the recoverable amount for both CGUs at 31 December 2020 are set out below.[b, c]

	Effect in thousands of euro	Worst case	Downside	Base case	Upside
IAS 36.134(e)(i)	Probability weights	**15%**	**30%**	**45%**	**10%**
IAS 36.134(e)(v)	Discount rate (post-tax)		**9.6%**		
IAS 36.134(e)(i), (f)(ii)	EBITDA growth rate (2021–23)	-	**12%**	**20%**	**29%**
IAS 36.134(e)(i), (f)(ii)	EBITDA growth rate (2024–25)	-	**2%**	**3%**	**4%**
IAS 36.134(e)(iv), Insights 3.10.230.20	Terminal value growth rate	-	**1.5%**	**1.5%**	**2%**

IAS 36.134(e)(ii)

The key assumptions in the table above are based on the following.

- *Probability weights:* Management has subjectively assigned probability weights to each scenario based on its experience in times of recession and its expectations for the economy under and following the COVID-19 pandemic. Management believes that the probability weight assignment presents a reasonable assessment of the likelihood of the scenarios, taking into account the potential for a more robust recovery on the upside and the risk of bankruptcy on the downside.
- *Discount rate:* The discount rate used is the weighted-average cost of capital (WACC). The discount rate does not reflect risks for which the estimated cash flows have been adjusted.

  The discount rate was a post-tax measure based on the rate of 30-year government bonds issued by the most creditworthy government in the relevant market and in the same currency as the cash flows, adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the risk of the specific CGU.
- *EBITDA growth rate (2021–23):* The EBITDA growth rates were estimated taking into account expected restructurings (closure of restaurants) in 2021 under the downside scenario. The EBITDA growth rates are based on: (1) the revenue growth rates in 2021–23, which have been determined considering the expected economic conditions in 2021–23 under each scenario, and (2) the operating profit margins, as detailed on the previous page for each scenario.

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a. Under the worst case scenario, the magnitude of the decline in performance is such that the Group determined that a change in valuation basis from going concern to liquidation would be necessary.

IAS 36.134(e)(ii), (iv)–(v), (f), IE89

b. IAS 36 *Impairment of Assets* specifically requires quantitative disclosures (i.e. values) in respect of the discount rates and growth rates used to extrapolate cash flow projections. Narrative disclosures are sufficient for other key assumptions, having regard to the requirement for an entity to disclose a description of management's approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information. An entity also discloses additional quantitative information if a reasonably possible change in key assumptions would result in an impairment.

c. Although they are not illustrated in this guide, the comparative figures for the impairment test performed in the previous year are also required to be provided.

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Notes to the consolidated financial statements (extract)

2. Intangible assets and goodwill (continued)

A. Impairment testing for CGUs containing goodwill (continued)

- *EBITDA growth rate (2024–25):* The EBITDA growth rates reflect the expected revenue growth rates in 2024–25. The pre-crisis operating profit margin is 8% for both years under all scenarios.
- *Terminal value growth rate:* The long-term growth rate into perpetuity has been determined as the lower of the nominal GDP growth rate of [*Country X*] and the long-term compound annual EBITDA growth rate estimated by management. The terminal growth rate for the base case and downside scenarios of 1.5% (2019: 2%) has been reduced to reflect potential long-term effects of the crisis on GDP.

The assumptions used in estimating the recoverable amount are consistent with the assumptions that a market participant would make.

IAS 36.134(f)

Following the impairment loss recognised, the recoverable amount of both CGUs was equal to the carrying amount. Therefore, any adverse movement in a key assumption would lead to further impairment.

IAS 1.125, 129

The following changes in assumptions would have resulted in a significant increase in the impairment loss as follows.[a]

In thousands of euro	**Impairment higher by:**
Probability weights of base case and downside scenarios of 35% and 40%	**200**
An increase in the post-tax discount rate from 9.6% to 11%	**150**
A decrease of 10% in the EBITDA growth rate in 2021–23 for the downside and base case scenarios	**130**
A decrease of 1% in the EBITDA growth rate (2024–25) under the downside and base case scenarios	**100**

a. Although they are not illustrated in this guide, the comparative figures for the impairment test performed in the previous year are also required to be provided.

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3 Financial instruments

3.1 Expected credit losses

Fact pattern

In response to the COVID-19 coronavirus pandemic, the Group temporarily extended credit terms for specific customers, disaggregated groups when calculating expected credit losses (ECL) on a collective basis for trade receivables to corporate customers and increased scalar factors for trade receivables to corporate and individual customers.

Illustration of disclosures in the notes

Notes to the consolidated financial statements (extract)

1. Financial instruments – Fair values and risk management

A. Financial risk management

i. Credit risk

IFRS 7.31, 33

'Credit risk' is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

IFRS 7.35K(a), 36(a)

The carrying amounts of financial assets and contract assets represent the maximum credit exposure.

IAS 1.82(ba)

Impairment losses on financial assets and contract assets recognised in profit or loss were as follows.

IFRS 15.113(b)

In thousands of euro	**2020**	**2019**
Impairment loss on trade receivables and contract assets arising from contracts with customers	**1,311**	193

Trade receivables and contract assets

IFRS 7.33(a)–(b)

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country or region in which customers operate. Details of concentration of revenue are included in the operating segment note (see Note X).

The risk management committee has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, if they are available, financial statements, credit agency information, industry information and in some cases bank references. Sale limits are established for each customer and reviewed quarterly. Any sales exceeding those limits require approval from the risk management committee. In response to the COVID-19 pandemic, the risk management committee has also been performing more frequent reviews of sales limits for customers in regions and industries that are severely impacted.

The Group limits its exposure to credit risk from trade receivables by establishing a maximum payment period of 30 and 90 days for individual and corporate customers respectively. During the year ended 31 December 2020, the Group temporarily extended the credit terms to up to 120 days for specific customers with liquidity constraints arising as a direct result of the COVID-19 pandemic. All extensions were granted within current sales limits after careful consideration of the impact of the COVID-19 pandemic on the creditworthiness of the customer and each customer that was granted an extension is closely monitored for credit deterioration.

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Notes to the consolidated financial statements (extract)

1. Financial instruments – Fair values and risk management (continued)

A. Financial risk management (continued)

i. Credit risk (continued)

Trade receivables and contract assets (continued)

More than 84% of the Group's customers have been transacting with the Group for over four years. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or a legal entity, whether they are a wholesale, retail or end-user customer, their geographic location, industry, trading history with the Group and the existence of previous financial difficulties. In response to the COVID-19 pandemic, the Group divided some of these customer groups into subgroups when there was a significant difference in the way the pandemic impacted exposures in the customer group.

IFRS 7.33(c)

The Group is monitoring the economic environment in response to the COVID-19 pandemic and is taking actions to limit its exposure to customers that are severely impacted. In 2020, certain sales limits have been reduced, particularly for customers operating in [*Countries X and Y*], because the Group's experience is that the COVID-19 pandemic has had a greater impact for customers in those countries than for customers in other countries or regions.

IFRS 7.35K(b), B8G

The Group does not require collateral in respect of trade and other receivables. The Group does not have trade receivable and contract assets for which no loss allowance is recognised because of collateral.

IFRS 7.34(a), (c)

At 31 December 2020, the exposure to credit risk for trade receivables and contract assets by geographic region was as follows.

	Carrying amount	
In thousands of euro	**2020**	**2019**
[*Countries X and Y*]	**5,598**	4,583
Other countries	**20,027**	10,649
US	**11,374**	7,687
Other regions	**286**	188
	37,285	23,107

IFRS 7.34(a), (c)

At 31 December 2020, the exposure to credit risk for trade receivables and contract assets by type of counterparty was as follows.

	Carrying amount	
In thousands of euro	**2020**	**2019**
Wholesale customers	**26,191**	11,094
Retail customers	**9,246**	9,145
End-user customers	**1,342**	1,820
Other	**506**	1,048
	37,285	23,107

IFRS 7.34(a), (c)

At 31 December 2020, the carrying amount of the Group's most significant customer (a European wholesaler) was €8,034 thousand (2019: €4,986 thousand).

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Notes to the consolidated financial statements (extract)

1. Financial instruments – Fair values and risk management (continued)

A. Financial risk management (continued)

i. Credit risk (continued)

Trade receivables and contract assets (continued)

IFRS 7.34(a), 35M, B8I

A summary of the Group's exposure to credit risk for trade receivables and contract assets is as follows.

