International Accounting (22E00400)

20.4-03.6.2021

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Course schedule

Date		Time	Topics	Standards	
20.4.2021	Tuesday	17.15-20.00	Welcome!	Conceptual Framework	
			Introduction to IFRS	IAS 1 - Presentation of financial statements	
			Conceptual Framework	IFRS 13 - Fair value measurement	
			Fair value measurement	IFRS 8 - Operating segments	
			Operating segments		
22.4.2021	Thursday	17.15-20.00	Revenue and Leases	IFRS 15 - Revenue from Contracts with Customers	
				IFRS 16 - Leases	
27.4.2021	Tuesday	17.15-20.00	Assets	IAS 38 - Intangible assets	
				IAS 36 - Impairtment of assets	
				IFRS 5 - Discontinued operations	
4.5.2021	Tuesday	17.15-20.00	Liabilities	IAS 37 - Provisions, contingent liabilities and contingent assets	
				IAS 19 - Employee benefits	
				IFRS 2 - Share based payments	
11.5.2021	Tuesday	17.15-20.00	Business combinations, Associates and Joint Arrangements	IFRS 3 - Business Combinations	
				IFRS 10 - Consolidated financial statements	
				IAS 12 - Income taxes	
				IFRS 9 - Financial instruments	
18.5.2021	Tuesday	17.15-20.00	Financial instruments and income taxes	IAS 7 - Statement of Cash Flows	*Attendance is mandatory*
			Cash flow statement	IAS 28 - Investments in associates and joint ventures	*Guest speaker from PWC*
			Exam preparation	IFRS 11 - Joint arrgangements	*Guest speaker from EY*
20.5.2021	Thursday	17.15-20.00	Term Paper presentations & discussion		*Attendance is mandatory*
25.5.2021	Tuesday	17.15-20.00	Term Paper presentations & discussion		*Attendance is mandatory*
3.6.2021	Thursday	09.00-10.30	Exam 1		

Term Papers

12 groups

Discussion	Started by	Last post	Replies
IFRS 3 Business Combinations	Xijie Ma 20 Apr 2021	Joona Miinalain... 22 Apr 2021	10
IAS 7 Statement of Cash Flows	Kim Yang 22 Apr 2021	Kim Yang 22 Apr 2021	0
IAS 12 Income Taxes	Miika Kousa 20 Apr 2021	Rina Hallaperä 22 Apr 2021	1
IFRS 16 Leases, Daniel Kollar	Daniel Kollár 17 Apr 2021	Daniel Kollár 21 Apr 2021	4
IFRS 5 Assets for sale and discontinued operations (Mika, Kati and Marjaana), Room for one more ...	Marjaana Rekola 20 Apr 2021	Marjaana Rekola 20 Apr 2021	1
IFRS 5 Assets for sale and discontinued operations, Mika Kiikkilä (room for two more members)	Mika Kiikkilä 17 Apr 2021	Marjaana Rekola 20 Apr 2021	7
IFRS 8 Operating Segments (room for more)	Rasmus Tieaho 20 Apr 2021	Uyen Tran 20 Apr 2021	4
IAS 38 Intangible assets, Matias Kauhanen, Krister Saarinen (room for one more)	Matias Kauhanen 19 Apr 2021	Matias Kauhanen 20 Apr 2021	2
IFRS 7 & IFRS 9 Financial Instruments, Financial Instruments: Disclosures	Ronik Mstoi 20 Apr 2021	Ronik Mstoi 20 Apr 2021	2
IAS 36 Impairment of Assets	Otto Lumijärvi 19 Apr 2021	Otto Lumijärvi 20 Apr 2021	2
IAS 19 Employee Benefits (+ room for 2 group members)	Paul Sainio 20 Apr 2021	Paul Sainio 20 Apr 2021	4
IFRS 15 Revenue from contracts with customers (looking for 2 more members)	Anastasia Hirvo... 20 Apr 2021	Anastasia Hirvo... 20 Apr 2021	4

