Financial information of European entities in the context of the Covid-19 Outbreak

Key findings based on interim financial statements as of 30 June 2020

November 2020

mazars

Contents

Executive summary

This study shows that the financial information provided by the scoped European entities provides timely and detailed qualitative (and often quantitative) information on the accounting treatments and effects of an unprecedented global crisis. This is all the more noteworthy that such information generally meets the expectations set in the various guidance issued even though the conditions for preparing and auditing the half-year closing were particularly complex.

Context

The Covid outbreak and the governmental decisions to lockdown but also to support economic activities have created an important and urgent need for users of the financial statements to be informed about the financial situation of companies. Standards-setters, regulators and auditors in Europe have issued recommendations for the presentation of this information for the half-yearly closing.

The pandemic has had a widespread impact, sometimes very heavy, on the half-yearly financial situation of European groups (two thirds of the groups experienced a drop in turnover, generally accompanied by a drop in profitability). According to the groups' financial information, the deterioration in their financial situation is essentially attributable to the pandemic.

While in only one case uncertainties related to the pandemic have casted doubt on an issuer’s ability to continue as a going concern. One out of five issuers have found it useful to explain the measures and judgements that led them to reach this conclusion.

The limited review opinions are unqualified (except two) but 3 reports include an emphasis of matter referring to the appended description of going concern measures and judgements.

Information on Performance

Information on the outbreak is primarily a matter for the financial statements: with a few exceptions, financial communication (generally the management report) only complements it.

The impact of the crisis is very rarely presented directly in the primary financial statements but rather in the notes, where it is often quantified. This quantitative information is not given pro-forma. Issuers rather communicate on targeted expenses (sometimes on products) or on a variation compared to the previous year. One out of five issuers presents all of its identified Covid effects in a separate subtotal of the operating result.

Other effects on financial positions

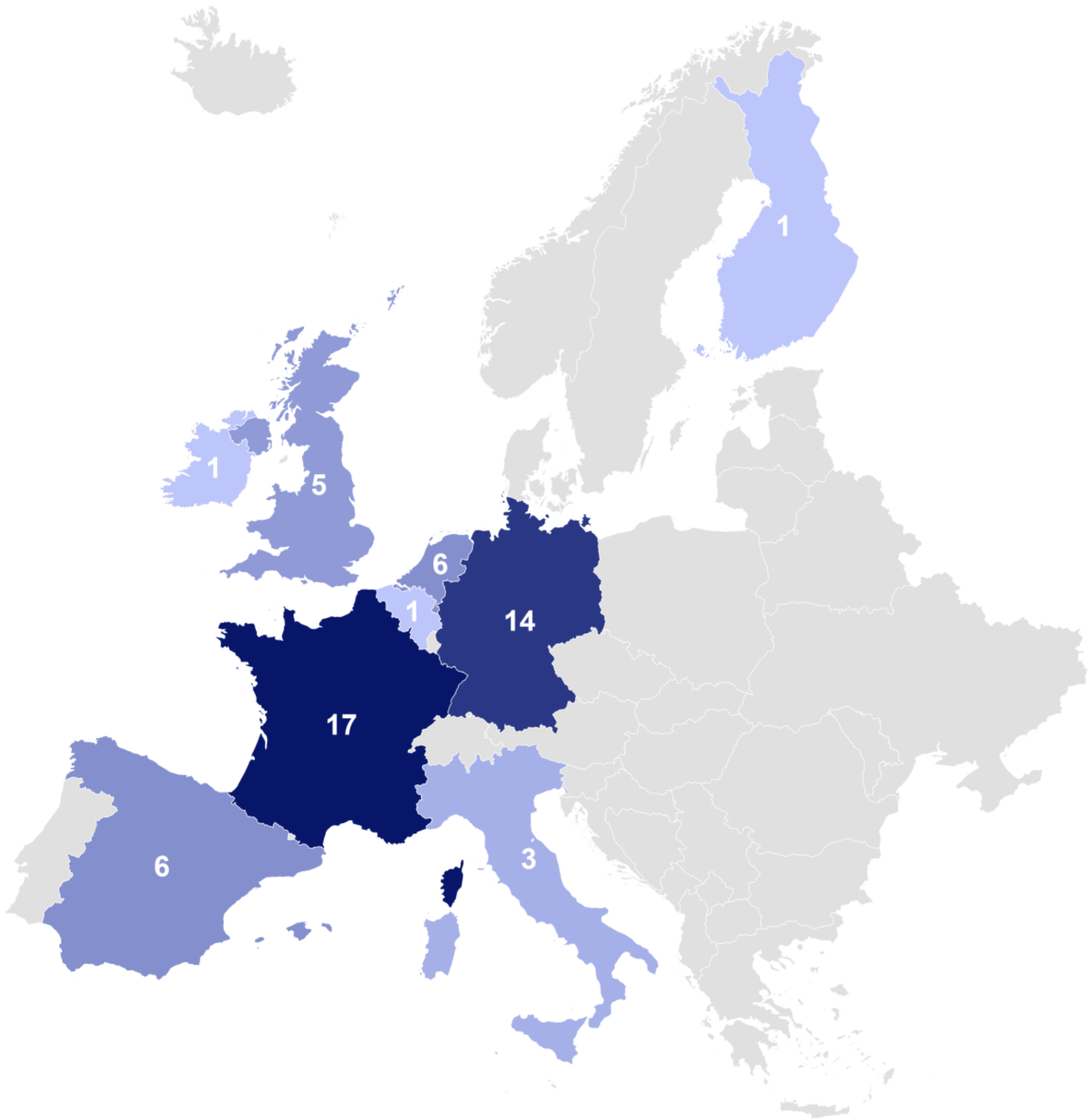
Virtually all entities have considered that the context generated impairment indicators. Most impairment tests were performed on goodwill and intangible assets, often using the same method as at the year-end and simply deferring the same cash-flows projections beyond the recovery horizon. In the issuers' projections, the period to recover from the pre-crisis situation (i.e. 2019) is generally estimated between 0 and 5 years. Only a few entities report having applied a multi-scenario approach. A quarter of the issuers applied the headroom method as a substitute or a pre-test for a full impairment test.

In addition, nine out of ten groups do not note any significant effect of rent concessions or do not mention the publication of the corresponding amendment to IFRS 16. Half of the issuers state that they have received governmental support measures, mainly employment aid, but only one out of five provides figures. Two thirds of the issuers have reduced or waived the distribution of dividends in 2019.

Other effects were identified concerning inventories, provisions, financial instruments and deferred tax assets. The study provides an overview of the very diverse range of effects of the pandemic on these items.

OVERVIEW OF THE COVID'S IMPACT

Scope of the benchmark



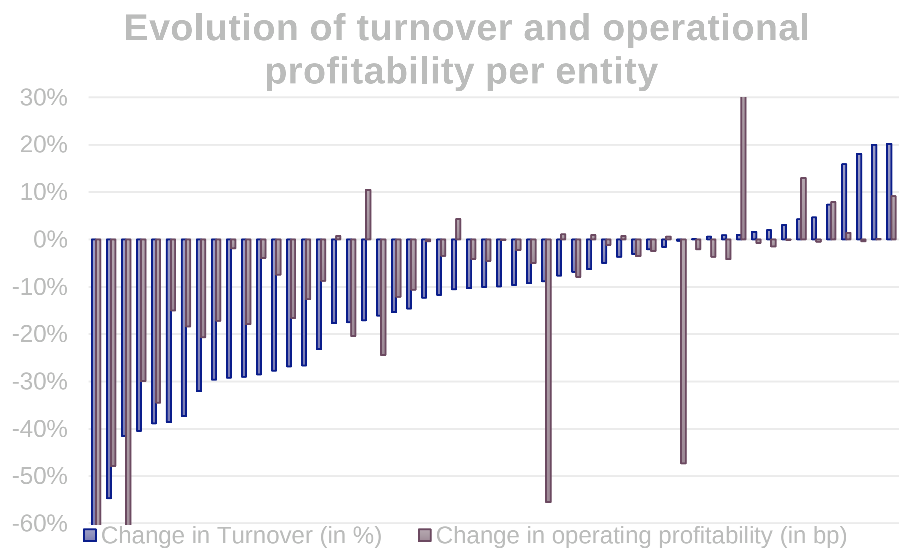
A continental European study

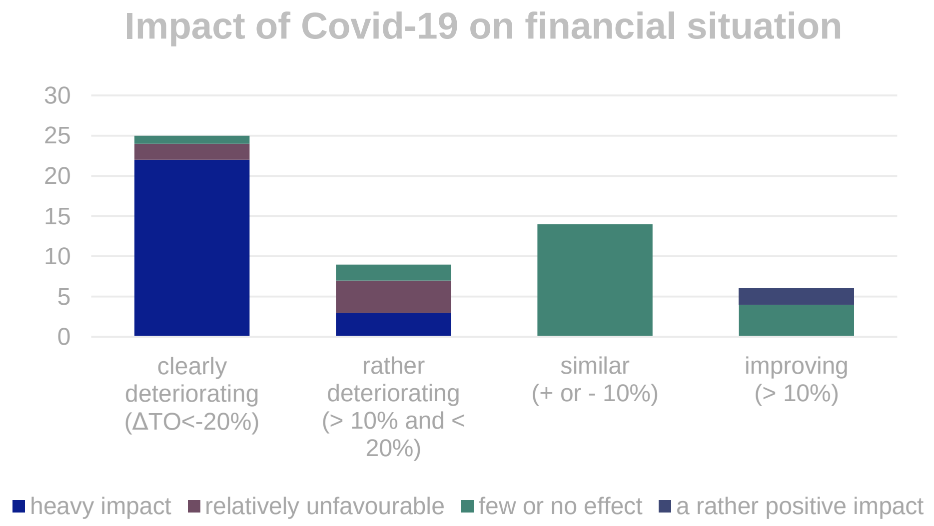
This study covers 54 European entities among which 49 from the Eurostoxx50 and 5 British groups listed on the LSE 350 particularly affected by the crisis.