	2020		2019	
In thousands of euro	Not credit-impaired	Credit-impaired	Not credit-impaired	Credit-impaired
External credit ratings at least Baa3 from [*Rating Agency X*] or BBB- from [*Rating Agency Y*]	**6,397**	**-**	5,139	-
Other customers:				
– Four or more years' trading history with the Group*	**22,298**	**-**	14,230	-
– Less than four years' trading history with the Group*	**6,143**	**-**	3,290	-
– Higher risk	**2,544**	**1,223**	446	216
Total gross carrying amount	**37,382**	**1,223**	23,105	216
Loss allowance	**(804)**	**(516)**	(135)	(79)
	36,578	**707**	22,970	137

* Excluding 'higher risk'.

Expected credit loss assessment for corporate customers

IFRS 7.35B(a), 35F(c), 35G(a)–(b)

The Group allocates each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements, management accounts and cash flow projections and available press information about customers) and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default and are aligned with external credit rating definitions from [*Rating Agencies X and Y*].

Exposures within each credit risk grade are segmented by geographic region and industry classification and an ECL rate is calculated for each segment based on delinquency status and actual credit loss experience over the past seven years. These rates are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's view of forward-looking economic conditions over the expected lives of the receivables.

For the year ended 31 December 2020, the Group reviewed the way it segmented each risk grade and split some geographic regions and industry classifications into subsegments of exposures when there was a significant difference in the way the pandemic impacted exposures. Scalar factors are based on GDP forecast and industry outlook, including the expected impact of government support measures, and include the following.

	2020		2019
	Exposures severely impacted by the pandemic	Other exposures	
[*Country X*]	**1.8**	**1.3**	1.2
[*Country Y*]	**1.2**	**0.9**	0.8
[*Other countries*]	**-**	**1.3**	1.2
[*Industry A*]	**2.5**	**-**	1.9

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Notes to the consolidated financial statements (extract)

1. Financial instruments – Fair values and risk management (continued)

A. Financial risk management (continued)

i. Credit risk (continued)

Trade receivables and contract assets (continued)

Expected credit loss assessment for corporate customers (continued)

IFRS 7.35M, B8I

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets for corporate customers as at 31 December 2020 and 2019.

31 December 2020 *In thousands of euro*	**Equivalent to external credit rating [*Agency Y*]**	**Weighted-average loss rate**	**Gross carrying amount**	**Impairment loss allowance**	**Credit-impaired**
Grades 1–6: *Low risk*	BBB- to AAA	**0.70%**	**9,163**	**(64)**	**No**
Grades 7–9: *Fair risk*	BB- to BB+	**1.75%**	**15,194**	**(266)**	**No**
Grade 10: *Substandard*	B- to CCC-	**6.58%**	**1,633**	**(107)**	**No**
Grade 11: *Doubtful*	C to CC	**39.50%**	**918**	**(363)**	**Yes**
Grade 12: *Loss*	D	**50.10%**	**167**	**(84)**	**Yes**
			27,075	**(884)**	

31 December 2019 *In thousands of euro*	**Equivalent to external credit rating [*Agency Y*]**	**Weighted-average loss rate**	**Gross carrying amount**	**Impairment loss allowance**	**Credit-impaired**
Grades 1–6: *Low risk*	BBB- to AAA	0.20%	4,786	(10)	No
Grades 7–9: *Fair risk*	BB- to BB+	0.60%	8,141	(49)	No
Grade 10: *Substandard*	B- to CCC-	2.20%	865	(19)	No
Grade 11: *Doubtful*	C to CC	30.10%	100	(30)	Yes
Grade 12: *Loss*	D	41.80%	101	(42)	Yes
			13,993	(150)	

Expected credit loss assessment for individual customers

IFRS 7.35B(a), 35F(c), 35G(a)–(b)

The Group uses an allowance matrix to measure the ECLs of trade receivables from individual customers, which comprise a very large number of small balances.

Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated separately for exposures in different segments based on the following common credit risk characteristics – geographic region, age of customer relationship and type of product purchased.

Loss rates are based on actual payment and credit loss experience over the preceding seven years. These rates are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Scalar factors reflect actual and forecast unemployment rates and are as follows: 1.6 (2019: 1.2) for [*Country X*], 1.2 (2019: 1.0) for [*Country Y*] and 1.3 (2019:1.1) for [*other countries*].

The scalar factors were increased in 2020, reflecting the actual and expected impact of the COVID-19 pandemic in each geographic region. Where a customer has been granted a temporary extension in the credit period before a sale is made as a result of the COVID-19 pandemic, the past-due status is based on the extended credit period. Where as a result of the COVID-19 pandemic a customer has been granted a temporary grace period (which may be for up to 60 days) following a sale, the exposure is still considered to be past due based on the original due date.

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Notes to the consolidated financial statements (extract)

1. Financial instruments – Fair values and risk management (continued)

A. Financial risk management (continued)

i. Credit risk (continued)

Trade receivables and contract assets (continued)

Expected credit loss assessment for individual customers (continued)

IFRS 7.35M–35N, B8I

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets from individual customers as at 31 December 2020 and 2019.

31 December 2020 *In thousands of euro*	**Weighted-average loss rate**	**Gross carrying amount**	**Loss allowance**	**Credit-impaired**
Current (not past due)	**0.70%**	**5,611**	**(39)**	**No**
1–30 days past due	**1.75%**	**3,638**	**(64)**	**No**
31–60 days past due	**6.70%**	**1,232**	**(83)**	**No**
61–90 days past due	**19.90%**	**911**	**(181)**	**No**
More than 90 days past due	**50.20%**	**138**	**(69)**	**Yes**
		11,530	**(436)**	

31 December 2019 *In thousands of euro*	**Weighted-average loss rate**	**Gross carrying amount**	**Loss allowance**	**Credit-impaired**
Current (not past due)	0.30%	7,088	(21)	No
1–30 days past due	1.10%	2,012	(22)	No
31–60 days past due	5.60%	193	(11)	No
61–90 days past due	14.60%	20	(3)	No
More than 90 days past due	43.50%	15	(7)	Yes
		9,328	(64)	

Movements in the allowance for impairment in respect of trade receivables and contract assets

IFRS 7.35H

The movement in the allowance for impairment in respect of trade receivables and contract assets during the year was as follows.

In thousands of euro	**2020**	**2019**
Balance at 1 January	**214**	26
Amounts written off	**(205)**	(5)
Net remeasurement of loss allowance	**1,311**	193
Balance at 31 December	**1,320**	214

IFRS 7.35L

Trade receivables with a contractual amount of €70 thousand written off during 2020 are still subject to enforcement activity.

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Notes to the consolidated financial statements (extract)

1. Financial instruments – Fair values and risk management (continued)

A. Financial risk management (continued)

i. Credit risk (continued)

Trade receivables and contract assets (continued)

Movements in the allowance for impairment in respect of trade receivables and contract assets (continued)

IFRS 7.35I, B8D

The following contributed to the changes in the impairment loss allowance during 2020:

- the growth of the business to wholesale customers in [*other countries*] that were not severely impacted by the COVID-19 pandemic resulted in increases in trade receivables of €4,556 thousand (2019: €2,587 thousand) and increases in impairment allowances of €44 thousand (2019: €23 thousand);
- the temporary extension in credit terms for specific customers with liquidity constraints arising from the COVID-19 pandemic resulted in increases in trade receivables of €984 thousand and increases in impairment allowances of €40 thousand;
- applying higher scalar factors to trade receivables of corporate customers severely impacted by the pandemic resulted in increases in impairment allowances of €425 thousand;
- changes in ageing and scalar factors of trade receivables to individual customers resulted in increases in impairment allowances of €266 thousand;
- increases in credit-impaired balances in [*Country X*] of €543 thousand (2019: €98 thousand) and in [*Country Y*] of €470 thousand (2019: €35 thousand) resulted in increases in impairment allowances of €165 thousand (2019: €44 thousand) and €135 thousand (2019: €12 thousand) respectively; and
- trade receivables written off resulted in a decrease in impairment allowances of €205 thousand.

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3.2 Liquidity risk

3.2.1 Strengthening financial liquidity

Fact pattern

The Group has renegotiated financial liabilities and put in place new facilities to manage liquidity risk in response to the COVID-19 coronavirus pandemic. The Group has concluded that there are no material uncertainties that may cast significant doubt on its ability to continue as a going concern.

