

Adevinta ASA
Board of Directors
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OUR REFERENCE
23/10837

YOUR REFERENCE

DATE
10.04.2024

Review of financial reporting

1. Introduction

In accordance with the Securities Trading Act section 19-1 subsection (2), Finanstilsynet has reviewed certain accounting topics related to the financial reporting of Adevinta ASA (Adevinta). Reference is made to previous correspondence, most recently the issuer's reply of 2 April 2024.

In points 2-3 below Finanstilsynet provides its assessments of the accounting matters covered by the review of the 2022 annual financial statements. Finanstilsynet's assessment is that certain disclosure requirements have not been met in the 2022 annual financial statements. This concerns disclosures on impairment of goodwill and intangible assets with indefinite useful lives, research and development expenditures and intangible assets assessed as having an indefinite useful life. Furthermore, diluted earnings per share (income statement) and continuing operations earnings per share (note 14) were misstated, although Adevinta considers these misstatements to be immaterial. Adevinta has taken note of Finanstilsynet's assessment and will going forward provide additional and/or improved disclosures as detailed below. Finanstilsynet notes this for the record. Finanstilsynet also observes that Adevinta has made improvements and certain additions to the disclosures in the 2023 Q4 interim report.

2. Impairment of assets - disclosure

Adevinta has goodwill and trademarks with indefinite useful lives in the balance sheet amounting to MEUR 10,062 as of 31 December 2022. This constitutes 84% of total asset.

a) Significant and non-significant cash-generating units in the context of impairment

In accordance with IAS 36.134 d) certain disclosures need to be given for each cash-generating unit (group of units) for which the carrying amount of goodwill or

intangible assets with indefinite useful lives allocated to that unit (group of units) is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives (hereafter referred to as "significant CGUs"). Furthermore, IAS 36.135 requires that if some or all of the carrying amount of goodwill or intangible assets with indefinite useful lives is allocated across multiple cash-generating units (groups of units), and the amount so allocated to each unit (group of units) is not significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives (hereafter referred to as "non-significant CGUs"), that fact shall be disclosed.

Finanstilsynet noticed that Adevinta had not disclosed which cash-generating units (CGUs) were considered non-significant with regards to the carrying amount of goodwill and intangible assets with indefinite useful lives allocated to that unit.

Adevinta's assessment:

Adevinta note in their reply that Mobile.de and eBay Kleinanzeigen are considered "significant CGUs" with regards to the carrying amount of goodwill and/or intangible assets with indefinite useful lives allocated to those units. Adevinta notes that in note 15 the carrying amount of goodwill and intangible assets with indefinite useful lives is disclosed for both "significant and non-significant CGUs" in this regard. This provides the information about carrying amounts required by the first part of IAS 36.135.

Adevinta argues that although the "non-significant CGUs" have not been explicitly identified, the information in note 15, including the disclosure of all carrying amounts, allows readers of the financial statements to identify the "non-significant CGUs" and hence in accordance with IAS 1.31 the management does not consider it material to provide such explicit information. However, Adevinta takes note of Finanstilsynet's comments and will in future annual financial statements explicitly disclose which CGUs management considers non-significant. Adevinta did disclose the "non-significant CGUs" in the Q4 2023 interim financial statements.

Management currently only considers Mobile.de and Kleinanzeigen as "significant CGUs" due to their relative carrying amounts of goodwill and other intangible assets with indefinite useful lives. Management will continue to monitor the development in the CGUs' carrying amounts and IFRS regulation and guidance to assess if further CGUs should be considered significant with regards to the carrying amount of goodwill and/or intangible assets with indefinite useful lives allocated to those units. Adevinta finds that adding some additional disclosures on "non-significant CGUs" may in some cases be relevant for the users of the financial statements and will provide such disclosures where considered appropriate.

Finanstilsynet's assessment

Finanstilsynet notes that the disclosure required by IAS 36.135 regarding "non-significant CGUs" cannot be left out based on materiality as the disclosure requirement refers to a fact

that shall be disclosed and for Adevinta that fact relates to part of the goodwill and trademarks with indefinite useful lives that clearly is a material balance. Finanstilsynet notes for the record that Adevinta in future annual financial statements explicitly will disclose which CGUs are considered non-significant in this regard in accordance with IAS 36.135.