All but two have an annual closing as of 31/12, so the financial statements retained for the study are those included in the interim half-yearly report.

The detailed list of entities scoped in the study is provided in the Appendix

Effects of the crisis on the financial situation of entities





Trends in turnover and operational profitability*

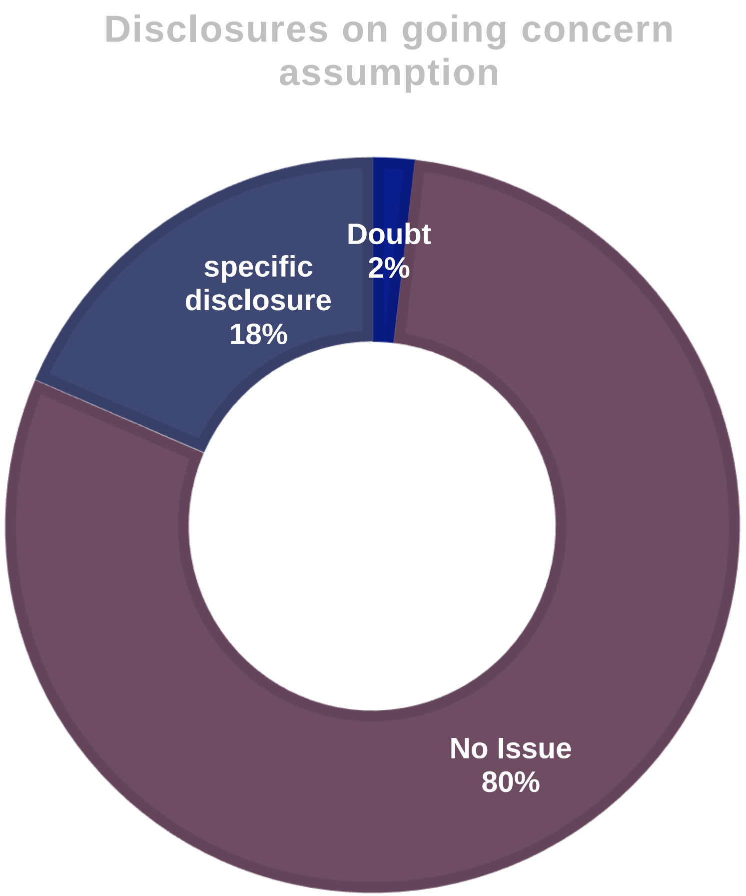
- In the first half year, three out of four scoped entities suffered from a decrease in turnover compared with previous period (rd. -13% in average) as well as a decrease in operational profitability (rd. -7 bp).
- Situations largely vary from one company to another. The following industries have heavily suffered in the period : Transportation: especially Aeronautics (2 entities) and Automotive (4 entities), Oil&Gas (2 entities), Luxury, Specialised mass distribution and Media (9 entities), Real-Estate (1 entity) and Hospitality (2 entities).
- Chemical/Pharmaceutical industry (6 entities), Food processing and retail (4 entities) and IT and Technology appear more resilient (4 entities).

Impact of Covid in this context

- In this context, Covid is generally mentioned to have had a heavy impact where the situation was deteriorating.
- Conversely, where the situation is similar to previous year or even slightly improving, Covid is rarely mentioned to have had an effect in the period.

* Operational profitability in bp= $(OperatingMargin_N/Turnover_N)-(OperatingMargin_{N-1}/Turnover_{N-1})$

Going Concern



- In only one case uncertainties related to the outbreak have casted doubt on an issuer's ability to continue as a going concern.
- 18% (10 entities) of issuers have disclosed the judgements based on which the management has concluded that no material uncertainties remain on the issuer's ability to continue as a going concern, if reaching this conclusion required significant judgement.
- Matters on which judgment has been used to conclude on the going concern assumption relate (among others) to:
  - Credit line guaranteed by the government ensuring sufficient financing
  - Further public measures relating to partial unemployment compensation schemes, support to suppliers and customers
  - Renegotiation of credit term (covenant holiday) or new credit lines
  - Limitation of 2019 dividend payments
  - Reduction in the expected capital expenditures as well as cost reduction initiatives including top management's compensation
- Auditors especially focused of the judgement made on the going concern assumption.

Going concern
Example

Based on the Group's cash flow forecasts and projections, the Board is satisfied that the Group will be able to operate within the level of its committed facilities for the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing its financial statements. In assessing whether the Group is a going concern, the implications of Covid-19 have been considered and the measures taken to mitigate its impact on the Group. In making this assessment the Group has considered available liquidity in relation to net debt and committed facilities, the Group’s latest forecasts for 2020 and 2021 cash flows together with Covid-19 adjusted scenarios. The forecasts used reflected the likely economic downturn triggered by Covid-19, with a key emphasis on the Group’s forecast revenue and gross profit in 2021 relative to the original Board approved plan for 2020.

Given the global political and economic uncertainty resulting from the Covid-19 pandemic, we expect to see volatility and business disruption in the markets in which the Group operates reducing our expected performance in 2020 and 2021. In the first half of the year, we have already felt the impact of the government action to the control the Covid-19 pandemic with a number of the Group’s businesses being closed to a greater or lesser extent.

During the period, actions have been taken to further strengthen the Group’s liquidity position in light of the current environment. These have included:

- Cost saving initiatives, such as reducing advertising and promotional expenditure, reducing executive pay, freezing other pay and recruitment and reductions in operating expenditure;
- utilisation of government cost support measures such as the UK job retention scheme combined with UK business rates suspension and international government support measures where available;
- collaborating closely with OEMs to manage inventory levels;
- negotiating extended terms for vehicle funding arrangements in key markets;
- suspending the share buyback programme; and
- cancelling the final dividend for 2019.

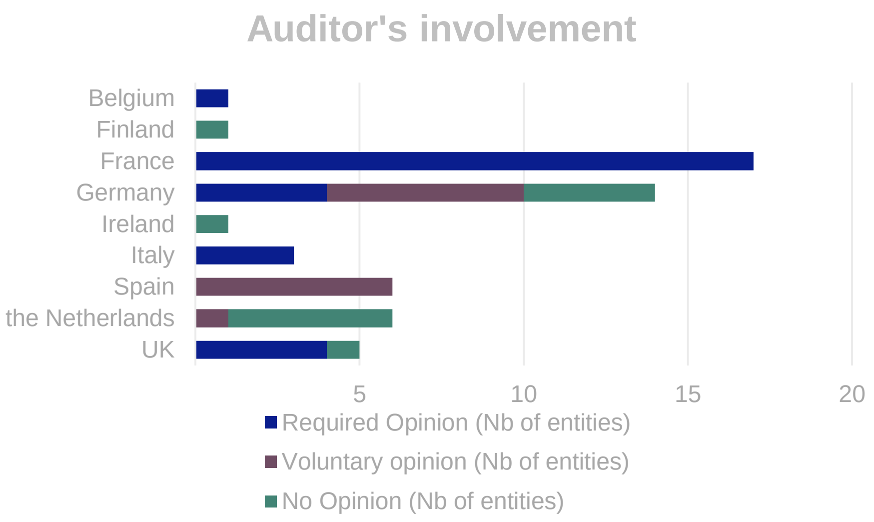
In addition, the Group was successful in its application for the UK Government’s Covid Corporate Financing Facility (CCFF) scheme. However, for the purposes of the going concern assessment, the CCFF is not considered to be a committed facility other than in respect of the £100m issued as at 30 June 2020 and repaid on 17 July 2020.