Illustration of disclosures in the notes

Notes to the consolidated financial statements (extract)

1. Financial instruments – Fair values and risk management

A. Financial risk management

i. Liquidity risk

IFRS 7.31, 33

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

The Group uses activity-based costing to cost its products and services, which assists it in monitoring cash flow requirements and optimising its cash return on investments.

IFRS 7.34(a), 39(c), B10A

The Group aims to maintain the level of its cash and cash equivalents and other highly marketable debt investments at an amount in excess of expected cash outflows on financial liabilities (other than trade payables) over the next 60 days. The ratio of investments to outflows was 1.50 at 31 December 2020 (2019: 1.58). The Group also monitors the level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables. At 31 December 2020, the expected cash inflows from trade and other receivables maturing within two months were €12,331 thousand (2019: €8,940 thousand) and the expected cash outflows from trade and other payables due within two months were €8,336 thousand (2019: €7,250 thousand). This estimate excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. The increase in expected cash inflows from trade receivables compared with the prior year is largely attributable to the Group having extended the credit terms of certain trade receivables originated through to October 2020 from 60 to 90 days as a result of the COVID-19 pandemic.

IAS 1.112(c), 122–123, 7.50(a), 33(c), B11F

The steps taken by the Group to respond to possible future liquidity constraints arising from the COVID-19 pandemic and the impact of those steps on the consolidated financial statements include the following.

- On 1 May 2020, the Group secured access to a three-year COVID-19 corporate financing facility of €15,000 thousand provided by a commercial bank under a government-sponsored programme. The facility provides temporary additional backstop liquidity by allowing the Group to draw down loans that would be repayable by 1 May 2023. Interest is payable at a rate of Euribor plus 200 basis points on any drawn amounts. The Group has drawn €400 thousand under this facility at 31 December 2020.
- On 8 May 2020, the Group requested and was granted a four-month waiver of interest on bank loans of €10,000 thousand. As a result, the Group recognised a modification gain of €300 thousand in profit or loss.
- On 30 September 2020, the Group renegotiated a bank loan of €8,000 thousand, extending the maturity from 2022 to 2028 and increasing the annual interest rate from 5 to 7%. The Group derecognised the existing loan and recognised the new loan at fair value. As a result, the Group recognised a derecognition loss of €200 thousand in profit or loss, which includes a €160 thousand refinancing fee payable to the lender.

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1. Financial instruments – Fair values and risk management (continued)

A. Financial risk management (continued)

i. Liquidity risk (continued)

IAS 7.50(a), IFRS 7.B11F

In addition, the Group maintains the following other lines of credit, which remain undrawn at 31 December 2020.

- €10,000 thousand overdraft facility that is unsecured. Interest is payable at the rate of Euribor plus 150 basis points (2019: Euribor plus 160 basis points) on any drawn amounts.
- €15,000 thousand facility that is unsecured and can be drawn down to meet short-term financing needs. The facility has a 30-day maturity that renews automatically at the option of the Group. Interest is payable at a rate of Euribor plus 100 basis points (2019: Euribor plus 110 basis points) on any drawn amounts.

IAS 1.112(c), 122–123, IFRS 7.B11E–B11F

The Group's credit ratings remain unchanged at A from [*Rating Agency X*] and A3 from [*Rating Agency Y*]. Accordingly, the Group expects to be able to access additional funding through existing lenders should it need to at market interest rates similar to its current borrowings.

Exposure to liquidity risk

IFRS 7.39(a)

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

IFRS 7.39(a), B11A–B11D

		Contractual cash flows					
31 December 2020 *In thousands of euro*	**Carrying amount**	**Total**	**2 months or less**	**2–12 months**	**1–2 years**	**2–5 years**	**More than 5 years**
Non-derivative financial liabilities							
Bank overdrafts	**334**	**(334)**	**(334)**	**-**	**-**	**-**	**-**
Drawdowns on COVID-19 corporate financing facility	**400**	**(432)**	**-**	**-**	**-**	**(432)**	**-**
Secured bank loans	**20,078**	**(21,112)**	**(2,720)**	**(2,605)**	**(3,430)**	**(4,357)**	**(8,000)**
Unsecured bank loan	**503**	**(520)**	**(194)**	**(326)**	**-**	**-**	**-**
[...]	**XXX**	**XXX**	**XXX**	**XXX**	**XXX**	**XXX**	**XXX**

IFRS 7.39(a), B11A–B11D

		Contractual cash flows					
31 December 2019 *In thousands of euro*	**Carrying amount**	**Total**	**2 months or less**	**2–12 months**	**1–2 years**	**2–5 years**	**More than 5 years**
Non-derivative financial liabilities							
Bank overdrafts	282	(282)	(282)	-	-	-	-
Secured bank loans	18,664	(19,647)	(4,720)	(3,605)	(3,810)	(6,512)	(1,000)
Unsecured bank loan	117	(125)	(63)	(62)	-	-	-
[...]	XXX	XXX	XXX	XXX	XXX	XXX	XXX

IFRS 7.B10A, B11D, B11F

The Group has a secured bank loan of €2,000 thousand that is repayable in 2023 and is included in the above liquidity disclosures on that basis. The loan contains a covenant stating that at the end of each quarter the Group's net debt (defined in the covenant as the Group's bank overdrafts, loans and borrowings and trade and other payables less cash and cash equivalents) cannot exceed 0.6 times the Group's revenue from continuing operations for the preceding 12 months, otherwise the loan will be repayable on demand. The covenant was met for each quarter during 2020. At 31 December 2020, the Group's net debt to revenue ratio was 0.4 (2019: 0.3).

The interest payments on variable interest rate loans in the table above reflect market forward interest rates at the reporting date and these amounts may change as market interest rates change. Except for these financial liabilities, it is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

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3.2.2 Inability to access funding

Fact pattern

The Group's credit facilities were terminated and reduced due to significant losses incurred by the Group as a result of the COVID-19 coronavirus pandemic. At the date of approval of the financial statements, management estimates that it will need additional financing to meet its current and future financial obligations. The Group is currently in discussions with its bankers about alternative financing arrangements. However, there is no assurance that financing can be obtained in the limited time period required and in the amount needed. If the Group is unable to obtain such financing in the limited time period required, then it may be unable to continue as a going concern.

Illustration of disclosures in the notes

Notes to the consolidated financial statements (extract)

1. Financial instruments – Fair values and risk management

A. Financial risk management

i. Liquidity risk

IFRS 7.31, 33, B11E–B11F

'Liquidity risk' is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's objective when managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions.

The COVID-19 pandemic lockdown placed severe stress on the Group's liquidity position as revenue-generating activities were severely restricted from 12 March to 31 December 2020. The Group has taken and continues to take actions to mitigate the impact, including reducing capital expenditure and operating expenses, terminating leases, selling off assets and suspending all discretionary dividend payments. On 8 May 2020, the Group announced a combination of lay-offs, furloughs and salary reductions, including for senior management. The Group believes that the effects of the COVID-19 pandemic on its operations will continue to have a material negative impact on its financial results and liquidity, and this negative impact may continue well beyond the containment of the COVID-19 pandemic.

IFRS 7.34(a), 39(c), B10A, B11E–B11F

Before the COVID-19 pandemic, the Group met its policy of maintaining the level of its cash and cash equivalents and other highly marketable debt investments at an amount in excess of expected cash outflows on financial liabilities over the following 90 days. However, the ratio of investments to outflows was 0.3 at 31 December 2020 (2019: 1.65). The Group also monitors the level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables. As at 31 December 2020, the expected cash inflows from trade and other receivables maturing within two months were €3,000 thousand (2019: €8,940 thousand) and the expected cash outflows on trade and other payables were €4,000 thousand (2019: €7,250 thousand). The Group estimates that it will need additional financing to meet its current and future financial obligations. The Group is actively seeking a buyer for its head office building as a way to generate cash inflows and continues to make efforts to reduce expenditure. However, the Group believes that without additional funding a material uncertainty exists that may cast significant doubt about the Group's ability to continue as a going concern (see Note X).

IAS 1.112(c), 7.50(a), IFRS 7.B11E–B11F

On 29 December 2020, the Group's credit ratings were downgraded from A to CCC by [*Rating Agency X*] and A3 to C3 by [*Rating Agency Y*]. This has made it difficult for the Group to refinance existing financial liabilities or to access alternative financing arrangements. It also resulted in the Group breaching a covenant in a secured loan of €3,460 thousand, which became repayable on 14 days' notice from the lender.