Furthermore, Finanstilsynet encouraged Adevinta to re-assess if any of the CGUs that were currently considered non-significant, should be considered significant, taking into account materiality and the users need for information. The standard does not define what is to be considered significant in comparison to the total amount and Finanstilsynet understands this will involve management judgement. Finanstilsynet expects this judgement to take into account the overall magnitude of the balance of goodwill and intangible assets with indefinite useful lives. The fact that some information has been disclosed about the "non-significant CGUs" (for example sensitivity analysis for Spain and a range for the discount rates of the CGUs that have not been impaired) also indicates that these CGUs may be significant. Finanstilsynet takes note of that Adevinta continuously will assess which CGUs are considered significant in this regard.

b) **Key assumptions**

In accordance with IAS 36.134 d) i) each key assumption on which management has based its cash flow projections for the period covered by the most recent budgets/forecasts should be given for "significant CGUs". Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive.

Further, IAS 36.134 d) ii) requires a description of management's approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.

Finanstilsynet asked for an assessment of why cash flows in years 1-10 for the "significant CGUs" were not considered to be key assumptions and commented on the disclosure requirements in IAS 36.134 d) i-ii).

Adevinta's assessment

Adevinta replied that based on the disclosure provided in note 15 in its entirety the users of the financial statements would understand that the cash flows are an important input for measuring the recoverable amount of the "significant CGUs" and that the cash flows are mainly impacted by the competitive situation, developments in revenues and margins, trends and macroeconomic expectations for the relevant operations or markets. Furthermore, noting that there is no individual key assumption affecting the cash flows (e.g. oil prices in the oil producing industry) other than the general factors mentioned in the 'Estimation uncertainty' section in the financial statements:

"Estimation uncertainty

Estimates related to future cash flows and the determination of discount rates to calculate present values are based on management's expectations on market developments and conditions, the competitive environment, technological development, the ability to realise synergies, interest rate levels and other relevant factors.

The risk of changes in expected cash flows that affect the consolidated financial statements will naturally be higher in markets in an early phase than in established markets. Furthermore, the risk of changes is significantly higher in periods with an uncertain macroeconomic environment."

Hence, Adevinta is of the opinion that sufficient disclosure has been made in relation to the importance of the cash flows for the impairment test and the relevant factors affecting such cash flows. However, Adevinta takes note of Finanstilsynet's comments and will provide additional disclosure related to key assumptions for cash flow and the management's approach to determine the values assigned to those going forward for "significant CGUs", also if these CGUs have no headroom. Adevinta provided such additional disclosures in the Q4 2023 interim report.

Finanstilsynet's assessment

Finanstilsynet observes that the factors mentioned in estimation uncertainty are those that appear to influence revenues and margins underlying the expected cash flows (which are therefore presumably key assumptions). However, the disclosure in note 15 on these are general and does not give the user of the financial statements any information on what management's expectations are on market developments and conditions, the competitive environment, technological developments and the ability to realise synergies and how these impact the expected cash flows in the impairment test.

It is not sufficient to only list factors that impact the expected cash flows. Rather, as required by IAS 36.134 d) i) and ii) an entity needs to disclose the key assumptions and explain how they have determined the value(s) assigned to the key assumptions and whether those reflect past experience or if appropriate are consistent with external sources of information, and, if not why they differ from such information. In this regard, Finanstilsynet is of the opinion that Adevinta should have disclosed information that enables the users of the financial statements to understand how they have determined the revenues and margins underlying the expected cash flows (which presumably are key assumptions) and whether the revenues and the margins underlying the cash flows in the impairment test reflect past experience, or if appropriate are consistent with external sources of information. Furthermore, considering that the two "significant CGUs" have no headroom, Finanstilsynet asked Adevinta to also take into account the requirements in IAS 1.125-129 when considering these disclosures.

