# IFRS 16 Leases supplement

**Guide to annual financial statements**

IFRS®

**December 2017**

**kpmg.com/ifrs**

# Contents

# 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 2017 guide).

The September 2017 guide helps you to prepare financial statements in accordance with IFRS, illustrating one possible format for financial statements based on a fictitious multinational listed corporation; the corporation is not a first-time adopter of IFRS.

## IFRS 16 *Leases*

This supplement focuses on the disclosure requirements in IFRS 16 *Leases*, which are due to become effective for annual periods beginning on or after 1 January 2019. It provides IFRS 16 disclosure examples and explanations as a supplement to the September 2017 guide; as such, this supplement is not intended to reconcile to that guide.

This supplement does not illustrate all of the disclosures specified in IFRS 16, which will depend on an entity's underlying facts and circumstances; for a full list of the potential disclosures, see our Guide to annual financial statements – Disclosure checklist (September 2017).

## Illustrative examples

The example disclosures in this supplement relate to a listed corporation in the year in which it adopts IFRS 16 with a date of initial application of 1 January 2019. The corporation is a lessee in most of its leases but also acts as a lessor occasionally, and owns a property that it classifies as investment property. The corporation's lease portfolio is described in detail on page 6. The corporation is required to present only one year of comparative information, although some entities may be required to present comparative information for more than one year. In addition, the disclosures are intended to explain the relevant requirements and therefore may be more detailed than is necessary in some places. Individual entities should tailor the disclosures and their order to reflect their specific circumstances, including the materiality of the items concerned.

IFRS 16 offers a range of transition options. This guide illustrates:

- the **modified retrospective approach**, using a number of the practical expedients available under this approach (see Part I); and
- the **retrospective method** (see Part II).

For further details of the transition options, see our publication Leases: Transition Options.

## Structure of this supplement

This supplement includes the following illustrative disclosures:

- primary financial statements;
- leases note as a lessee and a lessor, including significant accounting policies for lease accounting;
- investment property note; and
- changes in accounting policies note.

## References

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

| | |
|---|---|
| *IFRS 16.53–54* | Paragraphs 53 to 54 of IFRS 16. |
| *[IFRS 16.9, B9–B31]* | Paragraphs 9 and B9 to B31 of IFRS 16. The square brackets are used only in significant accounting policies to indicate that the paragraph relates to recognition and measurement requirements, as opposed to presentation and disclosure requirements. |

# About IFRS 16

IFRS 16 requires lessees to recognise new assets and liabilities under an on-balance sheet accounting model that is similar to current finance lease accounting. Key metrics will be affected by the recognition of new assets and liabilities, and differences in the timing and classification of lease income/expense.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted.

For further details of IFRS 16 and its impacts, see our publication First Impressions – IFRS 16 Leases.

## General disclosure objective

*IFRS 16.51, 89*

IFRS 16 contains both quantitative and qualitative disclosure requirements. The objective of the disclosure requirements is to give a basis for users of financial statements to assess the effect that leases have on the financial statements.

*IFRS 16.BC215–BC216*

Entities should focus on the disclosure objective, not on a fixed checklist. The disclosure objective is intended to be a benchmark for lessees and lessors to assess whether the overall quality and informational value of the lease disclosures are sufficient.

Entities also apply the concept of materiality to determine what should be disclosed. Therefore, the necessary disclosures could be less or more, depending on the individual situation.

Generally, IFRS 16 requires more disclosures than IAS 17 *Leases*. In addition to the required disclosures, lessees and lessors need to assess whether additional information is necessary to meet the overall objective. As a result, more effort and judgement will be needed in the preparation of disclosures.

## Detailed disclosures

This section provides an overview of the disclosure requirements under the new leases standard and highlights similarities to and differences from the existing disclosure requirements.

| Disclosure requirements | New disclosure under IFRS 16 |
|---|---|
| **Lessees** | |
| **Relating to the statement of financial position** (IFRS 16.47, 53, 58) | |
| Additions to right-of-use assets | ✓ |
| Year-end carrying amount of right-of-use assets by class of underlying asset and if they are not presented separately the corresponding line items in the statement of financial position | ✓ |
| Lease liabilities and the corresponding line items in the statement of financial position if lease liabilities are not presented separately | ✓ |
| Maturity analysis for lease liabilities | – |
| **Relating to the statement of profit or loss and other comprehensive income (including amounts capitalised as part of the cost of another asset)** (IFRS 16.53–54) | |
| Depreciation expense of right-of-use assets by class of underlying asset | ✓ |
| Interest expense on lease liabilities | ✓ |
| Expense relating to short-term leases for which the recognition exemption is applied (leases with a lease term of up to one month can be excluded) | ✓ |
| Expense relating to leases of low-value items for which the recognition exemption is applied | ✓ |
| Expense relating to variable lease payments not included in lease liabilities | – |
| Income from sub-leasing right-of-use assets | ✓ |
| Gains or losses arising from sale-and-leaseback transactions | – |
| **Relating to the statement of cash flows** (IFRS 16.53(g)) | |
| Total cash outflow for leases | ✓ |
| **Other** (IFRS 16.55) | |
| Amount of short-term lease commitments if the portfolio of short-term leases to which the entity is committed is dissimilar to the portfolio to which current short-term lease expense relates | ✓ |
| **Qualitative disclosures** (IFRS 16.58, 60, 7.39(c)) | |
| Description of how liquidity risk related to lease liabilities is managed | ✓ |
| Use of exemption for short-term and/or low-value item leases | ✓ |

| | Disclosure requirements | New disclosure under IFRS 16 |
|---|---|---|
| *IFRS 16.56–57, 59* | **Additional disclosures (when applicable)** | |
| | The nature of the lessee's leasing activities | — |
| | Future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities | ✓ |
| | Restrictions or covenants imposed by leases | — |
| | Sale-and-leaseback transactions | — |
| | Disclosures required by IAS 40 *Investment Property* for right-of-use assets qualifying as investment property | — |
| | If the revaluation model of IAS 16 *Property, Plant and Equipment* is applied for right-of-use assets, then:<br>– effective date of revaluation<br>– whether an independent valuer was involved<br>– carrying amount that would have been recognised under the cost model<br>– revaluation surplus, change for the period and any distribution restrictions | — |
| | **Lessors – Finance leases** | |
| *IFRS 16.90, 93–94* | **Quantitative information** | |
| | Selling profit or loss | ✓ |
| | Finance income on the net investment in the lease | ✓ |
| | Lease income relating to variable lease payments not included in the net investment in the lease | — |
| | Significant changes in the carrying amount of the net investment in the lease | ✓ |
| | Detailed maturity analysis of the lease payments receivable | — |
| *IFRS 16.93* | **Qualitative information** | |
| | Significant changes in the carrying amount of the net investment in the lease | ✓ |
| *IFRS 16.92* | **Additional disclosures (when applicable)** | |
| | The nature of the lessor's leasing activities | — |
| | How it manages risks associated with any rights it retains in underlying assets | ✓ |
| | **Lessors – Operating leases** | |
| *IFRS 16.90, 95–97* | **Quantitative information** | |
| | Lease income relating to variable lease payments that do not depend on an index or rate | ✓ |
| | Other lease income | ✓ |
| | Detailed maturity analysis of the lease payments receivable | — |
| | If applicable, disclosure in accordance with IAS 16 (separately from other assets), IAS 36 *Impairment of Assets*, IAS 38 *Intangible Assets*, IAS 40 and IAS 41 *Agriculture* | — |
| *IFRS 16.92* | **Additional disclosures (when applicable)** | |
| | The nature of the lessor's leasing activities | — |
| | Description of how the lessor manages the risk associated with any rights it retains in underlying assets | ✓ |

# The Group's lease portfolio

## Leases in which the Group is a lessee

### Real estate leases

The Group's real estate leases include leases of retail stores and offices. The Group classified these as operating leases under IAS 17.

**Office building:** The Group leases its head office building. The non-cancellable period of the lease is 10 years and the Group has an option to extend the lease for a further 10 years. The lease payments are adjusted every year, based on the change in the consumer price index in the preceding year. The lease payments also include reimbursement of the lessor's taxes and insurance payments, which are adjusted annually. If the Group exercises the renewal option, then the lease payments in the renewal period will reflect the then market rate.

At inception, the Group assessed that it was not reasonably certain to exercise the renewal option and classified the lease as an operating lease under IAS 17. At the date of initial application, the remaining non-cancellable period of the lease is three years. However, considering the location of the building and the availability of suitable alternatives, the Group now considers that it is reasonably certain to exercise the renewal option.

For the purposes of applying the modified retrospective approach to this lease, the Group elects to:

- measure the right-of-use asset as if it had applied IFRS 16 since the commencement date using its incremental borrowing rate at the date of initial application;
- apply the practical expedient to use hindsight when assessing the lease term; and
- apply the practical expedient to exclude initial direct costs from the right-of-use asset.

**Retail stores:** The Group leases 30 retail stores from which it conducts business. The lease terms, and the remaining lease terms at the date of initial application, vary. In some cases, the remaining lease term at the date of initial application is less than 12 months. These leases do not include any renewal options.

The leases of 15 retail stores feature fixed lease payments. The leases of the other 15 retail stores feature lease payments that are variable based on the Group's sales at each store in the year, subject to a minimum annual amount.

For the purposes of applying the modified retrospective approach to these leases, the Group elects to:

- measure the right-of-use assets as if it had applied IFRS 16 since the commencement date using its incremental borrowing rate at the date of initial application;
- apply the practical expedient not to recognise a right-of-use asset or lease liability to leases for which the lease term ends within 12 months of the date of initial application; and
- apply the practical expedient to exclude initial direct costs from the right-of-use asset.