IAS 38 INTANGIBLE ASSETS

Textbook: Chapter 6

Learning objectives

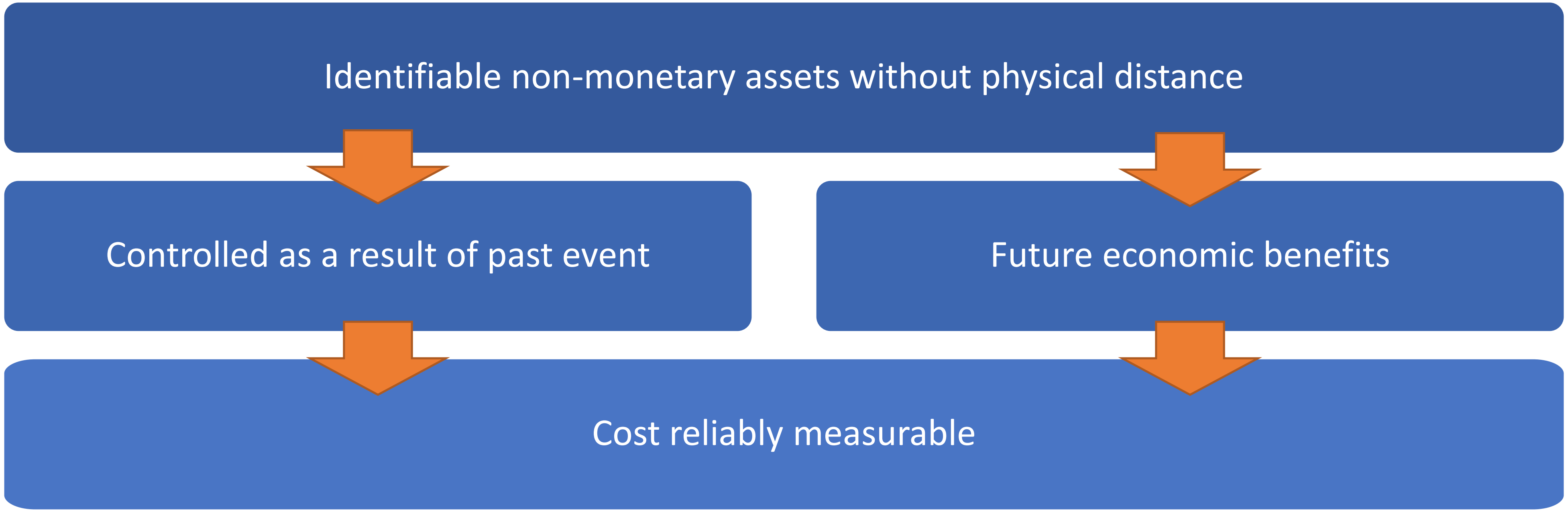
- Define term ”intangible asset” in accordance with IAS 38
- State and explain the recognition criteria for an intangible asset
- Determine the cost of an intangible asset
- Distuinguish between the cost model and the revaluation model
- Exlain the requirements of IAS 38 with regard to the amortisation

Intangible asset

- Cannot be an intangible asset unless it is an asset in the first place!
- IASB Conceptual Framework about asset:

> *"a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity"*

What is an intangible asset?



When can we recognize an intangible asset?

1. Future economic benefits from the asset are probable

2. Cost can be measured reliably

Recognition criteria

Are the future economic benefits of the asset expected to flow to the entity?

Future economic benefits can be either increase in revenues or reduction in expenses.

- When assessing the probability of expected future economic benefits, reasonable and supportable assumptions should be used, representing management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Can you measure its cost reliably?

If you can’t measure the cost, then you cannot capitalize even when it is an intangible asset.

- E.g. you cannot capitalize internally generated customer list because you can’t really determine your cost to develop it.

Case examples

Intangible asset or not?

Licenses to trade

Imagine you own a taxi company. You operate a taxi service, but you also act as an intermediary for single private taxi drivers to get their own license. So, as a part of your business you acquire transferrable taxi licenses from the government and you sell some of them to the private drivers who buy from you as it's easier to get the license this way. You acquired 1 000 number of taxi licenses. You employ 400 taxi drivers and you plan to sell another 600 taxi licenses to private drivers.

In this case, all 1 000 taxi licenses are indeed intangible assets, because they satisfy all requirements.

However, you won't account for all of them as for intangible assets under IAS 38.

Instead: 400 licenses used by your own employees are intangible assets; and 600 licenses to be sold are your inventories under IAS 2, because you hold them for sale in the ordinary course of business.

Intangible asset or not?
Internet website

Let’s say that your company operates an e-shop via its branded website.

The e-shop is famous and attracts a lot of customers. There’s also a section with a company’s blog with articles about the newest fashion trends.

Is the website an intangible asset or not?

This website is an intangible asset, because yes, the company controls it, it has no physical substance and it is identifiable (i.e. company can sell it). However, can you recognize it as an asset?

Yes, it brings the future economic benefits, so this one is met. But, can you measure its cost reliably?

If it was developed externally by the third parties, then yes, you can.

If it was developed internally, then well, you have to ***apply the rules in IAS 38*** to determine the capitalization.

Intangible asset or not?
Hockey Team

Imagine you purchase a hockey team (lucky you!).

The price you paid was derived from the quality and fame of the specific hockey players in that team.

Now, is this hockey team – or better said – contracts with players an intangible asset?

Normally you do not capitalize contracts with employees or any other expenses related to employees, because you can’t control them.

In this case, the situation can be different.

For example, hockey players might be prohibited to play in another teams by the legal rules placed by some hockey authority.

Also, the contracts with individual players might legally bind the player to stay with the same team for a number of years.

In this case, you would be able to demonstrate control and yes, recognize hockey team as your intangible asset.

Intangible asset or not?
Advertising Campaign

Some companies invest heavy cash into their advertising campaigns.

Literally millions.

Imagine you plan to invest 1 mil. EUR into the advertising campaign over the next year.

Your advertising agency told you that this campaign would build and strengthen your brand and position in many years to come.

So, some people believe that yes, they should capitalize advertising campaign as it brings the future economic benefits. No dispute on this.

The only thing is that the advertising campaign is NOT identifiable – you can’t separate it and sell it to someone else.

Therefore, you should recognize the expenditures for advertising campaign in profit or loss.

Cost of intangible asset

- Cost of **separately acquired** intangible asset includes the following.