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1. Financial instruments – Fair values and risk management (continued)

A. Financial risk management (continued)

i. Liquidity risk (continued)

The following lines of credit were also terminated or reduced due to the significant losses incurred by the Group.

- €10,000 thousand unsecured overdraft facility terminated on 30 September 2020.
- €15,000 thousand unsecured facility that can be drawn down to meet short-term financing needs reduced to €5,000 thousand on 30 November 2020. Interest is payable at a rate of Euribor plus 300 basis points (2019: Euribor plus 110 basis points) on any drawn amounts. The facility remains undrawn as at 31 December 2020.

Exposure to liquidity risk

IFRS 7.39(a)

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

		Contractual cash flows					
31 December 2020 *In thousands of euro*	**Carrying amount**	**Total**	**2 months or less**	**2–12 months**	**1–2 years**	**2–5 years**	**More than 5 years**
Non-derivative financial liabilities							
Bank overdrafts	**1,334**	**(1,334)**	**(334)**	**(1,000)**	**-**	**-**	**-**
Secured bank loans	**17,069**	**(17,869)**	**(4,460)**	**(6,087)**	**(1,810)**	**(5,512)**	**-**
Unsecured bank loan	**1,503**	**(1,520)**	**(1,194)**	**(326)**	**-**	**-**	**-**
[…]	**XXX**	**XXX**	**XXX**	**XXX**	**XXX**	**XXX**	**XXX**

IFRS 7.39(a), B11A–B11D

		Contractual cash flows					
31 December 2019 *In thousands of euro*	**Carrying amount**	**Total**	**2 months or less**	**2–12 months**	**1–2 years**	**2–5 years**	**More than 5 years**
Non-derivative financial liabilities							
Bank overdrafts	282	(282)	(282)	-	-	-	-
Secured bank loan	12,078	(13,112)	(1,720)	(3,605)	(518)	(6,357)	(912)
Unsecured bank loan	117	(125)	(63)	(62)	-	-	-
[…]	XXX	XXX	XXX	XXX	XXX	XXX	XXX

IFRS 7.39(a), B11A–B11D

IFRS 7.B10A, B11D

The interest payments on variable interest rate loans in the table above reflect market forward interest rates at the reporting date and these amounts may change as market interest rates change. Except for these financial liabilities, it is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

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3.3 Hedge accounting

3.3.1 Hedged forecast transactions are no longer highly probable and/or expected to occur

Fact pattern

The Group has been applying cash flow hedge accounting under IFRS 9 *Financial Instruments* to foreign currency risk arising from forecast foreign currency sales denominated in US dollars that are determined to be "highly probable". The Group's risk management strategy has not changed due to the COVID-19 pandemic. However, since March 2020 the Group has been reflecting the impact of the COVID-19 pandemic in its budgets and plans, which are used for assessing whether forecast sales are "highly probable" and "expected to occur". In March 2020, the Group determined that $8,000 thousand of hedged forecast sales were no longer highly probable. As a result, the Group had to discontinue hedge accounting for those sales volumes as follows:

- $7,500 thousand of these forecast sales were no longer expected to occur and the related amounts that had been accumulated in the cash flow hedge reserve were reclassified to profit or loss. Accordingly, a net accumulated gain in the cash flow hedge reserve of €100 thousand was reclassified to profit or loss for the year ended 31 December 2020; and
- $500 thousand of these forecast sales are still expected to occur. The remaining cash flow hedge reserve balance related to these discontinued hedging relationships is €10 thousand.

Illustration of disclosures in the notes

Notes to the consolidated financial statements (extract)

1. Financial instruments – Fair values and risk management

A. Financial risk management

i. Market risk

Currency risk

IFRS 7.21C, 22A(a)

The Group is exposed to transactional foreign currency risk to the extent that there is a mismatch between the currencies in which sales are denominated and the respective functional currencies of Group companies. The functional currency of Group companies is primarily the euro and its foreign currency sales are denominated in US dollars. The Group uses forward exchange contracts to hedge currency risk on these sales and cash flow hedge accounting is applied when the requirements of IFRS 9 *Financial Instruments* are met, which include that a forecast transaction is highly probable.

IFRS 7.21A, 22A(b)–(c), 22C

The Group's risk management policy is to hedge between 75 and 85% of its estimated transactional foreign currency exposure in respect of forecast sales over the following 12 months.

IFRS 7.21A, 22A, 23E

The Group's risk management strategy has not changed due to the COVID-19 coronavirus pandemic. However, the economic downturn caused by the COVID-19 pandemic has significantly impacted the Group's budgets and plans and its assessments of whether forecast foreign currency sales are highly probable and expected to occur. During the year ended 31 December 2020, the Group discontinued cash flow hedges for which the hedged future sales were no longer considered highly probable and, if those future sales were no longer expected to occur, it immediately reclassified the related gains or losses accumulated in the cash flow hedge reserve to profit or loss (see Cash flow hedge below).

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Notes to the consolidated financial statements (extract)

1. Financial instruments – Fair values and risk management (continued)

A. Financial risk management (continued)

i. Market risk (continued)

Cash flow hedge

IFRS 7.23F, 24B(b)(iii), 24C(b)(iv)–(v)

Due to the impact of the COVID-19 pandemic, hedged forecast sales of $8,000 thousand were determined to be no longer highly probable following a reassessment of sales forecasts in March 2020. As a result, the Group discontinued hedge accounting relating to these forecast sales volumes and terminated an equivalent notional amount of hedging instruments relating to these sales.

$7,500 thousand of these forecast sales were no longer expected to occur and, to reflect this, a net accumulated gain in the cash flow hedge reserve of €100 thousand was reclassified to profit or loss and included in "finance costs – other" for the year ended 31 December 2020. At 31 December 2020, the Group still expects that $500 thousand of the previously forecast $8,000 thousand sales – although no longer highly probable – will occur. The balance remaining in the cash flow hedge reserve for these discontinued hedging relationships at 31 December is a €10 thousand gain.

IFRS 7.24B(b)

The amounts at the reporting date relating to items designated as hedged items, including the amounts related to the discontinued hedging relationships, were as follows.

	31 December 2020[a]			
In thousands of euro	Change in value used for calculating hedge ineffectiveness	Cash flow hedge reserve	Costs of hedging hedge reserve	Balances remaining in the cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied
Foreign currency risk				
Sales	XXX	XXX	XXX	10
[...]	XXX	XXX	XXX	XXX

a. Although they are not illustrated in this guide, comparative figures are also required to be provided.

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1. Financial instruments – Fair values and risk management (continued)

A. Financial risk management (continued)

i. Market risk (continued)

Cash flow hedges (continued)

IFRS 7.24A, 24C(b)

The amounts relating to items designated as hedging instruments and hedge ineffectiveness were as follows.

	2020[a]			
		Carrying amount		Line item in the statement of financial position where the hedging instrument is included
In thousands of euro	Nominal amount	Assets	Liabilities	
Foreign currency risk				
Forward exchange contracts – sales	XXX	XXX	XXX	[…]
[…]	XXX	XXX	XXX	[…]

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During the period – 2020				
Changes in the value of the hedging instrument recognised in OCI	Hedge ineffectiveness recognised in profit or loss	Line item in profit or loss that includes hedge ineffectiveness	Amount reclassified from hedging reserve to profit or loss	Line item in profit or loss affected by the reclassification
XXX	XXX	[...]	XXX	Revenue (relating to hedged transactions that have affected profit or loss)
			100	Finance costs – other (relating to amounts for which the hedged transaction is no longer expected to occur)
XXX	XXX	[...]	XXX	[...]

a. Although they are not illustrated in this guide, comparative figures are also required to be provided.

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3.3.2 When a net accumulated loss in the cash flow hedge reserve is not expected to be recoverable in one or more future periods

Fact pattern

The Group uses forward contracts to hedge the price risk of highly probable forecast purchases of Commodity X, which is a major component of finished Product Y. The Group applies cash flow hedge accounting under IFRS 9 *Financial Instruments*.

The market price of Commodity X and the sales price of Product Y have declined due to the COVID-19 coronavirus pandemic. A loss of €200 thousand on the hedging instruments was accumulated in the cash flow hedge reserve during the year ended 31 December 2020. However, the Group expects that €80 thousand of this loss will not be recovered in future periods and therefore it reclassified that amount into profit or loss as a reclassification adjustment at 31 December 2020.