In addition, the Group leases a retail store from which it has ceased to trade. This retail store remains vacant at 31 December 2019. The Group expects that it will be able to sub-lease the building from 2020 but that the lease income will be lower than the lease payments. As at 31 December 2018, the Group recognised an onerous contract provision according to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The remaining lease term at the date of initial application is five years. The lease does not include a renewal option.

For the purposes of applying the modified retrospective approach to this lease, the Group elects to:

– measure the right-of-use asset as if it had applied IFRS 16 since the commencement date using its incremental borrowing rate at the date of initial application;

– apply the practical expedient to rely on its assessment that the lease was onerous under IAS 37 and therefore adjust the right-of-use asset at the date of initial application by the onerous lease provision rather than conduct an impairment test; and

– apply the practical expedient to exclude initial direct costs from the right-of-use asset.

### Leases of vehicles

The Group leases vehicles that it uses mainly to transport products to its retail stores. In each case, the lease term is three years, after which the Group has an option to purchase the vehicle. Under IAS 17, the Group determined that it was not reasonably certain to exercise these purchase options and classified the leases as operating leases.

For the purposes of applying the modified retrospective approach to these leases, the Group elects to:

– measure the right-of-use asset at an amount equal to the lease liability at the date of initial application;

– apply the practical expedient to apply a single discount rate to a portfolio of leases with similar characteristics; and

– apply the practical expedient to exclude initial direct costs from the right-of-use asset.

In addition, the Group leases other vehicles used in factories and warehouses. It guarantees the residual value of these vehicles at the end of the lease term of five years. The Group classified these leases as finance leases under IAS 17, because the present value of the lease payments amounted to substantially all of the fair value of the asset.

At the date of initial application, the Group measures the right-of-use asset and lease liability at the amount of the finance lease asset and liability immediately before the date of initial application.

### Leases of machinery

The Group sometimes leases machinery used in store fit-outs and manufacturing. The non-cancellable term of these leases is 12 months or less. Although the leases typically include renewal options, the Group has determined that it is not reasonably certain to exercise these options. It elects to apply the recognition exemption for short-term leases to these leases.

### Leases of IT equipment

The Group leases IT equipment such as printers and laptop computers for use by staff in its head office. It elects to apply the recognition exemption for leases of low-value assets to these leases.

### Sale-and-leaseback

In 2004, the Group sold a building to Company P and leased it back for 20 years on market terms. The Group has an option to repurchase the building for its market value at the end of the leaseback. Under IAS 17, the Group assessed that it was not reasonably certain to exercise the purchase option and classified the leaseback as an operating lease. The leaseback has a remaining term of five years at the date of initial application. Due to changes in its business, the Group has decided not to exercise the purchase option at the end of the lease.

Because this was a sale and operating leaseback under IAS 17, at the date of initial application the Group accounts for the leaseback in the same way as it accounts for its leases of other retail stores.

## Leases in which the Group is a lessor

### Investment property

The Group owns a building that it no longer uses in the business and now holds to earn rental income. The building is leased to a third party under an operating lease for fixed lease payments. In addition, the Group leases a building that it sub-leases to third parties. The Group classifies these sub-leases as operating leases.

The Group measures investment properties at fair value.

### Leases of machinery

The Group leases a few pieces of machinery to a supplier. It classifies these as operating leases.

### Sub-leases

The Group leases an office building for 10 years in a lease (the head lease) that commenced on 1 January 2014. The head lease includes an option to extend for a further 10 years, which the Group does not plan to exercise. The Group sub-leases the office building to Company Z for six years in a lease (the sub-lease) that commenced on 1 January 2018. Under IAS 17, the Group classified the head lease and the sub-lease as operating leases.

Under IFRS 16, the Group classifies the sub-lease as a finance lease because it is for the whole of the remaining term of the head lease.

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# Part I - Modified retrospective approach

## Explanatory notes

| | | |
|---|---|---|
| *IFRS 16.C5(b), C7, C14–C15* | **a.** | IFRS 16 offers a range of transition options. In Part I of this guide, the Group applies IFRS 16 using the modified retrospective approach. As a lessee, the Group elects to use a number of practical expedients. As a lessor, it does not make any adjustments on transition except for sub-leases. Under this approach, the Group does not restate its comparative figures but recognises the cumulative effect of adopting IFRS 16 as an adjustment to equity at the beginning of the current period.<br><br>For an illustration of the presentation and disclosures when applying IFRS 16 retrospectively, see Part II. |
| *IFRS 16.47(a), 48* | **b.** | The Group has presented right-of-use assets that do not meet the definition of investment property within property, plant and equipment – i.e. the same line item as it presents underlying assets of the same nature that it owns (see Note 1(B)). Alternatively, the Group may choose to present right-of-use assets separately in the statement of financial position. Right-of-use assets that meet the definition of investment property are presented within investment property. |
| *IFRS 16.47(b)* | **c.** | The Group has presented lease liabilities within loans and borrowings. Alternatively, a lessee may choose to present lease liabilities separately from other liabilities in the statement of financial position. |

# Consolidated statement of financial position[a]

IAS 1.10(a), 29, 38–38A, 113

| *In thousands of euro* | IFRS reference | *Note* | 31 December 2019 | 31 December 2018 |
|---|---|---|---|---|
| **Assets** | | | | |
| Property, plant and equipment[b] | IFRS 16.47(a) | *1(B)* | **94,026** | 81,396 |
| Investment property | IFRS 16.48 | *2* | **4,450** | 4,550 |
| Trade and other receivables | | | **18,667** | 15,670 |
| Other | | | **9,502** | 13,019 |
| **Non-current assets** | | | **126,645** | 114,635 |
| Trade and other receivables | | | **8,634** | 11,720 |
| Other | | | **39,071** | 31,464 |
| **Current assets** | | | **47,705** | 43,184 |
| **Total assets** | | | **174,350** | 157,819 |
| **Equity** | | | | |
| Share capital | | | **XXX** | XXX |
| Reserves | | | **XXX** | XXX |
| Retained earnings | | *3* | **12,367** | 12,697 |
| **Equity attributable to owners of the Company** | | | **102,036** | 89,488 |
| **Non-controlling interests** | | | **-** | - |
| **Total equity** | | | **102,036** | 89,488 |
| **Liabilities** | | | | |
| Loans and borrowings[c] | IFRS 16.47(b) | | **23,691** | 34,773 |
| Provisions | | | **360** | 788 |
| Other | | | **9,263** | 10,732 |
| **Non-current liabilities** | | | **33,314** | 46,293 |
| Loans and borrowings[c] | IFRS 16.47(b) | | **8,319** | 1,383 |
| Other | | | **30,681** | 20,655 |
| **Current liabilities** | | | **39,000** | 22,038 |
| **Total liabilities** | | | **72,314** | 68,331 |
| **Total equity and liabilities** | | | **174,350** | 157,819 |

*The notes on pages XX to XX are an integral part of these consolidated financial statements.*

## Explanatory notes

*IAS 1.81B*

**a.** For illustrative purposes, this guide provides only an example of a consolidated statement of profit or loss and other comprehensive income, without presenting:

– the allocation of profit or loss and total comprehensive income to non-controlling interests and owners of the parent; and

– basic and diluted earnings per share.

*IFRS 16.49*

**b.** A lessee presents interest expense on the lease liability separately from the depreciation charge for the right-of-use asset. Interest expense on the lease liability is a component of finance costs, which is presented separately in the statement of profit or loss and other comprehensive income.

# Consolidated statement of profit or loss and other comprehensive income[a]

IAS 1.10(b), 29, 38–38A, 113

For the year ended 31 December

| *In thousands of euro* | *Note* | 2019 | 2018 |
|---|---|---|---|
| **Profit** | | | |
| Revenue | | **XXX** | XXX |
| Cost of sales | | **(162,894)** | (131,211) |
| Gross profit | | **XXX** | XXX |
| Other income | | **3,479** | 1,602 |
| Selling and distribution expenses | | **(XXX)** | (XXX) |
| Administrative expenses | | **(105,124)** | (61,186) |
| Other expenses | | **(XXX)** | (XXX) |
| **Operating profit** | | **XXX** | XXX |
| Finance income | | **1,152** | 821 |
| Finance costs[b] (IFRS 16.49) | | **(2,349)** | (1,327) |
| **Net finance income/(costs)** | | **(1,197)** | (506) |
| Share of profit of equity-accounted investees, net of tax | | **XXX** | XXX |
| **Profit before tax** | | **XXX** | XXX |
| Income tax expense | | **(XXX)** | (XXX) |
| **Profit for the period** | | **1,325** | 365 |
| **Other comprehensive income** | | | |
| **Items that are or may be reclassified subsequently to profit or loss** | | | |
| Equity-accounted investees – share of other comprehensive income | | **XXX** | XXX |
| Related tax | | **(XXX)** | (XXX) |
| **Other comprehensive income for the period, net of tax** | | **XXX** | XXX |
| **Total comprehensive income for the period** | | **XXX** | XXX |

*The notes on pages XX to XX are an integral part of these consolidated financial statements.*

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## Explanatory notes

*IFRS 16.C5(b)*

**a.** In Part I of this guide, the Group applies IFRS 16 retrospectively with the cumulative effect of initially applying IFRS 16 recognised at the date of initial application – i.e. 1 January 2019.

