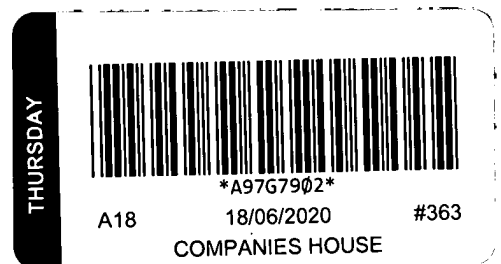


# Chanel Limited

## Annual Report and Financial Statements For the year ended 31 December 2019

Registered number: 00203669



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## Financial highlights

Year Ended 31 December 2019

	\$12.3 b	\$3.5 b	\$2.2 b	27,713
	Revenue	Operating profit	Free cash flow	Employees
<b>Financial Summary</b>				
		<b>2019</b>	<b>2018</b>	<b>% change</b>
Revenue		\$12,273m	\$11,119m	10.4%
Comparable revenue <sup>1</sup>				13.0%
Operating profit		\$3,496m	\$2,998m	16.6%
EBITDA <sup>2</sup>		\$3,914m	\$3,454m	13.3%
Tax rate		26.5%	25.5%	
Profit after tax		\$2,410m	\$2,166m	11.3%
<b>Revenue by Region</b>				
Europe		\$4,534m	\$4,280m	5.9%
Asia Pacific		\$5,426m	\$4,730m	14.7%
Americas		\$2,313m	\$2,109m	9.7%
Net cash <sup>3</sup>		\$282m	\$2m	NM
Free cash flow <sup>4</sup>		\$2,245m	\$1,214m	84.9%
Capital investment <sup>5</sup>		\$771m	\$1,007m	-23.4%
Employees <sup>6</sup>		27,713	25,295	9.6%

<sup>1</sup> Revenue is determined using exchange rates at 31 December 2019 for both periods and with a comparable legal entity structure.

<sup>2</sup> EBITDA is based on an adjusted operating profit that excludes restructuring costs, impairment charges and reversals on fixed assets and intangibles, investment gains and losses on corporate owned life insurance and other one-off expenses in the year. The addback of depreciation and amortisation does not include depreciation on right-of-use assets, in order to present relatively comparable data.

<sup>3</sup> Net cash equals cash less total borrowings (including loans to and borrowings from related entities outside of the consolidation perimeter and excluding lease liabilities, in order to present comparable data).

<sup>4</sup> Free cash flow defined as operating cash flow less capital expenditures plus proceeds on disposals, reduced by capitalised fixed lease principal payments.

<sup>5</sup> Capital investment comprises acquisitions and development of property, plant and equipment, investment property and intangible assets (excluding goodwill).

<sup>6</sup> Represents the number of employees at the end of the year.

## Strategic report

Year Ended 31 December 2019

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The directors, in preparing this strategic report, have complied with s414c of the Companies Act 2006. It has been prepared solely to provide shareholders with information to assess how directors have performed their duty to promote the success of Chanel Limited (the "Company") and its subsidiaries (together the "Group").

### COVID-19

Following a strong start to 2020, the COVID-19 pandemic has had a significant impact on our business, resulting in the temporary closure of boutiques worldwide as well as a suspension in manufacturing activity and closures of our distribution facilities in most locations, for various periods of time. Whilst we navigate through these unprecedented times, CHANEL's top priority remains the health and wellbeing of its employees and customers, in addition to supporting our business partners and suppliers.

The full financial impact of this health crisis for 2020 and beyond is impossible to predict with a high degree of certainty, but the Group will actively take measures to preserve the Group's cash flows, strong balance sheet and long-term vision of the brand. At the date of this report, we are reopening boutiques, production facilities and distribution centres on a location-by-location basis and in accordance with local government guidelines.

As a Company, we remain true to CHANEL's core values of uncompromising integrity and responsibility in all that we do as an employer, business partner and in the communities in which we operate. CHANEL has provided assistance to these communities by making donations to non-profit organisations to support medical relief and health care for frontline workers and the most vulnerable people in the hardest-hit communities. As a Company, we will continue to coordinate our efforts to support these communities during these challenging times.

### BUSINESS MODEL

CHANEL sells luxury products worldwide at retail, mainly through Group-owned boutiques and at wholesale through select channels of distribution. We continue to enhance our digital platforms to engage and surprise the customer with the brand. CHANEL has three activities that define the brand strategy: Fashion, Fragrance & Beauty and Watches & Fine Jewellery. The Group operates across multiple geographies where the local markets carry out the brand's strategy, coordination and product distribution.

As a creation driven brand, we consider it our mission to contribute to the future by creating value for both business and society in a mutually beneficial way. CHANEL continues its journey to create shared value for both business and society around three strategic areas: people; climate; and sustainability.

### BUSINESS REVIEW

In 2019, CHANEL had strong performances across all regions and product categories despite the challenging macro-economic context within the year, including Hong Kong demonstrations and strikes in France.

#### Financial

CHANEL's revenues in 2019 were \$12.3 billion (2018: \$11.1 billion), up 13.0% on a constant currency basis and for a comparable legal entity structure. Operating profit grew 16.6% in 2019 to \$3,496 million (2018: \$2,998 million).

## Strategic report (continued)

Year Ended 31 December 2019

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The Group had capital expenditures of \$771 million in 2019 (2018: 1,007 million), representing 6.3% of revenues, and continues to have strong cash generation throughout the year with free cash flow of \$2,245 million (2018: \$1,214 million).

Investment in brand advertising, promotion and demonstration activities increased by 7.1% in 2019 to \$1,770 million (2018: \$1,653 million).

The tax charge for the year was \$868 million (2018: \$743 million) giving an effective tax rate of 26.5% (2018: 25.5%). The increase in the effective tax rate is mainly attributable to certain non-deductible expenses that are not expected to recur. In France, the planned three year reduction in corporate income tax rates for large companies was delayed, but is set to commence in 2020. The Company expects a favourable impact to tax expense of \$11 million for each 1% reduction in the French corporate tax rate.

### IFRS 16 "Leases"

From 1 January 2019, the Group adopted IFRS 16 "Leases," applying the modified retrospective approach, which means no adjustments have been made to the opening equity balances and comparative information has not been restated. The new accounting standard requires that lease agreements with a fixed or minimum rent are recognised in the Group's Statement of Financial Position as a right-of-use asset and a lease liability. IFRS 16 had a significant impact on the Group's Statement of Financial Position as disclosed in Note 2.2.

A summary of the Group's performance for the year can be found in the Financial highlights on page 2.

### Products

**Fragrance and Beauty** continued to deliver robust growth across all product categories and channels. In Fragrance, CHANEL reinforced its leadership, supported by the launch of CHANCE Eau Tendre Eau de Parfum. The new GABRIELLE Essence confirmed its position as a new pillar of the House's fragrances along with the sustained success of BLEU DE CHANEL. In Beauty, CHANEL continued to gain market shares in makeup, boosted by the success of ROUGE COCO FLASH and ULTRA LE TEINT, while SUBLIMAGE, along with LE LIFT fuelled the growth of the skincare category.

**Fashion** had outstanding performances, achieving double-digit growth in all regions and across all product lines. Ready-to-wear, in particular, delivered strong results, driven by the praised collections designed by the House's new creative director, Virginie Viard, following the legacy of GABRIELLE CHANEL and KARL LAGERFELD, and reaffirming CHANEL's leadership in Fashion. In April, CHANEL opened a seven-floor flagship boutique in the heart of Seoul's cosmopolitan Cheongdam-dong district, its 10th store in South Korea, offering a unique high-end retail experience. CHANEL's **Maisons d'Art** showcased once again the creativity and exceptional know-how during the latest Metiers d'Art collection, taking the show back to Paris at the Grand Palais in December 2019.

For **Watches and Fine Jewellery**, 2019 was a year of accelerated double-digit growth, supported by the new launch of the iconic J12 watch with its manufactured 12.1 caliber by Kenissi and honoured with an award in the Ladies category at Le Grand Prix d'Horlogerie de Genève in November 2019. In Precious Jewellery, Coco Crush has become a new icon, confirmed by the double-digit growth in all regions. In High Jewellery, CHANEL explored the beauty of the camellia flower for the creative new 1.5 collection, while the stunning LE PARIS RUSSE collection, inspired by GABRIELLE CHANEL's fascination with Russian culture and design, also showcased results beyond expectations.

## Strategic report (continued)

Year Ended 31 December 2019

### Operations

In order to promote further its unique brand experience and creativity, CHANEL invested heavily in its boutique portfolio, developing iconic projects such as the opening of Seoul's flagship boutique in the heart of Cheongdam-dong district, while continuing to enhance customer experience in Fragrance and Beauty through the development of its own retail network. CHANEL operated 144 Fragrance & Beauty boutiques around the world as of the end of 2019, which combined with its e-commerce platform on chanel.com, reinforces its omnichannel approach.

Other investments included information technology projects to continue strengthening CHANEL's infrastructure and embracing new innovative technologies to further enhance client experience. In 2019, we implemented an interactive video tech-solution in our High Jewellery Salon in Hong-Kong to enable real-time connectivity with the Jewellery Creation team based in Paris. We also launched a successful augmented retail approach in our 19 rue Cambon Flagship boutique which will be rolled out in other boutiques in Paris. Significant investments have also been made in building inspiring work environments across all regions, demonstrating CHANEL's ongoing commitment to its employees' wellbeing.