Illustration of disclosures in the notes

Notes to the consolidated financial statements (extract)

1. Financial instruments – Fair values and risk management

A. Financial risk management

i. Market risk

Other market price risk

IFRS 7.21C

The Group uses forward contracts to hedge the price risk of highly probable forecast purchases of Commodity X, which is a major component used in the production of finished Product Y. The Group applies cash flow hedge accounting and the effective portion of changes in the fair value of the forward contracts is recognised in OCI and accumulated in the cash flow hedge reserve.

Cash flow hedges

IFRS 7.24C(b)(iv)–(v), [IFRS 9.6.5.11(d)(iii)]

During the year ended 31 December 2020, the market price of Commodity X declined due to the economic turbulence resulting from the COVID-19 coronavirus pandemic and a loss of €200 thousand on the hedging instruments was accumulated in the cash flow hedge reserve.

The Group evaluates the recoverability of any accumulated loss in the cash flow hedge reserve by comparing the expected net realisable value of hedged future purchases of Commodity X with the expected cost of those purchases. Because of declines in the expected sales prices of Product Y, the Group expects that €80 thousand of this €200 thousand loss will not be recovered in future periods and, therefore, it has reclassified the former amount from the cash flow hedge reserve into profit or loss as a reclassification adjustment at 31 December 2020. This reclassification adjustment is included in "finance costs – other" in profit or loss and the remaining accumulated cash flow hedge reserve is €120 thousand at 31 December 2020.

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Notes to the consolidated financial statements (extract)

1. Financial instruments – Fair values and risk management (continued)

A. Financial risk management (continued)

i. Market risk (continued)

Cash flow hedges (continued)

IFRS 7.24A, 24C(b)

The amounts relating to items designated as hedging instruments and hedge ineffectiveness were as follows.

	2020[a]			
		Carrying amount		
In thousands of euro	Nominal amount	Assets	Liabilities	Line item in the statement of financial position where the hedging instrument is included
Commodity price risk				
Forward contracts – Purchases	XXX	XXX	XXX	[...]
[...]	XXX	XXX	XXX	[...]

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During the period – 2020					
Changes in the value of the hedging instrument recognised in OCI	Hedge ineffectiveness recognised in profit or loss	Line item in profit or loss that includes hedge ineffectiveness	Amount from hedging reserve transferred to cost of inventory	Amount reclassified from hedging reserve to profit or loss	Line item in profit or loss affected by the reclassification
XXX	**XXX**	[...]	**XXX**	**(80)**	Finance costs – other (relating to losses not expected to be recovered)
XXX	**XXX**	[...]	**XXX**	**XXX**	[...]

a. Although they are not illustrated in this guide, comparative figures are also required to be provided.

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3.3.3 A payment holiday has been granted on a financial liability that has been designated as a hedged item in a cash flow hedge

Fact pattern

The Group uses interest rate swaps to hedge the variability of future interest payments on a floating-rate loan attributable to movements in the relevant benchmark interest rate. The Group applies cash flow hedge accounting under IFRS 9 *Financial Instruments*.

At 30 June 2020, the lender agreed that interest payments originally due between 1 July 2020 and 31 December 2020 would be deferred to the maturity date of the hedged loan, which is 30 June 2021. The payment holiday has been determined to be a non-substantial modification and the hedging relationship does not need to be discontinued because the hedged future cash flows are still highly probable to occur based on the original hedge designation.[a] The hedging relationship still meets the hedge effectiveness requirement, but the payment holiday has led to some hedge ineffectiveness. (Note: The illustrative disclosure below does not extend to the changes to tabular disclosures required under paragraph 24A–E of IFRS 7 *Financial Instruments: Disclosures*.)

Illustration of disclosures in the notes

Notes to the consolidated financial statements (extract)

1. Financial instruments – Fair values and risk management

A. Financial risk management

i. Market risk

Impact of payment holiday on hedging relationship

IFRS 7.21A, 21D, 23E

At 30 June 2020, a payment holiday was granted on a floating-rate secured bank loan with a carrying amount of €10,000 thousand, which was and is designated as a hedged item in a cash flow hedge of interest rate risk. The payment holiday was granted by the counterparty bank as a result of the COVID-19 coronavirus pandemic, not because of financial difficulties of the Group. The payment holiday has deferred the interest payments originally due between 1 July 2020 and 31 December 2020 to the maturity date of the loan, which is 30 June 2021. The Group has determined that the payment holiday did not result in a substantial modification of the loan and has recognised a modification gain on the loan of €9 thousand in profit or loss.

The timing of hedged cash flows has been changed due to the payment holiday, but the Group considers that they are still highly probable to occur and that the hedge continues to be effective consistent with the original hedge designation.[a] However, the change in timing of the hedged cash flows has led to a mismatch with the timing of the respective cash flows of the hedging instrument. The recognition of ineffectiveness resulted in a loss of €3 thousand in "finance costs – other" in profit or loss during the year ended 31 December 2020.

a. The impact of a payment holiday on a hedging relationship will vary depending on the facts and circumstances, including the nature and extent of the payment holiday, the type of hedge and the hedge designation.

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4 Government assistance

4.1 Wage subsidy

Fact pattern

In response to the COVID-19 coronavirus pandemic, in March 2020 the government of [*Country C*] introduced a wage subsidy programme for companies that had to shut their operations and furlough[a] staff. Under the programme, an eligible company could apply for the subsidy in an amount of up to 75% of each employee's salary, subject to a maximum of €2,000 per employee, to continue paying monthly salaries to its furloughed employees.

The Group's application for the programme was approved in March 2020 and it was entitled to the wage subsidy on a monthly basis conditional on the employees continuing to be on furlough and the Group continuing paying their salary. The Group benefited from the programme from March to July 2020. The Group received a wage subsidy of €2,350 thousand under the programme. The Group presents grants related to income as 'other income' in the statement of profit or loss and other comprehensive income.

Illustration of disclosures in the notes

Notes to the consolidated financial statements (extract)

1. Income and expenses

A. Other income

IAS 1.97

In thousands of euro	*Note*	2020	2019
Change in fair value of biological assets (*IAS 41.40*)		**587**	28
Increase in fair value of investment property (*IAS 40.76(d)*)		**20**	60
Government grants (*IAS 20.29*)	*2(A)*	**2,588**	-
Gain on sale of property, plant and equipment (*IAS 1.98(c)*)		**48**	16
		3,243	104

2. Deferred income

In thousands of euro	*Note*	2020	2019
Government grants[b]	*(A)*	**1,424**	1,462
		1,424	1,462
Non-current		**1,424**	1,462
Current		**-**	-
		1,424	1,462

A. Government grants

IAS 20.39(b)–(c)

The Group has been awarded three government grants. One of the grants, received in 2019, amounted to €1,462 thousand and was conditional on the acquisition of factory premises in a specified region. The factory has been in operation since early 2020 and the grant, recognised as deferred income, is being amortised over the useful life of the building. In accordance with the terms of the grant, the Group is prohibited from selling the factory premises for a period of 15 years from the date of the grant.

a. Lay off employees temporarily.

IAS 20.24, Insights 4.3.130.60

b. The Group has elected to present government grants related to assets as deferred income. Alternatively, an entity may present these grants as a deduction in arriving at the carrying amount of the asset.

The deferred income is generally classified as a non-current liability when an entity presents a classified statement of financial position.

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Notes to the consolidated financial statements (extract)

2. Deferred income (continued)

A. Government grants (continued)

The second grant, received in 2020, was unconditional, amounted to €200 thousand and related to pine trees. This grant was recognised in profit or loss in full and presented in 'other income' when it became receivable (see Note 1(A)). There is no outstanding balance of deferred income related to this grant as at 31 December 2020.

The third grant, received in 2020, amounted to €2,350 thousand and related to a wage subsidy programme introduced in [*Country C*] in response to the COVID-19 coronavirus pandemic. The Group was entitled to the wage subsidy because it had to shut down its operations in [*Country C*] and furlough its employees from March to July 2020. The grant was recognised in profit or loss in 'other income' as the related wages and salaries for furloughed employees were recognised (see Note 1(A)). There is no outstanding balance of deferred income or receivable related to this grant as at 31 December 2020.