# Consolidated statement of changes in equity[a]

## For the year ended 31 December

IAS 1.10(c), 29, 38–38A, 113

| *In thousands of euro* | *Note* | Share capital | Share premium | Reserves | Retained earnings | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| | | Attributable to owners of the Company | | | | | | |
| **Balance at 1 January 2018** | | XXX | XXX | XXX | 12,332 | XXX | - | XXX |
| **Total comprehensive income for the period** | | | | | | | | |
| Profit for the period | | - | - | - | 365 | 365 | - | 2,064 |
| Other comprehensive income for the period | | - | - | XXX | - | XXX | - | XXX |
| **Total comprehensive income for the period** | | - | - | XXX | - | XXX | - | XXX |
| **Balance at 31 December 2018** | | XXX | XXX | XXX | 12,697 | XXX | - | XXX |
| Balance at 1 January 2019, as previously reported | | **XXX** | **XXX** | **XXX** | **12,697** | **XXX** | **-** | **89,488** |
| Impact of change in accounting policy (IAS 1.106(b)) | | **-** | **-** | **-** | **(1,655)** | **(1,655)** | **-** | **(1,655)** |
| **Adjusted balances at 1 January 2019** | | **XXX** | **XXX** | **XXX** | **11,042** | **XXX** | **-** | **87,833** |
| **Total comprehensive income for the period** | | | | | | | | |
| Profit for the period | | **-** | **-** | **-** | **1,325** | **1,325** | **-** | **1,325** |
| Other comprehensive income for the period | | **-** | **-** | **XXX** | **-** | **XXX** | **-** | **XXX** |
| **Total comprehensive income for the period** | | **-** | **-** | **XXX** | **1,325** | **XXX** | **-** | **XXX** |
| **Transactions with owners of the Company** | | | | | | | | |
| Issue of ordinary shares related to business combination | | **XXX** | **XXX** | **-** | **-** | **XXX** | **-** | **XXX** |
| **Total transactions with owners of the Company** | | **XXX** | **XXX** | **-** | **-** | **XXX** | **-** | **XXX** |
| **Balance at 31 December 2019** | | **XXX** | **XXX** | **XXX** | **12,367** | **102,036** | **-** | **102,036** |

*The notes on pages XX to XX are an integral part of these consolidated financial statements.*

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## Explanatory notes

| | | |
|---|---|---|
| *IFRS 16.C5(b), C7* | **a.** | In Part I of this guide, the Group applies IFRS 16 using the modified retrospective approach, with the cumulative effect of initially applying IFRS 16 recognised in retained earnings at the date of initial application – i.e. 1 January 2019. |
| *IFRS 16.50(c)* | **b.** | Lease payments for short-term leases, lease payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability are classified as cash flows from operating activities. |
| *IFRS 16.50(b), IAS 7.31* | **c.** | The Group has classified cash flows from operating leases as operating activities. Cash flows from the principal and interest of the finance lease receivables received are classified as investing activities. |
| *IFRS 16.50(a)–(b), IAS 7.17(e), 31* | **d.** | The Group has classified the principal portion of lease payments within financing activities and the interest portion within operating activities. |

# Consolidated statement of cash flows[a]

For the year ended 31 December

IAS 1.10(d), 38–38A, 113

| *In thousands of euro* | *Note* | 2019 | 2018 |
|---|---|---|---|
| **Cash flows from operating activities[b, c]** | | | |
| Profit from the period | | **1,325** | 365 |
| Adjustments for: | | | |
| – Depreciation | *1* | **21,747** | 20,880 |
| – Net decrease in fair value of investment property | *2* | **100** | - |
| – (Reversal of) impairment losses | | **(2,025)** | 1,430 |
| – Net finance (income)/costs | | **1,187** | 506 |
| – [...] | | **XXX** | XXX |
| Changes in: | | | |
| – [...] | | **XXX** | XXX |
| Cash generated from operating activities | | **XXX** | XXX |
| Interest paid[d] (IAS 7.31–32) | | **(2,540)** | (1,385) |
| Taxes paid | | **XXX** | XXX |
| **Net cash from operating activities** | | **XXX** | XXX |
| **Cash flows from investing activities** | | | |
| Interest received[c] (IAS 7.31) | | **217** | 71 |
| Lease payments received from finance leases[c] | | **550** | - |
| [...] | | | |
| **Net cash from investing activities** | | **XXX** | XXX |
| **Cash flows from financing activities** | | | |
| Payment of lease liabilities[d] (IAS 7.17(e), IFRS 16.50(a)) | | **(6,520)** | (1,102) |
| [...] | | **XXX** | XXX |
| **Net cash from financing activities** | | **XXX** | XXX |
| **Net decrease in cash and cash equivalents** | | **XXX** | XXX |
| Cash and cash equivalents at 1 January | | **XXX** | XXX |
| Effect of movements in exchange rates on cash held | | **XXX** | XXX |
| **Cash and cash equivalents at 31 December** | | **XXX** | XXX |

* See Note 3.

*The notes on pages XX to XX are an integral part of these consolidated financial statements.*

## Explanatory notes

| | | |
|---|---|---|
| *IAS 1.38–38A* | **a.** | In applying paragraph C5(b) of IFRS 16, the comparative information is prepared based on the accounting policies for leases that the Group had applied under IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*. As a result, these pre-IFRS 16 accounting policies need to be disclosed as well as those that the Group applies after the adoption of IFRS 16.<br><br>In this guide, the Group has disclosed separately the details of accounting policies under IAS 17 and IFRIC 4 only if they are different from those under IFRS 16 and incorporated them in Note 1 'Leases'. This is just one of the possible approaches to disclosing accounting policies for the comparative information. Other approaches may be applied in practice. |
| *IAS 1.113–114* | **b.** | Notes are presented, to the extent practicable, in a systematic order and are cross-referred to/from items in the primary financial statements. In determining a systematic manner of presentation, an entity considers the effect on the understandability and comparability of the financial statements. The Group has applied its judgement in presenting related information together in a manner that it considers to be most relevant to an understanding of its financial performance and financial position. The order presented is only illustrative and entities need to tailor the organisation of the notes to fit their specific circumstances. |
| *IAS 1.117(b), 119, 121* | **c.** | The accounting policies included in this guide reflect the circumstances of the Group on which these financial statements are based, by describing only the specific policies that are relevant to an understanding of the Group's lease accounting. These examples of accounting policies should not be relied on for a complete understanding of IFRS 16 and should not be used as a substitute for referring to the standard. To help you identify the underlying requirements in IFRS 16, references to the relevant requirements in the standard have been included. |

# Notes to the consolidated financial statements (extract)

## 1. Leases[a, b, c]

[IFRS 16.C5(b), C7]

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16 and the impact of changes is disclosed in Note 3.

### A. Significant accounting policy

#### Policy applicable from 1 January 2019

[IFRS 16.9, B9–B31]

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 assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
  - the Group has the right to operate the asset; or
  - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after 1 January 2019.

[IFRS 16.12–15]

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

#### Policy applicable before 1 January 2019

[IFRIC 4.6, 10]

For contracts entered into before 1 January 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
  - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
  - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
  - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

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## Explanatory notes

*[IFRS 16.29, 34–35]*

**a.** The Group has applied the cost model to right-of-use assets, except for those assets that meet the definition of investment property. Alternatively, the Group may elect to apply the revaluation model in IAS 16 to right-of-use assets, if it applies the revaluation model to the class of property, plant and equipment that the right-of-use assets relate to.

The Group applies the fair value model to investment property, including right-of-use assets that meet the definition of investment property. See Note 2 for details of investment property.

# Notes to the consolidated financial statements (extract)

## 1. Leases (continued)

### A. Significant accounting policy (continued)

#### *i. As a lessee*

*[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 16.29–32]* The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.[a] The estimated useful lives of right-of-use assets are 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.

*[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, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

*[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 (see (B)).

##### Short-term leases and leases of low-value assets

*IFRS 16.60*
*[IFRS 16.5–6, 8]* The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets, 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.

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# Notes to the consolidated financial statements (extract)

## 1. Leases (continued)

### A. Significant accounting policy (continued)

#### *i. As a lessee (continued)*

Under IAS 17

*[IAS 17.8, 20, 25, 27]*

In the comparative period, as a lessee the Group classified leases that transfer substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent.

Subsequently, the assets were accounted for in accordance with the accounting policy applicable to that asset.

*[IAS 17.8, 33, SIC-15.3]*

Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

#### *ii. As a lessor*

*[IFRS 16.61–62]*

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

*[IFRS 16.B58]*

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

*[IFRS 16.17]*

If an arrangement contains lease and non-lease components, the Group applies IFRS 15 to allocate the consideration in the contract.

*[IFRS 16.81]*

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other income'.

The accounting policies applicable to the Group as a lessor in the comparative period were not different from IFRS 16. However, when the Group was an intermediate lessor the sub-leases were classified with reference to the underlying asset.

## Explanatory notes

| | | |
|---|---|---|
| *IFRS 16.C7* | **a.** | In Part I of this guide, the Group has not disclosed comparative information, because it has applied the modified retrospective approach, without restating comparative information, on transition to IFRS 16. Comparative information is disclosed in accordance with IAS 17. For disclosures under IAS 17, see our publication Guide to annual financial statements – Illustrative disclosures (September 2017). |
| *IFRS 16.58* | **b.** | IFRS 16 requires a lessee to disclose a maturity analysis of lease liabilities applying paragraphs 39 and B11 of IFRS 7 *Financial Instruments: Disclosures*, separately from the maturity analyses of other financial liabilities. |
| *IFRS 16.BC221* | **c.** | Neither IFRS 7 nor IFRS 16 mandates the number of time bands to be used in the analysis. Therefore, the Group has applied judgement to determine an appropriate number of time bands. |

# Notes to the consolidated financial statements (extract)

## 1. Leases (continued)[a]

### B. As a lessee

IFRS 16.47

'Property, plant and equipment' comprise owned and leased assets that do not meet the definition of investment property.

| *In thousands of euro* | *Note* | 2019 |
|---|---|---|
| Property, plant and equipment owned | *X* | 78,483 |
| Right-of-use assets, except for investment property | | 15,543 |
| | | 94,026 |

IFRS 16.53–54

The Group leases many assets including land and buildings, vehicles, machinery and IT equipment. Information about leases for which the Group is a lessee is presented below.