### Key performance indicators

The Group assesses its performance against various measures. Our key performance indicators ("KPIs") have been selected to measure the success of our strategy and are monitored on a regular basis and can be found in the Financial Highlights on page 2 and the financial section above. Our financial KPIs in 2019, and their rationale are:

- **Comparable revenue growth** – measures growth across all sales channels excluding the impact of foreign exchange and for a comparable legal entity structure, which excludes revenues from current and prior year business acquisitions and disposals and, therefore, do not represent a full year's revenues.
- **Investment in advertising, promotion and demonstration** – measures the impact of marketing spend and is considered in connection with the growth in revenues and strengthening of brand equity.
- **Operating profit** – measures the overall performance of the Group.
- **EBITDA** – a new KPI added in 2019 for the purpose of providing an alternate measure of the Group's operational profitability, without the impact of changes in interest, taxes, depreciation and amortization and adjusted for other exceptional items in the year. EBITDA is based on an adjusted operating profit that excludes exceptional items such as restructuring costs, impairment charges and reversals on fixed assets and intangibles, investment gains and losses on corporate owned life insurance and other one-off expenses in the year as disclosed in Note 4. The addback of depreciation excludes depreciation on right-of-use assets. Below is a reconciliation of the EBITDA calculation.

		<u>2019</u>	<u>2018</u>
		\$ millions	\$ millions
Operating profit		3,495.7	2,998.1
Exceptional items	Note 4	42.9	66.2
Depreciation and amortisation on fixed assets and intangibles		<u>375.5</u>	<u>389.9</u>
EBITDA		<u><u>3,914.1</u></u>	<u><u>3,454.2</u></u>

## Strategic report (continued)

Year Ended 31 December 2019

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- **Free cash flow** – measures the Group’s ability to generate positive cash needed for growth.

CHANEL has a unique philosophy and framework for performance that goes beyond financial measures, encapsulating the values that are core to the brand. In this capacity, the Group also considers non-financial measures that impact decision making and provide insight into the fundamentals of the business.

Non-financial metrics help us to understand why certain financial results occur, which allows us to develop our business strategy. Our non-financial KPIs are:

- **Brand equity** - measures all activities we engage in to ensure our products and image are modern, relevant, and luxurious without becoming too commonplace. Our strong brand equity sets our products apart from our competitors and has a direct impact on our financial KPIs.
- **Leadership and people strength** - measures how employees grow in their roles in order to contribute in larger ways over time, including mentoring new team members and recruiting the best talent for the future. To measure our performance we focus on employee engagement, leadership preparedness and employee retention metrics.
- **Client engagement** - measures our dedication to building deep and meaningful client experiences, whether through direct contact in the boutique or through virtual experiences online and through our services. The Group continuously aims to exceed customer expectations making our clients loyal brand advocates. Factors considered in measuring our performance include our ability to retain existing clients as well as recruit new customers. We also rely on customer satisfaction surveys to measure the client experience.
- **Global carbon footprint** - we measure our commitment to reducing carbon emissions within our direct operations in line with the Paris Agreement 1.5°C threshold. The Group became carbon neutral in 2019 and aims to transition to 100% renewable energy within our direct operations by 2030.
- **Integrity and social responsibility** - the CHANEL global ethical principles are summarized in our global code of conduct, Ethics@Chanel, which applies to all employees worldwide and are shared with third parties with whom we conduct business, including suppliers, contractors, agents, representatives, distributors and consultants. We measure to what extent our employees, but also our business partners, adhere to the spirit of these standards and comply with our principles of the highest standards of integrity and responsible business conduct. Through the work of Fondation CHANEL, our key commitment of advancing the role of women in society and improving the social and economic conditions for women and adolescent girls is measured via indicators such as gained employment, access to and completed vocational training or improved access to health services.
- **Supplier performance monitoring** - a thorough risk-assessment methodology is used to determine and remediate social, environmental and governance risks across our supply base through a Responsible Sourcing Expert Team. This team measures the audit scores of our suppliers by pillar (governance & business ethics, people and planet), their progression year on year and the average number of findings (minor, major and critical) to remediate.

Common KPIs enable the Group to identify areas for improvement, as well as recognise progress, year over year. They help anchor the business strategy and areas for focus each year for each region, based on the specific needs of each market and area of the business.

## Strategic report (continued)

Year Ended 31 December 2019

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### Research and development

The Group is committed to its long-term vision for the brand based on creativity, innovation and excellence. The Group incurred research and development costs of \$147 million (2018: \$122 million), net of research and development tax credits.

### Brexit

The United Kingdom exited the European Union on 31 January 2020 and is now in a transition phase that is scheduled to end on 31 December 2020, unless otherwise extended. During the transition period, European law will continue to apply to the United Kingdom, however, the Group continues to assess the potential impact to our business based on forecasted scenarios and does not believe there is any significant risk to our business model. We will continue to monitor the evolution of revisions to trade regulations that govern the import and export of consumer products in and out of the United Kingdom, as well as all of the other regulations that will replace European regulations in the United Kingdom after the transition period, and evaluate the impact accordingly.

### Future developments

The impact of Covid-19 has resulted in a disruption to CHANEL's business that has led to boutique closures around the world as well as a suspension in manufacturing activity and closures of our distribution facilities in most locations. This will ultimately result in a reduction in revenues and earnings in 2020.

Whilst the conditions for the business will be challenging in the near-term, we remain confident that the Group's strong fundamentals coupled with the excellence of our teams will continue to strengthen CHANEL's position as a leading iconic and innovative brand. CHANEL is committed to fostering an environment where creation can continue to thrive even through these uncertain times.

## CORPORATE SOCIAL RESPONSIBILITY

CHANEL is committed to responsible and sustainable business practices. In 2018, CHANEL published its inaugural *Report to Society* [https://services.chanel.com/i18n/en\\_US/pdf/Report\\_to\\_Society.pdf](https://services.chanel.com/i18n/en_US/pdf/Report_to_Society.pdf), which gave a first insight into how we are transforming our core business to address environmental and social impacts; how we are accelerating the transition towards responsible and sustainable practices both for our own business activities and in our supply chain; and how we are striving to deliver positive social and environmental impacts to society, outside of our direct value chain.

Fondation CHANEL actively supports projects that aim to improve the economic and social conditions of women and adolescent girls around the world. From local organizations to international institutions such as UN Women, Fondation CHANEL tries to help advance the work of social purpose organizations aiming to empower women in society. Through multi-year financial and technical support, Fondation CHANEL works alongside its partners to build efficient programs and strong expertise. In 2019, the Fondation supported 80 projects in 35 countries. [www.fondationchanel.org](http://www.fondationchanel.org)

### Sustainable business transformation

We have a \$100 million budget to utilise over the next two to three years to push us faster and further towards our sustainable business transition. Over the past four years, the fund has supported projects in many areas including sustainable retail, renewable energy and sourcing.

One of our strategic priorities for 2019 was to strengthen our response to climate change. This is one of the greatest challenges of our time which will require us to transform the way we operate. We completed an extensive carbon footprint assessment across CHANEL businesses which informs our operational and business



## Strategic report (continued)

Year Ended 31 December 2019

transformation priorities. We set science-based targets to decrease the emissions in our own operations (scopes 1 and 2) by 50% by 2030, which is equivalent to a 66% reduction of emissions per unit sold. We also aim to decrease the emissions in the global value chain (scope 3) by 40% per unit sold by 2030. These targets were independently assessed and approved by the Science Based Targets initiative in November 2019.

We joined RE100, a collaborative, global initiative uniting more than 200 influential businesses that are committed to using 100% renewable electricity. We have set a target to shift to 100% renewable electricity by 2025 and installed solar panels at a number of our manufacturing and distribution sites, including in the US, France and China.

We are investing in nature-based solutions and support certified projects that protect natural carbon sinks, restore degraded land and help local communities to thrive. These avoid and remove carbon emissions at least equal to our entire carbon footprint and CHANEL reached carbon neutrality in 2019.

### Sustainable business acceleration

The innovation process to unearth new ideas and potential avenues to accelerate business transformation along a more sustainable path is firmly established at CHANEL. In 2019, we invested in Evolved by Nature, a green chemistry company that is pioneering a pure, natural silk in liquid form. In 2018, we signed a partnership agreement with a Finnish start-up, SULAPAC, in which we took an equity stake in 2019. SULAPAC has developed a highly innovative material that is an alternative to plastic and is both biosourced and biodegradable. This patented material has already won a number of international awards, including the 2017 Luxe Pack in Green prize.

Sustainability is not purely a competitive issue and we seek to work together with our peers and partners to identify more general solutions to social and environmental challenges. We are an investor in the Circulate Capital Ocean Fund, which is focused on providing financing to companies and projects in South and Southeast Asia that tackle the urgent challenge of ocean plastic waste. In August 2019, we joined the Fashion Pact, launched at the G7 summit by President Macron, and have already committed on a number of its focus areas to stop global warming, restore biodiversity and protect the oceans. We also signed up to the Fashion Industry Charter for Climate Action, which is an agreement to collectively address the climate impact of the fashion sector across its entire value chain.

## RISK MANAGEMENT

### Approach to risk management

The directors have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency, or liquidity. Over the year, we monitor the mitigating actions in relation to each risk.

The Group's objective regarding capital risk management is to maintain a strong capital base and to sustain future development of business primarily through the use of operating cash flow. The Group's management regularly reviews the capital structure of its businesses and determines the most economic approach to fund various transactions. The Group is compliant with its covenants as specified in all loan and debt agreements.

The Group's activities expose it to a variety of financial risks, including market risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to mitigate potential adverse effects on the Group's financial performance. Financial risk management is generally carried out by the Group's treasury department, which identifies, evaluates, and manages financial risks in close cooperation with the Group's operating units.

## Strategic report (continued)

Year Ended 31 December 2019

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The Group manages liquidity risk by maintaining appropriate levels of cash and the availability of funding through uncommitted credit lines available. Liquidity at the subsidiary level is ensured by maintaining local bank credit facilities and by the Group ensuring that any excess funding requirements of its subsidiaries are met through access to a global cash pool and an intercompany lending program. Details of the Group's financial risk management are included in Note 23.

