## Key considerations for Impairment of Property, plant and equipment, Right of use assets and Intangible assets under the COVID-19 situation

The Institute's Technical Services team has prepared this publication to facilitate the members and preparers of financial statements in identifying and addressing the financial reporting implications relating to impairment of tangible and intangible assets under COVID-19 situation. The publication highlights key considerations under IAS 36 *Impairment of Assets*. Further, publication also includes extracts from the annual reports of international companies of different sectors. The extracts: (a) provide impairment tests related disclosures provided in the audited financial statements of various companies; and (b) present discussion of impairment related key audit matters in the independent auditors' reports of these companies.

Companies across different sectors have been adversely impacted by the interruption in the economic activity and uncertainty.

The COVID-19 related conditions and evolving circumstances, in general, are expected to cause cash flows problems, financing constraints, supply chain disruptions, consumer demand decline, investment deteriorations, under-utilization of assets, legal and contractual non-compliances and unavailability of human resources. In certain cases, the adverse conditions would trigger existential concerns for companies.

**Key Consideration**

Whether the carrying values of property, plant and equipment and right of use asset are recoverable

Generally, in times of recession, there is an increased likelihood of triggering events, which are indications that an asset may be impaired. The COVID-19 has made impairment considerations an area of concern for all industry sectors.

Previously, companies in the absence of triggering events might not have performed impairment testing. However, in the current COVID-19 situation, companies may be required to review recoverability of their assets in accordance with the requirements of IAS 36 (IFRS for SMEs in case of medium-sized company and AFRS for SSEs in case of a small-sized company).

IAS 36 deals with impairment testing for all tangible and intangible assets, except for assets that are covered by other IFRS. IAS 36 provides impairment guidance for the following assets:

| | | | | | |
|---|---|---|---|---|---|
| **IAS 36** | Property, plant and equipment (Including assets not ready for use) | Right of use of asset | Investment property (measured at cost) | Goodwill and intangible assets with indefinite useful life | Financial assets classified as subsidiaries, associates and joint ventures |

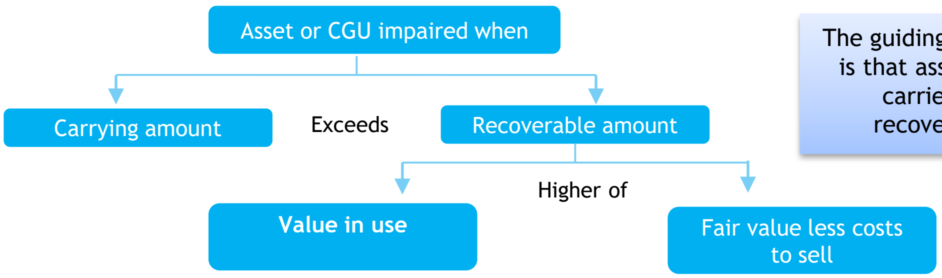
Following non-financial and financial assets are scope out of IAS 36, and the impairment related guidance for these assets are provided within other IFRS:

| Impairment of asset | Relevant IFRS |
|---|---|
| Inventories | IAS 2 |
| Deferred tax assets | IAS 12 |
| Assets arising from employee benefits | IAS 19 |
| Investment property (measured using the fair value method) | IAS 40 |

| Impairment of asset | Relevant IFRS |
|---|---|
| Biological assets (measured at fair value less costs to sell) | IAS 41 |
| Non-current assets (or disposal groups) classified as held for sale | IFRS 5 |
| Contract costs | IFRS 15 |
| Financial assets (within scope of IFRS 9) | IFRS 9 |

Due to COVID-19 related events and circumstances there is a possibility of adverse impact on market capitalization of many companies and/or a material and sustained decrease in the earnings and cash flows generated from property, plant and equipment, right of use of asset, goodwill and intangible asset.

This could potentially lead to the impairment i.e. situation where carrying amount of an asset (or Cash Generating Unit i.e. CGU) exceeds its recoverable amount.




The guiding principle in IAS 36 is that assets should not be carried above their recoverable amount.

If the carrying amount of an asset exceeds its recoverable amount, IAS 36 requires the entity to write down the asset to its recoverable amount and recognise an impairment loss. This loss is recognised in statement of profit or loss unless recognised in other comprehensive income against any revaluation surplus related to the asset.

## What is the frequency of impairment testing

IAS 36 requires that:

- Goodwill, indefinite life intangibles and intangible assets not yet available for use are tested for impairment at least annually, in addition to when there is any indication of impairment. (Impairment losses on goodwill are not reversed)
- All other assets (Such as property, plant and equipment, right of use of asset and intangible assets with finite useful life) are tested for impairment when there is any indication that the asset may be impaired.

## What is indication of impairment

In accordance with IAS 36 management is to perform impairment testing when a triggering event has occurred.