The purchase price of the asset

- Including import duties and non-refundable purchase taxes, after ducting trade discounts and rebates

Any directly attributable costs of preparing the asset for its intended use

- Including employee costs, professional fees and testing costs but excluding advertising costs, staff training costs and administrative or other general overhead costs

What about the situation when you actually develop intangible assets yourself?

Research

- Activities aimed at gaining new knowledge
- The search for applications of research findings
- The search for alternatives to materials, products, processes etc.
- The formulation, design, evaluation and selection of possible alternatives for new or improved materials, products, processes etc.

You CANNOT capitalize any expenditure for research. You need to expense it in profit or loss as incurred.

Development

Development costs of an internal project must be capitalised if all of the following can be demonstrated.

***P**robable future economic benefits,*

***I**ntention to complete and use or sell the asset,*

***R**esources adequate and available to complete and use or sell the asset,*

***A**bility to use or sell the asset,*

***T**echnical feasibility,*

***E**xpenditures can be reliably measured.*

Rovio Annual Report 2020

Consolidated statement of financial position

€ 000	Note	2020	2019
Assets			
Non-current assets		**38,574**	**44,894**
Property, plant and equipment	2.1	1,293	964
Intangible assets	2.3	18,704	28,970
Right-of-Use Assets	2.1	8,356	7,888
Investments	3.3	1,966	793
Non-current receivables	3.3	749	679
Deferred tax assets	5.2	7,506	5,601

Rovio Annual Report 2020

2.3. Intangible Assets

Accounting policy

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life are considered to modify the amortisation period or method. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made retroactively.

The Group's accounting policies related to impairment of goodwill and intangible assets are reviewed in Note 2.2.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- The probability of the asset generating future economic benefits
- The availability of technical, financial and other resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit.

In general, the Group amortises capitalised development costs on a straight-line basis over the period of expected future sales from the related project. The amortisation schedule of capitalised development expenses related to the Angry Birds Movie, however, is based on the revenue made from the distribution of the movie. This is considered to be justified since there is a strong correlation between income received and consumption of economic benefits related to movies and programs distributed. The economic value of an audiovisual work is very much dependent upon the number of times it is aired, each broadcast causing a greater or lesser public interest for it. This fulfills the 'when it can be demonstrated that revenue and the consumption of the economic benefits embodied in the intangible asset are highly correlated' criteria. During the period of development, the asset is tested for impairment annually.

The Group capitalises development costs for a project in accordance with its accounting policy. Initial capitalisation of costs is based on management's judgment that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established

How to measure cost of internally generated asset?

- Costs of materials and services used or consumed in generating the asset
- Labour costs arising from the generation of the asset
- Fees to register legal rights
- Amortization of patents and licenses used to generate the asset

Recognition of an expense – Some examples

- Start-up costs
- Training expenditure
- Expenditure on advertising and promotional activities
- Expenditure on relocating or reorganising part or all of an entity.

What about goodwill and other internally generated intangible assets?

Goodwill and other internally generated assets

Goodwill

- Never ever capitalize internally generated goodwill.
- You can only recognize the goodwill acquired at business combination, but that’s the different story (IFRS 3).

Other internally generated assets

- Maybe you have created some other intangible assets, like brands, customer lists, publishing titles, mastheads or similar.
- IAS 38 prohibits capitalizing these assets if created internally, because it’s hard if not impossible to measure their cost reliably.

Subsequent measurement of intangible assets

Cost model

- The intangible asset is carried at its cost less accumulated amortization (similar as depreciation) less any accumulated impairment loss

Revaluation model

- The intangible asset is carried at its fair value at the revaluation date less accumulated amortization less any accumulated impairment loss.
- The revaluation model cannot be used unless there is an active market for the intangible asset concerned

Useful life

Finite useful life	• In this case you can estimate the life of the asset up front, for example some software
Indefinite useful life	• There is no foreseeable limit to period over which the asset will generate cash flows, for example brands.

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Basic information about intangible assets

	Trademarks	Development costs - Games	Development costs - Movie	Development costs - other
Useful lives	Finite (5 years)	Finite (3 years)	Finite (10 years)	Finite (3–10 years)
Amortisation method used	Amortised on a straight-line basis over the useful life of the trademark.	Amortised on a straight-line basis over the period of the expected future sales from the related project.	Amortised based on consumption of economic benefits embodied in the intangible asset.	Amortised on a straight-line basis over the period of the expected future sales from the related project.
Internally generated or acquired	Internally generated/registered	Internally generated/acquired	Internally generated/acquired	Internally generated/acquired

The Group has registered its properties as trademarks. The trademarks have usually been granted for a period of 10 years by the relevant government agency. The trademarks are addressed as having a finite 5-year useful life.