The directors have evaluated the impact of Covid-19 in 2020 and have made assessments in how to prepare the business for various outcomes. The directors have taken measures to minimise the impact on the Group in the eventuality that conditions relating to Covid-19 deteriorate further. These measures include, but are not limited to, regular profit and cash-flow reforecasting, various cost-control measures and agreement of additional borrowing facilities as disclosed in Note 31.

### **Risk appetite**

Our risk management framework has been an area of continued focus with teams continuing to be built in areas that have been identified as emerging or significant risks. Our risk appetite is assessed each year and developed accordingly. The Group's inaugural Audit Committee meeting was held in June 2019, with a further meeting in October 2019. Going forward, the Audit Committee will meet four times a year. One of the Audit Committee's key responsibilities is to monitor and evaluate the Group's risk appetite. The role of the Audit Committee is discussed further in the Corporate Governance Report on pages 12 to 17.

Management maintains a low tolerance for risk, whilst acknowledging that the luxury sector is a competitive, dynamic sector where innovation and understanding of consumer habits is paramount. In determining its risk appetite, the directors consider a variety of information when reviewing the Group's business, including key strategic and operational matters. In exploring risks and opportunities, the priority is always to protect the long-term value and reputation of the brand and we consider that the minimisation of risk is a core element to this.

### **Principal risks**

Below is an overview of the principal risks that have been identified and grouped in four categories: Strategic, Operational, Compliance and Financial. We believe these risks are most relevant to our business and those that could have the most material impact to our performance and potentially threaten our overall business model if they materialised.

Strategic report (continued)

Year Ended 31 December 2019

	Risk	Business Impact	Mitigation	Risk Level	Risk Appetite	Risk Change
STRATEGIC	<b>MACRO-ECONOMIC AND POLITICAL RISK</b>					
	General economic conditions as well as changes in Government and political strategies which impact consumer attitudes and spending, and changes in tourism. Country-specific trade agreements could impact spending behaviours of key consumer groups.	Potential negative impact to sales and profitability.	The Group works to maintain the strength of the Chanel brand through the development of new and innovative products and strategic advertising, and by maintaining strong relationships with its local customers in each country. In addition, our Public Affairs function within Legal strives to anticipate changes in government and political strategies as early as possible in order to advise the business and help adapt business strategy.			
	<b>COMPETITION</b>					
	The Group has many well-established competitors as well as new market entrants every year and its business is subject to normal competitive pressures.	Potential negative impact to sales and profitability and a decreased market share.	The Group's aim is to protect and enhance the long-term value of the brand, which is the core element of the business model. This strategy allows the Group to innovate and inspire our customers with beautiful products, in order to remain at the forefront of the retail luxury market.			
	<b>MEDIA</b>					
	Traditional forms of media such as TV and print are being supplemented by new media, including digital and social media. This makes it more challenging to target the right media at the right consumers.	An unsuccessful media strategy could result in a potentially negative impact to sales and profitability as well as a lower market share.	The Group's media team works closely with its media agent to develop the best strategies to meet the Group's objectives. These strategies vary by country and by product category.			
<b>DISTRIBUTION</b>						
The Group's traditional routes to market to a mixture of wholesale and retail channels has been disrupted by the growth of e-commerce and aggregation and failure of our retail partners.	Inability to adjust our methods of distribution to that which is expected by our clients could have a negative impact on sales and profitability. A change in EU competition rules in 2022 could have a significant impact on our distribution model.	The Group seeks internal and external support in ensuring that its methods of distribution are attractive to clients and efficient. Market data and new distribution models are analysed and new methods of distribution are piloted and established where appropriate.				
<b>EMPLOYEE RETENTION</b>						
The loss of key personnel with specific talent and experience.	Adverse impact to the Group's ability and timeliness to execute its core strategies.	The Group has invested in programmes to support and nurture individuals in becoming strong leaders and enhancing the culture at CHANEL. The Group also has other programmes that engage people at all levels in a way that brings unity to the work environment and fosters collaboration. The Group's compensation and benefit committees regularly monitor employee compensation packages and other benefits to ensure that they are appropriate, compared with their peers and the markets.				
FINANCIAL	<b>FINANCIAL MARKET RISK</b>					
	The Group operates internationally and bears foreign exchange risk arising from various currency exposures, primarily with respect to the Euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities, and net investments in foreign operations.	Inability to protect the Group from foreign exchange risk could reduce sales, gross profit and operating profit margins as well as impact the US Dollar value of the Group's assets.	Future foreign currency-denominated cash flows are identified and the Group maintains forward and option currency contracts with third parties that have offsetting positions with a related party, which mitigates the overall exposure.			

## Strategic report (continued)

Year Ended 31 December 2019

	Risk	Business Impact	Mitigation	Risk Level	Risk Appetite	Risk Change
OPERATIONAL	<b>IT SYSTEMS</b>					
	Systems fail to support business operations, including point of sale and supply chain functions.	A failure of IT systems could impact customer demands and adversely impact revenues.	IT teams are in place to appropriately support the business strategy in carrying out its operations. Processes are in place to manage IT recovery in the event of a systems failure.			
	<b>CYBER RISK AND LOSS OF DATA</b>					
	Failure to process and protect the personal data of our staff and clients. A data breach and resulting loss of personal data representing the highest risk.	Safeguarding employee and client data in particular is a trust issue. A cyber attack could have an adverse effect on the Group's results, strategy, and reputation if confidential or private information was to enter the public domain subjecting the Group to damage claims and significant regulatory penalties (potentially up to 4% of global turnover under EU General Data Protection Regulations "GDPR," as well as under other data protection regulations) for data breaches as well as significant legal costs for dealing with the consequences of such data breaches, but most of all the loss of trust from its clients.	The Group continues to increase its investment in cyber security related activities to enhance our systems and employees' defences to mitigate potential threats as well as in adequate data privacy programmes, training and tools. Programmes are in place both internally and with third parties who process personal data on our behalf to avoid and where not possible mitigate a security breach and safeguard confidential data. Data privacy and Cyber security programmes, policies, training and audits are in place to educate staff and suppliers on preventing breaches and how to react in the event of a breach.			
<b>BUSINESS CONTINUITY</b>						
Major incidents due to natural disasters, terrorist activities, or global pandemics affecting one or more of the Group's key locations could cause business disruptions and impact its operations.	A major incident at one or several key locations could significantly impact business operations and client patronage, with the impact clearly varying depending on the location and its nature. Disruptions or inefficiencies in the Group's supply chain and/or boutiques could lead to delayed deliveries and lower sales.	The Group's global operations and business continuity plans help mitigate these risks, but cannot eliminate their potential impact on sales and profits as is evident with the impact of Covid-19 in 2020. The Group maintains a strong balance sheet position and targets a net debt position of zero, which supports its ability to raise borrowings quickly. The Group works closely with its suppliers to monitor their production capacity in order to ensure that product lead times are minimised and sufficient quantities are produced efficiently. We maintain a high level of security and vigilance in all of our premises in order to address potential security risks.				
<b>CLIMATE CHANGE</b>						
Impact of man-made climate change and the threat to business.	Extreme weather conditions could cause disruptions in our supply chain and sourcing of raw materials that are used in our products.	The Group measures its carbon footprint and sets targets to reduce carbon emissions that are in line with the Paris Agreement. The Group is working to transition to green power in our direct operations, manufacturing sites, distribution centres, offices and stand alone boutiques by 2030. The goal is challenging but the Group is committed to transition to renewable energy.				
COMPLIANCE	<b>INTEGRITY &amp; ETHICAL COMPLIANCE</b>					
	Compliance issues within the Group or with any of the Group's suppliers, agents or business partners.	In a large multi-national Group with a myriad of partners, suppliers and other third-party agents, a compliance issue such as a case of significant fraud or corruption or a human rights violation could significantly harm the Chanel brand's reputation and impact our clients' trust in the brand.	The Group is committed to conducting its business in compliance with applicable laws, rules and regulations and to training its employees to observe these rules and act ethically at all times. Core ethical standards as described in the Group's code of conduct Ethics@Chanel apply to all employees of Chanel entities worldwide. Third parties with whom we conduct business, including suppliers, contractors, agents, representatives, distributors and consultants are required to comply with the same principles and to share our commitment to the highest standards of integrity and responsible business conduct by signing up to our ethical charter, which lays out the same principles and obligations as Ethics@Chanel.			
<b>TAX COMPLIANCE</b>						
As a global business, the Group is subject to a number of significant tax compliance risks, the most significant of which are corporation taxes, sales taxes and customs duties.	Inability to pay the correct amount of tax can result in damage to the Group's reputation, fines and interest and other legal sanctions.	The Group's tax department focuses on ensuring that the Group's risks are minimised and reported frequently to senior management.				

### Section 172(1) Companies Act 2006

The Board considers what is most likely to promote the success of the Group in the long term. The Board considers the interests of the Group's employees and other stakeholders, including the communities in which we operate and society as a whole. The Group's corporate governance principles, set out in the Corporate Governance section of the financial statements on pages 12 through 17, provide a framework for the Board in managing long-term strategic business decisions that promote the success of the Group, having regard to the factors set out in Section 172(1) of the Companies Act 2006.

Approved by the Board and signed on its behalf by

P.B. Blondiaux  
Director  
28 May 2020

## Corporate governance report

Year Ended 31 December 2019

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For the year ended 31 December 2019, under The Companies (Miscellaneous Reporting) Regulations 2018 (the "Regulations"), the Group applied the Wates Corporate Governance Principles for Large Private Companies, published by the Financial Reporting Council ("FRC") in December 2018. In accordance with the Regulation, this new corporate governance reporting is effective for financial years beginning 1 January 2019.

### Principle 1 – Purpose and Leadership

The Group is privately owned and was established in Paris in the 1920s, operating worldwide and serving an international clientele. With creation at the heart of the company, CHANEL designs and manufactures products of the highest quality and finest craftsmanship in haute couture, fashion, fragrance & beauty and watches & fine jewellery.