It is also pertinent to mention that mere existence of COVID-19 related events and conditions do not require impairment testing. It is the existence of indicators resulting from COVID-19 that trigger the need for an entity to test its assets for impairment. Further, Impairment testing does not necessarily lead to recognition of an impairment loss but does present the possibility of incurring such a loss.

**The starting point for management is to consider whether there is a triggering event or indicator of impairment**

In context of COVID-19 situation, management should consider following two questions to determine whether a triggering event has occurred.

- Have significant changes to the economic environment in which company operates occurred and will these changes have an adverse effect on the company or its assets?
- Has the market capitalization of company (or listed peers) fallen below the carrying value of the net assets on the balance sheet?

### Examples of indicators of impairment in the COVID-19 situation

Demand for services of an oil and gas sector related company could be subject to the level of exploration, development, and production activity of, and the corresponding capital spending by, oil and natural gas companies, which are heavily influenced by the benchmark price of these commodities.

Due to COVID-19 related economic slowdown and significant reduction in oil prices the oil and gas companies could reduce their capital expenditures and production and exploration activities. Such developments occur even amongst customers that are not experiencing financial difficulties. This has the effect of decreasing the demand and increasing competition for the services that the company provides. In addition, to the above, company's customers may also face liquidity issues or going concern issues, which could deteriorate the aging of company's accounts receivable, increase the bad debt exposure and possibly also trigger impairment of assets.

## Examples of indicators of impairment in the COVID-19 situation

A company purchases raw material from foreign sources, both directly in foreign markets and indirectly through domestic vendors with foreign sources. In COVID-19 circumstances company's ability to find qualified vendors and access products in a timely and efficient manner could be a significant challenge which could typically even more difficult for goods sourced outside the Pakistan. The adverse supply chain disruptions could trigger impairment of assets.

The economic downturn may have impacted the stock market and company's market capitalization is lower than the carrying value of net assets.

A company has chain of retail stores obtained on leases. Sales could be affected by COVID-19, resulting in closure of certain stores. The decreased sales in open stores and closure of certain stores by the company could trigger impairment of assets.

A company engaged in the airline industry is witnessing significantly reduced flight operations and reduced customer travelling due to COVID-19 situation. The decreased travel services revenue along-with possible face liquidity issues or going concern issues of customers could trigger impairment of in respect of property, plant and equipment and right-of use assets.

*Please also see IAS 36 (paragraph 12) which provides a non-exhaustive list of external, internal and other indicators that a company should consider.*

## Management is to determine the recoverable amount

Management is to reassess the information and update the budgets and cash flow projections based on the significant economic, market and entity specific conditions.

The impairment testing requires determination of the recoverable amount of an asset or CGU.

The calculation of recoverable amount will require management to forecast future cash flows (which are generally based on the budgets and cash flow forecasts prepared by management).

Management may have prepared forecasts for cash inflows in prior years. However, due to COVID-19 related evolving and uncertain conditions management would be required to reassess the significant assumptions, such as forecast sales volumes, prices, gross margins, changes in working capital, foreign exchange rates and discount rates used in the calculation of recoverable amount. For example, due to COVID-19 the sales volume or growth rate of many companies could be adversely impacted from reduced consumer demand for goods and services due to lost income and/or restrictions on consumers' ability to move freely. Management would be required to reassess the assumptions used in the development of forecasts, based on the difficult trading and business conditions in an increasingly competitive market and a moderated outlook for the macroeconomic growth. In present circumstances, another factor requiring management consideration would be estimation of the duration of the COVID-19 impact on company's business.

## Management is to determine the discount rate for calculating present value of the recoverable amount

Management is to consider whether discount rates have been updated to reflect the risk environment at the reporting date.

The discount rate should reflect the impact of changes in interest rates and the risk environment at the reporting date. Owing to, COVID-19 situation the discount rate used to calculate the present value of the forecasted cash flows might be significantly changed from prior years.

Management may have considered or used a discount rate in prior years. However, recent changes in the risk-free rates and possible increase in company's credit-risk premium due to economic slowdown require reassessment of the discount rate. Management is to ensure that the discount rate used to estimate the present value of the recoverable amount is updated to reflect the higher risks associated with the COVID-19 situation.

## Management is to determine the disclosure requirements

Management is to consider the appropriateness of disclosures, including disclosures about sensitivity analysis

Management should ensure that sensitivity analysis for reasonably possible changes in key assumptions (e.g. growth rate, discount rate) are disclosed in the interim or annual financial statements.

## Extracts from annual reports of international companies

### Jaguar Land Rover Automotive plc
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**Impairment Testing (Note 18)**

The directors are of the view that the operations of the Group, excluding equity accounted investments, represent a single cash-generating unit ("CGU"). This is because of the closely connected nature of the cash flows and the degree of integrated development and manufacturing activities. In response to the annual requirement of IAS 36, and the economic impact of COVID-19 (see note 2 for more details on the immediate impact on JLR), management performed an impairment assessment as at 31 March 2020.