Finanstilsynet takes note that Adevinta will provide such additional disclosure related to key assumptions for cash flows and the management's approach to determine the values assigned

to those going forward. Finanstilsynet observes that Adevinta has disclosed certain information in the Q4 2023 interim report on key assumptions.

c) Sensitivity disclosures

IAS 36.134 f) requires sensitivity disclosures for "significant CGUs". Disclosures are required if a reasonably possible change in a key assumption on which management has based its determination of the unit's recoverable amount would cause the unit's carrying amount to exceed its recoverable amount.

Finanstilsynet noted that Adevinta in the financial statements appeared to provide information for the CGU Online Classifieds Spain in accordance with IAS 36.134 f) iii). Information required by IAS 36.134 f) i) and ii) however was not given. The following information was given on page 137 in the financial statements:

"For the CGUs that are not impaired, impairment can be triggered in case of material adverse changes in key assumptions, and Spain is the most sensitive CGU where, all else being equal, there will be an impairment in case of increase in the pre-tax discount rate above 1.5% points or decrease in the sustained growth rate higher than 3.0% points."

When questioned, Adevinta explained that although management did not consider a reasonable possible change in key assumptions would trigger an impairment, and IAS 36 does not require sensitivity disclosures for "non-significant CGUs", this CGU was the most sensitive one of the non-impaired CGUs, and thus the management considers that providing such information would be useful for the users of the financial statements in accordance with IAS 1.112 c).

Finanstilsynet notes that it is not clear from the information in the financial statements that the change disclosed is not considered a reasonable possible change. Furthermore, it is not clear to Finanstilsynet why management considers such information is useful in accordance with IAS 1.112 c) when such a change is not considered a reasonable possible change. Finanstilsynet presumes this disclosure is not material, but asks Adevinta to be clearer in its communication of such sensitivity information going forward.

Adevinta takes note of Finanstilsynet's comments and will going forward only provide sensitivity disclosures if management considers that a reasonable possible change in key assumptions could result in impairment for "significant CGUs".

Finanstilsynet notes this for the record.

d) **Period**

In accordance with IAS 36.134 d) iii) when the recoverable amount is based on value in use, disclosures are required for *"the period over which management has projected cash flows based on financial budgets/forecasts approved by management and, when a period greater than five years is used for a cash-generating unit (group of units), an explanation of why that longer period is justified."* Adevinta provides the following disclosure on the period used in the financial statements:

"Estimated cash flows are based on management's expectations and market knowledge for normally five years after which declining growth rates are applied for another five years in order to reach a steady state growth level. For subsequent periods growth factors that do not exceed the long-term average rate of growth for the relevant market are used."

When questioned about the period, Adevinta explained that for impairment testing purposes the cash flow projections for years 1-4 are based on a 1 year budget and an additional 3 years of forecasts which are approved by management. Based on these cash flow projections an extrapolation is made for a period of additionally 6 years where the EBITDA-margin is kept constant and the revenue growth is decreasing linearly from the revenue growth in the last year of the forecast period (year 4) down to the expected long term (sustained) growth rate for the relevant market. For subsequent periods (after year 10) steady long-term (sustained) growth rates that do not exceed the long-term average rate of growth for the relevant market are used and these sustained growth rates are normally based on inflation forecasts from external sources such as the International Monetary Fund (IMF). Adevinta notes that the cash flows after the period covered by the most recent budgets/forecasts approved by management are extrapolated based on these budgets/forecasts using a declining or steady growth rate for subsequent years in accordance with IAS 36.33 c).

Adevinta acknowledges that the description of the periods applied for cash flow projections should have been (with corrections struck through): "Estimated cash flows are based on management's expectations and market knowledge for normally ~~four~~ ^{five} years after which declining growth rates are applied for another ~~six~~ ^{five} years in order to reach a steady state growth level". Adevinta takes note of Finanstilsynet's comments and will going forward provide further disclosure related to the period over which projected cash flows are based on budgets/forecasts approved by management and extrapolations applied for impairment testing.