CHANEL's purpose is to conserve the heritage of the brand whilst shaping it for the future with integrity and responsibility, fostering conditions that allow creation to thrive and bring long-term value to clients and society as a whole. At every level of the Group and throughout its value chain, CHANEL is committed to engaging the human, creative, and financial resources needed to effect positive long-term change. The values of the Group strive at empowering people and enabling working conditions that encourage individuals to perform at their best.

### Principle 2 – Board Composition

The Board has ten members comprised of Presidents of the Chanel Brand Owners and Licensee, the Global Chief Financial Officer and four independent non-executive directors. The Board meets four times a year and ensures that it is properly prepared through various updates received in between meetings as well as receipt of detailed pre-reading materials in advance of each Board meeting. The Board considers that there is an appropriate balance between executive and non-executive directors and that there is sufficient independence in the overall composition. The Board strives to include appointments that promote an appropriate level of expertise, objectivity and diversity, which aligns with the Group's purpose. Overall, the directors work together to promote effective decision making and ensure the Group's business strategy is met.

The independent non-executive directors bring experience from both within the industry in which the Group operates as well as outside sectors. They play an important role in challenging a broad range of areas across the business. The independent non-executive directors have the opportunity to meet with the Group's senior executives throughout the year to gain a better understanding of the business and operational matters. As part of their on-boarding, they visit operational facilities that support the business activities as well as some of the markets.

### Principle 3 – Director Responsibilities

#### Accountability

The Board recognises the importance of having a strong corporate governance framework as part of the Group's overall success. The Board determines strategic direction for the Group; establishes policies for corporate management; reviews financial performance and approves budgets; makes decisions on major initiatives and investments; and ensures that leadership is in place to implement policies and decisions. Key information is provided to board members in a timely manner prior to each meeting and all members have a

## Corporate governance report

Year Ended 31 December 2019

clear understanding of their roles and responsibilities. In accordance with the Group's conflicts of interest policy, the four independent non-executive directors have no business or relationship with the Group that would compromise their influence or objectivity.

### Areas of focus in 2019

<b>Governance</b>	<ul style="list-style-type: none"><li>- Formalising new committees in the Group (e.g. Audit, Nominations and CSR).</li><li>- Updating roles and responsibilities of committee members</li></ul>
<b>Strategy</b>	<ul style="list-style-type: none"><li>- Fashion boutique of the future concept</li><li>- Digital partnership with business activities</li></ul>
<b>Finance</b>	<ul style="list-style-type: none"><li>- Capital expenditure considerations</li><li>- Review of luxury market and strategy in establishing an overall financial plan</li><li>- Investments in innovative companies (links with Strategy)</li></ul>
<b>Risk and Opportunity</b>	<ul style="list-style-type: none"><li>- Hong Kong protests and related impact to business</li><li>- Assessing impact of Brexit</li><li>- Changes to Fragrance and Beauty wholesale market</li></ul>
<b>Corporate Social Responsibility</b>	<ul style="list-style-type: none"><li>- Climate related commitments</li><li>- Social and environmental outreach programmes</li></ul>

The Board delegates certain responsibilities to specific committees that have the appropriate knowledge and experience to make recommendations to the Board. Each committee includes independent non-executive directors as shown in the table below. The committees and their roles are as follows:

**Audit Committee** – monitors the effectiveness of internal controls; risk management; integrity of financial statements; and the performance of the internal audit department and independent auditor.

**Nominations Committee** - reviews and monitors succession planning for the Board, the Executive Committee and other key leadership roles.

**Corporate Social Responsibility ("CSR") Committee** - assesses the Group's social programs and impact on sustainability; recommends CSR policies, initiatives and expenditures; and reviews and monitors performance in these areas.

## Corporate governance report

Year Ended 31 December 2019

Below is a summary of the committee structures and members.

Name	Board Member	Audit Committee	Nominations Committee	CSR Committee
P. Abecassis <sup>^</sup>	x	x <sup>™</sup>	x	
P.B. Blondiaux	x			
R. Collasse	x			x
J. Galantic	x			x
B. Gros <sup>^</sup>	x		x <sup>™</sup>	
S. Heywood <sup>^</sup>	x	x	x	
M. Lane Fox <sup>^</sup>	x		x	x <sup>™</sup>
O. Nicolay	x	x		
B. Pavlovsky	x			x
V. Shaw	x	x		

<sup>^</sup> Non-Executive

<sup>™</sup> Chair

### Other Committees

The Board also delegates certain powers and responsibilities to its Chief Executive Officer ("CEO") and a number of operational committees, including the following:

**Executive Committee:** recommends strategies to the Board; makes operational decisions for the Group; assesses developments in the business, operational issues and new initiatives; and decides on how best to carry out the strategy of the brand and drive the implementation of business decisions. The Executive Committee is comprised of the CEO, the Global Chief Financial Officer ("CFO"), the Global Chief Administrative Officer ("CAO"), Presidents of the Chanel Brand Owners and Licensee, Presidents of the business activities and Global corporate function heads. The Executive Committee meets six times a year.

**Brand, Communication and Image Committee:** assesses brand image, culture awareness, advertising and promotion campaigns, and communication and media strategies and makes recommendations to the Board accordingly. This Committee is comprised of the Global CEO, Presidents of the business activities, Global Markets Coordinator, Head of the Artistic Direction department, Global Head of Innovation and Brand Insights, and the Global Head of Brand Culture and Communication. This Committee meets four times a year.

## Corporate governance report

Year Ended 31 December 2019

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**Regional Presidents' Committee:** assesses the priorities of the local markets on product and marketing issues in preparation for meetings of the Executive Committee, Brand, Communication and Image Committee and for meetings with the Presidents of the business activities. This Committee is comprised of the Global Markets Coordinator and Presidents of the Chanel Brand Owners and Licensee. This Committee meets four times a year.

**Compliance Committee:** oversees the development and implementation of the Group's Compliance and Ethics programme with regard to policies and training to ensure compliance with laws, internal procedures, and industry standards that may cause significant business, regulatory or reputational damage to the Group. This Committee is comprised of the Global General Counsel, the Global Chief Compliance Officer, the Global CFO, the Global Chief People & Organisation Officer, the Head of Internal Audit and other corporate representatives, as needed. Part of each Compliance Committee meeting is also dedicated to diversity and inclusion, with the Head of Diversity and Inclusion, the Global Chief Sustainability Officer, the Global Heads of Corporate and Internal Communication joining for that part. This Committee meets six times a year or more if needed.

**Real Estate Committee:** assesses proposals and makes recommendations to the Board about opening new boutiques, relocating existing boutiques or offices, undertaking major renovations, and acquiring new premises. This Committee is comprised of the Global CEO, Global CAO, Global CFO, Global Head of Store Design, Presidents of the business activities and representatives of the Chanel Brand Owners and Licensee. This Committee meets four times a year.

**Corporate Committee:** assesses corporate functions and projects in order to align priorities and make recommendations to the Board. This Committee is comprised of the Global CEO, Global CAO, Global CFO, Global Markets Coordinator and Global Corporate function heads. This Committee meets three times a year.

**Compensation Committee:** makes recommendations to the Board on compensation for senior management and guidelines for salary increases and bonuses. This Committee is comprised of the Global CEO, Global CAO and the Global Chief People & Organisation Officer. This Committee meets twice a year.

### Integrity of information

Appropriate financial reporting systems and processes are in place to enable the Board to assess the financial performance and position of the Group. Internal control systems help ensure the financial information generated by the reporting system is reliable, consistent, timely and complete. The Group accounts are audited by Deloitte on an annual basis.

### **Principle 4 – Opportunity and Risk**

#### Opportunity

The Group's business strategy is based on a long-term vision and allows us to explore opportunities that align with the Group's purpose. The Board relies on key members of the organisation to seek out synergies that allow us to create and innovate in new ways. Any major new business opportunities within the Group in excess of certain monetary thresholds are considered and approved by the Board in accordance with the Company's articles of association, but interesting and significant initiatives are presented to the Board even if they do not exceed such thresholds.



## Corporate governance report

Year Ended 31 December 2019

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### **Risk and responsibilities**

Risk management is tied to the overall strategy of the Group. The strategic report on pages 3 to 11 includes an assessment of the Group's principal risks and how those risks are mitigated.

The Audit Committee reviews the Group's internal controls and risk management systems, and receives reports from management on the effectiveness of the established systems and conclusions of any testing carried out by internal and external auditors. The Audit Committee has a good understanding of how the Group (i) identifies, assesses, manages and monitors risk and sets risk appetite and (ii) develops, operates and monitors the system of internal control. In carrying out their role, the Audit Committee reviews the mechanisms management is using to monitor emerging risks and confirms the Group's assessment of principal risks is periodically re-assessed. The Audit Committee meets with members of Finance, Internal Audit, Information Security, Legal and Compliance, Supplier Excellence, Tax and Independent Auditor to ensure their remit is aligned to the key risks of the business and to encourage continuous improvement of, and foster adherence to, the Group's policies, procedures and practices at all levels. In addition, the Audit Committee's Chairperson is responsible for keeping in touch on a continuing basis with key people involved in the Group's governance, including the Board of Directors, Global CFO, Global Head of Internal Audit and the external audit lead partner.

The Audit Committee reviews and approves internal audit's role and mandate and approves the annual internal audit plan ("Plan"). The Audit Committee ensures the Plan is aligned to the key risks of the business, and the internal audit function evaluates the effectiveness of the risk, compliance and finance functions as part of its Plan. The Plan is sufficiently flexible and dynamic to help identify, react to and address new, emerging risks and meets the needs of the Audit Committee and the Group promptly. The Audit Committee monitors and reviews the effectiveness of internal audit activities in the overall context of the Group's risk management system and receives summaries on the results of the internal auditor's work. The summaries provide a clear understanding of the work performed, the results from this work, recommendations and any mitigating action plans.