In the year ending 31 March 2019 an impairment loss was recorded and therefore the recoverable amount of the CGU was equal to its carrying amount. However, as seen in the Group's Q2 and Q3 results, prior to the impact of COVID-19, the business was performing well, hitting growth and profitability targets through both sales growth and strong cost control. Performance improvements included continued growth in one of the Group's key markets, China.

Similar to the prior year, a significant amount of the value in the VIU assessment is in the terminal value. Management are forecasting volumes to be returning to comparable pre-COVID-19 levels by 2023 and therefore the impact of COVID-19 on the VIU is offset by the long-term view of the business supported by the observed pre-COVID-19 trading. The forecast data has been supported by external industry sources.

For the current year assessment, the recoverable value was determined using the value in use ("VIU") approach outlined in IAS 36. No impairment was identified as the CGU recoverable amount exceeded its carrying amount by £380m. The impairment loss recorded in the previous year was not reversed because it was considered that there was no significant change in the headroom associated with the CGU.

The Group has considered it appropriate to undertake the impairment assessment with reference to the latest business plan that was in effect as at the reporting date. This plan has been updated to reflect management's best estimate of the impact of all relevant adjusting post balance sheet events, with consideration given to those arising due to the economic impact of COVID-19. The business plan includes a five-year cash flow forecast and contains growth rates that are primarily a function of the Group's Cycle Plan assumptions, historic performance and management's expectation of future market developments through to 2024/25. In forecasting the future cash flows management have given due consideration to the risks that have arisen due to the current economic uncertainty.

The Group has assessed the impact of COVID-19 and updated the cash flow forecast to reflect the latest Cycle Plan changes, including investment spend and new vehicle volume forecast. Additionally, the Group has assessed the potential risk of a more severe impact due to COVID-19 on volume in the short term (consistent with Going Concern basis of preparation, *see page 53*. The potential impact of this reasonably possible outcome of a short-term volume reduction and slower recovery has been included in the VIU calculations through an adjustment in the discount rate. The directors' approach and key assumptions used to determine the Group's CGU VIU were as follows:

The directors' approach and key assumptions used to determine the Group's CGU VIU were as follows:

- **Growth rate applied beyond approved forecast period** - calculated based on the weighted average long term GDP forecasts based on JLRs geographical sales footprint;
- **Discount rate -** the discount rate is calculated with reference to a weighted average cost of capital (WACC) calculated by reference to an industry peer group. Inputs include risk free rate, equity risk premium and risk adjustments based on company-specific risk factors including risks associated with uncertainty in relation to the short-term impact of COVID-19, Brexit and possible US tariffs;
- **Forecast vehicles volumes** – the 5-year volumes have been validated against industry standard external data for market segment and geography and adjusted to reflect historical experience and latest Cycle Plan assumptions;
- **Terminal value variable profit** – the 5-year variable profit forecasts are comprised of revenue, variable marketing, warranty costs, material costs and other variable costs. These values have been validated against historical performance rather than internal targets and adjusted for execution risk by further constraining cash flow estimates. The business has a range of vehicles and models at different stages in their product lifecycle. This variability drives different contribution levels for each product throughout the assessment period. When considering the cash flows to model into perpetuity, it is therefore necessary to derive a steady-state variable profit value based on the 5-year volume set and associated implied variable profit levels;

## Extracts from annual reports of international companies …. *(continued)*

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- **Terminal value SG&A expenses** - SG&A expenses comprise a combination of fixed and variable costs and are subject to ambitious current business plans. For the 5-year cash flow forecasts the ambition has been constrained by adjusting cashflows to reflect historical levels i.e. not including all of management's planned actions for continued cost control. The terminal value assumption is held at similar levels to the 5-year forecast period;

- **Terminal value capital expenditure** - the 5-year cash flows timing and amount are prepared based on the latest Cycle Plan. The terminal value has been derived based the directors best estimate of a maintenance levels of capital expenditure which has been derived from depreciation and amortisation expectations and longer-term trends which are included in the VIU calculation. Expenditure on new models is excluded as "expansionary capital" unless expenditure is committed and substantively incurred as at the reporting date.

**Sensitivity to key assumptions**

The key assumptions that impact the value in use are those that (i) involve a significant amount of judgement and estimation and (ii) drive significant changes to the recoverable amount when flexed under reasonably possible outcomes. As noted above, with a small level of headroom the VIU is sensitive to many reasonably possible changes, however, as a significant portion of the recoverable amount lies in the VIU terminal value, management have focused disclosures on reasonably possible changes that impact the terminal value.

Given the inherent uncertainty about how risk may arise, and the interaction of volumes and cost management, management consider a net impact on terminal period cash flows to be the best means of indicating the sensitivity of the model to such changes in the terminal period.