Finanstilsynet notes this for the record. Finanstilsynet also observes that Adevinta provided additional disclosures on that matter in the Q4 2023 interim report.

e) **Growth rates**

IAS 36.33 c) requires that in measuring value in use an entity shall "*estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate shall not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.*"

IAS 36.134 d) iv) also requires for "significant CGUs" where the recoverable amount is based on value in use to disclose "*the growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/forecasts, and the justification for using any growth rate that exceeds the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market to which the unit (group of units) is dedicated.*"

As noted under 2d above Adevinta explain in their reply to Finanstilsynet that they use a declining growth rate in years 5-10, decreasing linearly down to the expected long term (sustained) growth rate for the relevant market. For subsequent periods (after year 10) steady long-term (sustained) growth rates that do not exceed the long-term average rate of growth for the relevant market are used.

Furthermore, Adevinta disclose in note 15 in the financial statements the "sustained growth rates" for the "significant CGUs" and for the CGUs that were impaired in the year. Only the growth rates used to extrapolate after year 10 are disclosed.

Finanstilsynet notes that Adevinta has not disclosed growth rates used in years 5-10. Furthermore, Finanstilsynet notes that Adevinta use growth rates in years 5-10 that exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used. In accordance with IAS 36.33 c) such exceeding growth rate can be used only if it can be justified. Finanstilsynet notes that such justification and the actual growth rates used shall be disclosed in accordance with IAS 36.134 d) iv). Finanstilsynet cannot see that neither such justification, nor the actual growth rates used in years 5-10, have been disclosed in the financial statements for the "significant CGUs" as is required by IAS 36.134 d) iv).

Finanstilsynet's assessment is that disclosure in accordance with IAS 36.134 d) iv) is not complete. Finanstilsynet expects Adevinta to provide such complete disclosures for the "significant CGUs" going forward. Finanstilsynet has neither assessed the justification for using such growth rates that exceed the long-term average rate of growth for the relevant market, nor the actual growth rates used.

Adevinta takes note of Finanstilsynet's comments and will going forward disclose the growth rate used for the 4-10 years extrapolation and explain why it is higher than the terminal growth rate.

Finanstilsynet notes this for the record. Finanstilsynet also observes that Adevinta provided additional disclosures on that matter in the Q4 2023 interim report.

3. Other matters

a) Diluted earnings per share

Adevinta reports basic earnings per share of € (1.50) and diluted earnings per share of € (1.49) as at 31 December 2022. Finanstilsynet notes that diluted earnings per share is higher (lower loss) than basic earnings per share. Finanstilsynet asked for an explanation of how this is in accordance with IAS 33 *Earnings per Share*, in particular IAS 33.41 and 43. Furthermore, Finanstilsynet asked for an explanation of why in note 14 Earnings per share is reported with the same amount as Continuing operations earnings per share.

In their reply to Finanstilsynet Adevinta notes that the potentially dilutive shares were by error reflected in diluted earnings per share. Adevinta acknowledges that the potential ordinary shares should not have been considered dilutive for the calculation of diluted earnings per share, because the company was loss making and hence the potential conversion of potential shares results in a decrease of loss per share which is considered anti-dilutive according to IAS 33. However, the incorrect dilution effect was 0.3% which the management does not consider material for the users of the financial statements. The management will correct the matter and improve the procedures around reporting and disclosure of earnings per share in future periods of financial reporting.

Adevinta acknowledges that there was an error in a formula in the working file used to prepare note 14 that resulted in the earnings per share from "Continuing operations" not being calculated correctly. The earnings per share for "Continuing operations" should have been € (1.45) (loss) instead of the disclosed amount of € (1.50) (loss). The management believes that the 3.4% over-statement of the negative earnings (loss) per share for continuing operations was not material for the users of the financial statements and both the result of continued operations and the weighted average number of shares outstanding was disclosed, making it possible for the users of the financial statements to calculate earnings per share for continuing operations. Furthermore, the total basic earnings per share stated on the face of the income statements was correct. However, the management will correct the matter and improve the procedures around reporting of earnings per share in the annual financial statements for future periods.