The Audit Committee is also responsible for reviewing the Group's supplier excellence programme mandate and approves the annual supplier excellence plan ("SEP"). The Audit Committee ensures the SEP is aligned to the compliance and corporate social responsibility risks of the business and must be sufficiently flexible and dynamic to meet the emerging needs of the Group and the Audit Committee promptly. The Audit Committee receives summaries of the results of the supplier excellence programme, recommendations and any mitigating actions taken by the Group to ensure they properly support the effective operation of the programme.

The risk management and internal control system can only provide reasonable, and not absolute, assurance that the Group's overall risks and objectives are properly managed.

### **Principle 5 – Remuneration**

Group-wide compensation is governed by the Compensation Committee. The Compensation Committee has an established annual compensation planning and review process in which it reviews market conditions globally, company performance and competitive benchmark data (best practices and market compensation data) comparing to well-defined peer groups in order to set fair and equitable performance-based compensation parameters.

The Group's Compensation policy and philosophy are articulated annually as part of the compensation planning process. The Board establishes guidelines setting the remuneration each year based on the recommendations of the Compensation Committee. Compensation practices comply with all statutory regulations. Transparency of this work and communication of this process is regular and ongoing to the top management and broader employee population.

## Corporate governance report

Year Ended 31 December 2019

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The Gender Pay Gap Reporting requirements provides an opportunity to help us achieve our goal of creating an inclusive environment and embracing diversity in all its dimensions. The Group is committed to ensuring all employees are paid fairly for the role they undertake. We continually monitor and enhance our policies to ensure a safe environment, free of discrimination and harassment.

### Principle 6 – Stakeholder Relationships and Engagement

As part of promoting the success of the business, the Board is committed to engaging its stakeholders in a way that is aligned with the Group's standards and principles. As a Group, we aim to honour our commitments by being a reliable business partner and conducting business in compliance with applicable laws, rules and regulations in all the markets where we operate.

#### Stakeholders

**Customers:** The Group is dedicated to building deep and meaningful client experiences, whether through direct contact in the boutique, through special events or through virtual experiences online and through our services. The quality of this engagement is critical to carrying out our business strategy and this is measured through satisfaction surveys as well as our ability to recruit new clients and retain existing ones.

**Employees:** The Group is focused on ensuring that our employees are well-informed of the key imperatives of our brand including our employer philosophy, values and ethics, critical mission of sustainability, and the common guidelines and policies that support them. At a global level, there is a holistic view point to ensure consistency across messaging to our employees while regionally, teams coordinate the sharing of information in relevant ways for our varied employee audiences, leveraging platforms that connect employees to each other to strengthen engagement and animate communities across our company. Within our regions, employees have opportunities to provide input and feedback through engagement surveys and focus groups, which are then looked at thematically from a global viewpoint to guide future people policies and projects.

**Suppliers:** The Group is strongly committed to conducting its business in compliance with all applicable labour and employment-related laws, rules and regulations of every location in which we do business and across our supply chain. This includes, but is not limited to, laws, rules and regulations relating to wages and hours worked, equal employment opportunity, non-discrimination, harassment, immigration and work authorisation, privacy, collective bargaining, and child, prison and forced labour. Our internal code of conduct Ethics@Chanel, provides the global ethical principles for all CHANEL employees which reflect our core values and expectations.

Our approach to partnering with suppliers is governed by our Responsible Sourcing Policy. Reflecting our internal code of conduct, this policy sets out our expectations and requirements regarding issues such as respect of labour laws, forced and slave labour, human rights, the environment, and anti-corruption. We carefully select our suppliers and business partners and maintain business relationships with those that share our commitment to high ethical standards. CHANEL expects its suppliers and business partners to comply with applicable laws, rules and regulations as well as our Responsible Sourcing Policy.

## Directors' report

Year Ended 31 December 2019

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The directors present their annual report, together with the financial statements and independent auditor's report for the year ended 31 December 2019.

### DIVIDENDS AND RESULTS

The results of the Group are set out in the consolidated income statement. The dividends paid by the Company are disclosed in Note 24.

### GOING CONCERN

The uncertainty as to the future impact on the Group of the Covid-19 pandemic has been considered as part of the Group's adoption of the going concern basis. The directors consider whether the Group has adequate resources to continue operationally for at least twelve months from the date of signing these accounts.

In their assessment, the directors have considered the business activities and the principal risks and uncertainties of the Group. They have also considered the financial position of the Group, its cash flows, liquidity position and borrowing facilities, as well as the Group's objectives, policies and processes for financial risk management as described in Note 23 to the financial statements.

To assess the impact of Covid-19 on the Group's revenues, costs and cash flows, we have prepared a detailed analysis of various scenarios and stress tested those scenarios, accordingly. A summary of these scenarios is disclosed in Note 2.4, which shows the potential impact to cash and profit based on various levels of declines in revenues and related counter-acting measures. Based on the analyses done to assess the impact of the different possible scenarios, the directors have concluded that there are no material uncertainties and the Group will continue to adopt the going concern basis in preparing the 2019 financial statements.

### EMPLOYEE CONSULTATION

The core values of the Group are grounded in creating the conditions for people to perform at their best and feel fulfilled and confident in their work. The Group strives to empower its people to realise their full potential and achieve their ambitions through a culture of development focused on increasing their capacity to learn, grow and innovate. The Group does not discriminate on grounds of age, colour, disablement, marital status, race, religion, gender or sexual orientation. The Group maintains a close relationship with its employees by a conscious policy of informing them of relevant events and the state of the business through discussions, meetings, notices and consultations.

### DISABLED EMPLOYEES

It is the policy of the Group to give disabled people full and fair consideration for all job vacancies for which they offer themselves, having regard to their particular aptitudes and abilities. Training and career development opportunities are available to all employees and if necessary, the Group endeavours to re-train any member of staff who develops a disability during employment with us.

### POLITICAL CONTRIBUTIONS

The Group did not make any political donations during the year (2018: \$nil).

### RESEARCH AND DEVELOPMENT

The Group's research and development costs are disclosed in the strategic report.

## **Directors' report (continued)**

**Year Ended 31 December 2019**

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### **SHARE CAPITAL REDUCTION**

On 2 October 2019, Chanel Limited proposed a reduction of capital by way of the solvency statement procedure under section 641(1)(a) of the Companies Act 2006. It was proposed that Chanel Limited cancel and reduce its share premium account from \$963.4 million (£738.6 million) to \$-0- in order to create distributable reserves, in accordance with the solvency statement procedures set out in section 642 of the Companies Act 2006. The directors approved the cancellation of the share premium to a distributable reserve account. The directors each signed the solvency statement and the resolution approving the reduction of capital was passed by Chanel Limited's sole member on 2 October 2019. Each of the directors then signed a compliance statement. This distributable reserve account was fully extinguished in 2019 through the payment of an interim dividend to the parent company.

### **SUBSEQUENT EVENTS**

The Group's subsequent events are disclosed in Note 31.

### **DIRECTORS**

The directors who held office throughout the year and until the date of authorisation of these financial statements:

#### **Directors**

P.B. Blondiaux  
M. Lane Fox  
S. Heywood  
P. Abecassis  
B. Gros  
O. Nicolay  
R. Collasse  
J. Galantic  
B. Pavlovsky  
V. Shaw

### **DIRECTORS' INSURANCE AND INDEMNITIES**

The Group maintains directors' and officers' liability insurance which gives cover for legal actions brought against its directors and officers. In accordance with section 236 of the Companies Act 2006, qualifying third party indemnity provisions are in place for the directors in respect of liabilities incurred as a result of their office, to the extent permitted by law. Both the insurance and indemnities applied throughout the financial year ended 31 December 2019 and through to the date of this report.

**Directors' report (continued)**

**Year Ended 31 December 2019**

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**AUDITOR**

In the case of each of the persons who are directors of the Company at the date when this report was approved:

- so far as the director is aware, there is no relevant audit information of which the Group's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

**Reappointment of auditor**

The Auditor, Deloitte LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

Approved by the Board and signed on its behalf by



P.B. Blondiaux  
Director  
28 May 2020

## Directors' responsibilities statement

Year Ended 31 December 2019

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The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and the Company's financial position and financial performance; and
- make an assessment of the Group's and the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

We confirm to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group and the Company's performance, business model and strategy.

Approved by the Board and signed on its behalf by



P.B. Blondiaux  
Director  
28 May 2020

**Independent auditor's report**  
**to the members of Chanel Limited**

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**Report on the audit of the financial statements**

**Opinion**

In our opinion:

- the financial statements of Chanel Limited (the 'parent company' or the 'Company') and its subsidiaries (together 'the Group') give a true and fair view of the state of the Group's and of the parent company's affairs as of 31 December 2019 and of the Group's profit for the year then ended;
- the Group's financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated statement of income;
- the consolidated statement of comprehensive income;
- the consolidated and parent company statements of financial position;
- the consolidated and parent company statements of changes in shareholder's equity;
- the consolidated and parent company statements of cash flows; and
- the related notes 1 to 31 to the consolidated financial statements and notes A to T to the parent company financial statements.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Conclusions relating to going concern**

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

**Independent auditor's report (continued)**  
**to the members of Chanel Limited**

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We have nothing to report in respect of these matters.

**Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

**Responsibilities of directors**

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**Report on other legal and regulatory requirements**

**Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in [the strategic report and] the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.



