

The impact of COVID-19 in the 2019 financial statements and directors' report

Reporting guidance and examples

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Introduction

COVID-19 will have an impact on many entities' business activities. The impact of COVID-19 on the entity's expectations about short- and medium-term performance, the possible effect on asset valuation and an entity's ability to continue as a going concern need to be determined on a case-by-case basis.

Multiple scenarios may exist about the potential impact of COVID-19 on an entity such as:

Scenario 1

Material uncertainty about the entity's ability to continue as a going concern.

Scenario 2

No material uncertainty about the entity's ability to continue as a going concern, although it is expected that the impact of COVID-19 might be significant, but uncertain, e.g. in relation to expected future performance, effects on future asset valuation or the entity's activities in general.

Scenario 3

No material uncertainty about the entity's ability to continue as a going concern. It is expected that COVID-19 may have some impact, though not significant, e.g. in relation to expected future performance, effects on future asset valuation or the entity's activities in general.

In the current situation, also the fact that COVID-19 has had limited impact on the entity's performance to date and/or on its risks, uncertainties and expectations may be relevant information for stakeholders to assess the entity's financial position and prospects since they may not be in the position to assess this in detail. Although in all scenarios it is expected that the entity discloses information about the impact of COVID-19 in the financial statements and board report, the detail of such disclosure may depend on how the entity is affected. Such disclosures are expected in the following sections of the entity's annual report:

1. Subsequent events disclosure (financial statements);
2. Going concern paragraph (financial statements);
3. Risk paragraph (directors' report); and
4. Outlook paragraph (directors' report).

Although the focus of each paragraph is different, it is important to consider consistency between the risk paragraph, the outlook paragraph, the going concern paragraph and the subsequent events disclosure as far as applicable.

In the remainder of this document, we summarise the guidance that is applicable to each of these sections and provide an example of what such sections may look like. You can use the guidance and examples to obtain an understanding of the requirements and type of information to be provided and for developing a disclosure that is tailored to your specific situation.

Subsequent events disclosure (financial statements)

For 31 December 2019 year-ends, the impact of COVID-19 on an entity's business is considered a non-adjusting event (except when the going concern assumption is no longer appropriate as a result of the event). We also refer to PwC's [In Brief dated 12 February 2020](#).

Non-adjusting events do not result in adjustment to the financial statements, but they do require disclosure if material. This disclosure should be transparent and specific to the entity, and it should include the nature of the event and an estimate

of its financial effect - or a statement that such an estimate cannot be made (please note that the latter is not the automatic default). Entities should consider disclosing the impact of developments after the reporting date on the carrying amount of assets and liabilities (for example, the need to impair assets or remeasure fair values), or the impact on revenue or on borrowing covenants.

This also applies to financial statements related to prior periods that have not yet been issued to date.

Relevant guidance

RJ 160.404

Indien gebeurtenissen na balansdatum die geen nadere informatie geven over de feitelijke toestand op balansdatum van een zodanig belang zijn dat het niet toelichten de oordeelsvorming van de gebruikers van de jaarrekening beïnvloedt, dient de onderneming de volgende informatie op te nemen in de toelichting voor iedere significante categorie gebeurtenissen na balansdatum:

- de aard van de gebeurtenis; en
- een schatting van de financiële gevolgen, of een mededeling dat zulks niet mogelijk is.

IAS 10. 21

If non-adjusting events after the reporting period are material, non-disclosure could influence the economic decisions that users make on the basis of the financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting period:

- (a) the nature of the event; and
- (b) an estimate of its financial effect, or a statement that such an estimate cannot be made.



Example (material impact)

Subsequent events

The COVID-19 outbreak has developed rapidly in 2020, with a significant number of infections. Measures taken by various governments to contain the virus have affected economic activity and the group's business in various [material/significant] ways:

- A reduction in the supply of goods and materials [specify] from [regions] has affected our ability to continue the production of [product].
- Due to government measures taken, we had to close our factory/scale down our production as of [March 2020].
- The reduction of economic activity/requirement to close our stores/requirement for all our employees to work from home has resulted in a significant reduction in sales/productivity.
- [Append based on entity specific circumstances]

As a result of these effects, our cumulative revenues in the first [x] months of 2020 was approximately x% lower than our 2019 revenues in the same period with the major negative impact identified in [months]. The group's operating results have declined significantly in 2020 and have been negative in [months]. Also, our liquidity [headroom] has been negatively impacted, which required us to attract additional funding from our banks [investors] under the current [or new] facilities.