The value of key assumptions used to calculate the recoverable amount are as follows:

| As at 31 March | 2020 | 2019 | 2018 |
|---|---|---|---|
| Growth rate applied beyond approved forecast period | 1.9% | 1.9% | 2.0% |
| Pre-tax discount rate | 12.5% | 11.8% | 8.7% |
| Terminal value variable profit (%GVR) | 19.7% | 22.6% | 23.6% |
| Terminal value capital expenditure (%GVR) | 9.1% | 11.0% | 14.5% |

The table below shows the amount by which the value assigned to the key assumptions must change for the recoverable amount of the CGU to be equal to its carrying amount:

| As at 31 March 2020 [(1)] | % Change | Revised Assumption |
|---|---|---|
| Growth rate applied beyond approved forecast period | -17.80% | 1.6% |
| Pre-tax discount rate | +2.80% | 12.9% |
| Terminal value variable profit (%GVR) | -0.90% | 19.5% |
| Terminal value capital expenditures (%GVR) | +1.94% | 9.3 % |

(1)For the year ended 31 March 2019, the recoverable amount of the CGU was equal to its carrying amount, therefore the above disclosure is not applicable. For the year ended 31 March 2018, the recoverable amount of the CGU was higher than its carrying amount by £11,371m and it was not identified any reasonably possible change in the key assumptions that would cause the recoverable amount of the CGU to be equal to its carrying amount.

**FY19 disclosures with no FY20 equivalent**

In the impairment assessment performed by Management as at 31 March 2019, the recoverable value was determined based on value in use ("VIU"), which was marginally higher than the fair value less cost of disposal ("FVLCD") of the relevant assets of the CGU.

The recoverable amount was lower than the carrying value of the CGU, and this resulted in an exceptional impairment charge of £3,105 million being recognised within "Other expenses" as at 31 March 2019. The impairment loss of £3,105 million has been allocated initially against goodwill of £1 million and the relevant assets, and thereafter the residual amount has been allocated on a prorated basis. This has resulted in £1,396 million allocated against tangible assets and £1,709 million allocated against intangible assets.

## Extracts from annual reports of international companies .... *(continued)*

### Jaguar Land Rover Automotive plc
### Independent Auditor's Report
### on the Financial Statements for the year ended 31 March 2020

**Key audit matter**

| | The risk | Our response |
|---|---|---|
| **Impairment of long life assets**<br><br>Risk vs 2019 ▲<br><br>(Carrying value of long life assets £13,092 million; 2019: £12,119 million)<br><br>*58, 64 and 67 (accounting policy) and page 86* | **Forecast-based valuation**<br><br>The Group holds a significant amount of property, plant and equipment and long-life intangible assets on its balance sheet.<br><br>Property, plant and equipment and long-life intangible assets are at risk of being impaired as the COVID-19 pandemic resulted in the temporary shutdowns of the automotive industry worldwide.<br><br>The effect of these matters is that, as part of our risk assessment, we determined that the calculation of the value in use of property, plant and equipment and long-life intangible assets has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements note 18 disclose the sensitivities estimated by the Group. | Our procedures included:<br><br>• **Historical accuracy** Evaluated historical forecasting accuracy of cash flow forecasts, including key inputs, including cash forecasts, by comparing them to the actual results.<br><br>• **Historical comparison** Assessed appropriateness of the Group's assumptions used in the cash flow forecasts by comparing those, where appropriate, to historical trends in volumes, variable profit, selling, general and administrative expenses and capital expenditure.<br><br>• **Benchmarking assumptions:** Assessed the appropriateness of the Group's calculated value in use amount by comparing the implied trading multiples to market multiples of comparative companies with the assistance of our valuation specialists.<br><br>Assessed appropriateness of the Group's assumptions used in the cash flow projections by comparing the key input of sales volumes to externally derived data.<br><br>Compared the Group's discount rate and long term growth rate to external benchmark data and comparative companies and re-performed the discount rate calculation using the capital asset pricing model with the assistance of our valuation specialists.<br><br>• **Sensitivity analysis:** Performed a breakeven analysis on the assumptions noted above.<br><br>• **Comparing valuations:** Assessed the Group's reconciliation between the estimated market capitalisation of the Group, by reference to the overall market capitalisation of the Tata Motors Limited Group, and compared to the estimated recoverable amount of the cash generating unit.<br><br>• **Assessing transparency:** Assessed the adequacy of the Group's disclosures in the financial statements and ensured that the disclosure reflects reasonably possible changes in key assumptions that erode the headroom in the recoverable amount compared to the cash generating unit carrying value to nil. |

## Extracts from annual reports of international companies …. *(continued)*

### Singapore Airlines
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**Property, Plant and Equipment (Note 21)**

Impairment test
In light of the Covid-19 pandemic and its detrimental effect on the travel industry caused by global travel restrictions and border controls, the Group's significant reduction in its capacity has led to a deterioration to its profits and cash flows. Management has determined that this event is an indicator that the Property, Plant and Equipment and Intangible Assets may be impaired. Management's impairment test included the following CGUs:

Full Service Carrier ("FSC") CGU
The recoverable amount of the FSC CGU has been determined based on value-in-use calculations using cash flow projections from financial forecasts approved by Management covering a five-year period. The financial forecasts which were approved include Management's planned recovery from Covid-19 related global travel restrictions and border controls. The post-tax discount rate applied to cash flow projections is 7.0% and the forecast long-term growth rate used to extrapolate the cash flow projections beyond the five-year period is 4.5%.