#### *Right-of-use assets*

| | *In thousands of euro* | Property | Vehicles | Total |
|---|---|---|---|---|
| | **2019** | | | |
| IFRS 16.53(j) | Balance at 1 January | 15,493 | 4,940 | 20,433 |
| IFRS 16.53(a) | Depreciation charge for the year | (3,948) | (2,013) | (5,961) |
| IFRS 16.53(j) | Balance at 31 December | 11,916 | 3,627 | 15,543 |

IFRS 16.53(h)

Additions to the right-of-use assets during 2019 were €822 thousand.

#### *Lease liabilities*[b, c]

| | *In thousands of euro* | 2019 |
|---|---|---|
| IFRS 16.58, 7.39, B11 | **Maturity analysis – contractual undiscounted cash flows** | |
| | Less than one year | 7,644 |
| | One to five years | 12,936 |
| | More than five years | 2,092 |
| | **Total undiscounted lease liabilities at 31 December** | 22,672 |
| | **Lease liabilities included in the statement of financial position at 31 December** | 19,943 |
| | Current | 6,506 |
| | Non-current | 13,437 |

#### *Amounts recognised in profit or loss*

| | *In thousands of euro* | 2019 |
|---|---|---|
| IFRS 16.53(b) | Interest on lease liabilities | (1,369) |
| IFRS 16.53(e) | Variable lease payments not included in the measurement of lease liabilities | (1,700) |
| IFRS 16.53(f) | Income from sub-leasing right-of-use assets | 950 |
| IFRS 16.53(c) | Expenses relating to short-term leases | (1,470) |
| IFRS 16.53(d) | Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets | (750) |

#### *Amounts recognised in the statement of cash flows*

| | *In thousands of euro* | 2019 |
|---|---|---|
| IFRS 16.53(g) | Total cash outflow for leases | (11,809) |

## Explanatory notes

| | | |
|---|---|---|
| *IFRS 16.59(b)(i), B49, IE9* | **a.** | The Group has disclosed this additional information because it concluded that information about the proportion of total lease payments that arise from variable payments, and the sensitivity of those variable lease payments to changes in sales, is relevant to users of its financial statements. |
| *IFRS 16.59(b)(ii), B50, IE9* | **b.** | The Group has disclosed this additional information because it concluded that information about the extension options – in particular, the potential exposure to future lease payments – is relevant to users of its financial statements. |

# Notes to the consolidated financial statements (extract)

## 1. Leases (continued)

### B. As a lessee (continued)

### *i. Real estate leases*

*IFRS 16.59(a)*

The Group leases land and buildings for its office space and retail stores. The leases of office space typically run for a period of 10 years, and leases of retail stores for three to five years. Some leases include an option to renew the lease for an additional period of the same duration after the end of the contract term.

*IFRS 16.59(b)*

Some leases provide for additional rent payments that are based on changes in local price indices, or sales that the Group makes at the leased store in the period. Some also require the Group to make payments that relate to the property taxes levied on the lessor and insurance payments made by the lessor; these amounts are generally determined annually.

The Group sub-leases some of its properties under operating and finance leases (see (C)).

*IFRS 16.59(b)(i), B49, IE9*

#### Variable lease payments based on sales[a]

Some leases of retail stores contain variable lease payments that are based on sales that the Group makes at the store. These payment terms are common in retail stores in the country where the Group operates. Fixed and variable rental payments for the period ended 31 December 2019 were as follows.

| *In thousands of euro* | Fixed payments | Variable payments | Total payments | Estimated annual impact on rent of a 1% increase in sales |
|---|---|---|---|---|
| Leases with lease payments based on sales | 4,230 | 1,700 | 5,930 | 235 |

The Group expects the relative proportions of fixed and variable lease payments to remain broadly consistent in future years.

*IFRS 16.59(b)(ii), B50, IE9*

#### Extension options[b]

Some leases of office buildings contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

| *In thousands of euro* | Lease liabilities recognised (discounted) | Potential future lease payments not included in lease liabilities (discounted) | Historical rate of exercise of extension options |
|---|---|---|---|
| Office buildings | 1,733 | 2,915 | 33% |

## Explanatory notes

*IFRS 16.59(b)(iii), B51*

**a.** The Group has disclosed this additional information because it concluded that information about its exposure to residual value risk is relevant to users of its financial statements.

# Notes to the consolidated financial statements (extract)

## 1. Leases (continued)

### B. As a lessee (continued)

#### *ii. Other leases*

IFRS 16.59(b)(iii), B51

The Group leases vehicles and equipment, with lease terms of three to five years. In some cases, the Group has options to purchase the assets at the end of the contract term; in other cases, it guarantees the residual value of the leased assets at the end of the contract term.

The Group monitors the use of these vehicles and equipment, and reassesses the estimated amount payable under the residual value guarantees at the reporting date to remeasure lease liabilities and right-of-use assets. As at 31 December 2019, the Group estimates that the expected amount payable under the residual guarantees is €710 thousand.[a]

IFRS 16.60

The Group also leases IT equipment and machinery with contract terms of one to three years. These leases are short-term and/or leases of low-value items. The Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

#### *iii. Sale-and-leaseback*

IFRS 16.59(d), B52

In 2004, the Group sold one of its office buildings and leased the building back for 20 years. The Group has an option to repurchase the building for its market value at the end of the contract term. This sale-and-leaseback transaction enabled the Group to access more capital while continuing to use the office. The rent is adjusted every five years to reflect increases in local market rents for similar properties.

#### *iv. Surplus leases*

One of the properties that the Group leases has been vacant since July 2018. Based on consultations with external property consultants, the Group expects to be able to sub-let this property from 2020.

### C. As a lessor

Lease income from lease contracts in which the Group acts as a lessor is as below.

| | *In thousands of euro* | 2019 |
|---|---|---|
| IFRS 16.90–91 | **Finance lease** | |
| IFRS 16.90(a)(ii) | Finance income on the net investment in the lease | **126** |
| | **Operating lease** | |
| IFRS 16.90(b) | Lease income | **750** |

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*IFRS 16.94, 97*

**a.** For finance and operating leases, IFRS 16 requires a maturity analysis of the lease payments receivable. As a minimum, the lessor discloses the undiscounted lease payments to be received on an annual basis for each of the first five years and a total of the amounts for the remaining years.

# Notes to the consolidated financial statements (extract)

## 1. Leases (continued)

### C. As a lessor (continued)

#### *i. Operating lease*

IFRS 16.92(a)

The Group leases out its investment property and some machinery. The Group has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets. Note 2 sets out information about the operating leases of investment property.

IFRS 16.97

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date.[a]

| *In thousands of euro* | **2019** |
|---|---|
| Less than one year | **750** |
| One to two years | **350** |
| Two to three years | **150** |
| Three to four years | **150** |
| Four to five years | **150** |
| More than five years | **450** |
| **Total undiscounted lease payments** | **2,000** |

#### *ii. Finance lease*

IFRS 16.92(a)

The Group also sub-leases an office building that it leased in 2014. The Group has classified the sub lease as a finance lease, because the sub-lease is for the whole of the remaining term of the head lease.

IFRS 16.94

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.[a]

| *In thousands of euro* | **2019** |
|---|---|
| Less than one year | **550** |
| One to two years | **550** |
| Two to three years | **550** |
| Three to four years | **550** |
| **Total undiscounted lease payments receivable** | **2,200** |
| Unearned finance income | **(272)** |
| **Net investment in the lease** | **1,928** |

## Explanatory notes

*Insights 3.4.260.40*

**a.** Because IAS 40 makes no reference to providing 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. However, if investment property represents a significant portion of assets, then it may be appropriate to disclose additional analysis – e.g. portfolio by type of investment property.

**b.** The Group applies the fair value model to its investment property. The accounting policy for investment property determined under IAS 40, and the fair value disclosures required under IAS 40 and IFRS 13 *Fair Value Measurement*, are not included in this guide. For more details, see our publication Guide to annual financial statements – Illustrative disclosures (September 2017).

# Notes to the consolidated financial statements (extract)

## 2. Investment property[a, b]

*IFRS 16.92(a)*

Investment property comprises office buildings that are leased to third parties under operating leases.

The investment properties include properties that are held as right-of-use assets, as well as properties that are owned by the Group. The leases of investment properties contain an initial non-cancellable lease term of five to 10 years. Some leases provide the lessees with options to extend at the end of the term.

For all investment property leases, the rental income is fixed under the contracts, but some leases require the lessee to reimburse the insurance costs of the Group. When this is the case, the amounts of insurance costs are determined annually.

### A. Reconciliation of carrying amount

| Reference | *In thousands of euro* | Owned property | Right-of-use assets | Total |
|---|---|---|---|---|
| *IAS 40.76, IFRS 13.93(e)* | Balance at 1 January 2018 | 2,250 | 1,200 | 3,450 |
| *IAS 40.76(a), IFRS 13.93(e)(iii)* | Acquisitions | 350 | - | 350 |
| *IAS 40.76(f), IFRS 13.93(e)(iii)* | Reclassification from property, plant and equipment | 750 | - | 750 |
| *IAS 40.76(d), IFRS 13.93(e)(i), (f)* | Net change in fair value | 400 | (400) | - |
| *IAS 40.76, IFRS 13.93(e)* | **Balance at 31 December 2018** | 3,750 | 800 | 4,550 |
| | Balance at 1 January 2019 | **3,750** | **800** | **4,550** |
| *IAS 40.76(d), IFRS 13.93(e)(i), (f)* | Net change in fair value | **300** | **(400)** | **(100)** |
| | **Balance at 31 December 2019** | **4,050** | **400** | **4,450** |

### B. Amount recognised in profit or loss

| Reference | *In thousands of euro* | 2019 | 2018 |
|---|---|---|---|
| *IAS 40.75(f)(i)* | Rental income, excluding service charges | **550** | 550 |
| *IAS 40.75(f)(ii)* | Direct operating expenses that generated rental income during the period | **(300)** | (300) |

The rental income is included in 'other income'.