**Independent auditor's report (continued)**

**to the members of Chanel Limited**

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In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

**Matters on which we are required to report by exception**

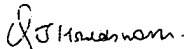
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

**Use of our report**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Kate J Houldsworth FCA (Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
London, UK  
28 May 2020

**CONSOLIDATED STATEMENT OF INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**  
(In millions of U.S. dollars)

	Notes	<u>2019</u>	<u>2018</u>
Revenue	3	12,273.3	11,118.9
Cost of sales		<u>(2,619.0)</u>	<u>(2,472.8)</u>
<b>Gross profit</b>		<u>9,654.3</u>	<u>8,646.1</u>
Distribution		(156.9)	(138.6)
Advertising, promotion and demonstration		(1,769.6)	(1,652.6)
Selling, general and administrative		<u>(4,232.1)</u>	<u>(3,856.8)</u>
<b>Operating profit</b>	4	3,495.7	2,998.1
Finance costs, net	5	(276.2)	(105.8)
Investment income, net	6	54.9	16.8
Equity income (loss) on investments, net	13	<u>3.6</u>	<u>(0.1)</u>
<b>Profit before income tax</b>		3,278.0	2,909.0
Income tax expense	14	<u>(867.9)</u>	<u>(743.1)</u>
Profit before non-controlling interest		2,410.1	2,165.9
Non-controlling interests		(2.8)	(2.8)
<b>Profit for the year</b>		<u><u>2,407.3</u></u>	<u><u>2,163.1</u></u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2019  
(In millions of U.S. dollars)**

	<u>2019</u>	<u>2018</u>
Profit before non-controlling interest	2,410.1	2,165.9
Other comprehensive income (loss)		
<b>Items that will not be reclassified subsequently to statement of income:</b>		
Actuarial loss on defined benefit pension plans, net of tax benefit of \$27.1 million and \$3.8 million	(68.4)	(4.0)
Net (loss) gain on equity instruments designated at fair value through other comprehensive income, net of tax benefit (expense) of \$12.8 million and (\$12.9) million	(52.5)	60.4
<b>Items that may be reclassified subsequently to statement of income:</b>		
Exchange differences on translating foreign operations, net of taxes of \$nil	20.2	(234.0)
Other comprehensive loss for the year, net of tax	<u>(100.7)</u>	<u>(177.6)</u>
Total comprehensive income for the year	<u>2,309.4</u>	<u>1,988.3</u>
Attributable to:		
Shareholder of the Group	2,307.1	1,986.3
Non-controlling interest	<u>2.3</u>	<u>2.0</u>
	<u>2,309.4</u>	<u>1,988.3</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS OF 31 DECEMBER 2019**  
(In millions of U.S. dollars)

	Notes	2019	2018
<b>ASSETS</b>			
Non-current assets:			
Intangible assets	9	506.5	469.9
Property, plant and equipment	10	3,788.1	3,515.1
Investment property	11	132.0	132.4
Right-of-use assets	12	1,689.8	-
Investments in associates and joint ventures	13	213.8	28.0
Deferred income tax assets	14	554.4	466.5
Other assets	15	425.3	517.7
<b>Total non-current assets</b>		<b>7,309.9</b>	<b>5,129.6</b>
Current assets:			
Inventories	16	1,456.8	1,372.7
Trade receivables and other assets	15	1,754.6	1,621.8
Income taxes receivable	14	60.1	41.8
Cash and cash equivalents	17	2,850.8	2,478.0
Assets classified as held for sale	18	57.4	-
<b>Total current assets</b>		<b>6,179.7</b>	<b>5,514.3</b>
<b>TOTAL ASSETS</b>		<b>13,489.6</b>	<b>10,643.9</b>
<b>SHAREHOLDER'S EQUITY AND LIABILITIES</b>			
<b>SHAREHOLDER'S EQUITY</b>			
Share capital	25	-	-
Share premium	24	-	963.4
Reserves		(75.4)	(30.8)
Retained earnings		5,582.0	3,988.8
Non-controlling interest		17.7	12.3
<b>TOTAL SHAREHOLDER'S EQUITY</b>		<b>5,524.3</b>	<b>4,933.7</b>
<b>LIABILITIES</b>			
Non-current liabilities:			
Borrowings	19	2,114.6	2,174.2
Lease liabilities	12	1,510.1	-
Retirement benefit obligations	20	340.7	281.1
Provisions	21	119.4	104.4
Deferred income tax liabilities	14	92.3	92.5
Other liabilities	22	294.4	323.6
<b>Total non-current liabilities</b>		<b>4,471.5</b>	<b>2,975.8</b>
Current liabilities:			
Trade payables and other liabilities	22	2,646.8	2,340.3
Income tax liabilities	14	302.6	173.2
Borrowings	19	89.8	64.1
Lease liabilities	12	306.9	-
Provisions	21	147.7	156.8
<b>Total current liabilities</b>		<b>3,493.8</b>	<b>2,734.4</b>
<b>TOTAL LIABILITIES</b>		<b>7,965.3</b>	<b>5,710.2</b>
<b>TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES</b>		<b>13,489.6</b>	<b>10,643.9</b>

The consolidated financial statements of Chanel Limited (registered number 00203669) on pages 25 to 81 were approved by the board of directors and authorised for issue on 28 May 2020. They were signed on its behalf by:



P.B. Blondiaux  
Director

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2019  
(In millions of U.S. dollars)**

		Attributable to the Shareholder of the Group							
Notes	Share capital	Share premium	Foreign currency translation reserve	Equity investment revaluation reserve	Merger reserve	Other reserves	Retained earnings	Non-controlling interest	Total shareholder's equity
	-	963.4	290.4	0.1	(104.7)	-	2,672.1	4.3	3,825.6
	-	-	-	-	-	-	2,163.1	2.8	2,165.9
	-	-	(233.2)	60.4	-	-	(4.0)	(0.8)	(177.6)
	-	-	(233.2)	60.4	-	-	2,159.1	2.0	1,988.3
27	-	-	-	-	(43.8)	-	-	-	(43.8)
	-	-	-	-	-	-	-	6.7	6.7
24	-	-	-	-	-	-	(842.4)	(0.7)	(843.1)
	-	963.4	57.2	60.5	(148.5)	-	3,988.8	-12.3	4,933.7
	-	-	-	-	-	-	2,407.3	2.8	2,410.1
	-	-	20.7	(52.5)	-	-	(68.4)	(0.5)	(100.7)
	-	-	20.7	(52.5)	-	-	2,338.9	2.3	2,309.4
24	-	(963.4)	-	-	-	963.4	-	-	-
	-	-	-	-	-	(12.8)	-	4.0	(8.8)
24	-	-	-	-	-	(963.4)	(745.7)	(0.9)	(1,710.0)
	-	-	77.9	8.0	(148.5)	(12.8)	5,582.0	17.7	5,524.3

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**  
(In millions of U.S. dollars)

	Notes	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Operating profit	4	3,495.7	2,998.1
Adjustments to reconcile operating profit to net cash provided by operating activities:			
Depreciation and amortisation of fixed assets and intangibles		375.5	389.9
Depreciation on right-of-use assets		333.8	-
Impairment of property, plant, and equipment and intangibles		29.0	4.7
Loss on disposal of property, plant, and equipment and intangibles		1.2	4.7
Non-cash tax credits		(38.6)	(42.6)
Settlement of derivatives		(6.5)	0.2
Net defined benefit pension plan contribution		(48.1)	(58.5)
Other		(7.3)	(11.0)
Cash flows from operations before changes in working capital		4,134.7	3,285.5
Changes in working capital	26	58.1	(219.5)
Cash flows from operations		4,192.8	3,066.0
Interest received		40.9	20.0
Interest paid on financial borrowings		(99.8)	(86.0)
Interest paid on lease liabilities		(52.2)	-
Income taxes paid		(768.5)	(779.8)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		<b>3,313.2</b>	<b>2,220.2</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchases of property, plant, and equipment		(653.3)	(909.4)
Additions to investment property		(1.0)	-
Purchase of intangibles		(116.7)	(98.0)
Acquisitions, net of cash acquired	28	(19.0)	(122.8)
Purchase of associates		(145.4)	(20.5)
Purchase of financial assets		(33.5)	(90.8)
Related parties	27	-	(43.8)
Purchase of non-controlling interests		(11.2)	-
Other		(0.4)	2.7
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(980.5)</b>	<b>(1,282.6)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from borrowings		58.8	414.5
Repayment of borrowings		(74.7)	(126.6)
Repayment of lease liabilities		(298.4)	-
Related parties	27	-	(17.5)
Dividends paid	24	(1,684.5)	(843.1)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>		<b>(1,998.8)</b>	<b>(572.7)</b>
<b>EFFECT OF EXCHANGE ON CASH AND CASH EQUIVALENTS AND TRANSLATION ADJUSTMENTS</b>		<b>38.9</b>	<b>(113.7)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>372.8</b>	<b>251.2</b>
<b>CASH AND CASH EQUIVALENTS, Beginning of year</b>		<b>2,478.0</b>	<b>2,226.8</b>
<b>CASH AND CASH EQUIVALENTS, End of year</b>	17	<b>2,850.8</b>	<b>2,478.0</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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**1. GENERAL INFORMATION**

Chanel Limited is a company incorporated and registered in England and Wales under the Companies Act 2006. The address of the registered office is 5 Barlow Place, London, W1J 6DG. Chanel Limited is a private company limited by shares. The nature of the operations and principal activities of Chanel Limited and subsidiaries are set out in the strategic report on pages 3 to 11.

**2. SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

**2.1 Basis of preparation**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and IFRS and those parts of the Companies Act 2006 applicable to those companies reporting under IFRS. IFRS also includes International Accounting Standards ("IAS") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), including those previously issued by the Standing Interpretations Committee ("SIC"). These consolidated financial statements have been prepared on a going concern basis (as set out in the directors' report) and on a historical cost basis, except for the financial assets and liabilities (including derivative instruments) measured at fair value.

The consolidated financial statements are presented in millions of U.S. dollars, except where specifically indicated otherwise. The presentation currency is different than the currency of the primary economic environment in which the Group operates, which is Sterling, since its parent company's functional currency is the U.S. dollar. Foreign operations are included in accordance with the policies set out throughout Note 2. The company only financial statements are presented in Sterling.

**2.2 Accounting framework**

The following applicable standards have been adopted in the current year.