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4.2 Income tax subsidy

Fact pattern

On 27 March 2020, the US president signed into law the *Coronavirus Aid, Relief, and Economic Security (CARES) Act* with retroactive effect. As a result, the Group will benefit from the following tax reliefs.

a. Carry-back of net operating losses

The Act allows companies to carry back for five years the full amount of net operating losses arising in tax years beginning after 31 December 2017 and before 1 January 2021. At 31 December 2019, the Group's US subsidiary had unrecognised tax losses of €350 thousand (tax impact at 21% – €74 thousand). As a result of the Act, the Group has now recognised a tax effect of €240 thousand of previously unrecognised tax losses (tax impact at 35% – €84 thousand).

b. Interest deductibility

The Act increases the cap (from 30 to 50% of adjusted taxable income) on interest expense that can be deducted for tax years beginning in 2019 and 2020. As a result, the Group revised its estimate of current tax payable for 2019 for its US subsidiary and decreased it by €5 thousand. This change in estimate related to the prior year is recognised as a reduction of current tax expense and a reduction in deferred tax benefit in 2020.

c. Alternative minimum tax (AMT)

The Act accelerates the receipt of outstanding credits under the AMT regime (repealed in 2017). At 31 December 2019, the Group's US subsidiary had a deferred tax asset related to AMT credits of €10 thousand. As a result of the Act, the Group used the entire outstanding credit to reduce its estimate of current taxable payable for 2019. This change in estimate had the effect of reclassifying the deferred tax asset as a current tax receivable, with no effect on income tax expense as a whole.

Illustration of disclosures in the notes

Notes to the consolidated financial statements (extract)

1. Income taxes

A. Amounts recognised in profit or loss

In thousands of euro	*Note*	2020	2019
Current tax expense			
Current year		**3,063**	3,594
Changes in estimates related to prior years		**116**	(34)
		3,179	3,560
Deferred tax expense			
Origination and reversal of temporary differences		**77**	(865)
Reduction in tax rate		**(15)**	(5)
Recognition of previously unrecognised tax losses	*1(H)*	**(95)**	(240)
Recognition of previously unrecognised (derecognition of previously recognised) deductible temporary differences		**(13)**	10
		(46)	(1,100)
Tax expense on continuing operations		**3,133**	2,460

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Notes to the consolidated financial statements (extract)

1. Income taxes (continued)

A. Amounts recognised in profit or loss (continued)

[IAS 12.80(b)]

On 27 March 2020, the US president signed into law the *Coronavirus Aid, Relief, and Economic Security (CARES) Act* with retroactive effect. Under the Act, the limit on deductible interest expense was increased from 30 to 50% of adjusted taxable income for 2019 and 2020 tax years. As a result, the Group revised its estimate of tax due for 2019 and decreased it by €5 thousand. This change in estimate related to the prior year is recognised as a current tax credit in 2020.
In addition, the Act allows companies to use any remaining credits related to the AMT regime, which was repealed in 2017, in their full amount in the 2019 tax year. As a result, the Group used the entire outstanding credit of €10 thousand to reduce its estimate of current taxable payable for 2019. This change in estimate had the effect of reclassifying the deferred tax asset as a current tax receivable, with no effect on income tax expense as a whole.

B. Amounts recognised in OCI

[…]

C. Amounts recognised directly in equity

[…]

D. Reconciliation of effective tax rate

In thousands of euro	***Note***	**2020**	**2020**	**2019**	**2019**
Profit before tax from continuing operations			**10,351**		8,856
Tax using the Company's domestic tax rate		**33.00%**	**3,416**	33.00%	2,922
Effect of tax rates in foreign jurisdictions		**(0.71%)**	**(73)**	(0.55%)	(49)
Reduction in tax rate		**(0.14%)**	**(15)**	(0.06%)	(5)
Tax effect of:					
– Share of profit of equity-accounted investees reported, net of tax		**(3.64%)**	**(377)**	(2.19%)	(194)
– Non-deductible expenses		**2.37%**	**245**	0.41%	36
– Tax-exempt income		**(0.23%)**	**(24)**	(0.56%)	(50)
– Tax incentives		**(0.85%)**	**(88)**	(0.71%)	(63)
– Current-year losses for which no deferred tax asset is recognised		**0.40%**	**41**	1.43%	127
Recognition of previously unrecognised tax losses	*1(H)*	**(0.48%)**	**(95)**	(2.71%)	(240)
Recognition of previously unrecognised (derecognition of previously recognised) deductible temporary differences		**(0.13%)**	**(13)**	0.11%	10
Changes in estimates related to prior years		**1.12%**	**116**	(0.38%)	(34)
		30.70%	**3,133**	27.78%	2,460

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Notes to the consolidated financial statements (extract)

1. Income taxes (continued)

E. Movement in deferred tax balances

2020 *In thousands of euro*	**Net balance at 1 January**	**Recognised in profit or loss (see 1(A))**
Property, plant and equipment	**580**	**(71)**
Intangible assets	**56**	**4**
Biological assets	**(22)**	**(182)**
Investment property	**(30)**	**(7)**
Investment in securities	**(56)**	**(7)**
Trade and other receivables, including contract assets	**53**	**17**
Derivatives	**(39)**	**(5)**
Inventories	**64**	**96**
Loans and borrowings	**-**	**-**
Employee benefits	**(91)**	**21**
Equity-settled share-based payments	**225**	**88**
Provisions	**508**	**(13)**
Deferred income	**54**	**(15)**
Other items	**14**	**25**
Tax losses carried forward	**386**	**95**
Tax assets (liabilities) before set-off	**1,702**	**46**
Set-off of tax		
Net tax assets (liabilities)		

2019 *In thousands of euro*	**Net balance at 1 January**	**Recognised in profit or loss (see 1(A))**
Property, plant and equipment	209	366
Intangible assets	(38)	94
Biological assets	(25)	3
Investment property	(10)	(20)
Investment in securities	(18)	1
Trade and other receivables, including contract assets	-	53
Derivatives	(12)	1
Inventories	8	56
Employee benefits	(90)	(6)
Equity-settled share-based payments	141	82
Provisions	290	218
Deferred income	46	8
Other items	10	4
Tax losses carried forward	146	240
Tax assets (liabilities) before set-off	657	1,100
Set-off of tax		
Net tax assets (liabilities)		

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Recognised in OCI (see 1(B))	Recognised directly in equity (see 1(C))	Acquired in business combinations	Other	Balance at 31 December Net	Deferred tax assets	Deferred tax liabilities
(66)	**-**	**(35)**	**210**	**618**	**739**	**(121)**
-	**-**	**(38)**	**-**	**22**	**98**	**(76)**
-	**-**	**-**	**-**	**(204)**	**-**	**(204)**
-	**-**	**-**	**-**	**(37)**	**-**	**(37)**
(44)	**-**	**-**	**-**	**(107)**	**32**	**(139)**
-	**-**	**-**	**-**	**70**	**70**	**-**
16	**-**	**-**	**-**	**(28)**	**3**	**(31)**
-	**-**	**(3)**	**40**	**197**	**197**	**-**
-	**(54)**	**(9)**	**-**	**(63)**	**-**	**(63)**
(24)	**-**	**-**	**-**	**(94)**	**160**	**(254)**
-	**-**	**-**	**-**	**313**	**313**	**-**
-	**-**	**6**	**-**	**501**	**501**	**-**
-	**-**	**-**	**-**	**39**	**39**	**-**
-	**-**	**-**	**(10)**	**29**	**40**	**(11)**
-	**-**	**-**	**-**	**481**	**481**	**-**
(118)	**(54)**	**(79)**	**240**	**1,737**	**2,673**	**(936)**
				-	**(387)**	**387**
				1,737	**2,286**	**(549)**

Recognised in OCI (see 1(B))	Recognised directly in equity (see 1(C))	Acquired in business combinations	Other	Balance at 31 December Net	Deferred tax assets	Deferred tax liabilities
-	-	-	-	575	658	(83)
-	-	-	-	56	94	(38)
-	-	-	-	(22)	-	(22)
-	-	-	-	(30)	-	(30)
(38)	-	-	-	(55)	16	(71)
-	-	-	-	53	53	-
(29)	-	-	-	(40)	3	(43)
-	-	-	-	64	64	-
5	-	-	-	(91)	150	(241)
-	2	-	-	225	225	-
-	-	-	-	508	508	-
-	-	-	-	54	54	-
-	-	-	-	14	18	(4)
-	-	-	-	386	386	-
(62)	2	-	-	1,697	2,229	(532)
				-	(126)	126
				1,697	2,103	(406)

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1. Income taxes (continued)

F. Unrecognised deferred tax liabilities

[…]

G. Unrecognised deferred tax assets

[…]

H. Tax losses carried forward

[IAS 1.125, 129, 12.82]

On 27 March 2020, the US president signed into law the *Coronavirus Aid, Relief, and Economic Security (CARES) Act*. The Act allows companies to carry back for five years the full amount of net operating losses arising in tax years beginning after 31 December 2017 and before 1 January 2021. As a result, the Group has now recognised the tax effect of €240 thousand of previously unrecognised tax losses (tax impact €84 thousand).