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

Changes in fair values are recognised as gains (losses) in profit or loss and included in 'other income (other expense)', of which €300 thousand gain and €400 thousand loss (2018: €400 thousand gain and €400 thousand loss) are attributable to investment property held at the reporting date.

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## Explanatory notes

| | | |
|---|---|---|
| *IFRS 16.C5(b)* | **a.** | In Part I of this guide, the Group applies IFRS 16 using the modified retrospective approach. For an illustration of the disclosures when applying IFRS 16 retrospectively under paragraph C5(a), see Part II. |

# Notes to the consolidated financial statements (extract)

IAS 8.28

## 3. Changes in accounting policies[a]

Except for the changes below, the Group has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

IFRS 16.C1

The Group applied IFRS 16 with a date of initial application of 1 January 2019. As a result, the Group has changed its accounting policy for lease contracts as detailed below.

IFRS 16.C5(b), C7

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. The details of the changes in accounting policies are disclosed below.

### A. Definition of a lease

[IFRIC 4.6], IFRS 16.C4

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Group assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 1(A).

[IFRS 16.C3]

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

### B. As a lessee

[IAS 17.7]

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

[IFRS 16.5], IFRS 16.60

The Group decided to apply recognition exemptions to short-term leases of machinery and leases of IT equipment (see Note 1(A)). For leases of other assets, which were classified as operating under IAS 17, the Group recognised right-of-use assets and lease liabilities.

#### *i. Leases classified as operating leases under IAS 17*

[IAS 17.C8]

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application – the Group applied this approach to its largest property leases; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Group applied this approach to all other leases.

[IFRS 16.C10], IFRS 16.C13

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

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# Notes to the consolidated financial statements (extract)

## 3. Changes in accounting policies (continued)

### B. As a lessee (continued)

### *ii. Leases previously classified as finance leases*

*[IFRS 16.C10]*

For leases that were classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 are determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

### C. As a lessor

*[IFRS 16.C14–C15]*

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Group accounted for its leases in accordance with IFRS 16 from the date of initial application.

*[IFRS 16.B58(b)]*

Under IFRS 16, the Group is required to assess the classification of a sub-lease with reference to the right-of-use asset, not the underlying asset. On transition, the Group reassessed the classification of a sub-lease contract previously classified as an operating lease under IAS 17. The Group concluded that the sub-lease is a finance lease under IFRS 16.

*[IFRS 16.17]*

The Group applied IFRS 15 *Revenue from Contracts with Customers* to allocate consideration in the contract to each lease and non-lease component.

### D. Sale-and-leaseback

*[IFRS 16.C16, C18]*

Under IFRS 16, the Group continues to account for the sale-and-leaseback transaction for an office building completed in 2004 as a sale-and-leaseback transaction. The Group recognised a right-of-use asset and a lease liability for the leaseback on 1 January 2019, measured in the same way as other right-of-use assets and lease liabilities at that date.

### E. Impacts on financial statements

On transition to IFRS 16, the Group recognised an additional €16,740 thousand of right-of-use assets and €21,341 thousand of lease liabilities, recognising the difference in retained earnings.

*IFRS 16.C12(a)*

When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 6%.

*IFRS 16.C12(b)*

| *In thousands of euro* | **1 January 2019** |
|---|---|
| Operating lease commitment at 31 December 2018 as disclosed in the Group's consolidated financial statements | **38,473** |
| Discounted using the incremental borrowing rate at 1 January 2019 | **20,798** |
| Finance lease liabilities recognised as at 31 December 2018 | **4,300** |
| – Recognition exemption for: | |
| - short-term leases | **(606)** |
| - leases of low-value assets | **(356)** |
| – Extension and termination options reasonably certain to be exercised | **1,708** |
| – Variable lease payments based on an index or a rate | **40** |
| – Residual value guarantees | **(243)** |
| **Lease liabilities recognised at 1 January 2019** | **25,641** |

# Part II - Retrospective approach

## Explanatory notes

| | | |
|---|---|---|
| *IFRS 16.C3, C5(a)* | **a.** | IFRS 16 offers a range of transition options. In Part II of this guide, the Group applies IFRS 16 using the retrospective approach, with the practical expedient not to reassess the definition of a lease on transition to IFRS 16. As a lessee, the Group applies IFRS 16 retrospectively to each prior reporting period presented. As a lessor, the Group does not make any adjustments on transition except for sub-leases.<br><br>For an illustration of the presentation and disclosures when applying IFRS 16 using the modified retrospective approach with practical expedients, see Part I. |
| *IAS 8.26, Insights 2.8.50.110* | **b.** | The Group has labelled the restated comparative information with the heading 'restated'.<br><br>In our view, this is necessary to highlight to users the fact that the comparative information is not the same as the information previously presented in the prior year's financial statements. |
| *IAS 1.10(f), 40A* | **c.** | The Group has presented a third statement of financial position as at the beginning of the preceding period, because retrospective changes in accounting policy have a material effect on the information in the statement (see Note 3). |
| *IFRS 16.47(a), 48* | **d.** | The Group has presented right-of-use assets that do not meet the definition of investment property within property, plant and equipment – i.e. the line item in which the Group presents underlying assets of the same nature that it owns (see Note 1(B)). Alternatively, the Group may choose to present right-of-use assets separately in the statement of financial position. Right-of-use assets that meet the definition of investment property are presented within investment property. |
| *IFRS 16.47(b)* | **e.** | The Group has presented lease liabilities within loans and borrowings. Alternatively, a lessee may choose to present lease liabilities separately from other liabilities in the statement of financial position. |

# Consolidated statement of financial position[a]

IAS 1.10(a), 29, 38–38A, 113

| In thousands of euro | | Note | 31 December 2019 | 31 December 2018 Restated*[b] | 1 January 2018 Restated*[b, c] |
|---|---|---|---|---|---|
| | **Assets** | | | | |
| IFRS 16.47(a) | Property, plant and equipment[d] | 1(B) | **93,284** | 97,712 | 116,728 |
| IFRS 16.48 | Investment property | 2 | **4,450** | 4,550 | 3,450 |
| | Trade and other receivables | | **17,845** | 17,497 | 18,540 |
| | Other | | **10,324** | 13,020 | 14,466 |
| | **Non-current assets** | | **125,903** | 132,779 | 153,184 |
| | Trade and other receivables | | **8,635** | 12,241 | 13,160 |
| | Other | | **39,070** | 31,464 | 27,318 |
| | **Current assets** | | **47,705** | 43,705 | 40,478 |
| | **Total assets** | | **173,608** | 176,484 | 193,662 |
| | **Equity** | | | | |
| | Share capital | | **XXX** | XXX | XXX |
| | Reserves | | **XXX** | XXX | XXX |
| | Retained earnings | 3 | **13,514** | 12,075 | 9,848 |
| | **Equity attributable to owners of the Company** | | **102,753** | 88,868 | 85,498 |
| | **Non-controlling interests** | | **-** | - | - |
| | **Total equity** | | **102,753** | 88,868 | 85,498 |
| | **Liabilities** | | | | |
| IFRS 16.47(b) | Loans and borrowings[e] | | **22,366** | 49,015 | 66,964 |
| | Provisions | | **360** | 191 | 583 |
| | Other | | **9,264** | 10,732 | 10,292 |
| | **Non-current liabilities** | | **31,990** | 59,938 | 77,839 |
| IFRS 16.47(b) | Loans and borrowings[e] | | **8,184** | 7,023 | 6,923 |
| | Other | | **30,681** | 20,655 | 23,402 |
| | **Current liabilities** | | **38,865** | 27,678 | 30,325 |
| | **Total liabilities** | | **70,855** | 87,616 | 108,164 |
| | **Total equity and liabilities** | | **173,608** | 176,484 | 193,662 |

* See Note 3.

*The notes on pages XX to XX are an integral part of these consolidated financial statements.*

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## Explanatory notes

*IAS 1.81B*

**a.** For illustrative purposes, this guide provides only an example of a consolidated statement of profit or loss and other comprehensive income, without presenting:

- the allocation of profit or loss and total comprehensive income to non-controlling interests and owners of the parent; and
- basic and diluted earnings per share.

*IFRS 16.49*

**b.** A lessee presents interest expense on the lease liability separately from the depreciation charge for the right-of-use asset. Interest expense on the lease liability is a component of finance costs, which is presented separately in the statement of profit or loss and other comprehensive income.

# Consolidated statement of profit or loss and other comprehensive income[a]

For the year ended 31 December

IAS 1.10(b), 29, 38–38A, 113

| *In thousands of euro* | *Note* | 2019 | 2018 Restated* |
|---|---|---|---|
| **Profit** | | | |
| Revenue | | **XXX** | XXX |
| Cost of sales | | **(163,060)** | (128,467) |
| Gross profit | | **XXX** | XXX |
| Other income | | **3,479** | 1,052 |
| Selling and distribution expenses | | **(XXX)** | (XXX) |
| Administrative expenses | | **(104,808)** | (90,733) |
| Other expenses | | **(XXX)** | (XXX) |
| **Operating profit** | | **XXX** | XXX |
| Finance income | | **1,152** | 972 |
| Finance costs[b] (IFRS 16.49) | | **(2,387)** | (2,856) |
| **Net finance income/(costs)** | | **(1,235)** | (1,884) |
| Share of profit of equity-accounted investees, net of tax | | **XXX** | XXX |
| **Profit before tax** | | **XXX** | XXX |
| Income tax expense | | **(XXX)** | (XXX) |
| **Profit for the period** | | **1,439** | 2,227 |
| **Other comprehensive income** | | | |
| **Items that are or may be reclassified subsequently to profit or loss** | | | |
| Equity-accounted investees – share of OCI | | **XXX** | XXX |
| Related tax | | **(XXX)** | (XXX) |
| **Other comprehensive income, net of tax** | | **XXX** | XXX |
| **Total comprehensive income** | | **XXX** | XXX |

* See Note 3.