Low-Cost Carrier ("LCC") CGU
The recoverable amount of the CGU has been determined based on value-in-use calculations using cash flow projections from financial forecasts approved by Management covering a six-year period (2019: three-year period). The financial forecasts which were approved include Management's planned recovery from Covid-19 related global travel restrictions and border controls. The six-year period reflects the CGU's steady state of operations arising from the significant committed capital expenditure of the CGU in the forecast period. The post-tax discount rate applied to cash flow projections is 7.0% (2019: 7.0%) and the forecast long-term growth rate used to extrapolate the cash flow projections beyond the six-year period (2019: three-year period) is 5.5% (2019: 4.5%).

Sensitivity Analysis

The calculations of value-in-use for the FSC and LCC CGUs are most sensitive to the following assumptions:

Yield – The forecast yield is set with regards to the CGU's historical performance, operation plans and expected economic and market conditions. The forecast yield does not exceed historical yield achieved.

Growth rate – The forecast long-term growth rate is based on published industry research and does not exceed the long term average growth rate for the industry.

The impairment assessment is sensitive to changes to these assumptions and any significant adverse movements in these assumptions could impact the results of the impairment test.

**Intangible Assets (Note 23)**
Impairment testing of goodwill, brand and trademarks
The goodwill acquired through the acquisition of TAH has an indefinite useful life and is included in the LCC CGU. Please refer to note 21 for the impairment assessment of the LCC CGU.

**Associated Companies (Note 24)**

| | 2020 | 2019 |
|---|---|---|
| Investment in associated companies | **905.3** | 764.6 |
| Accumulated impairment losses | **(785.0)** | (209.4) |
| | **120.3** | 555.2 |

During the financial year:

1. The Company injected $140.7 million in TATA SIA Airlines Limited ("TATA-SIA"). There was no change in the Group's 49% equity stake in TATA-SIA after the capital injection. Management performed an impairment test for the investment in TATA-SIA, which had been incurring losses historically. An impairment loss of $231.8 million was recognised by the Company to write down the cost of investment to its estimated recoverable amount.

2. Management performed an impairment review for the investment in Virgin Australia Holdings Limited ("VAH"), which has been incurring losses. The Covid-19 pandemic has a significant impact on VAH operations. On 31 March 2020, VAH announced that it had requested financial support from the Australian Government. Subsequently, on 21 April 2020, VAH announced that it has entered voluntary administration. An impairment loss of $343.8 million was recognised by the Company to write down the cost of investment in VAH to zero.

## Extracts from annual reports of international companies …. *(continued)*

### Singapore Airlines
### Independent Auditor's Report
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**Key audit matter**

**Accounting for the carrying values of aircraft and related assets**

*Refer to note 2(h) "Property, plant and equipment", note 2(f)(iv) "Intangible assets – goodwill", note 3(a) "Impairment of property, plant and equipment – aircraft fleet" and note 3(b) "Depreciation of property, plant and equipment – aircraft fleet" for the relevant accounting policy and a discussion of significant accounting estimates.*

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| The accounting for the carrying value of aircraft and related assets has a material impact on the Group due to the significant cumulative value of the aircraft and long-lived nature of these assets. These aircraft and aircraft related assets belong to the full service and cargo operations ("FSC") and low cost airline ("LCC") cash generating units ("CGUs").<br><br>The Covid-19 pandemic has resulted in a significant amount of economic uncertainty in the current and future economic environment in which the Group operates. The Group's near-term cashflows have been negatively impacted due to global travel restrictions and the resultant global decrease in travel demand. The duration and severity of the crisis is dependent on events which are continuously unfolding and are beyond the control of the Group.<br><br>As a result, there is a high degree of estimation uncertainty inherent in estimating the duration and severity of the economic downturn caused by the Covid-19 pandemic, and the pattern of any expected recovery. As a result, the estimates and assumptions used in the cashflow projections which form the basis of the recoverable amounts attributable to the two CGUs require significant judgement. These judgements require estimates to be made over areas including those relating to future revenues (yield), operating costs, growth rates, projected aircraft usage, aircraft capital expenditure, foreign exchange rates and discount rates for each of the two CGUs.<br><br>Because of the inherent difficulties and limitations in obtaining audit evidence on an event that has recently surfaced and on which developments continue to unfold, this is a key area of focus for our audit. | We studied publicly available aviation industry reports relating to the impact Covid-19 pandemic has on global passenger demand, to understand the possible recovery scenarios.<br><br>We held discussions with senior management to understand the basis of the assumptions used in forming the estimates underpinning the assessment of the recoverable amount of the FSC and LCC CGUs. These estimates include those relating to yield, operating costs, growth rates, projected aircraft usage, aircraft capital expenditure, foreign exchange rates and discount rates.<br><br>We challenged these estimates based on our knowledge of the business and the aviation industry and our understanding of the different possible recovery scenarios of global passenger demand based on the degree of sensitivity of these scenarios.<br><br>We performed sensitivity analyses over certain inputs, being long term growth rates and yield, used in assessing the recoverable amount of the FSC and LCC CGUs.<br><br>We assessed the arithmetical accuracy of the computations used in assessing the recoverable amount of the FSC and LCC CGUs. |