In the period since 31 December 2019, the company has furthermore incurred losses due to impairments recognised on outstanding receivables (EUR x million), write-down of inventories (EUR x million) and fair value decreases of securities/derivatives/commodities (EUR x million). [If applicable: disclose impact on bank covenants]

On [DATE], the company announced a restructuring for which a restructuring provision of EUR x million was recognised.

Governments in the countries in which we operate have also announced the implementation of government assistance measures which may mitigate the impact of the COVID-19 outbreak on our results and liquidity. We are currently investigating the extent to which we can apply for such government assistance in the countries in which we operate. However, the details of available arrangements and the period through which they remain available are unknown.

Depending on the duration of the COVID-19 crisis and continued negative impact on economic activity, the company may experience further negative results, liquidity restraints and incur additional impairments on its assets in 2020. The exact impact on our activities in the remainder of 2020 and thereafter cannot be predicted. We also refer to [note X Going concern which would be expected for (almost) all entities].

Example (no or limited impact)

Subsequent events

The COVID-19 outbreak has developed rapidly in 2020, with a significant number of infections. Measures taken by various governments to contain the virus have affected economic activity. We have taken a number of measures to monitor and prevent the effects of the COVID-19 virus such safety and health measures for our people (like social distancing and working from home) and securing the supply of materials that are essential to our production process.

At this stage, the impact on our business and results is limited. We will continue to follow the various national institutes policies and advice and in parallel will do our utmost to continue our operations in the best and safest way possible without jeopardizing the health of our people..

We also refer to note X [Even if at this moment no uncertainty about the entity's ability to continue as a going concern is identified, a paragraph about the impact of COVID-19 on such ability is recommended. Also refer to the next section of this document]



Going concern paragraph (financial statements)

The financial statements should not be prepared on a going concern basis when events after the reporting date indicate that the going concern assumption is no longer appropriate. This guidance applies even if those events would otherwise be non-adjusting. Entities should therefore consider whether developments subsequent to the reporting date have any implications for the going concern assumption. This includes subsequent events which may cast significant doubt upon the entity's ability to continue as a going concern.

If management concludes that the going concern assumption is appropriate but is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties and management's plans to deal with these events or conditions and disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. For many entities, the COVID-19 outbreak qualifies as such an event or condition.

Even if the COVID-19 outbreak is not expected to significantly affect the entity's ability to continue as a going concern, that in itself may be material information for the users of the financial statements. Therefore, it is expected that (almost) all entities include a paragraph about how the COVID-19 outbreak affects the entity's ability to continue as a going concern.





The following general guidelines should be taken into account when writing the going concern paragraph:

- Be as specific as possible about how the entity is affected. The entity should disclose the consequences of the current situation with regard to - for example - turnover (declining markets, significant drop in demand in major markets); customers (impact of effects of COVID-19 on customers); suppliers (a production process that largely depends on the supply of goods from an infected area); employees (consequences of possible lockdowns on productivity); liquidity, including availability of funding and credit facilities (possible reluctance to refinance in the medium term) and thereby the short- and/or longer-term uncertainty arising from these aspects on the entity's ability to continue as a going concern in the foreseeable future.
- Be complete. If not only COVID-19, but also other factors may cast significant doubt upon the entity's ability to continue as a going concern (i.e. if also without COVID-19 such doubt would exist), the entity should also disclose those other factors.
- Expect the unexpected. In addition to specific disclosures about how the entity's ability to continue as a going concern is affected by the implications of COVID-19 and government measures that are currently known, we expect a general statement that it is uncertain how things may change and how that would affect the entity.
- Describe mitigating actions. In addition to a description of the uncertainties, it is expected that the entity also discloses the measures it is taking to mitigate the possible negative impacts of the COVID-19 outbreak.
- If appropriate, conclude with a statement that the entity has determined that the use of the going concern assumption is warranted.