*The notes on pages XX to XX are an integral part of these consolidated financial statements.*

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## Explanatory notes

*IFRS 16.C3, C5*

**a.** In Part II of this guide, the Group applies IFRS 16 using the retrospective approach, with the practical expedient not to reassess the definition of a lease on transition to IFRS 16.

# Consolidated statement of changes in equity[a]

## For the year ended 31 December

*IAS 1.10(c), 29, 38–38A, 113*

| *In thousands of euro* | *Note* | Share capital | Share premium | Reserves | Retained earnings | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| | | Attributable to owners of the Company | | | | | | |
| **Balance at 1 January 2018, as previously reported** | | XXX | XXX | XXX | 12,332 | XXX | - | XXX |
| **Impact of change in accounting policy** (*IAS 1.106(b)*) | *3* | - | - | - | (2,484) | (2,484) | - | (2,484) |
| **Restated balance at 1 January 2018** | | XXX | XXX | XXX | 9,848 | 85,498 | - | 85,498 |
| **Restated total comprehensive income for the period** | | | | | | | | |
| Restated profit for the period | *3* | | | | 2,227 | 2,227 | - | 2,227 |
| Other comprehensive income for the period | | - | - | XXX | - | XXX | - | XXX |
| **Restated total comprehensive income for the period** | | - | - | XXX | XXX | XXX | - | XXX |
| **Restated balance at 31 December 2018 and 1 January 2019** | | XXX | XXX | XXX | 12,075 | 88,868 | - | 88,868 |
| **Total comprehensive income** | | | | | | | | |
| Profit for the period | | **-** | **-** | **-** | **1,439** | **1,439** | **-** | **1,439** |
| Other comprehensive income for the period | | **-** | **-** | **XXX** | **-** | **XXX** | **-** | **XXX** |
| **Total comprehensive income for the period** | | **-** | **-** | **XXX** | **1,439** | **XXX** | **-** | **XXX** |
| **Transactions with owners of the Company** | | | | | | | | |
| Issue of ordinary shares related to business combination | | **XXX** | **XXX** | **-** | **-** | **XXX** | **-** | **XXX** |
| **Total transactions with owners of the Company** | | **XXX** | **XXX** | **-** | **-** | **XXX** | **-** | **XXX** |
| **Balance at 31 December 2019** | | **XXX** | **XXX** | **XXX** | **13,514** | **102,753** | **-** | **102,753** |

*The notes on pages XX to XXX are an integral part of these consolidated financial statements.*

## Explanatory notes

| | | |
|---|---|---|
| *IFRS 16.C5(a)* | **a.** | In Part II of this guide, the Group applies IFRS 16 using the retrospective approach, with the practical expedient not to reassess the definition of a lease on transition to IFRS 16. |
| *IFRS 16.50(c)* | **b.** | Lease payments for short-term leases, lease payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability are classified as cash flows from operating activities. |
| *IFRS 16.50(b), IAS 7.31* | **c.** | The Group has classified cash flows from operating leases as operating activities. Cash flows from the principal and interest of the finance lease receivables received are classified as investing activities. |
| *IFRS 16.50(a)–(b) IAS 7.17(e), 31* | **d.** | The Group has classified the principal portion of lease payments within financing activities and the interest portion within operating activities. |

# Consolidated statement of cash flows[a]

For the year ended 31 December

*IAS 1.10(d), 38–38A, 113*

| *In thousands of euro* | *Note* | 2019 | 2018 Restated* |
|---|---|---|---|
| **Cash flows from operating activities[b, c]** (*IAS 7.18(b)*) | | | |
| Profit | | **1,439** | 2,227 |
| Adjustments for: | | | |
| – Depreciation | *1* | **21,895** | 26,108 |
| – Net decrease in fair value of investment property | *2* | **100** | - |
| – (Reversal of) impairment losses | | **(1,944)** | 2,026 |
| – Net finance (income)/costs | | **(1,235)** | (1,884) |
| – [...] | | | |
| Changes in: | | | |
| – [...] | | **XXX** | XXX |
| Cash generated from operating activities | | **XXX** | XXX |
| Interest paid[d] (*IAS 7.31–32*) | | **(2,577)** | (2,914) |
| Taxes paid | | **XXX** | XXX |
| **Net cash from operating activities** | | **XXX** | XXX |
| **Cash flows from investing activities** | | | |
| Interest received[c] (*IAS 7.31*) | | **378** | 222 |
| Lease payments received from finance leases[c] | | **550** | 550 |
| [...] | | | |
| **Net cash from investing activities** (*IAS 7.10*) | | | |
| **Cash flows from financing activities** | | | |
| Payment of lease liabilities[d] (*IAS 7.17(e), IFRS 16.50(a)*) | | **(6,953)** | (6,963) |
| [...] | | **XXX** | XXX |
| **Net cash from financing activities** | | **XXX** | XXX |
| **Net decrease in cash and cash equivalents** | | **XXX** | XXX |
| Cash and cash equivalents at 1 January | | **XXX** | XXX |
| Effect of movements in exchange rates on cash held | | **XXX** | XXX |
| **Cash and cash equivalents at 31 December** | | **XXX** | XXX |

* See Note 3.

*The notes on pages XX to XX are an integral part of these consolidated financial statements.*

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## Explanatory notes

| | | |
|---|---|---|
| *IAS 1.113–114* | a. | Notes are presented, to the extent practicable, in a systematic order and are cross-referred to/from items in the primary financial statements. In determining a systematic manner of presentation, an entity considers the effect on the understandability and comparability of the financial statements. The Group has applied its judgement in presenting related information together in a manner that it considers to be most relevant to an understanding of its financial performance and financial position. The order presented is only illustrative and entities need to tailor the organisation of the notes to fit their specific circumstances. |
| *IAS 1.117(b), 119, 121* | b. | The accounting policies included in this guide reflect the circumstances of the Group on which these financial statements are based, by describing only the specific policies that are relevant to an understanding of the Group's lease accounting. These examples of accounting policies should not be relied on for a complete understanding of IFRS 16 and should not be used as a substitute for referring to the standard. To help you identify the underlying requirements in IFRS 16, references to the relevant requirements in the standard have been included. |
| *[IFRS 16.29, 34–35]* | c | The Group has applied the cost model to right-of-use assets, except for those assets that meet the definition of investment property. Alternatively, the Group may elect to apply the revaluation model in IAS 16 to right-of-use assets, if it applies the revaluation model to the class of property, plant and equipment that the right-of-use assets relate to.<br><br>The Group applies the fair value model to investment property, including right-of-use assets that meet the definition of investment property. See Note 2 for details of investment property. |

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# Notes to the consolidated financial statements (extract)

## 1. Leases[a, b]

The Group has applied IFRS 16 using the retrospective approach. The impact of changes is disclosed in Note 3.

### A. Significant accounting policy

*[IFRS 16.9, B9–B31]*

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 assesses whether:

– the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;

– the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

– the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where all the decisions about how and for what purpose the asset is used are predetermined, the Group has the right to direct the use of the asset if either:

  - the Group has the right to operate the asset; or
  - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

The Group has applied this approach to contracts entered into or changed on or after 1 January 2019. The Group's approach to other contracts is explained in Note 3.

*[IFRS 16.12–15]*

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

#### *i. As a lessee*

*[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 16.29–32]*

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.[c] The estimated useful lives of right-of-use assets are 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.

*[IFRS 16.27]*

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

– 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

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# Notes to the consolidated financial statements (extract)

## 1. Leases (continued)

### A. Significant accounting policy (continued)

### *i. As a lessee (continued)*

– 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 or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

*[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 (see (B)).

#### Short-term leases and leases of low-value assets

*IFRS 16.60*
*[IFRS 16.5–6, 8]*

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets, 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.

### *ii. As a lessor*

*[IFRS 16.61–62]*

When the Group acts as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

*[IFRS 16.B58]*

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

*[IFRS 16.17]*

If an arrangement contains lease and non-lease components, the Group applies IFRS 15 to allocate the consideration in the contract.

*[IFRS 16.81]*

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other income'.

### B. As a lessee

*[IFRS 16.47]*

'Property, plant and equipment' comprises owned and leased assets that do not meet the definition of investment property.

| *In thousands of euro* | 31 Dec 2019 | 31 Dec 2018 Restated* | 1 Jan 2018 Restated* |
|---|---|---|---|
| Property, plant and equipment owned | **78,498** | 77,717 | 93,163 |
| Right-of-use assets, except for investment property | **14,786** | 19,995 | 23,565 |
| | **93,284** | 97,712 | 116,728 |

* See Note 3.

## Explanatory notes

| | | |
|---|---|---|
| *IFRS 16.58* | **a.** | IFRS 16 requires a lessee to disclose a maturity analysis of lease liabilities applying paragraphs 39 and B11 of IFRS 7, separately from the maturity analyses of other financial liabilities. |
| *IFRS 16.BC221* | **b.** | Neither IFRS 7 nor IFRS 16 mandates the number of time bands to be used in the analysis. Therefore, the Group has applied judgement to determine an appropriate number of time bands. |

# Notes to the consolidated financial statements (extract)

## 1. Leases (continued)

### B. As a lessee (continued)

IFRS 16.53–54

The Group leases many assets including land and buildings, vehicles, machinery and IT equipment. Information about leases for which the Group is a lessee is presented below.