**Findings**

The shorter term economic and regulatory environment that the Group operates in has been significantly disrupted by the global Covid-19 pandemic. The key inputs including yield, discount rates, growth rates and fuel prices used in assessing the recoverable amount of the FSC and LCC CGUs are subject to significant amounts of volatility and uncertainty. Nevertheless, we found the estimates underpinning the cashflow projections involved in the computation of the recoverable amount of the FSC and LCC CGUs to be reasonable in the context of currently available relevant information.

## Extracts from annual reports of international companies …. *(continued)*

### Marks and Spencer Group plc
### Audited Financial Statements
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**Adjusting items (Note 5)**

**Store impairments and other property charges (£78.5m)**

The Group has recognised a number of charges in the period associated with reductions to the carrying value of items of property, plant and equipment. In response to the ongoing pressures impacting the retail industry, as well as reflecting the Group's strategic focus towards growing online market share, and in light of the ongoing Covid-19 pandemic, the Group has revised future cash flow projections for UK and international stores (excluding those stores which have been captured as part of the UK store estate programme). As a result, UK store impairment testing has identified stores where the current and anticipated future performance does not support the carrying value of the stores. A charge of £78.5m (of which, £24.2m represents the directly attributable incremental impairment due to Covid-19 (see below for further details)) has been incurred primarily in respect of the impairment of assets associated with these stores. Refer to note 15 for further details on the impairments.

The charges have been classified as an adjusting item on the basis of the significant quantum of the charge in the period to the results of the Group.

**Property, plant and equipment (Note 15)**

**Impairment of property, plant and equipment and right-of-use assets**
For impairment testing purposes, the Group has determined that each store is a separate CGU, with the exception of Outlets stores, which are considered together as one CGU. Click & Collect sales are included in the cash flows of the relevant CGU.

Each CGU is tested for impairment at the balance sheet date if any indicators of impairment have been identified. Stores identified within the Group's UK store estate programme are automatically tested for impairment (see note 5). The UK government trade restrictions implemented on 23 March 2020 as a result of the Covid-19 pandemic are considered an impairment trigger and as a result all stores have been tested for impairment.

The value in use of each CGU is calculated based on the Group's latest budget and forecast cash flows, covering a three-year period, which have regard to historic performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed initiatives. The cash flows include ongoing capital expenditure required to maintain the store network, but exclude any growth capital initiatives not committed. Cash flows beyond this three-year period are extrapolated using a long-term growth rate based on management's future expectations, with reference to forecast GDP growth. These growth rates do not exceed the long-term growth rate for the Group's retail businesses in the relevant territory. If the CGU relates to a store which the Group has identified as part of the UK store estate programme, the value in use calculated has been modified by estimation of the future cash flows up to the point where it is estimated that trade will cease and then estimation of the timing and amount of costs associated with closure detailed fully in note 5.

The forecasts used to calculate the value in use have been updated to take into account the Board-approved Covid-19 scenario. This assumes a significant impact on 2020/21 revenues and profits. The key assumptions in the value in use calculations are the growth rates of sales and gross profit margins, changes in the operating cost base, long-term growth rates and the risk-adjusted pre-tax discount rate. The pre-tax discount rates are derived from the Group's weighted average cost of capital, which has been calculated using the capital asset pricing model, the inputs of which include a country risk-free rate, equity risk premium, Group size premium and a risk adjustment (beta). The pre-tax discount rates range from 12% to 17% (last year: 9% to 21%). If the CGU relates to a store which the Group has identified as part of the UK store estate programme, the additional key assumptions in the value in use calculations are costs associated with closure, the disposal proceeds from store exits and the timing of the store exits.

**Impairments – UK stores (excluding the UK store estate programme)**
During the year, the Group has recognised an impairment charge of £69.3m as a result of UK store impairment testing unrelated to the UK store estate programme (last year: £103.0m (restated)). These stores were impaired to their 'value in use' recoverable amount of £105.5m, which is their carrying value at year end. These impairments have been recognised within adjusting items (see note 5).