Derecognition

- You should derecognize the intangible asset either:
  - When you dispose it of, or
  - When no more future economic benefits are expected from the asset

IAS 36 IMPAIRMENT OF ASSETS

Textbook: Chapter 7

Learning objectives

- List the main factors which may indicate that an asset is impaired
- Calculate recoverable amount of an asset and the amount of any impairment loss
- Explain the accounting treatment of impairment loss
- Define the term “cash-generating unit” and explain how such units are identified
- Allocate an impairment loss among the assets of a cash-generating unit
- Account for the reversal of an impairment loss

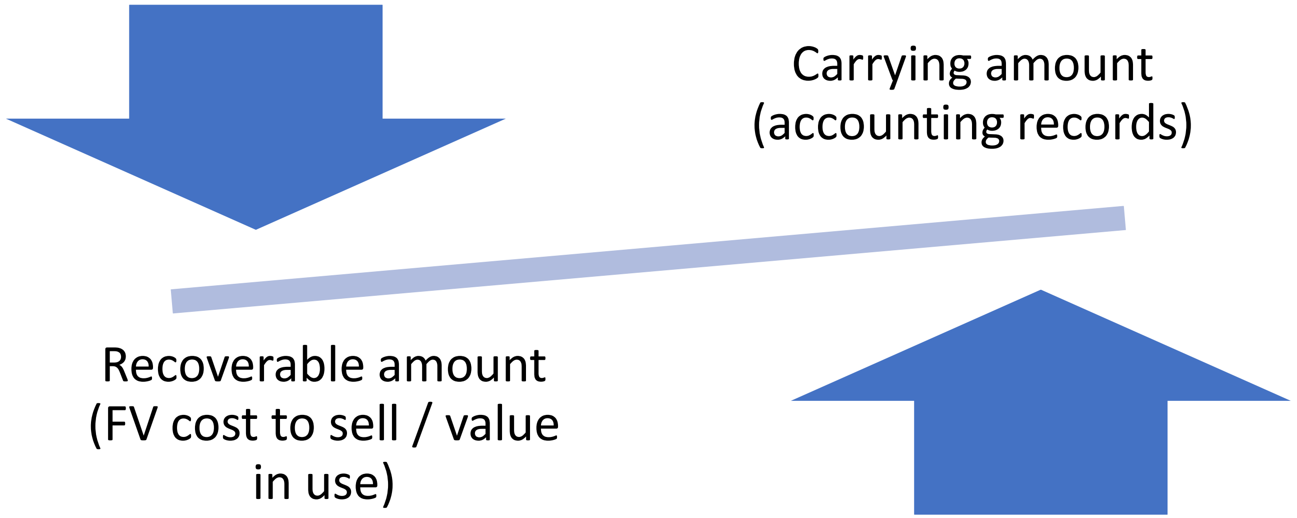
Objective of IAS 36

The objective of ***IAS 36 Impairment of assets*** is to make sure that entity's assets are carried at ***no more than their recoverable amount***.

The Standard also defines ***when an asset is impaired, how to recognize*** an impairment loss, when an entity should ***reverse*** this loss and what information related to impairment should be ***disclosed*** in the financial statements.

What is an impairment of assets?

- An asset is ***impaired*** when its carrying amount ***exceeds*** its recoverable amount.



Identify an asset that might be impaired

Indication

You need to assess ***whether there is any indication*** that an asset might be impaired at the end of each reporting period.

Indefinite useful life

If you hold some ***intangible asset with an indefinite useful life*** (such as trademarks) or intangible asset ***not yet available for use***, then you need to test these assets for impairment annually.

Goodwill

If your accounting records show some ***goodwill*** acquired in a business combination, you also need to test this goodwill for impairment annually.

Indications of impairment

IAS 36 describes a number of indications that an impairment loss may have occurred. In making its assessments as to the possibility of impairment losses having arisen, the entity is required, **at a minimum, to consider the indications listed.**

Internal sources of information

External sources of information

Internal sources of information

Obsolescence or ***physical damage*** of an asset.

Significant changes with an adverse effect on the entity related to the use of an asset

Evidence is available from ***internal reporting*** that indicates that the ***economic performance*** of an asset is, or will be, worse than expected.

External sources of information

Observable indications that the ***asset's value has declined during the period*** significantly (e.g. decrease at external market value)

Significant changes with an adverse effect on the entity in the technological, market, economic or legal environment

Market interest rates or other market rates of return on investments have ***increased*** during the period

The carrying amount of the net assets of the entity is ***higher than its market capitalization***.

Recorevable amount

Recoverable amount is the ***higher*** of an asset's (or cash-generating unit's) fair value less costs of disposal and its value in use.

This definition depends upon three further definitions also given in IAS36. These are:

Fair value (as defined by IFRS 13)	Costs of disposal	Value in use
The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date	Incremental costs directly attributable to the disposal of an asset or cash-generating unit, excluding finance costs and income tax expense.	The present value of the future cash flows expected to be derived from an asset or cash-generating unit

Estimating value in use
2 steps

Estimate future cash flow

Determine discount rate

Estimate your future cash flows

In your cash flow estimations, you shall include:

- Projections of cash inflows from the continuing use of the asset.
- Projections of cash outflows to generate the cash inflows from continuing use of the asset e.g., service and maintenance costs
- Net cash flows to be received (or paid) for the disposal of the asset at the end of its useful life.

When shall we use cash generating units?

Cash generating unit (CGU)

A ***cash-generating unit*** is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

If you are not able to determine recoverable amount for an individual asset, then you might need to establish cash-generating unit to which this asset belongs.

Allocation of an impairment loss for a CGU

An impairment loss must be recognised if the recoverable amount of CGU is less than its carrying amount.

This loss is recognised by reducing the carrying amount of the CGU's assets.

An impairment loss is allocated between assets as follows:

First, to any goodwill which has been allocated to the CGU

Next, to the other assets of the CGU, in proportion to their carrying amounts.