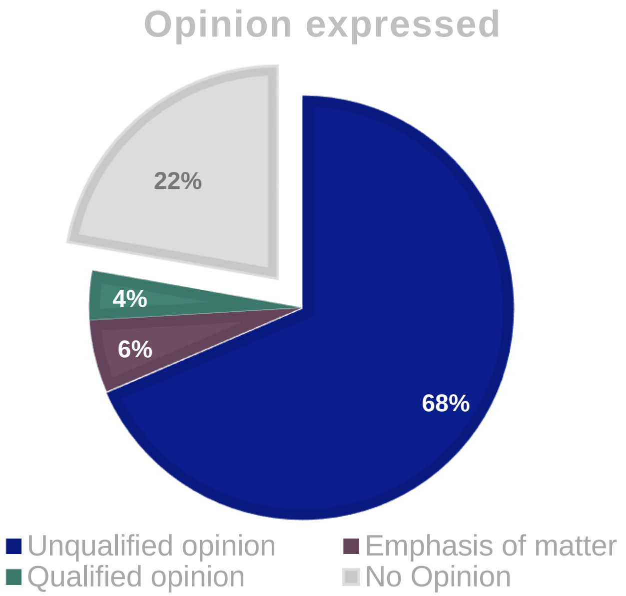
Committed bank facilities and Private Placement borrowings totalling £910m, of which £380m was drawn at 30 June 2020, are subject to the same interest cover covenant based on an adjusted EBITA measure to interest on consolidated borrowings measured on a trailing 12 month basis at June and December. The Group’s latest forecasts for 2020 and 2021 indicate that the Group is expected to be compliant with this covenant throughout the forecast period.

A range of sensitivities have been applied to the forecasts to assess the Group’s compliance with its covenant requirements over the 18 month period to 31 December 2021. These sensitivities included a reduction in gross profit achieved, as a result of further periods of restrictions across the Group’s markets, an appreciation in sterling against the Group’s main trading companies and a “no deal” Brexit scenario, together with working capital sensitivities. The Group tested the possibility of the debt covenant being breached in December 2020, June 2021 and December 2021. June 2021 is the most sensitive period, mainly as a result of the assumed reduction in trade, due to the impact of restrictions, included in the forecasts. However, the sensitised forecasts indicate that the Group is expected to be compliant with this covenant throughout the forecast period and have sufficient funds to meet cash flow requirements.

In addition, reverse stress test scenario analysis has been applied to the sensitised forecasts to assess particular scenarios in which the Group would breach its covenant or have insufficient funds to meet cash flow requirements. As a result, the Board concluded that the Group will be able to operate within the level of its committed facilities for the foreseeable future and the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the condensed consolidated interim financial statements.

Auditor’s opinion





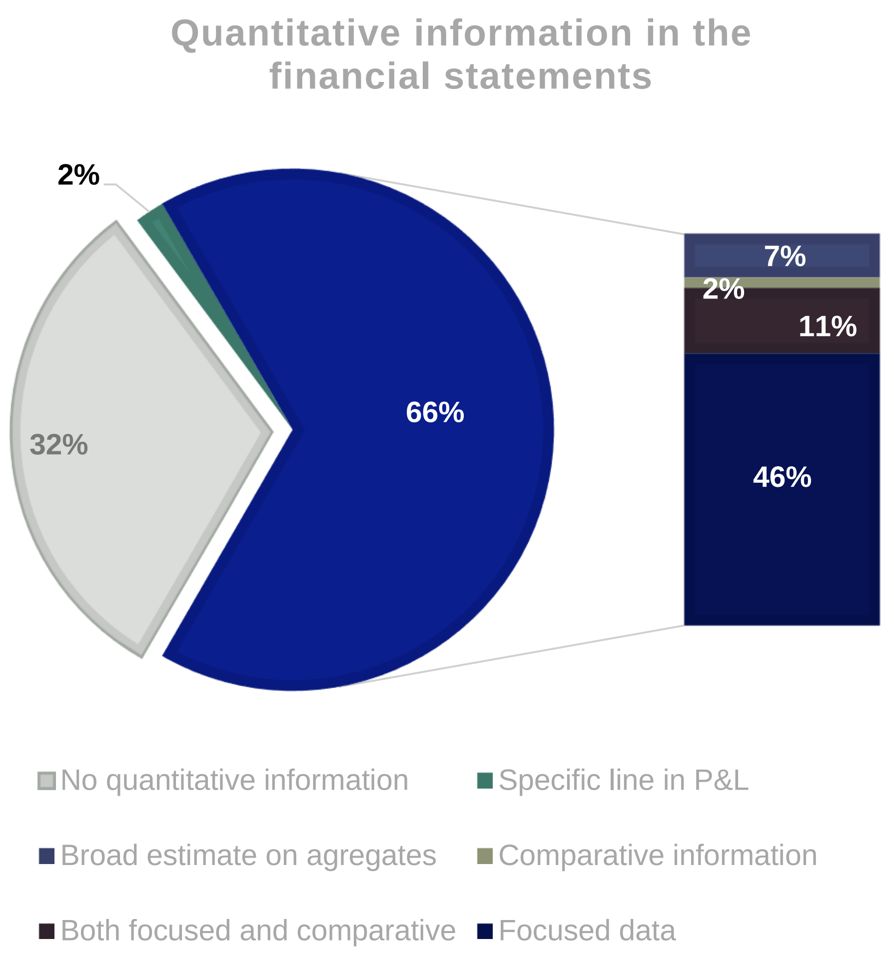
Auditors’ involvement

- Financial statements in the scope of the study are interim half-yearly reports.
- Depending on countries, entities may be subject to a limited review required by the local market regulator (e.g. France). This is generally not the case in other market places in Europe where the auditor’s involvement is not mandatory but depends on a voluntary decision by the entity.

Opinion

- Of the entities reviewed, all opinions but two are unqualified. A qualification was expressed due to the inability to reach a conclusion on the appropriateness of the going concern assumption, and another due to the earlier application of not yet endorsed amendments to IFRS 16 on Covid-19 related rent concessions
- Without qualifying their opinion, some auditors drew attention to disclosures relating to uncertainties due to the specific Covid-19 context, by the means of an emphasis of matter in 6% (3 entities) of the reports. These matters relate to disclosures on judgement expressed supporting the entity’s ability to continue as a going concern (see slide 7).

Type of information conveyed in the notes to the financial statements



- Two entities have presented the Covid19 impact in the face of their primary financial statements, as a separate line item: one commenting of Covid-19 costs in the P&L, another on cash inflow from Covid corporate financing facility in the statement of cash-flows.
- Two thirds (36 entities) of the reports provide quantitative P&L information on Covid in the notes:
  - No *pro forma* information identified in the notes to the financial statements.
  - 4 entities provide a "broad" quantitative estimate of the Covid-19 impacts on sales or current operating profit measured by reference to the first half of 2019 and to the 2020 budget.
  - Some (7 entities) report on a comparative basis (with previous year) measuring changes mainly explained by Covid and relating to Revenue, Expenses or Operating profit.
  - Nearly all entities (31 entities) report on focused costs relating to:
    - ➢ Purchases of protection equipment for employees and sanitising costs
    - ➢ Specific bonuses paid to employees
    - ➢ Extra-logistic costs related to warehousing adaptation, and higher freight and transportation cost, recall of employees from abroad
    - ➢ Donations or contribution to global solidarity initiatives, including support to the employees and their family (e.g. masks, tests, etc.)
    - ➢ Some costs reduction (Advertising, staff and bonus, travel, rent concessions)
    - ➢ Unavoidable fixed costs incurred in spite of flexibility measures (fixed personnel costs, unoccupied premises; idle plant and equipment) depreciation on assets unused or only partially-used
    - ➢ Other costs recorded in the B/S (such as impairment, restructuring) (see p.13.).

Type of information conveyed in the notes to the financial statements
Examples

Focused data

“These costs amount to €114 million and include (i) around €40 million of sanitary costs (acquisitions of masks, gloves, sanitizer and tests), (ii) around €35 million of specific bonuses paid to the 60,000 employees that continued working on frontline during the pandemic lockdowns and donations, and (iii) around €40 million of extra-logistic costs related to warehousing adaptation, and higher freight and transportation costs. To mitigate these headwinds, [the group] increased its efforts on efficiency and cost discipline. Advertising and marketing investments were reduced only marginally (positive impact of 23 basis points on the recurring operating margin in the semester) to sustain the competitiveness of brands.”

Comparative information

“Cost of sales amounted to […] €59,001 million in the six-month period ended June 30, 2020 (Q1-2 2019: €69,231 million). It primarily comprises the expenses of goods sold. The decrease in cost of sales is mainly due to the cost adjustments in response to the Covid-19 pandemic. Also in the other functional cost areas, the measures taken due to the current economic situation, including the use of short-time working in Germany, led to an improvement in the cost positions.”

“Revenue from the “sale of electricity” came to €16,699 million in the 1st Half of 2020, down €3,048 million on the same period of the previous year (-15.4%). The decline is essentially attributable to: > the reduction in volumes sold in Italy (€657 million) and Spain (€700 million), primarily due to the effects of COVID-19; > a significant decline in volumes sold in Latin America (€1,437 million) due to COVID-19 and the depreciation of local currencies against the euro;[…]”

Broad quantitative estimate on P&L aggregates

“Group management estimates that the negative impact of the pandemic in consolidated revenues in the first half of 2020 amounted to approximately 800 million euros, and the negative impact in OIBDA (excluding goodwill impairment) amounted to approximately 370 million euros (at average exchange rates of the first half of 2020).”