For UK stores, cash flows beyond the three-year period are extrapolated using the Group's current view of achievable long-term growth of 2%, adjusted to 0% where management believes the current trading performance and future expectations of the store do not support the growth rate of 2%. The rate used to discount the forecast cash flows for UK stores is 8.6% (last year: 9.1%).

## Extracts from annual reports of international companies …. *(continued)*

### Marks and Spencer Group plc
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As disclosed in the accounting policies (note 1), the cash flows used within the impairment model are based on assumptions which are sources of estimation uncertainty and small movements in these assumptions could lead to further impairments. Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions across the UK store portfolio.

A reduction in sales of 5% from the three-year plan in years 2 and 3 to reflect a potential recession would result in an increase in the impairment charge of £72.7m and a 20 basis point reduction in gross profit margin throughout the plan period would increase the impairment charge by £2.5m. In combination, a 1% fall in sales and a 10 basis point fall in gross profit margin would increase the impairment charge by £7.1m. Reasonably possible changes of the other key assumptions, including a 50 basis point increase in the discount rate or reducing the long-term growth rate to 0% across all stores, would not result in a significant increase to the impairment charge, either individually or in combination.

**Impairments – UK store estate programme**
During the year, the Group has recognised an impairment charge of £75.2m and impairment reversals of £51.0m relating to the on-going UK store estate programme (last year: £83.4m (restated)). These stores were impaired to their 'value in use' recoverable amount of £289.0m, which is their carrying value at year end. The impairment charge relates to the store closure programme and has been recognised within adjusting items (see note 5).

Where the planned closure date for a store is outside the three-year plan period, no growth rate is applied. The rate used to discount the forecast cash flows for UK stores is 8.6% (last year: 9.1%).

As disclosed in the accounting policies (note 1), the cash flows used within the impairment models for the UK store estate programme are based on assumptions which are sources of estimation uncertainty and small movements in these assumptions could lead to further impairments. Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions across the UK store estate programme.

A delay of 12 months in the probable date of each store exit would result in a decrease in the impairment charge of £36.8m. A 5% reduction in planned sales in years 2 and 3 (where relevant) would result in an increase in the impairment charge of £22.9m. Neither a 50 basis point increase in the discount rate, a 20 basis point reduction in management gross margin during the period of trading nor a 2% increase in the costs associated with exiting a store would result in a significant increase to the impairment charge, individually or in combination with the other reasonably possible scenarios considered.

**Impairments - International stores**
During the year, the Group has recognised an impairment charge of £9.0m in Ireland and £0.2m in the Czech Republic as a result of store impairment testing (last year: £nil).

For Irish and Czech Republic stores, cash flows beyond the three-year period are extrapolated using a long-term growth rate of 0%. The rate used to discount the forecast cash flows for Irish stores is 14.1% (last year: 10.4%) and for Czech Republic stores is 12.4% (last year: 10.7%).

As disclosed in the accounting policies (note 1), the cash flows used within the impairment model are based on assumptions which are sources of estimation uncertainty and small movements in these assumptions could lead to further impairments. Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions.

For Irish stores, a reduction in sales of 5% from the three-year plan in years 2 and 3 to reflect a potential recession would result in an increase in the impairment charge of £6.5m. Reasonably possible changes in other key assumptions, including a 20 basis point reduction in gross profit margin throughout the plan period, a 50 basis point increase in the discount rate or a 1% fall in sales combined with a 10 basis point fall in gross profit margin would not result in a significant increase to the impairment charge. Reasonably possible changes in key assumptions for Czech Republic stores do not lead to a significant increase in the impairment charge.

## Extracts from annual reports of international companies .... *(continued)*

### Marks and Spencer Group plc
### Independent Auditor's Report
### on the Financial Statements for the year ended 28 March 2020

**Key audit matter**

**5.3 IMPAIRMENT OF UK STORE ASSETS**

**KEY AUDIT MATTER DESCRIPTION**

As at 28 March 2020 the Group held £3,925.5 million (2019: £2,830.0 million) of UK store assets in respect of stores not considered for closure within the UK store rationalisation programme. In accordance with IAS 36 Impairment of Assets, the Group has undertaken an annual assessment of indicators of impairment. An impairment charge of £69.3 million (2019: £103.0 million) has been recognised within adjusting items as set out in notes 5 and 15 to the financial statements.

As described in note 15 to the financial statements, the Group has estimated the recoverable amount of store assets based on their value in use, derived from a discounted cash flow model prepared by management. The model relies on certain assumptions and estimates of future trading performance, incorporating committed strategic changes to the UK Clothing & Home and Food businesses and the performance of new stores operating within their shelter period (which takes in to account the time new stores take to establish themselves in the market), all of which involve a high degree of estimation uncertainty (as disclosed in note 1 and note 15). We believe the level of risk related to the impairment of UK store assets has increased, both due to the increased level of uncertainty in forecasting future cash flows as a result of the Covid-19 pandemic, and in light of current retail market conditions and the impact of wider economic uncertainty.