Reversal of impairment losses

You need to assess at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset (other than goodwill) ***may no longer exist or may have decreased.***

- Here, you need to take the same approach as in identifying the impairment loss.

You need to assess the same set of indications from external and internal sources than when assessing the existence of impairment, just from the other side.

You can reverse an impairment loss only when there is a change in the estimates used to determine the asset's recoverable amount.

- It means that you cannot reverse an impairment loss due to passage of time or unwinding the discount.

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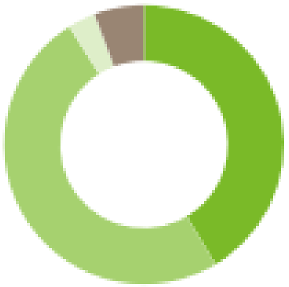
4.4 Goodwill and other intangible assets

The group's goodwill mainly relates to pulp operations in Finland and Uruguay belonging to UPM Biorefining business area.

Goodwill by business area 2020



Goodwill by business area

EURm	2020	2019
Pulp operations Uruguay	94	103
Pulp operations Finland	113	113
UPM Raflatac	7	7
UPM Plywood	13	13
Other operations	1	1
Total	229	238

Goodwill

EURm	2020	2019
Carrying value, at 1 January	238	236
Translation differences	-9	2
Carrying value, at 31 December	229	238

UPM Annual Report 2020

Sensitivity analyses
The sensitivity analyses of goodwill impairment tests indicate that no reasonable change in key assumptions would result in recognition of impairment loss against goodwill. In pulp operations the recoverable amount is most sensitive to pulp sales prices and the cost of wood raw material.

Key estimates and judgements

The group's assessment of the carrying value of goodwill and indefinite life assets requires significant judgement.

While management believes that estimates of future cash flows are reasonable, different assumptions are subject to change as a result of changing economic and operational conditions. Actual cash flows could therefore vary from estimated discounted future cash flows and could result in changes in the recognition of impairment charges in future periods.

Future cash flows
The review of recoverable amount for goodwill and indefinite life assets is based on a calculation of value in use, using management projections of future cash flows. The most important assessments and assumptions needed in calculations are forecasts for future growth rates for the business in question, product prices, cost development and the discount rates applied. The group is using ten-year forecasts in calculations as the nature of the group's business is long-term, due to its capital intensity, and is exposed to cyclical changes. In estimates of product prices and cost development, forecasts prepared by management for the next three years and estimates made for the following seven years are taken into consideration. In addition, consideration is given to the investment decisions made by the group as well as the profitability programmes that the group has implemented and the views of knowledgeable industry experts on the long-term development of demand and prices. In the projection of cash flows UPM uses EBITDA adjusted with cash flows not captured within EBITDA, including working capital movements and capital expenditures.

Discount rate
The discount rate is estimated using the weighted average cost of capital (WACC) on the calculation date adjusted for risks specific to the business in question. The adjusted after-tax discount rate is translated to a pre-tax rate for each cash generating unit (CGU) based on the specific tax rate applicable to where the CGU operates.

Impairment testing
Impairment tests for goodwill and water rights with indefinite life were carried out in the fourth quarter 2020.

Water rights of hydropower plants belonging to UPM Energy and reported in intangible rights amounted EUR 189 million at the end of 2020 and 2019. The values of water rights were tested based on expected future cash flows of each separate hydro power plant.

Goodwill impairment tests were carried out for pulp operations in Finland and Uruguay, belonging to UPM Biorefining business area, UPM Raflatac business area and UPM Plywood business area.

The 2020 impairment tests did not result in a recognition of any impairment.

The basis for valuation and key assumptions used in goodwill impairment testing are summarised in below table:

CASH GENERATING UNIT	BASIS OF VALUATION	PERIOD OF FORECAST	PRE-TAX DISCOUNT RATE	KEY ASSUMPTIONS
Pulp operations Finland	Value in use	10 years + terminal value	7.84 % (2019: 7.72 %)	Pulp price, wood costs
Pulp operations Uruguay	Value in use	10 years + terminal value	7.84 % (2019: 8.10 %)	Pulp price, wood costs
UPM Raflatac	Value in use	10 years + terminal value	7.60 % (2019: 6.78 %)	Product prices, cost development
UPM Plywood	Value in use	10 years + terminal value	13.04 % (2019: 10.14 %)	Product prices, cost development