**I. IFRS 16 Leases**

IFRS 16 Leases ("IFRS 16") is effective as of 1 January 2019 and replaces the requirements of IAS 17 Leases. IFRS 16 introduces a single lease model for lessees and eliminates the classification of leases as either operating leases or finance leases. The Group applied IFRS 16 as of 1 January 2019 using the modified retrospective approach and, therefore, no adjustments have been made to opening equity balances and comparative information has not been restated and continues to be reported under IAS 17.

In applying this approach for leases previously classified as operating leases under IAS 17, a liability is recognised at the transition date for an amount equal to the present value of the remaining lease payments, discounted using the incremental borrowing rate ("IBR") as appropriate for each lease based on factors such as the lessee legal entity credit risk and the remaining lease term. A corresponding asset representing the Group's right as a lessee to use the leased item has been recognised, adjusted by prepaid or accrued lease payments. The costs of such leases have been recognised in the consolidated income statement split between depreciation of the right-of-use-asset and an interest cost on the lease liability. This is similar to the accounting for finance leases under IAS 17, but substantively different to the accounting for operating leases, under which no right-of-use-asset or lease liability was recognised, and rentals payable were expensed to the consolidated income statement on a straight-line basis.

The Group used the following practical expedients in its transition to IFRS 16:

- Applied IFRS 16 only to contracts that were previously identified as leases under IAS 17. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019;
- Adjusted right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review;
- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months remaining in its lease term as of 1 January 2019;
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Leases that were already classified as finance leases under IAS 17 were not impacted by the transition to IFRS 16. The carrying amount of the asset recognised for such leases has been reclassified to the right-of-use-asset category under IFRS 16.

### Impact of Adoption of IFRS 16

#### Consolidated statement of financial position

On transition to IFRS 16 as of 1 January 2019, the Group recognised an additional \$1,623.5 million of right-of-use assets and lease liabilities of \$1,663.5 million, which was comprised of \$1,660.3 million of newly recognised operating leases and \$3.2 million of finance lease liabilities previously included in borrowings. Included in the right-of-use assets is \$2.9 million related to finance leases that were previously reported in property, plant and equipment under IAS 17. In its measurement of lease liabilities, the Group discounted lease payments using the IBR as appropriate for each lease based on factors such as the lessee legal entity credit risk and the remaining lease term at 1 January 2019. The weighted average IBR applied to the lease liabilities on 1 January 2019 was 3.62%.

#### Consolidated income statement

Under IFRS 16, the pattern of expense is different in that operating lease expenses under IAS 17 are replaced by depreciation and interest costs. The impact of applying IFRS 16 was a \$33.3 million improvement to operating profit and a \$29.0 million deterioration to profit before tax.

#### Consolidated cash flow statement

The change in the presentation of the cash flows results in improvement in 2019 of cash flow generated from operating activities, offset by a corresponding decline in cash flow from financing activities. There is no overall cash flow impact from the adoption of IFRS 16.

#### Reconciliation between the Group's operating lease commitments and lease liability

The following table reconciles the Group's operating lease commitments as a lessee at 31 December 2018, as previously disclosed in the consolidated financial statements, to the lease liability recognised on initial application of IFRS 16 at 1 January 2019:

	<u>\$ millions</u>
Operating lease commitments disclosed at 31 December 2018	1,826.3
Finance lease liabilities recognised at 31 December 2018	3.2
Effect of discounting on payments included in the calculation of the lease liability	(113.3)
Extension and termination option adjustments	39.6
Short-term leases not recognised as a liability	(30.7)
Low-value leases not recognised as a liability	(3.0)
Other reconciling items	<u>(58.6)</u>
<b>Lease liability as at 1 January 2019</b>	<b><u>1,663.5</u></b>



IFRS 16 retains the lessor accounting requirements of IAS 17.

The Group has implemented a dedicated IT solution to gather lease data and run the calculations required by the standard.

## **II. IFRIC 23 Uncertainty Over Income Taxes**

IFRIC 23 *Uncertainties Over Income Taxes* ("IFRIC 23") clarifies how to apply the recognition and measurement requirements in IAS 12 *Income Taxes* ("IAS 12") when there is uncertainty over income tax treatments. In such circumstances, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation. IFRIC 23 did not have a significant impact on the Group's or Company's financial statements.

## **III. IFRS 3 Business Combinations**

In October 2018, the International Accounting Standards Board (IASB) issued amendments to the definition of a business in IFRS 3 *Business Combinations*. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

IFRS 3 continues to adopt a market participant's perspective to determine whether an acquired set of activities and assets is a business. The amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. The amendments are effective for annual reporting periods beginning on or after 1 January 2020, with early adoption permitted. The Group has early adopted the amendments to IFRS 3 in the 2019 consolidated financial statements.

### **2.3 Basis of consolidation**

These consolidated financial statements include the financial statements of the Group together with the Group's share of the results and retained post-acquisition reserves of associates.

#### ***Subsidiaries***

Subsidiaries included in the consolidation are all entities over which the Group exercises control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The concept of control generally implies owning more than half of the voting rights of an entity, although that is not a requirement to demonstrate power over an entity. The existence and effect of potential voting rights that are exercisable or convertible are taken into account in the assessment of control.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those of the Group.

All intercompany transactions, balances, income, and expenses are eliminated in full upon consolidation.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the assets or liabilities of the subsidiary.

Gains and losses that result from transactions by the Group with entities under common control for the sale of assets, that are at fair market value for cash consideration, are recognised in the statement of income. If the

assets cannot be measured reliably at fair market value, any gain or loss is recognised as an adjustment to a separate reserve within shareholder's equity.

#### ***Investments in associates and joint ventures***

Associates and joint ventures are all entities in which the Group exercises a significant influence over the entity's management and financial policy without exercising control. Significant influence generally implies holding 20% to 50% of the voting rights. Significant influence may still exist in the absence of at least 20% of the voting rights if it can be clearly demonstrated.

Associates and joint ventures are recognised using the equity method and initially measured at cost. Subsequently, the share in profits or losses of the associate or joint venture attributable to equity holders of the parent is recognised in profit or loss and the change in equity attributable to equity holders of the parent is recognised in equity. If the Group's share in the losses of an associate or joint venture equals or exceeds its investment in the associate or joint venture, the Group no longer recognises its share of losses, unless it has legal or constructive obligations to make payments on behalf of the associate or joint venture.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies and methods of associates are modified where necessary to ensure consistency of accounting treatment at the consolidated level.

#### **2.4 Going concern**

The directors have considered the use of the going concern basis in the preparation of the financial statements in light of the uncertainty around the impact on the Group, resulting from the Covid-19 pandemic. In their assessment, the directors have considered: the financial and cash position of the Group; forecast compliance with loan covenants; the extent of operational disruptions; and the forecast cash requirements and cash generation of the Group for the foreseeable future and at least twelve months from the date of these financial statements, which is June 2021.

#### **Financial position**

As of 31 December 2019, the Group had net assets of \$5,524.3 million and reported net cash of \$282.2 million. Liquidity as of that date was \$3,244.5 million, made up of cash and cash equivalents of \$2,850.8 million and undrawn uncommitted credit facilities of \$243.7 million. The Group operates a global cash pooling arrangement whereby positive bank account balances are offset against the overdraft positions of participating subsidiaries and entities under common control, details of which are disclosed in Note 17. The Group's financing arrangements consisted of borrowings totalling \$2,568.6 million, of which \$89.8 million is current. The borrowing arrangements are comprised of: issued Senior Notes under a Private Placement (\$1,273.0 million); a promissory note (\$60.0 million); bank debt (\$777.5 million); other debt (\$93.9 million); and net loans from related parties (\$364.2 million), some of which are subject to certain covenants.

Despite having a strong cash position at the end of 2019 of \$2,850.8 million, due to the extreme uncertainty surrounding the impact of Covid-19 and to further strengthen our liquidity position, the directors took action in March and April of 2020 to secure additional borrowings in the form of commercial paper and revolving credit facilities for a total of \$1,874.7 million, as disclosed in Note 31. These borrowings will also serve to support the Group's working capital requirements, especially in markets that have experienced longer periods of lock down.

#### **Downward scenario analysis**

The uncertainty around the magnitude and longevity of the impact that Covid-19 will have on our business means it is not possible to forecast accurately the Group's profitability in the year ahead. However, with the impact of store closures towards the end of the first quarter of 2020 and continuing into the second quarter, we have analysed various outcomes for the current year and through to June 2021, taking into account the many disruptions to the business and stress tested them accordingly.

The approach to these downside scenarios begins with a Base Case scenario, which is reflective of the Group's latest forecast which serves as the benchmark for alternate series of downside scenarios that assume declines in revenues ranging between 10% and 30% and consequent reductions in operational costs and capital

expenditures at varying levels. These scenarios also reflect the impact on cash flows and revised assumptions in the overall management of cash and capital investments, including the cessation of any dividend payment in 2020, within the Group for the going concern period. These scenarios have been stress tested to understand the circumstances that would have to arise in order to breach debt covenants at the Group level, which is discussed in more detail below. Focus has been placed on stress testing using debt covenants as the limiting factor as the headroom over cash availability is significantly higher.

The directors have assessed these downward scenarios and taken mitigating actions to reduce costs and optimise cash flows. Careful consideration is being taken to postpone certain projects, defer discretionary spend and pausing non-essential recruitment. The directors will continue to evaluate these scenarios as the situation with this serious health crisis evolves, in order to make key decisions on costs, investments, capital and liquidity.

#### Debt covenant analysis

The debt covenants that relate to the revolving credit facilities of \$843.7 million (€767.0 million) with Chanel Limited and \$275.0 million (€250.0 million) with Chanel SAS, a subsidiary of Chanel Limited obtained in 2020, include a leverage test that is based on consolidated net debt to adjusted consolidated EBITDA (for Chanel SAS, the covenant is based on sub-consolidated net debt to adjusted sub-consolidated EBITDA) as defined in the agreements, which must not exceed 3.00. The covenants are initially measured at the year ending 31 December 2020 and every six month interval after that, if the facility is drawn down by more than 40% at any point during the six-month period ending on the test date.