The key assumptions applied by management in the impairment reviews performed are:

- future revenue growth and changes in gross margin;
- long term growth rates; and
- discount rates.

The Group considers that each retail store constitutes its own cash generating unit ('CGU') and is assessed for impairment separately, with the exception of the outlet stores which are used to clear aged seasonal Clothing & Home inventory at a discount. The outlet stores are considered to be a single group of assets for the purpose of impairment testing.

The Audit Committee considers this to be a significant matter. Their consideration is on page 62.

**HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER**

In responding to the identified key audit matter we completed the following audit procedures:

- obtained an understanding of key controls relating to the impairment review process;
- evaluated and challenged management's range of impairment indicators with due consideration paid to the profitability impact of committed strategic changes to the UK Clothing & Home and Food businesses and the performance of new stores;
- assessed the mechanical accuracy of the impairment models and the methodology applied by management for consistency with the requirements of IAS 36;
- assessed the appropriateness of forecast revenue and gross margin growth rates through comparison with external economic benchmarking data and with reference to historical forecasting accuracy, with a particular focus on the impact of Covid-19 on those forecasts;
- assessed the appropriateness of the discount rates applied in conjunction with support from our internal valuations specialists and compared the rates applied with our internal benchmarking data;
- evaluated the appropriateness and completeness of information included in the impairment model based on our cumulative knowledge of the business driven by our review of trading plans, strategic initiatives, minutes of property and investment committee meetings, and meetings with regional store managers and senior trading managers from key product categories, together with our wider retail industry knowledge; and
- assessed the completeness and accuracy of disclosures within the financial statements in accordance with IFRS.

**Key observations**

We are satisfied that the judgements applied, impairments recorded and disclosures within the financial statements are appropriate.

## Extracts from annual reports of international companies …. *(continued)*

### Emirates
### Audited Consolidated Financial Statements
### For the year ended 31 March 2020

**Basis of preparation**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, except for those financial assets and financial liabilities (including derivative instruments) that are measured at fair value, as stated in the accounting policies.

The COVID-19 outbreak has developed rapidly in 2020, with a significant number of infections being recorded globally. Measures taken to contain and slow the spread of the virus have significantly impacted global economic activity including limiting movements of people and restricting flights. The worldwide aviation market has been significantly disrupted in the short term. This disruption is expected to be followed by a gradual recovery as travel restrictions are lifted. As a global network airline, Emirates has been unable to viably operate its normal full passenger services and Emirates' revenue will therefore be negatively impacted as a result of the outbreak, although the full impact and the time period of the disruption is not possible to predict with certainty.

Emirates entered this crisis in a strong position, having previously reported profits for the past 32 years and available cash assets of AED 20.2 bn as at 31 March 2020. Emirates has taken various measures to manage the business through this crisis, including compensating cost saving measures, reductions to discretionary capital expenditure and agreeing additional working capital facilities. These measures also include obtaining committed support from the Government of Dubai which has publicly confirmed that they will financially support Emirates during this period through a variety of measures including an additional equity injection, if required. Based on this statement of support and other measures Emirates has taken, management has prepared these consolidated financial statements on a going concern basis.

Further, due to the impact of COVID-19 on Emirates, an impairment test was performed with no resulting impairment charge. Refer to Notes 12 and 13 for further details. Management continues to closely monitor the COVID-19 situation as part of its ongoing impact assessment.

**Right of use assets (Note 12)**

Following the outbreak of COVID-19, Emirates conducted an impairment review in respect of property, plant and equipment and right-of use assets. For impairment testing purposes discounted cash flows have taken into account the period that Emirates expects to be impacted by COVID-19 followed by long term growth rate not exceeding 2%. A discount rate of 7% has been applied to the cash flows. A reasonably possible change in any of the key assumptions would not lead to an impairment charge.

**Intangible assets (Note 13)**

For the purpose of testing goodwill impairment, the recoverable amounts for cash generating units have been determined on the basis of value-in-use calculations using cash flow forecasts approved by management covering a three year period, adjusted for Emirates' view of the impact of COVID-19 on the results of the cash generating units.

Cash flows beyond the three year period have been extrapolated using long term terminal growth rates. The key assumptions used in the value-in-use calculations include a risk adjusted pre-tax discount rate of 12% (2019: 12%), gross margins consistent with historical trends and growth rates based on management's expectations for market development. The long term terminal growth rate of 2% (2019: 2%) does not exceed the long term average growth rate for the markets in which the cash generating units operate. Any reasonably possible change to the assumptions will not lead to an impairment charge.

** The independent auditor's report on the consolidated financial statements for the year ended 31 March 2020 does not include a Key Audit Matter on Impairment testing and calculations.*