#### *Right-of-use assets*

| | *In thousands of euro* | Property | Vehicles | Total |
|---|---|---|---|---|
| | **2018** | | | |
| IFRS 16.53(j) | Balance at 1 January (restated)* | 18,755 | 4,810 | 23,565 |
| IFRS 16.53(a) | Depreciation charge for the year (restated)* | (4,667) | (1,867) | (6,534) |
| IFRS 16.53(j) | Balance at 31 December (restated)* | 15,072 | 4,923 | 19,995 |
| | **2019** | | | |
| IFRS 16.53(j) | Balance at 1 January | **15,072** | **4,923** | **19,995** |
| IFRS 16.53(a) | Depreciation charge for the year | **(4,208)** | **(2,113)** | **(6,321)** |
| IFRS 16.53(j) | Balance at 31 December | **11,155** | **3,632** | **14,786** |

* See Note 3.

IFRS 16.53(h)

Additions to right-of-use assets during 2019 were €822 thousand (2018: €1,979 thousand).

#### *Lease liabilities*[a, b]

| | *In thousands of euro* | *Note* | 2019 | 2018 Restated* |
|---|---|---|---|---|
| IFRS 16.58, 7.39, B11 | **Maturity analysis – contractual undiscounted cash flows** | | | |
| | Less than one year | | **7,645** | 8,210 |
| | One to five years | | **12,935** | 19,245 |
| | More than five years | | **2,092** | 2,676 |
| | **Total undiscounted lease liabilities at 31 December** | | **22,672** | 30,131 |
| | **Lease liabilities included in the statement of financial position at 31 December** | | **19,883** | 26,015 |
| | Current | | **6,502** | 6,913 |
| | Non-current | | **13,381** | 19,102 |

* See Note 3.

#### *Amounts recognised in profit or loss*

| | *In thousands of euro* | 2019 | 2018 Restated* |
|---|---|---|---|
| IFRS 16.53(b) | Interest on lease liabilities | **(1,406)** | (1,746) |
| IFRS 16.53(e) | Variable lease payments not included in the measurement of lease liabilities | **(1,700)** | (1,700) |
| IFRS 16.53(f) | Income from sub-leasing right-of-use assets | **950** | 950 |
| IFRS 16.53(c) | Expenses relating to short-term leases | **(1,000)** | (1,250) |
| IFRS 16.53(d) | Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets | **(750)** | (750) |

* See Note 3.

#### *Amounts recognised in the statement of cash flows*

| | *In thousands of euro* | 2019 | 2018 |
|---|---|---|---|
| IFRS 16.53(g) | Total cash outflow for leases | **(11,809)** | (12,192) |

## Explanatory notes

*IFRS 16.59(b)(i), B49, IE9*

**a.** The Group has disclosed this additional information because it concluded that information about the proportion of total lease payments that arise from variable payments, and the sensitivity of those variable lease payments to changes in sales, is relevant to users of its financial statements.

*IFRS 16.59(b)(ii), B50, IE9*

**b.** The Group has disclosed this additional information because it concluded that information about the extension options – in particular, the potential exposure to future lease payments – is relevant to users of its financial statements.

# Notes to the consolidated financial statements (extract)

## 1. Leases (continued)

### B. As a lessee (continued)

### *i. Real estate leases*

*IFRS 16.59(a)*

The Group leases land and buildings for its office space and retail stores. The leases of office space typically run for a period of 10 years, and of retail stores for three to five years. Some leases include an option to renew the lease for an additional period of the same duration after the end of the contract term.

*IFRS 16.59(b)*

Some leases provide for additional rent payments that are based on changes in local price indices, or sales that the Group makes at the leased store in the period. Some also require the Group to make payments that relate to the property taxes levied on the lessor and insurance payments made by the lessor; these amounts are generally determined annually.

The Group sub-leases some of its properties under operating and finance leases (see (C)).

*IFRS 16.59(b)(i), B49, IE9*

#### Variable lease payments based on sales[a]

Some leases of retail stores contain variable lease payments that are based on sales that the Group makes at the store. Such payment terms are common in retail stores in the country where the Group operates. Fixed and variable rental payments for the period ended 31 December 2019 were as follows.

| *In thousands of euro* | **Fixed payments** | **Variable payments** | **Total payments** | **Estimated annual impact on rent of a 1% increase in sales** |
|---|---|---|---|---|
| Leases with variable lease payments based on sales | **4,230** | **1,700** | **5,930** | **235** |

The Group expects the relative proportions of fixed and variable lease payments to remain broadly consistent in future years.

*IFRS 16.59(b)(ii), B50, IE9*

#### Extension options[b]

Some leases of office buildings contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement whether it is reasonably certain to exercise the extension options. It reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

| *In thousands of euro* | **Lease liabilities recognised (discounted)** | **Potential future lease payments not included in lease liabilities (discounted)** | **Historical rate of exercise of extension options** |
|---|---|---|---|
| Office buildings | **1,773** | **3,176** | **33%** |

## Explanatory notes

*IFRS 16.59(b)(iii), B52*

**a.** The Group has disclosed this additional information because it concluded that information about its exposure to residual value risk is relevant to users of its financial statements.

# Notes to the consolidated financial statements (extract)

## 1. Leases (continued)

### B. As a lessee (continued)

#### *ii. Other leases*

*IFRS 16.59(b)(iii), B51*

The Group leases vehicles and equipment, with terms of three to five years. In some cases, the Group has options to purchase the assets at the end of the contract term; in other cases, it guarantees the residual value of the leased assets at the end of the contract term.

The Group monitors the use of these vehicles and equipment, and reassesses the amount payable under the residual value guarantees at the reporting date to remeasure lease liabilities and right-of-use assets. As at 31 December 2019, the Group estimates that the expected amount payable under the residual guarantees is €710 thousand.[a]

*IFRS 16.60*

The Group also leases IT equipment and machinery with contract terms of one to three years. These leases are short-term and/or leases of low-value items. The Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

#### *iii. Sale-and-leaseback*

*IFRS 16.59(d), B52*

In 2004, the Group sold one of its office buildings and leased the building back for 20 years. The Group has an option to repurchase the building for its market value at the end of the contract term. This sale-and-leaseback transaction enabled the Group to access more capital while continuing to use the office. The rent is adjusted every five years to reflect increases in local market rents for similar properties.

#### *iv. Surplus leases*

One of the properties that the Group leases has been vacant since July 2018. Based on consultations with external property consultants, the Group expects to be able to sub-let this property from 2020. The Group has recognised an impairment loss of €597 thousand in 2018, and reversed €290 thousand in 2019.

### C. As a lessor

Lease income from lease contracts in which the Group acts as a lessor is as below.

*IFRS 16.90–91*

| *In thousands of euro* | | 2019 | 2018 Restated* |
|---|---|---|---|
| **Finance lease** | | | |
| Finance income on the net investment in the lease | *IFRS 16.90(a)(ii)* | **129** | 151 |
| **Operating lease** | | | |
| Lease income | *IFRS 16.90(b)* | **750** | 750 |

* See Note 3.

## Explanatory notes

*IFRS 16.94, 97*

**a.** For finance and operating leases, IFRS 16 requires a maturity analysis of the lease payments receivable. As a minimum, the lessor discloses the undiscounted lease payments to be received on an annual basis for each of the first five years and a total of the amounts for the remaining years.

# Notes to the consolidated financial statements (extract)

## 1. Leases (continued)

### C. As a lessor (continued)

### *i. Operating lease*

*IFRS 16.92(a)*

The Group leases out its investment property and some machinery. The Group has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets. Note 2 sets out information about the operating leases of investment property.

*IFRS 16.97*

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date.[a]

| *In thousands of euro* | 2019 | 2018 Restated* |
|---|---|---|
| Less than one year | 750 | 750 |
| One to two years | 350 | 750 |
| Two to three years | 150 | 350 |
| Three to four years | 150 | 150 |
| Four to five years | 150 | 150 |
| More than five years | 450 | 600 |
| **Total undiscounted lease payments** | **2,000** | 2,750 |

* See Note 3.

### *ii. Finance lease*

*IFRS 16.92(a)*

The Group also sub-leases an office building that it leased in 2014. The Group has classified the sub lease as a finance lease, because the sub-lease is for the whole of the remaining term of the head lease.

*IFRS 16.94*

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.[a]

| *In thousands of euro* | 2019 | 2018 Restated* |
|---|---|---|
| Less than one year | 550 | 550 |
| One to two years | 550 | 550 |
| Two to three years | 550 | 550 |
| Three to four years | 550 | 550 |
| Four to five years | - | 550 |
| **Total undiscounted lease payments receivable** | **2,200** | 2,750 |
| Unearned finance income | (272) | (401) |
| **Net investment in the lease** | **1,928** | 2,349 |

* See Note 3.

## Explanatory notes

*Insights 3.4.260.40*

a. Because IAS 40 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. However, if investment property represents a significant portion of assets, then it may be appropriate to disclose additional analysis – e.g. portfolio by type of investment property.

b. The Group applies the fair value model to its investment property. The accounting policy for investment property determined under IAS 40, and the fair value disclosures required under IAS 40 and IFRS 13, are not included in this guide. For more details, see our publication Guide to annual financial statements – Illustrative disclosures (September 2017).

# Notes to the consolidated financial statements (extract)

## 2. Investment property[a, b]

IFRS 16.92(a)

Investment property comprises office buildings that are leased to third parties under operating leases.

The investment properties include properties that are held as right-of-use assets, as well as properties that are owned by the Group. The leases of investment properties contain an initial non-cancellable lease term of five to 10 years. Some leases provide the lessees with options to extend at the end of the term.

For all investment property leases, the rental income is fixed under the contracts, but some leases require the lessee to reimburse the insurance costs of the Group. When this is the case, the amounts of insurance costs are determined annually.