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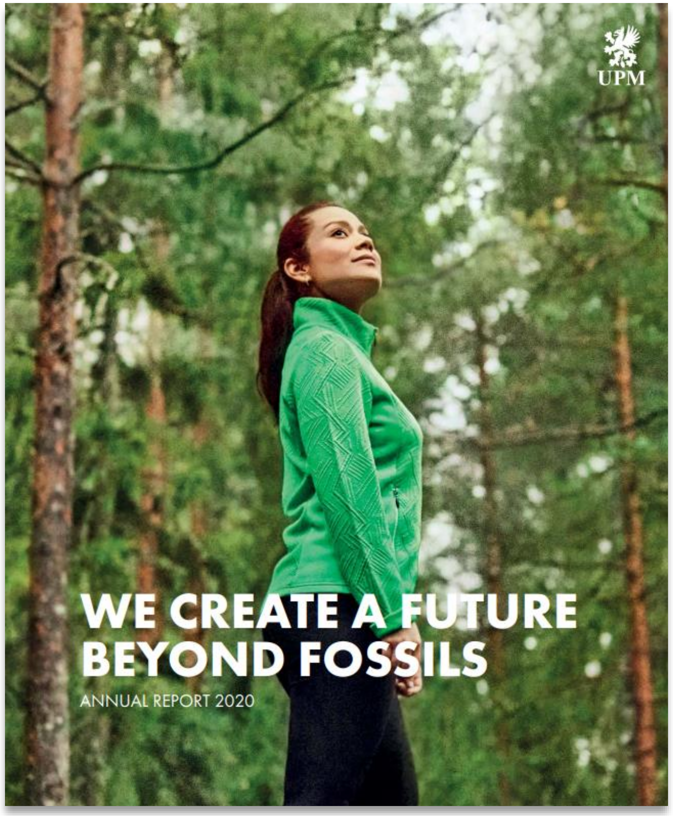
Accounting policies

Impairment testing
Goodwill and other intangible assets that are deemed to have an indefinite life are tested at least annually for impairment. For goodwill impairment testing purposes the group identifies its cash-generating units (CGUs), which is the smallest identifiable group of assets that generate cash inflows largely independent of the cash inflows of other assets or other groups of assets. Each CGU is no larger than a business area. The carrying amount for the CGU includes goodwill, non-current assets and working capital. If the balance sheet carrying amount of the CGU unit exceeds its recoverable amount, an impairment loss is recognised.

Impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to other assets of the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Other intangible assets with indefinite useful lives are impaired if the recoverable amount of the asset is less than the carrying amount. The carrying amount of the asset is then reduced to the recoverable amount which is the higher of the asset's net selling price and its value in use.



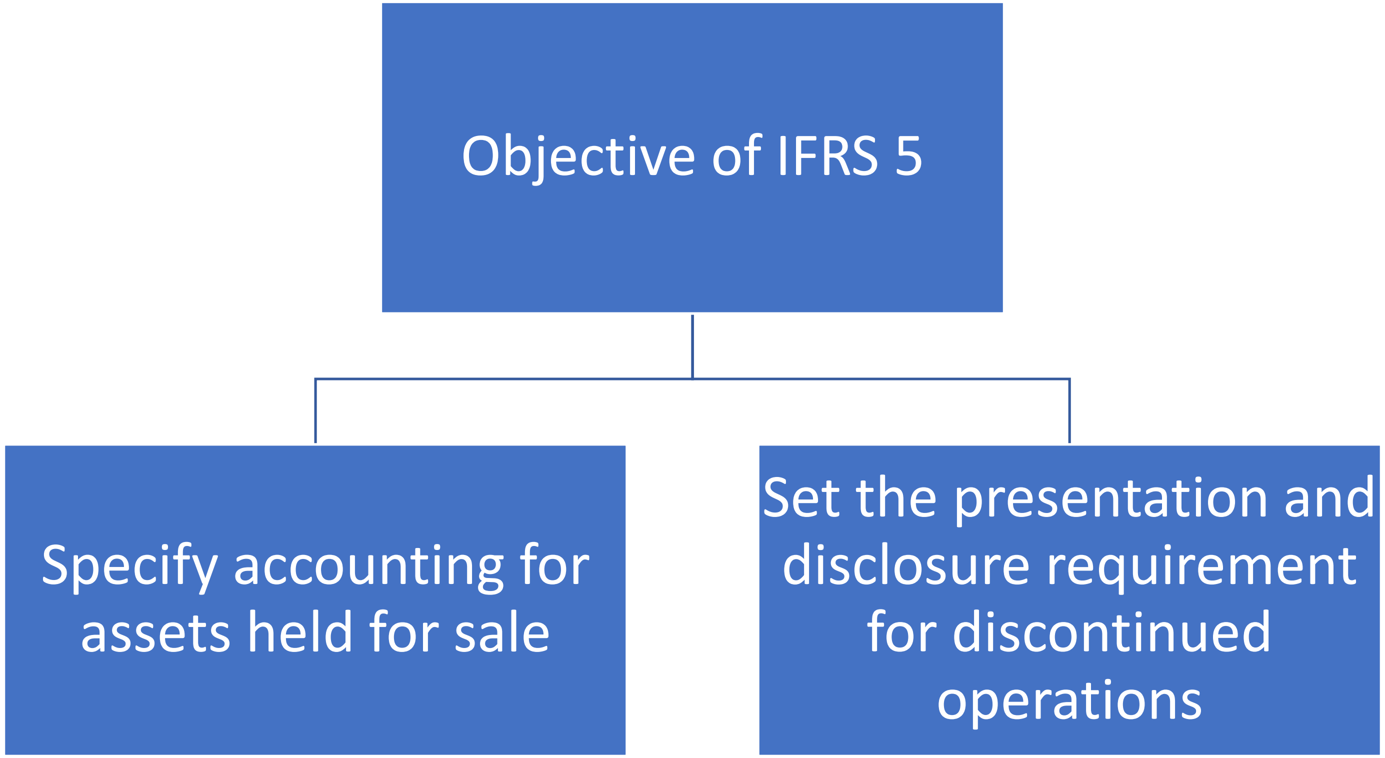
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Textbook: Chapter 8

Learning objectives

- Classify of non-current assets as either held for use or held for sale
- Measure non-current assets (or disposal groups) held for sale
- Define the term discontinued operation
- Main presentation and disclosure requirements for non-current assets held for sale and discontinued operations

Objective of IFRS 5



When to classify an asset as held for sale?