Relevant guidance

RJ 160.206

Gebeurtenissen die blijken na balansdatum en die geen nadere informatie geven over de feitelijke situatie per balansdatum dienen niet in de jaarrekening te worden verwerkt, tenzij deze een grote betekenis voor de rechtspersoon hebben omdat de continuïteitsveronderstelling vervalt en de jaarrekening wordt opgesteld uitgaande van liquidatie van het geheel van de werkzaamheden van de rechtspersoon. Zie hoofdstuk 170 Discontinuïteit en ernstige onzekerheid over continuïteit.

RJ 170.208

Bij onontkoombare discontinuïteit dient de rechtspersoon aanvullend de volgende toelichtingen te verstrekken:

- de feiten en omstandigheden die hebben geleid tot onontkoombare discontinuïteit;
- een beschrijving van het liquidatieplan of, als dit niet aanwezig is, de verwachte wijze van liquidatie;
- de methoden en belangrijke veronderstellingen die zijn gehanteerd bij de waardering op liquidatiebasis en belangrijke onzekerheden daarbij;
- de aard en bedragen van de belangrijke positieve en negatieve waardeveranderingen (inclusief kwijtscheldingen) die zijn verwerkt in de winst- en verliesrekening; en
- de aard en bedragen van de in de balans opgenomen kosten en opbrengsten tot de verwachte datum van afwikkeling.

RJ 170.305

Indien ernstige onzekerheid bestaat over de continuïteit van het geheel van de werkzaamheden van de rechtspersoon, dient een adequate uiteenzetting van de omstandigheden waarin de rechtspersoon verkeert, in de toelichting te worden opgenomen.

Relevant guidance

IAS 1.25

When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.

IAS 10.14

An entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.

The information provided in the going concern paragraph based on these general guidelines may differ depending on the scenario that applies for the entity.



Scenario 1 - Material uncertainty about the entity's ability to continue as a going concern

The following elements are expected in the going concern paragraph in scenario 1:

Introduction - description of the conditions, circumstances and developments resulting from COVID-19

The entity highlights the circumstances that it is facing and which may cast significant doubt upon the entity's ability to continue as a going concern resulting from COVID-19 - also considering the measures and plans issued by governments.

The entity discloses the consequences of the current situation both operationally and financially (see general guidelines above for examples).

The paragraph should always and explicitly disclose that there is a material uncertainty related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

In addition to specific disclosures about how the entity's ability to continue as a going concern is affected by the implications of COVID-19 and government measures that are currently known, we expect a general statement that it is uncertain how things may change and how that would affect the entity.

Description of the measures taken to warrant going concern

In this section, the entity describes the plans and measures that management has taken or will take to deal with the events/circumstances and uncertainties described above in order to deal with the impact of the current conditions and circumstances as a result of COVID-19. This section therefore provides the basis for the board's conclusion that there is a material uncertainty that may cast significant doubt upon the entity's ability to continue as a going concern, but that the going concern assumption is still appropriate.

Examples of plans and measures are the use of facilities made available by the government that the entity expects to use and the main features of business continuity measures.

Closing

The entity should conclude the going concern paragraph with a statement that it has determined that the use of the going concern assumption is warranted. For example

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

Example (scenario 1 - Material uncertainty about the entity's ability to continue as a going concern)

The following example illustrates a going concern paragraph for an entity whose management has concluded that there is a material uncertainty about the entity's ability to continue as a going concern which is specifically related to the impact of COVID-19 (and not due to other factors):

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

The COVID-19 outbreak has developed rapidly in 2020. As explained in [note X Subsequent events], measures taken by various governments to contain the virus have negatively affected the group's results and in the first X months of 2020 the group has reported cumulative losses of EUR X million. The currently known impact of COVID-19 on the group are:

- A decline in revenues for the first x months of 2020 compared to the same period in 2019 of x%.
- Impairments of receivables, inventories, [XXX] and [XXX] in the first x months of 2020 for an amount of EUR XX million in total.
- Closure of the group's production facilities/sales locations in [XXX] until at least [DATE].
- A restructuring of [XXX] resulting in a restructuring provision of EUR [XXX] million.
- A significant delay in our expected investments in XX and roll-out of our product range YY.
- [Append based on entity specific circumstances]

These developments result in a preliminary operating/net loss of approximately EUR XX million in the first x months of 2020 and a reduction of our available funding of EUR XX million.