I. Uncertainty over income tax treatments

[…]

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4.3 Financial guarantee

Fact pattern

The Group entered into a bank loan of €3,250 thousand in June 2020 with an annual interest rate of 4.10%, which matures on 30 June 2022. The government of [*Country X*] introduced a general financial support scheme in response to the economic impacts of the COVID-19 coronavirus pandemic, which provided a guarantee of the full amount of qualifying new corporate loans issued by banks in [*Country X*] from 1 April to 31 July 2020 up to the value of €5,000 thousand. The loan qualified for this financial support scheme and is guaranteed by the government of [*Country X*].

The Group determined that the interest rate for an equivalent loan issued on an arm's length basis without the guarantee would have been 5.20%. The Group concluded that the difference between the interest rate of 4.10% and 5.20% is government assistance that is intended to compensate the Group for interest expense that would otherwise be incurred if the loan were not guaranteed under the financial support scheme.

Illustration of disclosures in the notes

Notes to the consolidated financial statements (extract)

1. Significant accounting policies

A. Government grants[a] and government assistance[b, c]

IAS 20.39(a), [IAS 20.7, 26, 41.34–35]

The Group recognises an unconditional government grant related to a biological asset in profit or loss as other income when the grant becomes receivable. Other government grants related to assets are initially recognised as deferred income at fair value if there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant; they are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the periods in which the expenses are recognised, unless the conditions for receiving the grant are met after the related expenses have been recognised. In that case, the grant is recognised when it becomes receivable.

IAS 20.3, Insights 2.4.380.30

Government assistance in the form of a guarantee from the government for loans from financial institutions is considered part of the unit of account in determining the fair value of the loan.

Insights 4.3.140.10

a. An entity chooses a presentation format, to be applied consistently, either to offset a grant related to income against the related expenditure (net presentation) or to present it separately or under a general heading such as 'other income' (gross presentation).

b. In our view, an entity should choose an accounting policy, to be applied consistently, to account for government assistance in the form of a guarantee from the government for loans from financial institutions under the gross or the net approach. If an entity applies the gross approach to government assistance, then it is accounted for as a separate government grant under IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. If an entity applies the net approach to government assistance, then it is considered part of the unit of account in determining the fair value of the loan.

c. If an entity applies the gross approach to government assistance in the form of a guarantee from the government for loans from financial institutions, then it presents the related income in profit or loss applying the presentation policy chosen for government grants related to income (see footnote (a) above). If an entity applies the net approach to such government assistance, then its impact is reflected in determining the interest expense on the loan.

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Notes to the consolidated financial statements (extract)

IFRS 7.8(g)

2. Loans and borrowings

IAS 1.77

In thousands of euro	**2020**	**2019**
Non-current liabilities		
Unsecured bank loans*	**3,317**	-
[…]	**XXX**	XXX
Current liabilities		
[…]	**XXX**	XXX

Information about the Group's exposure to interest rate, foreign currency and liquidity risks is included in Note X.

* Included in 'unsecured bank loans' at 31 December 2020 is a bank loan of €3,250 thousand with an annual interest rate of 4.10% that matures on 30 June 2022. The full amount of this loan is guaranteed by the government of [*Country X*] (see Note 4).

IFRS 7.7

A. Terms and repayment schedule

The terms and conditions of outstanding loans are as follows.

IFRS 7.42D(e)

				31 December 2020		**31 December 2019**	
In thousands of euro	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured bank loan	EUR	4.10%	2022	**3,250**	**3,317**	-	-
[…]	[…]	X%	20XX	**XXX**	**XXX**	XXX	XXX

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Notes to the consolidated financial statements (extract)

3. Financial instruments – Fair values and risk management

A. Accounting classifications and fair values

IFRS 7.8, 25–26, 29, 13.93(a)–(b), 94, 97, 99

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

31 December 2020 *In thousands of euro*	*Note*	Carrying amount Fair value – hedging instruments	 Mandatorily at FVTPL – others	 FVOCI – debt instruments
Financial liabilities not measured at fair value				
Unsecured bank loans*	*2*	-	-	-
[…]	[…]	**XXX**	**XXX**	**XXX**

* Included in 'unsecured bank loans' at 31 December 2020 is a bank loan of €3,250 thousand that matures on 30 June 2022. The full amount of this loan is guaranteed by the government of [*Country X*]. The financial guarantee is a third party credit enhancement, which is reflected in the loan's fair value measurement of €3,290 thousand presented in the table above. For further information, see Note 4.

Notes to the consolidated financial statements (extract)

4. Government assistance

IAS 20.39(b)–(c)

The Group entered into a bank loan of €3,250 thousand in June 2020 with an annual interest rate of 4.10%, which matures on 30 June 2022 (see Note 2). The government of [*Country X*] introduced a general financial support scheme in response to the economic impacts of the COVID-19 coronavirus pandemic, which provided a guarantee of the full amount of qualifying new corporate loans issued by banks in [*Country X*] from 1 April to 31 July 2020 up to the value of €5,000 thousand. The loan qualified for this financial support scheme and is guaranteed by the government of [*Country X*].

The Group determined that the interest rate for an equivalent loan issued on an arm's length basis without the guarantee would have been 5.20%. The Group concluded that the difference between the interest rate of 4.10% and 5.20% is government assistance that is intended to compensate the Group for interest expense that would otherwise be incurred if the loan were not guaranteed under the financial support scheme. This government assistance is recognised and measured as part of the unit of account in determining the fair value of the loan (see Note 3(A)). There are no unfulfilled conditions or contingencies for the government assistance at 31 December 2020.

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Carrying amount				Fair value			
FVOCI – equity instruments	Financial assets at amortised cost	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
-	-	(3,317)	(3,317)	-	(3,290)	-	(3,290)
XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX

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5 Rent concessions

Fact pattern

In response to the COVID-19 coronavirus pandemic, in May 2020 the International Accounting Standards Board (the Board) issued an amendment to IFRS 16 *Leases* to provide practical relief for lessees in accounting for rent concessions. Under the practical expedient, lessees are not required to assess whether eligible rent concessions are lease modifications, and instead are permitted to account for them as if they were not lease modifications. Rent concessions are eligible for the practical expedient if they occur as a direct consequence of the COVID-19 pandemic and if all of the following criteria are met:

– the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

– any reduction in lease payments affects only payments originally due on or before 30 June 2021; and

– there is no substantive change to the other terms and conditions of the lease.

The amendment is effective for annual periods beginning on or after 1 June 2020. Early application is permitted.

The Group has early adopted the amendment and applied the practical expedient consistently to eligible rent concessions.

Illustration of disclosures in the notes

Notes to the consolidated financial statements (extract)

1. Change in accounting policy

The Group has early adopted *COVID-19-Related Rent Concessions – Amendment to IFRS 16* issued on 28 May 2020. The amendment introduces an optional practical expedient for leases in which the Group is a lessee – i.e. for leases to which the Group applies the practical expedient, the Group is not required to assess whether eligible rent concessions that are a direct consequence of the COVID-19 coronavirus pandemic are lease modifications. The Group has applied the amendment retrospectively. The amendment has no impact on retained earnings at 1 January 2020.

2. Significant accounting policies

A. Leases

[IFRS 16.9]

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

i. As a lessee

[IFRS 16.15, 45]

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

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Notes to the consolidated financial statements (extract)

2. Significant accounting policies (continued)

A. Leases (continued)

i. As a lessee (continued)

[IFRS 16.22–24]

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

[IFRS 16.29–33]

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case, the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

[IFRS 16.26]

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

IAS 1.112(c)

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

[IFRS 16.27]

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

[IFRS 16.36, 40, 42]

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

[IFRS 16.39]

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

[IFRS 16.47–48]

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

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Notes to the consolidated financial statements (extract)

2. Significant accounting policies (continued)

A. Leases (continued)

i. As a lessee (continued)

Short-term leases and leases of low-value assets

IFRS 16.60, [IFRS 16.5–6, 8, B3–B8, BC100]

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

COVID-19-related rent concessions

IFRS 16.60A(a), BC205C

The Group has applied *COVID-19-Related Rent Concessions – Amendment to IFRS 16*. The Group applies the practical expedient allowing it not to assess whether eligible rent concessions that are a direct consequence of the COVID-19 pandemic are lease modifications. The Group applies the practical expedient consistently to contracts with similar characteristics and in similar circumstances. For rent concessions in leases to which the Group chooses not to apply the practical expedient, or that do not qualify for the practical expedient, the Group assesses whether there is a lease modification.

