

April 2025

# Financial Reporting Decision

Decision 2/2025



## Annual financial statements – 30 December 2023

<b>Issuer</b>	Glanbia plc
<b>Report type</b>	Annual report and financial statements
<b>Reporting period</b>	Year ended 30 December 2023
<b>Financial reporting framework</b>	IFRS-EU
<b>Applicable financial reporting standards</b>	IAS 36 <i>Impairment of Assets</i>
<p><b>Summary</b></p> <p>This examination considered the identification of cash-generating units (CGUs) by the issuer.</p>	
<p><b>Background</b></p> <p>The issuer is a global nutrition company with a number of consumer brands and ingredients.</p> <p>IAASA performed an interactive focussed examination of the issuer's annual financial statements for the year ended 30 December 2023.</p>	
<p><b>Outline of financial reporting treatment applied by the issuer</b></p> <p>In 2023, the issuer held its goodwill and other intangible assets across 5 individual CGUs. In a re-organisation which commenced in 2019, the issuer reduced or consolidated its CGUs from 10 in 2021 to 8 in 2022 to 5 in 2023. Goodwill and other intangible assets represented approximately 41% of the issuer's total assets at 30 December 2023.</p> <p>The issuer rationale on which the previously identified CGUs (all with goodwill recognised and disclosed separately in earlier years' financial statements) were no longer all considered to be separate CGUs in the 2023 financial statements is summarised as follows:</p> <ul style="list-style-type: none"> <li>• prior to a re-organisation of the issuer which commenced in 2019, this GPN Americas segment sold products to its business customers via dedicated sales teams that were structured around individual brands. A business customer may, therefore, have had more than one of the issuer's sales representatives allocated to it,</li> <li>• the sales teams drove the sales/cash inflows of the brands for which they were responsible and compensation targets for these teams were structured in a similar manner. In 2020 the re-organisation led to the formation of distinct lines of business within the GPN Americas segment and each of these businesses represented a separate CGU within the GPN Americas segment,</li> <li>• as part of the final phase of the re-organisation, a new role of President – Americas was created to drive the commercial and strategic growth agenda across the full portfolio of the Americas brands. Teams rolling up to this new position and related compensation structures were re-organised reflecting the new strategic "go-to-market" proposition, based on the Americas portfolio rather than individual brands,</li> <li>• as part of the re-organisation, GPN Americas re-negotiated commercial contracts with all key US retailers moving from individual brand contracts with individual discounts to</li> </ul>	

“portfolio” contracts with bundled brands and a single discount rate for the combined portfolio of brands. As a consequence of this change net cash inflows are contracted and received on a portfolio basis with a single discount rate applied equally to each individual product/brand within the portfolio, and

- subsequent to the re-organisation, GPN Americas combined manufacturing, warehousing, procurement, R&D and distribution from multiple brand specific locations to a single central hub in Chicago, Illinois to optimise operations and maximise overall performance across the portfolio.

This “go-to-market” strategy of offering a portfolio of brands to customers was supported by the creation of the new role of President – Americas and by the restructuring of the sales teams/functions under this position. As a result, brands were previously considered as separate CGUs before the change in the “go-to-market” strategy of a brand portfolio. In other words, the issuer’s view is that revenues/cash inflows from brands were independent before the restructuring but not thereafter.

The issuer’s view is that its “go-to-market” strategy and engagement with customers on a portfolio of brands basis across the Americas region is what drives the cash inflows from its customers and it is this that is the determining factor in the identification of CGUs.

#### **Outline of findings made by IAASA**

IAASA accepted that the issuer monitors these brands/businesses/CGUs’ goodwill for internal management purposes at the level of the Americas GPN segment.

However, it is IAASA’s conclusion that the issuer’s “go-to-market” strategy and engagement with customers on a portfolio of brands basis across the Americas region is not the driver of cash inflows from customers and is not the determining factor in the identification of CGUs.

IAASA’s view is that it is the independence of the cash inflows that is the principal factor in identifying CGUs.

IAASA considered the following matters in arriving at this conclusion:

- (a) the identification of the cash inflows and definition of CGU (IAS 36.6),
- (b) the commonality of assets is not relevant in the identification of CGUs (IAS 36.100 – 102),
- (c) the issuer’s options to curtail or change the supply of a low margin product with a higher margin product to generate higher cash inflows/revenue from its US customers (IAS 36.68),
- (d) an International Financial Reporting Interpretations Committee (IFRIC) Agenda Decision in 2007 on the identification of CGUs which noted that the sharing of infrastructure and marketing costs does not impact the identification of the CGU because it does not change the basis of independent cash inflows. Advertising costs, for example, do not influence cash inflows but rather cash outflows and net cash flows,
- (e) the appointment of a President – Americas and the re-organisation of the sales and marketing teams so that each of the issuer’s customers is dealing with just a single overall sales team as opposed to individual product and brand sales teams would appear to IAASA to impact cash outflows and not cash inflows so the identification of the CGUs is not impacted, and
- (f) the issuer emphasises the identification of CGUs by the way in which it interacts with its customers. This is inconsistent with illustrative examples of IAS 36.IE17 to IAS 36.IE19 (magazine titles) as the customer view is not relevant to the identification of CGUs.

**IAASA conclusion**

IAASA concluded that:

- (a) the issuer has six additional CGUs within the GPN Americas segment,
- (b) the issuer monitors goodwill at the segment level (as opposed to the individual CGU level). IAASA concluded that issuer should disclose that the six CGUs are grouped together at the GPN Americas segment level for the monitoring of goodwill as the segment level represents the lowest level within the issuer at which the goodwill is monitored for internal management purposes [IAS 36.80 refers]. IAASA has concluded that this fact represents a critical accounting judgement [IAS 1.122 refers]; accordingly, future periodic financial statements should provide the disclosures required by paragraph 122, and
- (c) if an impairment indicator is identified in the future for any of these six additional CGUs, these CGUs will be tested for impairment [IAS36.7, IAS 36.9, IAS 36.12 and IAS 36.22 refer].

**Outline of corrective actions undertaken or to be undertaken**

Following engagement with IAASA, the issuer provided voluntary undertakings that future periodic financial reports will disclose that:

- (a) each of the six businesses/brands constitute separate CGUs within the GPN Americas segment,
- (b) the six CGUs are grouped together at the GPN Americas segment level for the monitoring of goodwill as the segment level represents the lowest level within the issuer at which the goodwill is monitored for internal management purposes, and that this fact represents a critical accounting judgement; accordingly, future periodic financial statements should provide the disclosures required by IAS 1.122, and
- (c) should an impairment indicator be identified in the future for any of these six CGUs, these CGUs will be tested for impairment.

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**Irish Auditing & Accounting  
Supervisory Authority**

Willow House  
Millennium Park  
Naas, Co. Kildare  
W91 C6KT  
Ireland

Phone: +353 (0) 45 983 600  
Email: [info@iaasa.ie](mailto:info@iaasa.ie)

**[www.iaasa.ie](http://www.iaasa.ie)**