As noted above, Adevinta believes the errors in earnings per share were not material for the users of the financial statements. However, Adevinta takes note of Finanstilsynet's

comments and will correct the matter and improve the procedures around reporting of earnings per share in the annual financial statements for future periods. Adevinta corrected the 2022 earnings per share comparatives in the Q4 2023 interim report.

Finanstilsynet notes this for the record.

b) Research and development expenditure.

Adevinta states in note 16 of the 2022 annual financial statements that they have significant activities related to developing new technology to deliver digital classified and advertising products for their customers and users. An entity shall, in accordance with IAS 38.126, disclose the aggregate amount of research and development expenditure recognised as an expense during the period. Finanstilsynet questioned why this disclosure had not been given.

Adevinta had by mistake omitted disclosing the total amount of expenditure on research and development that is recognized as an expense during the period. Adevinta notes that management is currently not tracking the research and development costs that are expensed, but will prepare an estimate for 2022 and start tracking these expenses as from 2023 in order to provide the disclosure for 2022 and 2023 in the 2023 annual financial statements and in the future financial reporting periods.

Finanstilsynet notes this for the record.

c) Disclosure for intangible assets assessed as having an indefinite useful life

"Trademarks indefinite" amounts to MEUR 3,457 as at 31 December 2022. In accordance with IAS 38.122 a) an entity shall disclose for an intangible asset assessed as having an indefinite useful life the reasons supporting the assessment of an indefinite useful life. In giving these reasons, the entity shall describe the factor(s) that played a significant role in determining that the asset has an indefinite useful life. Finanstilsynet questioned why this disclosure had not been given.

Adevinta noted that trademarks with an indefinite expected useful life have been acquired through acquisitions and are expected to generate cash flows over an indefinite period of time. The assessment of whether a trademark has an indefinite useful life will depend on the facts and circumstances in each case. However, below is a non-exhaustive list of the indicators that the management considers when determining that some trademarks have indefinite useful lives:

- the management has no plans as to stop using these trademarks,
- there are no legal or contractual time constraints for the company to use the trademarks,

- the company has legally protected the rights to use the trademarks and has the intent and capability of incurring the expenses associated with this,
- the awareness of the trademark in the markets where it is used,
- the company has the intent and capability of incurring marketing expenses to obtain the future economic benefits from the trademarks.

Adevinta acknowledges not having disclosed the main reasons that support the assessment that some of the company's trademarks have an indefinite useful life. Adevinta takes note of Finanstilsynet's comments and will disclose the reasons supporting the assessment of an indefinite useful life of trademarks in the annual financial statements going forward.

Finanstilsynet notes this for the record.

4. Closing

Finanstilsynet refers to the securities legislation regarding the requirement to disclose inside information in accordance with the Regulation (EU) No 596/2014 (market abuse regulation) article 17 no. 1, cf. article 7, cf. Securities Trading Act section 3-1 subsection (1). Finanstilsynet expects the Company to consider its treatment of information in accordance with this legislation.

Finanstilsynet requests Adevinta to inform Finanstilsynet in writing, and within 2 weeks after publishing its annual financial statements for 31 December 2023, about where and how the matters above have been rectified in the annual financial statements for 31 December 2023, compared to the annual financial statements for 31 December 2022. The information provided should be concrete and show how disclosures have been improved and in which note(s) additional information has been provided.

Issuers are required to provide information to Finanstilsynet in accordance with the Securities Trading Act section 19-2 subsection (7); cf. the Regulation to the Securities Trading Act section 17-6. According to these provisions, the issuer is required to provide Finanstilsynet with information necessary to perform the review. Issuers may appeal against the requirement to provide such information. An appeal should be made to Finanstilsynet immediately, and within three days at the latest; cf. the Public Administration Act section 14.

Finanstilsynet has forwarded a copy of this letter to the issuer's appointed auditor and to Oslo Børs.

On behalf of Finanstilsynet

Lars Jacob Braarud
Head of Section

Caroline Emma Nissen
Senior adviser

This document has been electronically approved and does not require handwritten signatures.