### A. Reconciliation of carrying amount

| Reference | *In thousands of euro* | ***Note*** | **Owned property** | **Right-of-use assets** | **Total** |
|---|---|---|---|---|---|
| IAS 40.76, IFRS 13.93(e) | Balance at 1 January 2018 | | 2,250 | 1,200 | 3,450 |
| IAS 40.76(a), IFRS 13.93(e)(iii) | Acquisitions | | 350 | - | 350 |
| IAS 40.76(f), IFRS 13.93(e)(iii) | Reclassification from property, plant and equipment | | 750 | - | 750 |
| IAS 40.76(d), IFRS 13.93(e)(i), (f) | Net change in fair value | | 400 | (400) | - |
| IAS 40.76, IFRS 13.93(e) | **Balance at 31 December 2018** | | 3,750 | 800 | 4,550 |
| | Balance at 1 January 2019 | | **3,750** | **800** | **4,550** |
| IAS 40.76(d), IFRS 13.93(e)(i), (f) | Net change in fair value | | **300** | **(400)** | **(100)** |
| | **Balance at 31 December 2019** | | **4,050** | **400** | **4,450** |

### B. Amount recognised in profit or loss

| Reference | *In thousands of euro* | **2019** | **2018** |
|---|---|---|---|
| IAS 40.75(f)(i) | Rental income, excluding service charges | **550** | 550 |
| IAS 40.75(f)(ii) | Direct operating expenses that generated rental income during the period | **(300)** | (300) |

The rental income is included in 'other income'.

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 (other expense)', of which €300 thousand gain and €400 thousand loss (2018: €400 thousand gain and €400 thousand loss) are attributable to investment property held at the reporting date.

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## Explanatory notes

| | | |
|---|---|---|
| *IFRS 16.C5(b)* | **a.** | In Part II of this guide, the Group applies IFRS 16 using the retrospective approach, with the practical expedient not to reassess the definition of a lease on transition to IFRS 16. For an illustration of the disclosures when applying IFRS 16 using the modified retrospective approach under paragraph C5(b), see Part I. |
| *IFRS 16.33* | **b.** | A lessee applies IAS 36 to determine whether the right-of-use asset is impaired. This guide does not include disclosures required by IAS 36. For an illustration of disclosures related to impairment of assets, see our Guide to annual financial statements – Illustrative disclosures (September 2017). |

# Notes to the consolidated financial statements (extract)

## 3. Changes in accounting policies[a, b]

*IAS 8.28*

*IFRS 16.C1*

Except for the changes below, the Group has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

The Group has applied IFRS 16 with a date of initial application of 1 January 2019. As a result, the Group has changed its accounting policy for lease contracts as detailed below.

*IFRS 16.C5(a)*

The Group has applied IFRS 16 using the retrospective approach. The details of the changes in accounting policies are disclosed below.

### A. Definition of a lease

*[IFRIC 4.6, 10], IFRS 16.C3–C4*

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Group assesses whether a contract is or contains a lease based on the definition of a lease as explained in Note 1(A). Under IFRIC 4, the Group assessed a lease based on the assessment of whether:

– fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
– the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
  - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
  - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
  - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after 1 January 2019.

### B. As a lessee

*[IAS 17.7]*

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

*[IFRS 16.5], IFRS 16.60*

The Group decided to apply the recognition exemptions to short-term leases of machinery and leases of IT equipment (see Note 1(A)). For leases of other assets, which were classified as operating under IAS 17, the Group recognised right-of-use assets and lease liabilities.

*[IFRS 16.C5(a)]*

For leases that were not covered by the recognition exemptions under IFRS 16, the Group recognised right-of-use assets and lease liabilities measured under IFRS 16. The Group also tested right-of-use assets for impairment, and recognised an impairment loss for some assets in 2018.[b]

### C. As a lessor

*[IFRS 16.C14–C15]*

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Group accounted for its leases in accordance with IFRS 16 from the date of initial application.

*[IFRS 16.B58(b)]*

Under IFRS 16, the Group is required to assess the classification of a sub-lease with reference to the right-of-use asset, not the underlying asset. On transition, the Group reassessed the classification of a sub-lease contract previously classified as an operating lease under IAS 17. The Group concluded that the sub-lease is a finance lease under IFRS 16, and accounted for the sub-lease as a new finance lease entered into at the date of initial application.

### D. Sale-and-leaseback

*[IFRS 16.C16, C18]*

Under IFRS 16, the Group continues to account for the sale-and-leaseback transaction of an office building completed in 2004 as a sale-and-leaseback transaction. The Group recognised a right-of-use asset and a lease liability for the leaseback in the same way as for other right-of-use assets and lease liabilities.

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# Notes to the consolidated financial statements (extract)

## 3. Changes in accounting policies (continued)

### E. Impacts on financial statements

The following tables summarise the impacts of adopting IFRS 16 on the Group's consolidated financial statements.

#### *i. Consolidated statement of financial position*

*IAS 8.28(f)(i)*

| | Impact of changes in accounting policies | | |
|---|---|---|---|
| **1 January 2018**<br>*In thousands of euro* | **As previously reported** | **Adjustments** | **As restated** |
| Property, plant and equipment | 97,134 | 19,594 | 116,728 |
| Trade and other receivables | 28,953 | 2,747 | 31,700 |
| Other | 45,234 | - | 45,234 |
| **Total assets** | 171,321 | 22,341 | 193,662 |
| Loans and borrowings | (49,062) | (24,825) | (73,887) |
| Other | (34,277) | - | (34,277) |
| **Total liabilities** | (83,339) | (24,825) | (108,164) |
| Retained earnings | (12,332) | 2,484 | (9,848) |
| Other | (75,650) | - | (75,650) |
| **Total equity** | (87,982) | 2,484 | (85,498) |

| | Impact of changes in accounting policies | | |
|---|---|---|---|
| **31 December 2018**<br>*In thousands of euro* | **As previously reported** | **Adjustments** | **As restated** |
| Property, plant and equipment | 81,396 | 16,316 | 97,712 |
| Trade and other receivables | 27,389 | 2,349 | 29,738 |
| Other | 49,034 | - | 49,034 |
| **Total assets** | 157,819 | 18,665 | 176,484 |
| Loans and borrowings | (36,156) | (19,882) | (56,038) |
| Provisions | (788) | 597 | (191) |
| Other | (31,387) | - | (31,387) |
| **Total liabilities** | (68,331) | (19,285) | (87,616) |
| Retained earnings | (12,695) | 620 | (12,075) |
| Other | (76,793) | - | (76,793) |
| **Total equity** | (89,488) | 620 | (88,868) |

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# Notes to the consolidated financial statements (extract)

## 3. Changes in accounting policies (continued)

### E. Impacts on financial statements (continued)

### *ii. Consolidated statement of profit or loss and OCI*

*IAS 8.28(f)(i)*

| **For the year ended 31 December 2018**<br>*In thousands of euro* | **Impact of changes in accounting policies**<br>**As previously reported** | **Adjustments** | **As restated** |
|---|---|---|---|
| Revenue | 290,485 | - | 290,485 |
| Cost of sales | (131,211) | 2,744 | (128,467) |
| Administrative expenses | (91,779) | 1,046 | (90,733) |
| Finance income | 821 | 151 | 972 |
| Finance cost | (1,327) | (1,529) | (2,856) |
| Other income | 1,602 | (550) | 1,052 |
| Other | (68,226) | - | (68,226) |
| **Profit for the period** | 365 | 1,862 | 2,227 |
| **Total comprehensive income for the period** | XXX | | XXX |

### *iii. Consolidated statement of cash flows*

*IAS 8.28(f)(i)*

| **For the year ended 31 December 2018**<br>*In thousands of euro* | **Impact of changes in accounting policies**<br>**As previously reported** | **Adjustments** | **As restated** |
|---|---|---|---|
| Profit for the period | 365 | 1,862 | 2,227 |
| Adjustments for: | | | |
| – Depreciation | 20,880 | 5,228 | 26,108 |
| – Impairment loss on right-of-use assets | 1,429 | 597 | 2,026 |
| – Net finance costs | 506 | 1,378 | 1,884 |
| Changes in: | | | |
| – Interest paid | (1,385) | (1,529) | (2,914) |
| […] | | | |
| **Net cash from operating activities** | XXX | 7,537 | XXX |
| Interest received | 71 | 151 | 222 |
| Lease payments received from finance leases | - | 550 | 550 |
| […] | | | |
| **Net cash from investing activities** | XXX | 701 | XXX |
| Payment of lease liabilities | (1,102) | (5,861) | (6,963) |
| […] | | | |
| **Net cash from financing activities** | XXX | (5,861) | XXX |

*IAS 8.28(f)(ii)*

There is no material impact on the Group's basic or diluted earnings per share for the year ended 31 December 2018.

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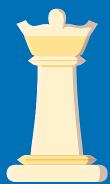

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# Acknowledgements

We would like to acknowledge the efforts of the following members of the KPMG International Standards Group, who were the principal authors of this publication: Kirill Kulakov, Jeewon Lee, Sylvie Leger, Brian O'Donovan, Marina Shu and Anisa Vallee.

We are grateful to Ian Greenwood and Alastair Burnie of KPMG LLP in the UK for their assistance in modelling the transition scenarios and reviewing the disclosures.

We would also like to thank the members of KPMG's global IFRS leases topic team for their contribution:

| | |
|---|---|
| Kimber Bascom (leader) | US |
| Zola Beseti | South Africa |
| Archana Bhutani | India |
| Judit Boros | Hungary |
| Yen San Chan | Singapore |
| Una Curtis | Ireland |
| Karine Dupre | France |
| Ramon Jubels | Brazil |
| Wolfgang Laubach | Germany |
| Sylvie Leger | Canada |
| Andrew Marshall | UK |
| Brian O'Donovan (deputy leader) | UK |
| Julie Santoro | US |
| Patricia Stebbens | Australia |
| Mag Stewart | Canada |
| Beth Zhang | China |

**kpmg.com/ifrs**

Publication name: *Guide to annual financial statements – IFRS 16 Leases supplement*

Publication number: 134964

Publication date: December 2017