Our bank covenants require a [XXX] ratio of [XXX]. The first measurement date is [XXX]. Based on the situation as at [DATE], the company would [not] meet the covenant ratios.

In addition to the already known effects of the COVID-19 outbreak and resulting government measures, the macroeconomic uncertainty causes disruption to economic activity, and it is unknown what the longer term impact on our business

may be. The COVID-19 virus can evolve in various directions. If society, and as a consequence business, is exposed to COVID-19 for a longer period of time, this may result in prolonged negative results and pressure on our liquidity.

Management seeks to obtain the best possible information to enable us to assess these risks and implement appropriate measures to respond. We have taken and will take a number of measures to monitor and prevent the effects of the COVID-19 virus. This includes safety and health measures for our people (like social distancing and working from home), in-depth contract reviews, securing additional financing to support continuity of our operations and communication to our key stakeholders. As of [DATE], an additional financing facility amounting to EUR XX million has been secured. Planned actions include, when required, short-term lock-down of locations, use of support made available by governments in the countries in which we operate and other crisis management and business continuity measures for short-, mid- and long-term scenarios. In contrast to our standing dividend policy, we will not propose to pay out any dividends this year.

Based on the facts and circumstances known at this moment and the possible scenarios about how the COVID-19 virus and resulting government measures could evolve, management has determined that the use of the going concern assumption is warranted, but that there is a material uncertainty resulting from COVID-19 that may cast significant doubt upon the entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

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

Scenario 2 - (Impact of COVID-19 might be significant, uncertainty exists but no material uncertainty) and scenario 3 (COVID-19 is expected to have some impact, but this is not expected to be significant)

In scenarios 2 and 3, information about the impact of COVID-19 on the entity and its ability to continue as a going concern will in many cases still be relevant information for the entity's stakeholders to assess the entity's financial position and prospects. If this is the case, such information should be provided. However, in order to avoid confusion entities should consider to disclose the information under a heading that is different from the heading that is generally used when a material uncertainty is identified (i.e. the entity could use the heading 'implications of COVID-19 on our business' instead of 'going concern'). In scenario 2 or 3, entities can also choose to disclose the relevant information as part of an extended subsequent events disclosure.

Irrespective of the heading and location of the disclosure, the following content elements are expected:

Introduction - description of the conditions, circumstances and developments resulting from COVID-19

The entity highlights the circumstances that the entity is facing considering the measures and plans issued by governments and discloses the consequences of the current situation both operationally and financially (see general guidelines above for examples).

Description of the measures taken to warrant going concern

In this section, the entity describes the plans and measures (if any) that management has taken or will take to deal with the events/circumstances and uncertainties described above in order to deal with the impact of the current conditions and circumstances. The section also describes the

current liquidity that the entity has available to fulfil its obligations and finance its ongoing operations. This section therefore provides the basis for the board's conclusion that there is not a material uncertainty that may cast significant doubt upon the entity's ability to continue as a going concern.

Closing

The paragraph should conclude that there is no material uncertainty. E.g. by concluding '*whilst uncertain, we do not believe, however, that the impact of the COVID-19 virus would have a material adverse effect on our financial condition or liquidity*'.

It is emphasised that a disclosure of the uncertainties in a going concern paragraph is not sufficient if management is aware that the entity will liquidate or cease its activities or will have to 'no realistic alternative' but to do so. In such a situation, the entity can no longer prepare the financial statements on a going concern basis.

Directors' report - risk paragraph

Dutch law requires entities to describe their main risks and uncertainties, and the impact of COVID-19 is undoubtedly one of them. In addition to a general statement that COVID-19 results in risks and uncertainties for the entity, the entity should be specific about how COVID-19 affects the entity and the specific risks that result from it. These risks could for example be related to the entity's supply chain, reduction in revenues and negative financial results, impairment of assets, collectability of receivables or volatility in financial markets and valuation of financial instruments (securities), but also to the extent to which governments in the countries in which the entity operates may provide government assistance to mitigate the impact.

It is important to consider consistency between the risk paragraph, the going concern note and the subsequent events note.

Relevant guidance

Art. 2:391 lid 1

(...) Het bestuursverslag geeft tevens een beschrijving van de voornaamste risico's en onzekerheden waarmee de rechtspersoon wordt geconfronteerd. (...)