Carrying amount will be recovered through sale rather than continuing use

Same applies for a disposal group

When to classify an asset as held for sale?

The asset or disposal group must be available for immediate sale in its present conditions and the sale must be highly probable.

Criteria for the sale to be probable

IFRS 5 sets a few criteria for the sale to be highly probable:

- Management must be committed to a plan to sell the asset;
- An active program to find a buyer must have been initiated;
- The asset must be actively marketed for sale at a price reasonable to its current fair value;
- The sale is expected to be completed within 1 year from the date of classification;
- Significant changes to the plan are unlikely.

UPM Investors News 10.9.2019

UPM plans to reduce its uncoated paper capacity to safeguard competitiveness in Europe

INVESTOR NEWS

10.9.2019 11:35 EEST

UPM plans to permanently close a SC paper machine in Rauma, Finland and sell its Chapelle newsprint mill in Grand-Couronne, France. If realized, the measures would result in a reduction of 265,000 tonnes of SC capacity and 240,000 tonnes of newsprint capacity in UPM's portfolio.

As for UPM Chapelle, the company will open a bidding process for the sale of the mill. The sales process would not impact the deliveries to the customers. In case no credible offer is received by mid-January 2020, a consultation process for a potential closure of the mill would be started while the search for a potential buyer would still continue. The target is to close the processes by the end of Q2 2020. Currently 236 people are employed by the Chapelle mill.

UPM Investors News 28.1.2020

UPM opens consultation process for potential closure of its Chapelle newsprint mill while continuing the sales process

INVESTOR NEWS

28.1.2020 11:00 EET

Earlier, in September 2019, UPM announced the intention to sell its Chapelle newsprint mill in Grand-Couronne, France. It was communicated at the same time, that a process for the potential closure of the mill would be opened in case no credible offer would be received until mid-January 2020.

We have started the sales process in September and have been in continuous and substantial discussions with interested parties. While these discussions are still ongoing, we have not received binding offers by potential buyers of the mill to date.

Consequently, we informed employee representatives today of our intention to start the employee consultation processes for the potential closure of the site. These consultations are estimated to be concluded by end of Q2 2020 and will be conducted according to French legislation.

Measurement of assets held for sale

MEASURUMENT

- Non-current assets (or disposal groups) are classified as assets held for sale and stated at the <u>lower of carrying amount and fair value less costs to sell</u>, if the entity will recover their carrying amount through a sale transaction which is considered highly probable.

DEPRECIATION

- Non-current assets classified as held for sale, or included within a disposal group that is classified as held for sale, <u>are not depreciated</u> after the classification, regardless of whether they are being used or not after the classification as held for sale.

Impairment (IAS 36)

In each financial year, tests for impairment loss under IAS 36 should be made for assets classified as held for sale.

An impairment loss is recognised in the profit or loss for any initial and subsequent write-down of the asset or disposal group to fair value less costs to sell.

Subsequent increases in fair value: A gain for any subsequent increase in fair value less costs to sell of an asset can be recognised in the profit or loss to the extent that it is not excess of the cumulative impairment loss that has been recognised in accordance with IFRS 5 or previously in accordance with IAS 36

Case
Recognition of impairment loss

A freehold property was originally acquired for CU400,000. Some years later, after cumulative depreciation of CU110,000 has been recognised, the property is classified as held for sale.

At the time of classification as held for sale:

- carrying amount is CU290,000; and
- fair value less costs to sell is assessed at CU300,000.

Accordingly, there is no write-down on classification as held for sale and the property is carried at CU290,000. Following classification as held for sale, no further depreciation is recognised.

At the next reporting date, the property market has declined and fair value less costs to sell is reassessed at CU285,000.

Accordingly, a loss of CU5,000 is recognised in profit or loss and the property is carried at CU285,000.

Subsequently, the property is sold for CU288,000, at which time a gain of CU3,000 is recognised.

What are discontinued operations?

It is a component of an entity (understand: a cash-generating unit or a group of cash-generating units) that either has been disposed of or is classified as held for sale, and at the same time:

- Represents a separate major line of business or geographical area of operations,
- Is part of a plan to dispose it of, or
- Is a subsidiary acquire exclusively with a view to resale.

Disclosures – UPM Annual Report 2019

8.4 Assets held for sale

Assets classified as held for sale EUR 18 million relate to UPM Chapelle paper mill assets located in France. In September UPM announced that it plans to sell its Chapelle newsprint mill in Grand-Couronne, France.

No assets were classified as held for sale at the end of 2018.

Accounting policies

Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell, if UPM will recover their carrying amount through a sale transaction which is considered highly probable. Non-current assets classified as held for sale, or included within a disposal group that is classified as held for sale, are not depreciated after the classification.