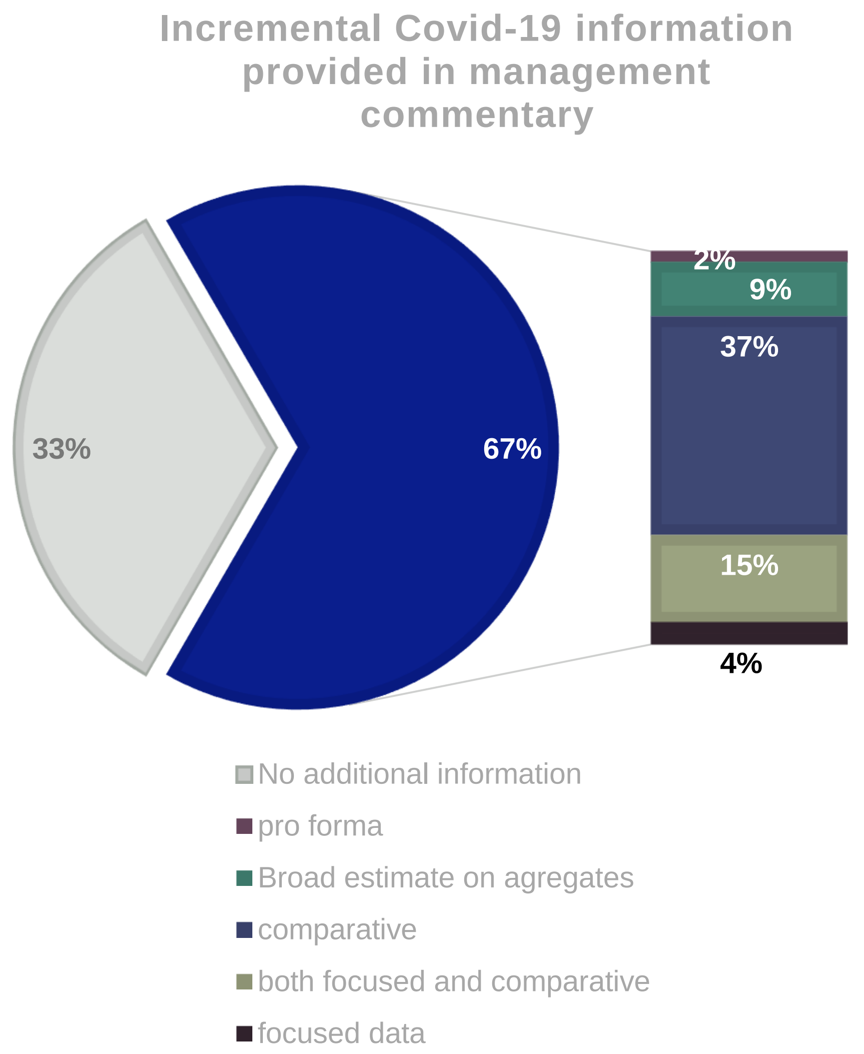
Pro-forma

« Excluding these costs, recurring operating margin would have increased to 14.9% »

“As a result of the above dynamics, in the second quarter of 2020, [the] Group revenue declined by 81.7%, or by 70.7%, excluding the COVID-19 related cancellation effect. “

« Excluding COVID-19 effects, net income growth before special items would have been 7% to 8% in H1/20. […] Excluding estimated COVID-19 effects, net income growth before special items would have been 3% to 7%. »

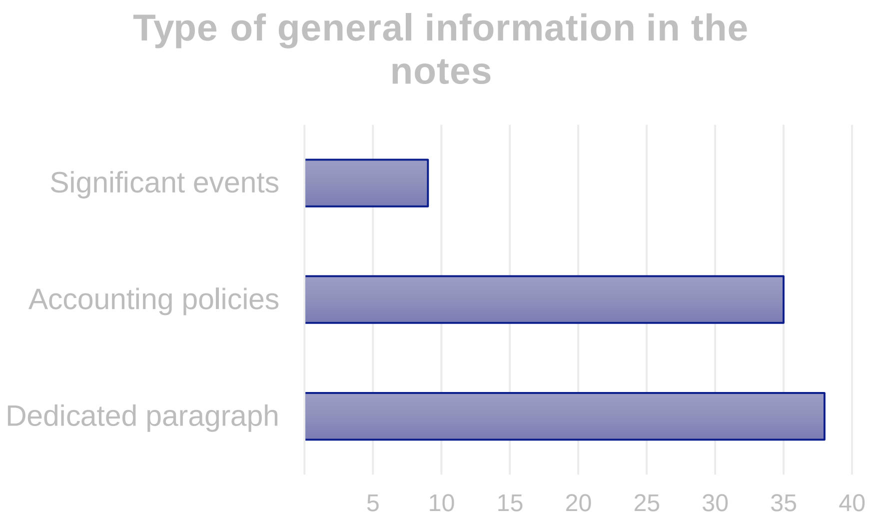
Type of information additionally provided in the Management Commentary



For nearly two-thirds of the reports, (36 entities), management commentary or financial communication (press release) adds quantitative information to that provided in the financial statements. Such supplemental information is presented as follows:

- Generally (28 entities) financial communication provides information on a comparative basis (with previous year or budget data) measuring changes in revenue, expenses or operating profit and explaining them mainly by Covid.
- Or it provides a targeted quantitative impact on specific costs (10 entities)
- It may also provide broad quantitative estimates (5 entities) or *pro forma* data (1 entities) of the Covid effect on P&L aggregates such as revenue or operating profit

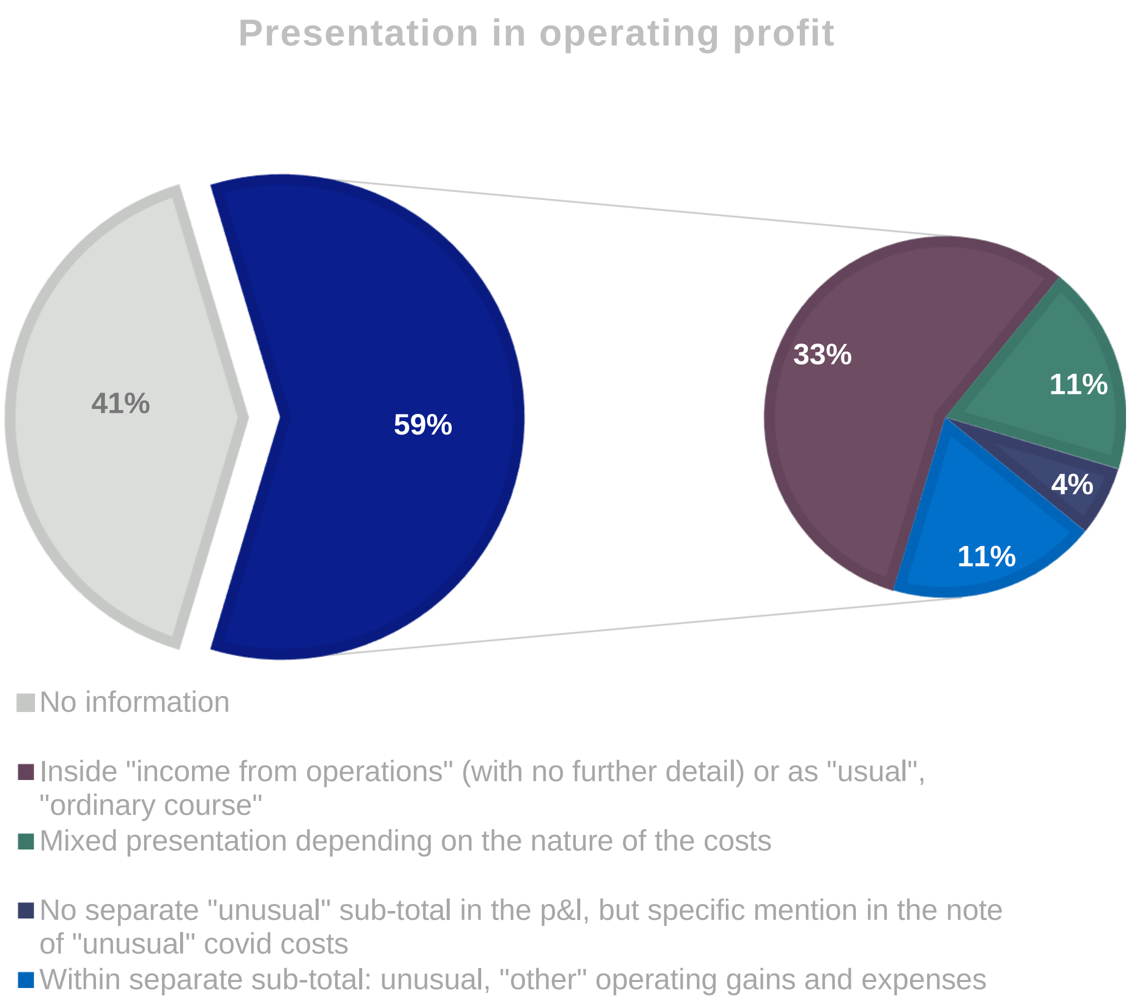
Type of general information on Covid in the notes