3. Leases[a, b]

See accounting policy in Note 2(A).

A. Leases as lessee

IFRS 16.51, 59

The Group leases several retail stores and distribution vehicles. The retail store leases typically run for a period of 10 years, with an option to renew the lease after that date. Lease payments are renegotiated every five years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices. For certain leases, the Group is restricted from entering into any sub-lease arrangements. Leases of the distribution vehicles typically run for a period of five years with no renewal options.

B. Rent concessions

IFRS 16.60A(a)–(b)

The Group negotiated rent concessions with its landlords for the majority of its retail store leases as a result of the severe impact of the COVID-19 pandemic during the year. The Group also negotiated rent concessions for certain of its leases of distribution vehicles. The Group applied the practical expedient for COVID-19-related rent concessions consistently to eligible rent concessions relating to its retail store leases. The Group continues to account for rent concessions relating to its distribution vehicle leases under other applicable guidance in IFRS 16.

The amount recognised in profit or loss for the reporting period to reflect changes in lease payments arising from rent concessions to which the Group has applied the practical expedient for COVID-19-related rent concessions is €500 thousand (2019: nil).

IFRS 16.C20B

a. This guide illustrates the additional disclosures that an entity may make under IFRS 16. Other formats are possible. Lessees are specifically exempt from the requirement to disclose the information usually required by paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* when they adopt the amendment.

IFRS 16.60A(b)

b. The impact of the changes in lease payments that arise from rent concessions to which the Group has applied the practical expedient are presented as operating items in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows.

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6 Capitalisation of borrowing costs

6.1 Suspension of capitalisation of borrowing costs

Fact pattern

On 1 January 2019, the Group acquired a piece of land for €3,000 thousand, with the intention of constructing a new factory on the site. Construction began on 10 January 2019 and was expected to take two years. From 1 April to 30 June 2020, the Group suspended construction of the factory due to the COVID-19 coronavirus pandemic, but some employees were able to perform minor technical and administrative work while working from home.

Construction restarted on 1 July 2020 and the factory is now expected to be completed by 31 March 2021. The Group has funded the project with general borrowings that have a weighted-average interest rate of 5%.

Illustration of disclosures in the notes

Notes to the consolidated financial statements (extract)

1. Property, plant and equipment

A. Property, plant and equipment under construction

IAS 16.74(b)

On 1 January 2019, the Group acquired a piece of land for €3,000 thousand and began constructing a new factory on the site. Expenditure recognised in the carrying amount at 31 December 2020 totalled €29,363 thousand (2019: €15,425 thousand).

IAS 23.26

Included in this amount are capitalised borrowing costs for the period ended 31 December 2020 of €728 thousand (2019: €425 thousand), calculated using a capitalisation rate of 5% (2019: 5%).

IAS 1.122–123, [IAS 23.20–21, Insights 4.6.160.30]

From 1 April to 30 June 2020, the Group suspended construction of the factory due to the COVID-19 coronavirus pandemic. The Group suspended capitalisation of borrowing costs during this period because it believes that this was an extended period during which active development was suspended and the technical and administrative work performed during this period was insignificant. The borrowing costs directly attributable to the project that were not capitalised and were instead recognised in profit or loss during this period amounted to €230 thousand. The Group restarted capitalisation of borrowing costs on 1 July 2020 when construction of the factory resumed.

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6.2 Renegotiation of specific borrowings

Fact pattern

On 1 January 2019, the Group acquired a piece of land for €3,000 thousand, with the intention of constructing a new factory on the site. Construction began on 10 January 2019 and is expected to be completed on 10 January 2021. The Group has funded the project with specific borrowings with an effective interest rate of 5%.

The Group received a waiver of interest due on these specific borrowings from 1 April to 30 June 2020 as part of support measures extended to manufacturers as a result of the COVID-19 coronavirus pandemic.

Illustration of disclosures in the notes

Notes to the consolidated financial statements (extract)

1. Property, plant and equipment

A. Property, plant and equipment under construction

IAS 16.74(b)

On 1 January 2019, the Group acquired a piece of land for €3,000 thousand and began constructing a new factory on the site. Expenditure recognised in the carrying amount at 31 December 2020 totalled €28,013 thousand (2019: €16,350 thousand).

IAS 23.26

Included in this amount are capitalised borrowing costs for the period ended 31 December 2020 of €1,013 thousand (2019: €1,350 thousand).

IAS 1.112(c)

From 1 April to 30 June 2020, the Group received a waiver of interest due on the specific borrowings used to finance the construction of the factory. The modification resulted in a reduction in capitalised borrowing costs of €337 thousand in 2020.

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7 Dividends

7.1 Dividend cancellation

Fact pattern

The board of directors proposed dividends on qualifying ordinary shares and non-redeemable preference shares on 14 February 2020. The dividends were due to be paid on 8 May 2020. However, due to the COVID-19 coronavirus pandemic the board of directors decided on 31 March 2020 to cancel these dividends and to suspend discretionary dividend payments during 2020.

After the reporting date, the board of directors decided to continue with this policy to suspend discretionary dividends during 2021, but it plans to resume paying dividends in 2022.

Illustration of disclosures in the notes

Notes to the consolidated financial statements (extract)

1. Capital and reserves

A. Dividends

IAS 1.107

The board of directors proposed dividends of 15.97 cents (2019: 4.28 cents) per qualifying ordinary share and 25.03 cents (2019: 25.03 cents) per non-redeemable preference share on 14 February 2020 to be paid on 8 May 2020. However, due to the COVID-19 coronavirus pandemic, the board of directors decided on 31 March 2020 to cancel those proposed 2020 dividends, totalling €496 thousand on qualifying ordinary shares and €438 thousand on non-redeemable preference shares, and not to declare any discretionary dividend payments during 2020. The board of directors believes that the headroom generated by this decision is prudent given the uncertainties arising from the COVID-19 pandemic. The following dividends were declared and paid by the Company in 2019.

In thousands of euro	**2019**
Dividends paid on qualifying ordinary shares	133
Dividends paid on non-redeemable preference shares	438
	571

IAS 1.135(c), 137(a), 10.13

After the reporting date, the board of directors decided to continue with its policy to suspend dividends for ordinary qualifying shares and non-redeemable preference shares during 2021 in order to maintain a larger capital base during the economic downturn arising from the COVID-19 pandemic. The board of directors expects to resume discretionary dividend payments in 2022.

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7.2 Suspension of future dividends

Fact pattern

The Company declared dividends on qualifying ordinary shares and non-redeemable preference shares on 14 February 2020. The dividends were paid on 8 May 2020. However, after this, due to the COVID-19 coronavirus pandemic the board of directors decided to suspend future discretionary dividends.

Illustration of disclosures in the notes

Notes to the consolidated financial statements (extract)

1. Capital and reserves

A. Dividends

IAS 1.107

The following dividends were declared on 14 February 2020 and paid on 8 May 2020.

In thousands of euro	**2020**	**2019**
5.97 cents per qualifying ordinary share (2019: 4.28 cents)	**185**	133
25.03 cents per non-redeemable preference share (2019: 25.03 cents)	**438**	438
	623	571

IAS 1.135(c)

The board of directors has adopted a progressive dividend policy intending to maintain or grow the dividend each year. However, the board of directors decided to suspend payment of dividends on qualifying ordinary shares and non-redeemable preference shares until 2022 after careful consideration of distributable reserves, the capital base of the Group and earnings fluctuations arising from the COVID-19 coronavirus pandemic. The board of directors plans to review the dividend policy during 2021.

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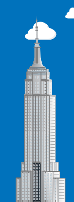

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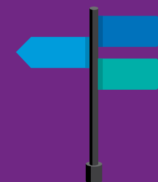

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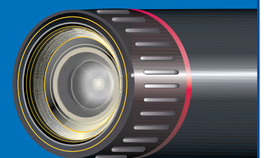

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