(...) The directors' report shall describe the principal risks and contingencies to which the legal entity is subject. (...)



Example - risk paragraph

Risks and uncertainties - The potential impact of COVID-19 on our business

As explained in [note X Going concern] and [note X Subsequent events] in the financial statements, the COVID-19 outbreak and resulting measures taken by various governments to contain the virus have already negatively affected our business in the first x months of 2020. In addition to the already known effects, the macroeconomic uncertainty causes disruption to economic activity and it is unknown what the longer term impact on our business may be. The scale and duration of this pandemic remain uncertain but are expected to further impact our business. The main risks that result from the current uncertain situation regarding COVID-19 are:

- Supply chain: [describe entity-specific risks in relation to its supply chain]
- Revenues and profitability: [describe how the entity's revenues and profitability may be affected]
- Impairments: [describe which assets are specifically subject to impairment risk]
- Government assistance: [describe the government assistance that the entity uses and the risk that this may not be prolonged. Also describe the risk that the entity may not meet the requirements to continue benefiting from specific arrangements or that repayment obligations may arise.]
- Financing and liquidity: [Refer to paragraph describing the entity's current financing and liquidity position and describe the risk that the entity violates bank covenants and/or is not able to secure sufficient financing]
- Internal controls: [Explain how internal controls may be affected by working from home requirements and how this may make the entity more vulnerable to risks of errors or fraud]
- Going concern: [Make reference to notes in the financial statements and include a short summary of the message, especially if the conclusion is that a material uncertainty exists]

Directors' report - outlook paragraph

Based on Section 2:391 of the Dutch Civil Code, management should describe the impact on its expectations of the future in the outlook paragraph. Specifically, the impact on investments, financing, staffing and the factors on which the development of revenues and profitability depend must be described. These expectations will be affected by the implications of the COVID-19 pandemic. A description of the already known impact of COVID-19 on the 2020 actual outcomes up until the date of preparation of the financial statements should be part of this.

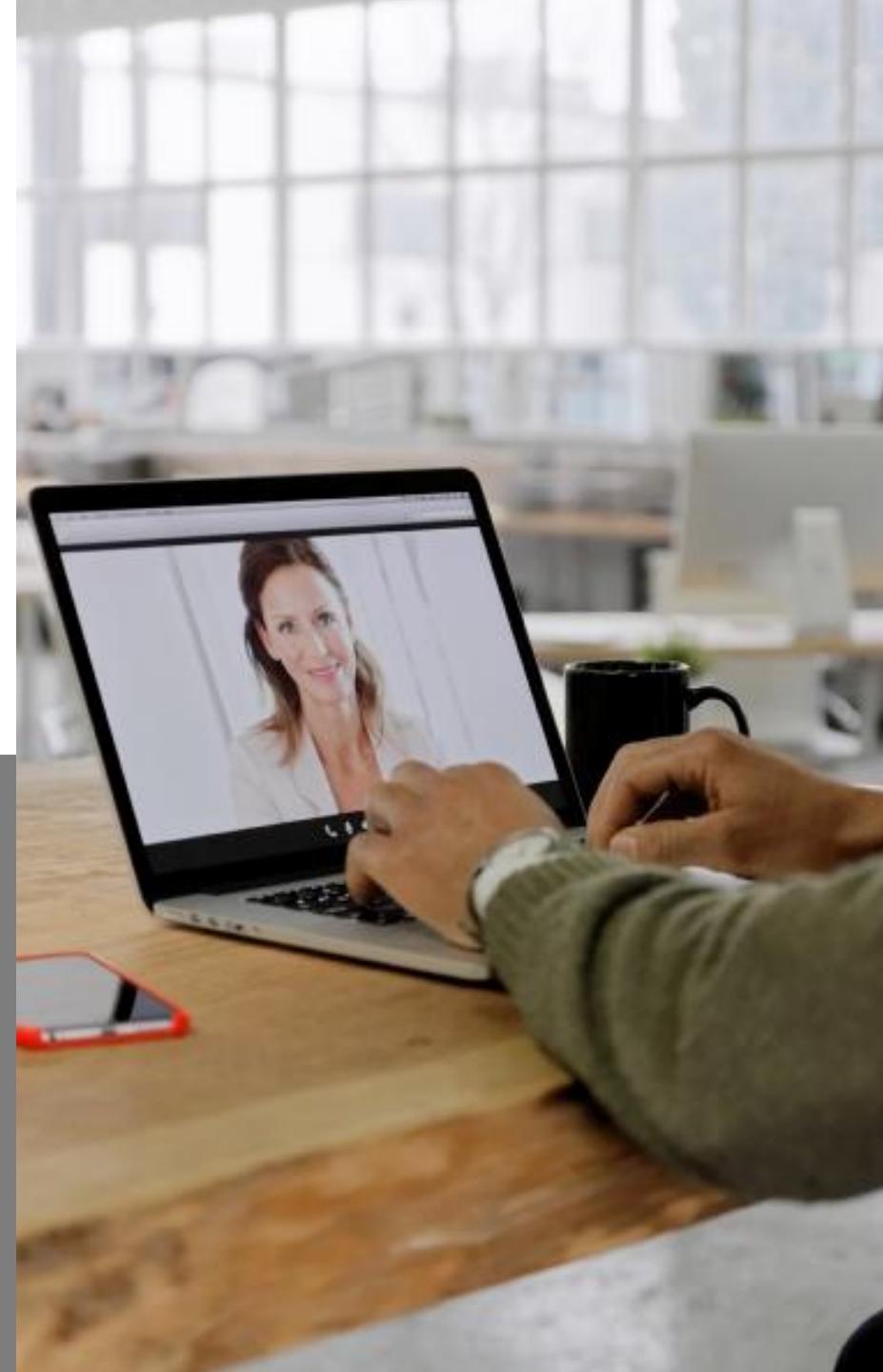
It is important to consider consistency between the outlook paragraph, the going concern note and the subsequent events note.