Location of information provided in the financial statements

- All entities have provided general information related to Covid-19 in their notes to the financial statements either in a separate note (70%; 38 entities) and/or in the notes on accounting policies (65%; 35 entities) and/or among the significant events of the period (17%; 9 entities).
- The comments generally made on accounting policies relate to:
  - The amendment of IFRS16 on rent concessions which was not yet endorsed (see also p.17)
  - Covid-19 related uncertainties affecting the estimates used

Location of the p&l impact mentioned in the notes



When commenting on the general Covid context, six out of ten preparers (32 entities) mention where the identified impact of Covid was recorded in the P&L:

- 33% (18 entities) indicate that the Covid impact was recorded in the operating result (without further details or “in the ordinary course”)
- 15% (8 entities) rather present them as belonging to a separate sub-total (for “unusual” or “other” operating gains and expenses), or highlight their unusual characteristics in the notes, even if this distinction is not presented in the operating result.
- Finally, 11% (6 entities) mention using a mixed presentation according to which very specific Covid effects are presented in the “income from operations in ordinary course” (such as donations, purchases of protection equipment for employees and sanitising costs), but other gains and expenses that relate to “unusual” items already previously used by the entity (e.g. impairment charges, restructuring) are generally presented in this specific sub-total.

Location of the p&l impact mentioned in the notes
Examples

In the operating result (with no other detail and no subtotal in the p&l)

”The impairment losses are included in operating overhead expenses”

In the operating result in the ordinary course of business

“Expenses directly associated with the COVID-19 crisis are presented according to their nature in current operating income in accordance with the recommendations published during this crisis which primarily impacts revenues, regardless of the Group’s practice of presenting items of an unusual, non-recurring, infrequent and material nature below current operating income.”

Mixed presentation

“The Group has assessed the consequences of the pandemic in its financial statements and has reported the impact on the evolution of its activities (upwards or downwards) as well as inefficiencies caused by the health crisis in each line within operating income recurring.

Nevertheless, in order to ensure the continuity of its accounting methods and the presentation of its Consolidated Income Statement, [it] has decided to report some expenses related to the Covid-19 outbreak in "Other non-recurring operating expenses". The criterias to be met are the following: Direct or incremental expenses linked to the pandemic and pertaining to specific and limited natures of cost”.

In a subtotal as other operating result

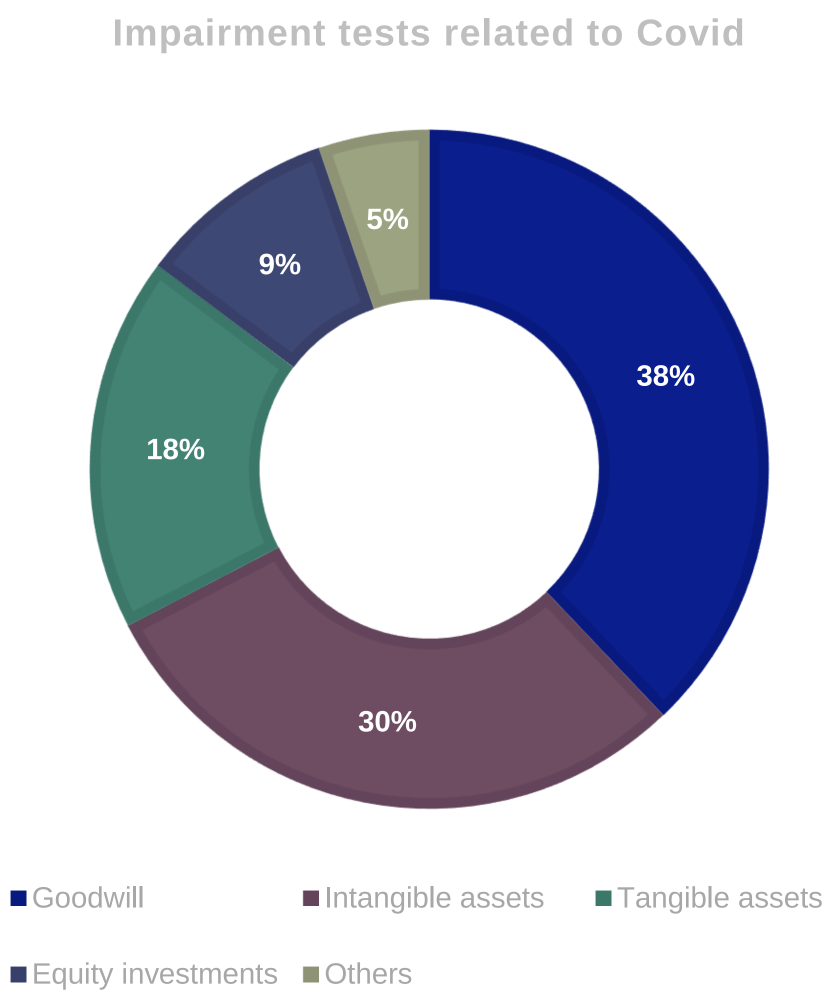
“Sanitary measures were also established. Given the completely exceptional nature of these measures, the costs incurred were classified as “other operating income and expenses”. [The group] also used this category to isolate the costs generated by a total shutdown of activity related to the lockdowns imposed by local authorities over very specific periods. These non-recurring costs correspond to the extraordinary financial impact suffered by the Group over the well-defined lockdown periods (see Note 4). These two types of costs do not by any means represent the full effect of the slowdown in the Group’s business as a result of COVID-19.”

No separate "unusual" sub-total in the p&l, but specific mention in the note of "unusual" Covid costs

“[The group] has implemented a performance management system that uses EBITDA AL adjusted for special factors to calculate and record earnings performance in order to be able to make statements about the future development of the results of operations. The process for recording these special factors makes it possible to identify the expenses caused by the coronavirus pandemic in the consolidated income statement. In the first half of 2020, total such expenses of EUR 0.4 billion were recorded. These expenses relate almost exclusively to the United States operating segment, where they were recorded under cost of materials, personnel costs, and other operating expenses.”

SPECIFIC IMPACTS IN THE FINANCIAL STATEMENTS– DETAILED ANALYSIS

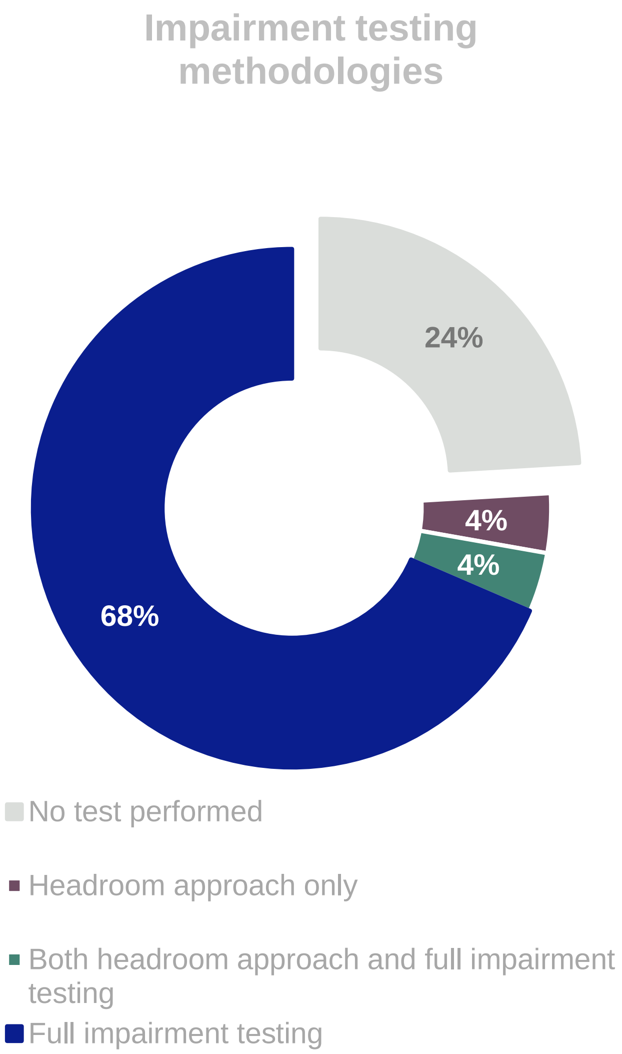
Impairment (1/3) – Triggering events



Impairment indicators relating to Covid-19

- Eight issuers out of ten (41 entities) have considered that the context of the Covid crisis generated impairment indicators.
- The consecutive impairment tests have been performed mostly on goodwill or intangibles assets (68% of the tests; 41 entities). Further tests relate to tangible assets (18%; 17 entities) or equity investments (9%; 9 entities). More rarely (5%; 5 entities), impairment tests have been performed on the right-of-use assets or deferred tax assets.