Consolidated balance sheet

EURm	NOTE	2019	2018
ASSETS			
Goodwill	4.4	238	236
Other intangible assets	4.4	326	295
Property, plant and equipment	4.1	4,083	4,186
Leased assets	5.2	590	–
Forest assets	4.2	2,097	1,945
Energy shareholdings	4.3	2,145	2,159
Other non-current financial assets	5.3	170	178
Deferred tax assets	7.2	395	397
Net retirement benefit assets	3.4	38	38
Investments in associates and joint ventures		33	32
Other non-current assets		23	34
Non-current assets		10,140	9,501
Inventories	4.6	1,367	1,642
Trade and other receivables	4.6, 5.3	1,576	1,833
Other current financial assets	5.3	59	107
Income tax receivables		26	24
Cash and cash equivalents	5.1, 5.3	1,536	888
Current assets		4,565	4,496
Assets classified as held for sale	8.4	18	–
Assets		14,722	13,996

To wrap up – IFRS 5 requires

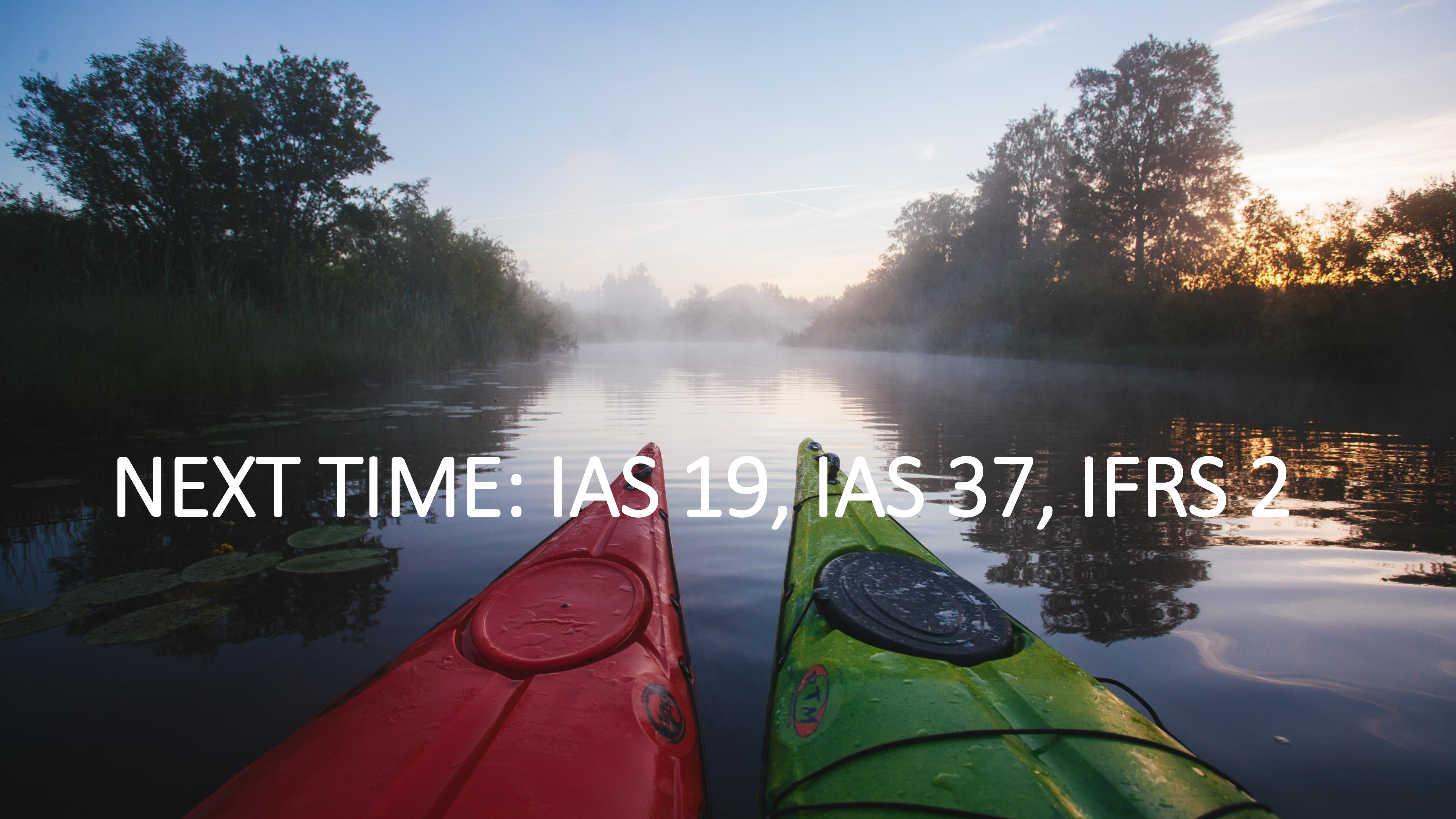
A non-current asset or disposal group to be classified as held for sale if its carrying amount will be recovered principally through a sale transaction instead of through continuing use;

Assets held for sale to be measured at the lower of the carrying amount and fair value less costs to sell;

Depreciation of an asset to cease when it is held for sale;

Separate presentation in the statement of financial position of an asset classified as held for sale and of the assets and liabilities included within a disposal group classified as held for sale; and

Separate presentation in the statement of comprehensive income of the results of discontinued operations.


NEXT TIME: IAS 19, IAS 37, IFRS 2