Relevant guidance

Art. 2:391 lid 2

In het bestuursverslag worden mededelingen gedaan omtrent de verwachte gang van zaken; daarbij wordt, voor zover gewichtige belangen zich hiertegen niet verzetten, in het bijzonder aandacht besteed aan de investeringen, de financiering en de personeelsbezetting en aan de omstandigheden waarvan de ontwikkeling van de omzet en van de rentabiliteit afhankelijk is. (...) Vermeld wordt hoe bijzondere gebeurtenissen waarmee in de jaarrekening geen rekening behoeft te worden gehouden, de verwachtingen hebben beïnvloed.

Information shall be given in the directors' report on the business outlook; particular attention shall be paid to investments, financing and number of personnel and circumstances affecting future turnover and profitability to the extent that this is not contrary to its best interests. (...) The effect on the projections of unusual events, which need not be reflected in the financial statements, shall be disclosed.



Example

Outlook paragraph

As explained in [note X Going concern] and [note X Subsequent events] in the financial statements, the COVID-19 outbreak and resulting measures taken by various governments to contain the virus have already significantly affected our business in the first x months of 2020.

We have experienced a decline in revenues for the first x months of 2020 compared to the same period in 2019 of x% as well as losses from impairments of [XXX] and [XXX]. The developments result in a preliminary operating/net loss of approximately EUR XX million in the first x months of 2020. Whether revenues and profitability will improve in the remainder of 2020 is dependent on the period during which the regions in which we operate are exposed to COVID-19 and the extent to which government measures may be prolonged, expanded or scaled down.

The group will limit its investments to necessary replacements of assets until it has clarity as to when government measures will end and business activity will improve. The group does currently not intend to reduce its workforce other than the already announced restructuring of [XXX]. However, if the COVID-19 pandemic continues for a longer period, this may have to be reconsidered.

Based on the current financial position and results, there is a risk that we may not meet our covenant ratios at the next measurement date on [DATE]. We are currently discussing the situation with the bank. In contrast to our standing dividend policy, we will not propose to pay any dividends this year. In addition, we have secured a financing facility of EUR XX million that we can draw on if the current situation persists.



Contact

This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors. If you want to discuss the specific implications of COVID-19 for your entity and your reporting in more detail, please contact your PwC contact person.

For more information about attention points from a financial, tax, legal, people or other perspective and measures that you can take look at our [website](#).