Impairment (2/3) – Methodology



Impairment testing methodology

- Three entities out of four (39 entities) performed a full impairment testing based on updated assumptions.
- The notes generally describe the methodology used with qualitative (and less often quantitative) information on how assumptions were updated due to Covid. The methodology generally relies on previous year's methodology with similar or downgraded updated assumptions of a "central scenario" or "best estimate".
- Some however describe more precisely how they take into account the increased uncertainties in the expected cash-flows and/or in the WACC:
  - ➢ Estimation of the recovering period, i.e. the duration of the crisis before the business recovers up to its pre-pandemic levels (i.e. 2019): 1 year (recovery in 2021: 3 entities); 2 years (recovery in 2022: 1 entity); 4 years (recovery in 2024: 3 entities), 5 years (recovery in 2025: 1 entity), 6 years (recovery in 2026: 1 entity). Long-term assumptions generally remain substantially unchanged.
  - ➢ WACC: the increased market premium and long-term beta have been updated to reflect increased volatility.
- Only a few entities adjusted pre-Covid business plans in a multi-scenario approach (reflecting different assumptions as to the duration and depth of the current crisis)
- 8% of the entities (4 entities) referred to the headroom approach. When the headroom is sufficiently high (2 entities), this approach led to consider that an impairment test was not necessary on certain cash-generating-units (CGU). However, for the others (2 entities) this approach was not conclusive on certain CGU and required an additional full impairment test.

Impairment methodology
Example

Impairment tests

The Group tested all its cash-generating units (CGUs) for impairment in second-half 2019 as part of its annual impairment testing exercise.

Given the scale of the downturn in activity, which itself is an indication of risk of impairment, the Group reviewed all its CGUs in the first half of 2020. This notably included the Safran Seats and Safran Cabin CGUs whose activities were particularly affected by the decline in air traffic and change in the financial situation of airlines. Furthermore, the difference between the book value of their assets and their recoverable amount was already limited prior to the epidemic.

Due to the lack of visibility about the conditions in which air traffic will recover as well as customers' outlook, the Group adapted its approach for calculating value in use accordingly.

Value in use was calculated using a multi-scenario approach based on pre-Covid cash flows as projected in the 2019-2023 medium-term business plan and adjusted to reflect different assumptions as to the duration and scale of the current crisis in order to measure its impact on the value of assets.

The main assumptions used in determining the value in use of CGUs are as follows:

- expected future cash flows are determined over a period consistent with the useful life of the assets included in each CGU. This is generally estimated at ten years but may be extended for businesses with longer development and production cycles;
- operating forecasts used to determine expected future cash flows take into account general economic data, specific inflation rates for each geographic area, a USD exchange rate based on available market information and mid- to long-term macroeconomic assumptions.

  In light of the significant prevailing uncertainties, the forecasts and assumptions used were adjusted as follows:

  - estimates for 2020 updated to reflect the latest information known at the reporting date,
  - future cash flows for 2021-2023 revised downwards based on three assumptions about the magnitude of the crisis (i.e., a negative crisis impact of 25%, 50% or 75%),
  - assumptions whereby the Group returns to pre-Covid cash flow levels in 2024 at the latest,
  - forecasts validated by the Group at the end of 2019 for the terminal year of the plan;
- the value in use of CGUs in each scenario is equal to the sum of these discounted estimated future cash flows plus a terminal value, calculated by applying the growth rate expected for the relevant businesses to standardized cash flows representing long-term business activity, which usually corresponds to the last year in the long-term business plan;
- the growth rate used to calculate terminal value was set at 2% for all CGUs;
- the average USD exchange rate adopted is 1.17 for years 2020 to 2023 and 1.30 thereafter. These exchange rate assumptions take into account the foreign currency hedging portfolio;
- the benchmark post-tax discount rate used is 7.5% (unchanged from 2019 but for which the components have been revised and approved) and is applied to post-tax cash flows.

As a result of these tests, the Group did not recognize any impairment against these CGUs in any of the scenarios tested. The recoverable amount of each CGU wholly justifies the goodwill balances recorded in Group assets.

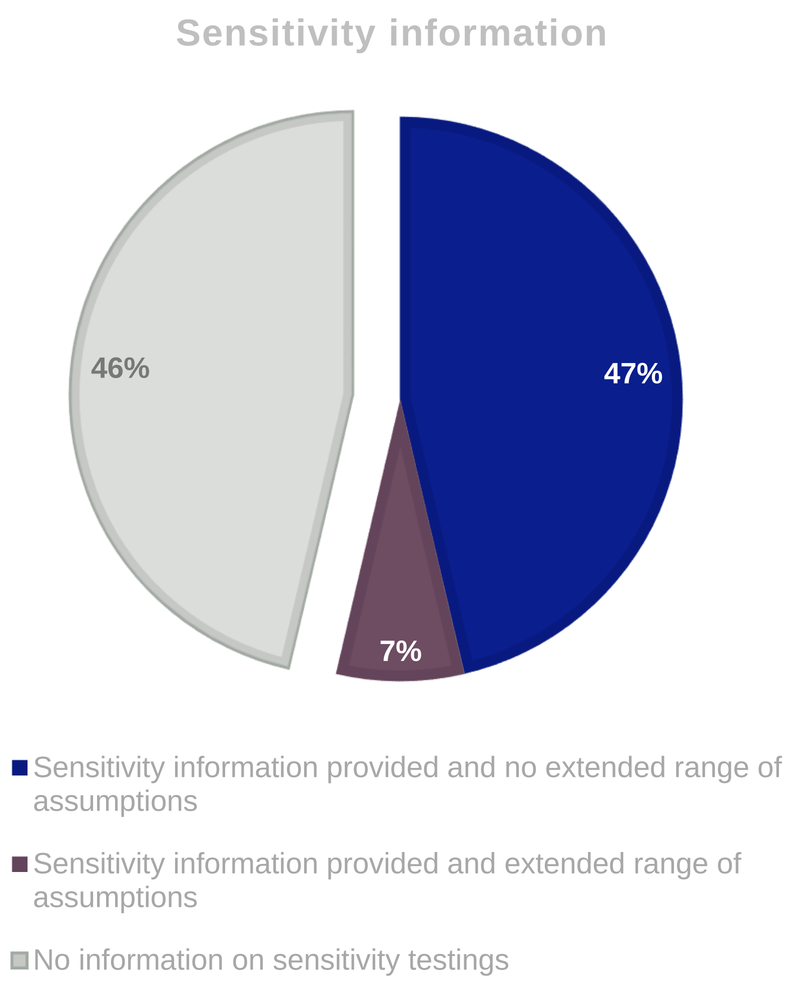
The Group also tested the sensitivity of the various scenarios analyzed to the following changes in the main assumptions used for its forecasts as from 2024:

- a 5% increase or decrease in the USD/EUR exchange rate;
- a 0.5% increase in the benchmark discount rate;
- a 0.5% decrease in the perpetual growth rate.

Taken individually in the worst-case scenario, changes in these assumptions would have led the Group to recognize an impairment loss of €200 million against these two CGUs.

No impairment of goodwill was recognized as a result of the annual impairment tests in 2019.

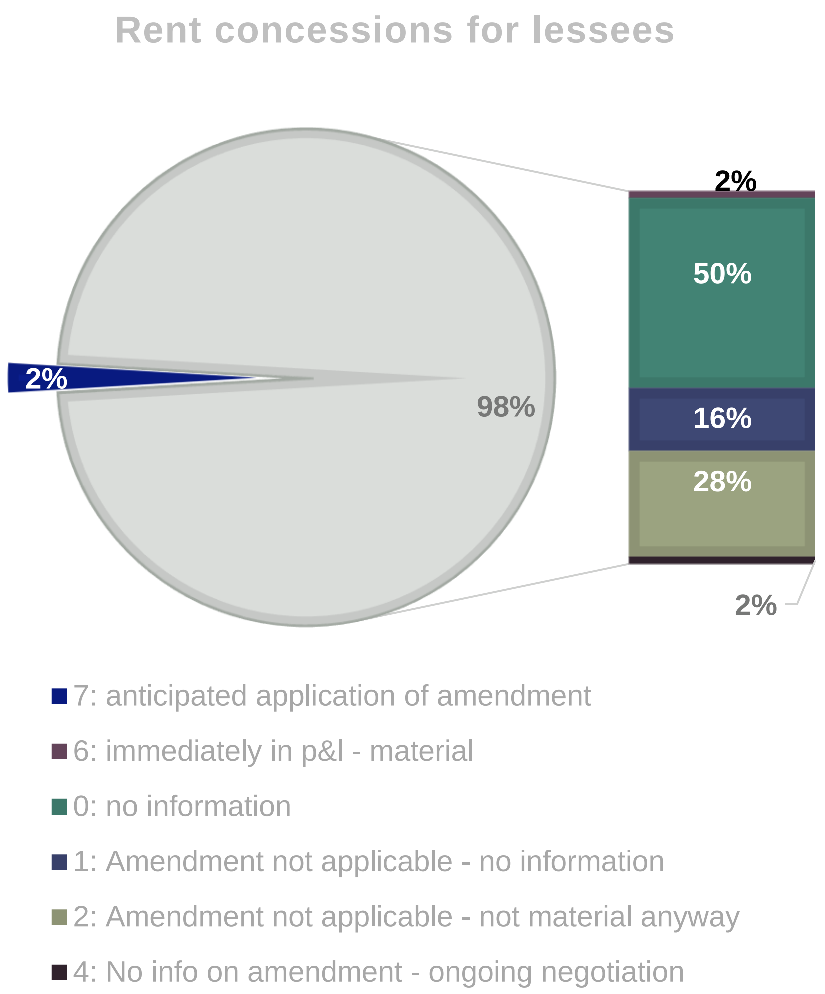
Impairment (3/3) – Sensitivity analysis



Sensitivity analysis

- Half (22 entities) of the entities that identified an impairment indicator provided sensitivity information.
- The assumptions were extended only in limited cases (7%; 3 entities) and relate then to:
  - WACC
  - Downgraded perpetual growth assumptions (for instance: 0bp or 50bp vs 100bp)
  - Turnover and Operating margin (for instance: 50bp vs 100bp)
- In some specific CGUs, sensitivity tests were performed and the range of assumptions was extended when the entity identified a risk area.
- Sensitivity remains largely expressed as the conclusion that no reasonably possible change in a key assumption (e.g. by 1 or 2 basis point) would effectively trigger impairment. Conversely, only few entities disclose a broader range of amounts for which the value assigned to a key assumption must change for the tested recoverable amount to equal its carrying amount.

IFRS 16 – Rent concessions



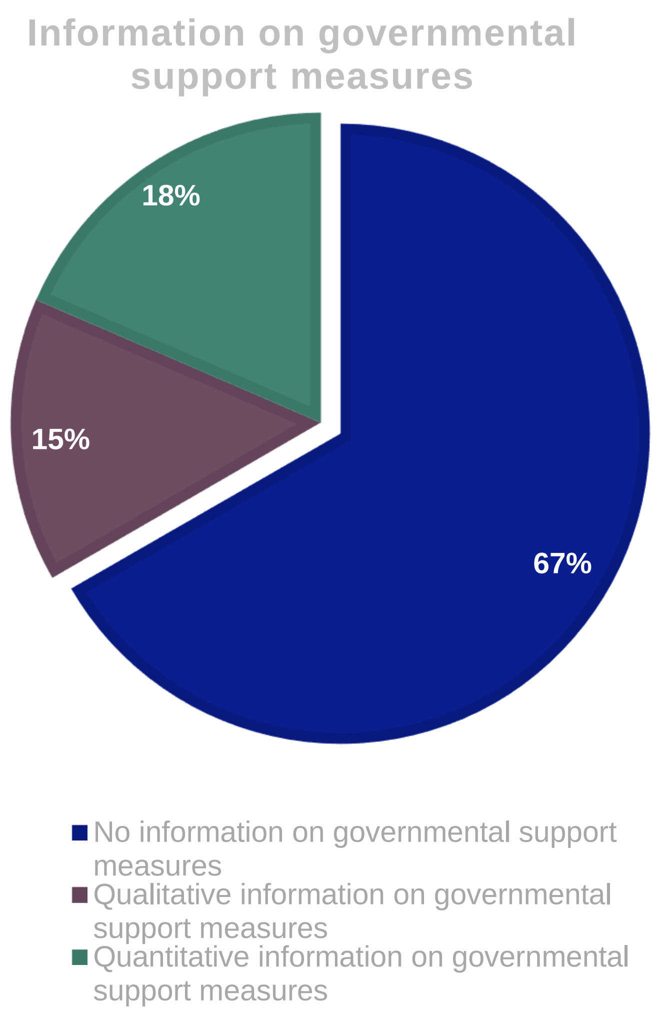
Lessees

- Very few issuers (2%; 2 entities) report a material benefit related to rent concessions. Among them, the accounting treatments may differ between (i) early application of the IFRS16 amendment (even if not endorsed at European level) and (ii) immediate offsetting with the corresponding lease charges without referrence to the amendment or any other guidance.
- All in all, on the impact of rent concessions received from their lessors, most issuers (98%; 52 entities) provide no information (66%; 36 entities) or mention that the corresponding impact is not material (28%; 15 entities) or that negotiations on concessions are still ongoing at closing date (2%; 1 entity).

Lessors

- The "pure-player" lessor within the scoped entities provided information on the different accounting treatments of concessions granted, depending on whether:
  - ➢ lease terms with tenants have been otherwise modified (extension of lease term, etc.): rent concession have then been treated as a lease modification and spread over the lease term;
  - ➢ or whether concessions have been granted without any other change to the lease contract: whereas costs have then immediately been recorded as a reduction of the rental income.

Governmental support measures



Governmental support measures

One third of the groups (18 entities) disclose in their financial statements the governmental support measures received. Among these:

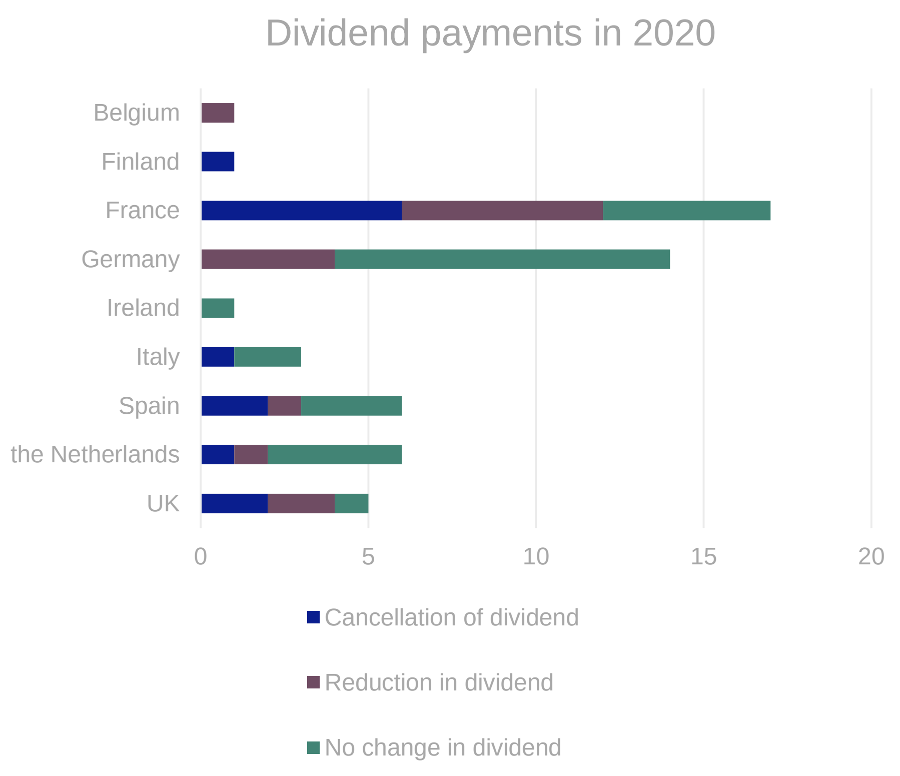
- 44% (8 entities) mention furloughing and partial unemployment measures and three out of four of them provide the accounting treatment adopted: which generally consists of deducting the amount granted directly from the corresponding expenses (5 entities) and rarely recognising it as other income (1 entity).
- Some entities mention other support measures such as direct support to specific industries (airlines), government grants, tax reductions, extended payment term for social charges and moratoria granted (banks).
- 18 % (10 entities) of the entities also provide quantitative information in their notes

Governmental support measures: furloughing and partial unemployment measures
Example

Note 5. Operating income and expenses

As mentioned in the paragraph *Significant events of the interim period*, the Group benefited by governmental grants and other forms of governmental assistance for approximately €126 million. Those subsidies refer to various governmental schemes on labor costs and do not include wages directly paid to employees through those governmental support schemes. Subsidies were recognized when the Group had reasonable assurance that it complied with the conditions attaching to the subsidy, and that the subsidy will be received (when it has not been received yet). Subsidies meeting the above assessment were presented in the statement of profit or loss as a deduction of the related expenses.

Equity and provisions



Equity

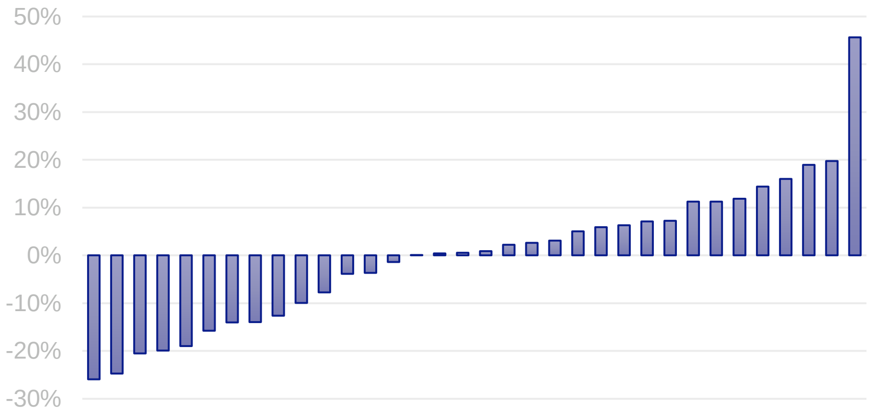
- A majority of issuers decided either to waive or withdraw their proposal to pay 2019 dividends or to cap it at interim dividends paid in 2019. Geographical differences should be noted. Some issuers also disclose in their financial statements the cancellation of the 2020 interim dividend.
- Other impacts of Covid have also been reported in relation with equity:
  - ➢ Termination of share buyback programs;
  - ➢ Share-based payment transactions resulting in income from the reversal of accrued cost for performance-related indicators for which the conditions will not be met due to the COVID-19 pandemic.

Provisions

- Regarding pensions provisions, market fluctuations (mainly impacting the interest rates and asset market values) have triggered the need for a remeasurement of the defined benefit obligation and pension plan assets through OCI (other comprehensive income) with a possible large impact (close to 1b€ in one entity).
- Updated commitments sometimes take into account the deterioration of market conditions.
- As of 30 June, restructuring plans are either being considered or have been recorded.

Inventories

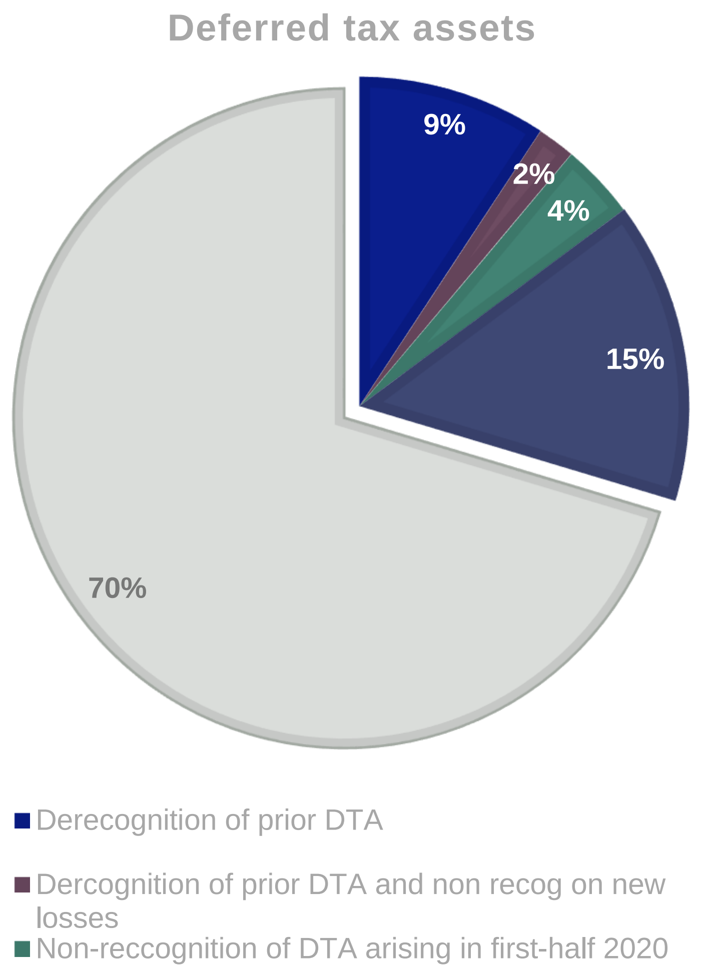
Change in inventories
per entity
(compared with previous year)



Varying impacts of the outbreak noted on inventories

- Increase due to customers' requests to postpone deliveries or lower inventory turnover.
- Some issuers specifically indicate that the impairment methods were consistently applied. Other have adjusted them temporarily:
  - ➢ either to take into account the lockdown and, accordingly, extend the inventory outflow horizon
  - ➢ or to reflect slower inventory turnover and more limited sales prospects for seasonal products
- Some entities specifically mentioned that abnormal costs linked with low production or idle plant are not included in the cost of inventories

Deferred tax assets



One third of the issuers (30%; 16 entities) disclosed information relating to recoverability analysis on deferred tax assets in the Covid context. The recoverability has been assessed in light of the revised future taxable profit projections and led to:

- The derecognition of previously recognised Deferred Tax Assets (DTA) (mainly on tax losses carry forward) by 9% of the issuers (5 entities) or the non recognition of new DTA on losses incurred in 2020 by 4% (2 entities) or both 2% (1 entity).
- 15% (8 entities) concluded that the test led to no material change

Financial instruments

Cash management and liquidity risk

- Entities generally disclose the available funding sources and/or new source of funding obtained.
- Some entities report on financial liabilities regarding:
  - Covenants: indication of the absence of covenant or no breach of covenant/confirmation of compliance with the covenant
  - Renegotiations: indication that there is a bridge facility or a covenant holiday on an existing facility or credit lines guaranteed by the government (see also p.18).
- Some Issuers also indicate that:
  - the classification as cash equivalent was reviewed in light of the current environment and confirmed.
  - criteria for derecognising financial assets through factoring schemes are still met

Other impacts regarding financial instruments

- Some entities report on financial assets regarding:
  - changes in the fair value method/level;
  - the impairment of loans granted to equity investments.
- Some entities report on hedge accounting regarding:
  - the reclassification of cash-flow hedge reserves due to cash inflows no longer expected to occur
  - partial derecognition of net investment hedge reflecting the reduction in equity investments.
  - a specific mention when they have suffered no material impact

Exposure to credit risk

Credit exposure in the banking industry

Please refer to a dedicated benchmark in September 2020 ("Financial performance of European banks in the context of the Covid-19 crisis")

Credit exposure in corporates

- Some entities mention having provided financial support to their suppliers and customers (including extended payment terms of customers, credit, shortened payment periods for suppliers)
- Others report mainly qualitatively on a material increase in bad debt linked with an increased exposure to credit risk due to bankruptcy proceedings, increased probability of default, change in the extent of losses anticipated. Some also take into account the governmental support measures their clients benefited from.
- Others report no significant credit loss on trade and lease receivables recorded in the period but have strengthened the credit rating and monitoring system of customers or adjusted their credit loss model.
- Corporates having financial services activities (car industry, consumer credit) report that, generally:
  - ➢ repayment holidays /extended payment terms have been granted to customers without affecting the existing classification of the consumer credit concerned and
  - ➢ the calculation of expected credit losses or credit risk associated with past-due repayments was assessed in light of the unusual situation created by the health crisis and
  - ➢ the government support measures implemented in some of the Group's regions increased weighting of "adverse" scenarios have been considered in the forward-looking scenarios.

APPENDIX - SCOPE

Index	Country	Entity
Euro 50	Belgium	AB Inbev
Euro 50	Finlande	Nokia
Euro 50	France	AIR LIQUIDE
Euro 50	France	AIRBUS
Euro 50	France	Axa
Euro 50	France	BNP Paribas
Euro 50	France	Danone
Euro 50	France	Engie
Euro 50	France	Essilorluxottica
Euro 50	France	Kering
Euro 50	France	L'oreal
Euro 50	France	LVMH
Euro 50	France	Safran
Euro 50	France	Sanofi
Euro 50	France	Schneider Electric
Euro 50	France	Société Générale
Euro 50	France	Total
Euro 50	France	Vinci

Index	Country	Entity
Euro 50	France	Vivendi
Euro 50	Germany	Adidas
Euro 50	Germany	Allianz
Euro 50	Germany	BASF
Euro 50	Germany	Bayer
Euro 50	Germany	BMW
Euro 50	Germany	Daimler
Euro 50	Germany	Deutsche Börse
Euro 50	Germany	Deutsche Post
Euro 50	Germany	Deutsche Telekom
Euro 50	Germany	Fresenius
Euro 50	Germany	Linde
Euro 50	Germany	Munich Re
Euro 50	Germany	SAP
Euro 50	Germany	Volkswagen
Euro 50	Ireland	CRH
Euro 50	Italy	ENEL
Euro 50	Italy	ENI

Index	Country	Entity
Euro 50	Italy	Intesa san paolo
Euro 50	Spain	Amadeus
Euro 50	Spain	Banco Bilbao
Euro 50	Spain	Banco Santander
Euro 50	Spain	Iberdrola
Euro 50	Spain	Industria de diseño textil
Euro 50	Spain	Telefonica
Euro 50	The Netherlands	Ahold
Euro 50	The Netherlands	ASML
Euro 50	The Netherlands	ING
Euro 50	The Netherlands	Philips
Euro 50	The Netherlands	STMicroelectronics
Euro 50	The Netherlands	Unilever
LSE	UK	Ascential
LSE	UK	Cineworld
LSE	UK	Helios Towers
LSE	UK	Inchcape
LSE	UK	Carnival

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