Based on the most recent cash flow forecasts, the Group does not expect to draw down on these facilities in excess of 40% so no financial covenants will require measurement. However, to be prudent, the Group has forecasted the covenants based on the downside scenarios explained above to determine the maximum level of borrowings from the facility that would be permissible in order to remain compliant with the covenants. In the most extreme unlikely scenario, which reflects a decline in revenues of 30% against the Base Case, the Group would still remain in compliance with the covenant within the going concern period.

The issued Senior Notes under the Private Placement borrowings of \$1,273.0 million are classified as non-current as of 31 December 2019 with the first payment due in 2024. The most critical covenant is the indebtedness ratio, which is defined as consolidated debt to consolidated EBITDA and is measured semi-annually against two sub-consolidations in the Group. This ratio must be less than 3.5 to remain compliant. As the borrowings are long-term in nature, they will remain unchanged through June 2021, however, the indebtedness ratio will be impacted by the decrease in consolidated EBITDA for the respective sub-consolidations. Based on the latest forecast of the respective sub-consolidations, we remain compliant to cover the 3.5 ratio and the directors will monitor the covenants closely in partnership with the investors.

The majority of the remaining external borrowings totalling \$931.4 million are secured by the properties used for the Group's own occupation. There are either no loan covenants associated with these borrowings or the covenants are solely based on the properties themselves and their rent or rentable income. Based on the projections in each market, there are no expected covenant breaches with respect to these borrowings for the foreseeable future.

#### Receivable recoverability

Finally, an analysis of the Group's aged and uninsured trade receivables has also been assessed for recoverability. Trade receivables decreased significantly by the end of April 2020 compared to the 2019 year-end, in line with the Group's seasonal flows. Based on this analysis, there are no significant concerns with respect to recoverability in any markets. Whilst there is some risk in the duty free markets globally and department stores in certain markets, the Group is working closely with its customers to support their businesses through this time and to maintain recoverability of its receivables.

As disclosed in the directors' report and based on the analysis performed, the directors have concluded that the Group has sufficient resources to continue operations for the foreseeable future with no material uncertainties noted and will continue to adopt the going concern basis in preparing the 2019 consolidated financial statements.

## 2.5 Business combinations

The Group applies IFRS 3 (2008), *Business Combinations* and IAS 27 (2008), *Consolidated and Separate Financial Statements*. The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. At the acquisition date, the Group recognises, separately from goodwill, the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquired entity. The consideration transferred in a business combination is measured at fair value. This fair value is calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquired entity and the equity interests issued by the acquirer. The cost of an acquisition is the total fair value of the consideration given. All direct incremental costs incurred in connection with the acquisition are excluded from the cost of the acquisition and are expensed as incurred. Goodwill is measured at the acquisition date as the excess of the aggregate of the fair value of the consideration transferred and the amount of any non-controlling interest recognised, over the assets and liabilities recognised.

The Group considers the optional concentration test included in the amendments to IFRS 3. The purpose of this test is to permit a simplified assessment of whether an acquired set of activities and assets is not a business can be applied on a transaction-by-transaction basis. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If the test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

Business combinations that involve entities under common control are excluded from the scope of IFRS 3. For such transactions, the Group's policy is to use merger accounting, which incorporates the acquired entity's results as if both entities had always been combined (or from the date of common control, if later). Consequently, the consolidated financial statements reflect both entities' full year results, even though the business combination may have occurred part of the way through the year. In addition, the corresponding amounts for the previous year reflect the combined results of both entities, even though the transaction did not occur until the subsequent year. Under merger accounting, the acquirer does not restate any assets or liabilities to their fair values and no new goodwill is recorded. Instead, the acquirer incorporates the assets and liabilities at their pre-combination carrying amounts. Any difference between the cost of the investment and the carrying value of the net assets is recorded in a merger reserve.

Throughout 2018, Chanel Limited directly and indirectly acquired subsidiaries, as denoted in Note T, from entities under common control for a total of \$43.8 million. The net assets of the acquired entities totalled \$61.9 million at 1 January 2018 and, the details of the impact to equity are shown separately in the consolidated statement of changes in shareholder's equity.

## 2.6 Use of estimates

### ***Critical accounting judgements and key sources of estimation uncertainty***

In the application of the Group's accounting policies, which are described in Note 2, the directors are required to make judgements (other than those involving estimations) that may have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### ***Critical judgements in applying the Group's accounting policies***

The preparation of financial statements in conformity with IFRS requires the directors to exercise their judgement, apart from those involving estimations (which are dealt with separately below), in the process of applying the Group's accounting policies. These judgements do not have a significant effect on the amounts recognised in the financial statements.

### **Key source of estimation uncertainty**

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have the most significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

- **Impairment of goodwill** – Goodwill arising from the acquisition of a business is the only intangible asset with an indefinite useful life and is tested for impairment annually. For purposes of impairment testing, the recoverable amount of goodwill is determined based on the value in use of the cash generating unit (“CGU”) to which the goodwill is allocated. Value in use is based on projected estimated future cash flows, prepared based on budgets and medium-term plan with a five year period. Key assumptions used to determine value in use represent management’s assessment of future trends and were based on a discounted cash flow approach. The recoverable amount is sensitive to the discount rate used for the discounted cash flow (“DCF”) model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount, including a sensitivity analysis, are disclosed and further explained in Note 9.
- **Defined benefit plans** - The cost of the defined benefit pension plan and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Refer to Note 20 for further details on pension obligations.
- **Uncertain tax positions** – The calculation of the Group’s tax liabilities involves uncertainties in the application of complex tax laws. Our estimate for the potential outcome of any uncertain tax position is judgmental. However, we believe that we have adequately provided for uncertain tax positions. Settlement of these uncertainties in a manner inconsistent with our expectations could have a material impact on our results of operations, financial position and cash flows. The Group recognises a liability for uncertain tax positions when it is probable that an outflow of economic resources will occur. Measurement of the liability for uncertain tax positions is based on management’s best estimate of the amount of tax expense that will be realised upon settlement. We have not performed a sensitivity analysis on uncertain tax positions as it is not practical to do so. Refer to Note 14 for further details.
- **Inventory provisions** – The Group manufactures and sells luxury goods and is subject to changing consumer demands and industry trends. As a result, it is necessary to consider the recoverability of the cost of inventories and the associated provisioning required. When calculating inventory provisions, management considers each category of inventory, if the products concerned are damaged or obsolete due to seasonality or collection termination. An impairment is booked to reduce inventories to net realisable value if this is lower than the carrying value. Refer to Note 16 for further details of the carrying value of inventory.

## **2.7 Foreign currency translation and transactions**

The results and financial statements of consolidated entities with a functional currency that differs from the presentation currency are translated into U.S. dollars as follows:

- statement of financial position items, other than equity, are translated at the year-end exchange rate;
- equity is translated at historical exchange rates;
- statement of income and statement of cash flow items are translated at the average rate for the year; and
- differences are recognised in other comprehensive income (“OCI”) under foreign currency translation reserve.

Changes in the carrying amount relating to translation are recognised in other comprehensive income. Gains or losses resulting from foreign currency transactions are included in profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the rate on the date of closing of the acquisition.

Foreign exchange gains or losses arising on the translation of a net investment in a foreign subsidiary are recognised in the consolidated financial statements in other comprehensive income. When a foreign operation is sold, such exchange differences are reclassified from other comprehensive income and recognised in the consolidated statement of income.

At the individual entity level, foreign currency transactions are translated into the entity's functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in currencies other than functional currencies at year-end exchange rates are recognised in the consolidated statement of income.

## **2.8 Revenue recognition**

### ***Sale of goods***

Revenue mainly comprises direct sales to customers and the sale of goods to third parties for resale. The Group recognises revenue when it transfers control over a product to a customer, excluding taxes, net of discounts and after elimination of intercompany sales.

Direct sales to customers are mainly made through retail stores for fashion goods, certain fragrance and beauty products, and certain watches and fine jewellery items. These sales are recognised at the time of purchase by the retail customers. Sales made in stores owned by third parties are treated as retail transactions if control of the inventories is retained by the Group.

Wholesale sales to third parties are recognised when control of the products has transferred to the customer. In the Americas region, revenue is generally recognised upon shipment to the customer, whereas in the Europe and Asia Pacific regions, revenue is generally recognised upon the customer's receipt.

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). The contract liability for customer deposits is reported in Trade payables and other liabilities (Note 22). Revenue from customer deposits is recognised when the Group performs under the contract.

### ***Product returns and other variable consideration***

For direct sales to customers, when the customer has a right to return the product within a given period, the Group is obliged to refund the purchase price. Following the sale of goods to its wholesale customers, and depending on any contractual clauses attached to these sales, the Group may accept the return of unsold or outdated products.

A refund liability for the expected refunds to customers is recognised as an adjustment to revenue and included in Provisions. At the same time, the Group has a right to recover the goods from the customer where the customer exercises their right of return, and therefore recognises an asset, which is included in Trade receivables and other current assets, and a corresponding adjustment to Cost of sales. The asset is reported net of potential decreases in the value of the returned product. Accumulated experience is used to estimate such returns at the time of sale at a portfolio level (expected value method). Because the number of products returned has been steady for a number of years, it is highly probable that a significant reversal in the cumulative revenue recognised will not occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

The Group considers other forms of variable consideration in measuring revenue, such as volume rebates, incentives and performance bonuses, based on estimates of the variable consideration using the most likely amount method and includes the liability in Trade payables and other liabilities.

The Group also enters into certain cooperative arrangements with customers and makes payments related to advertising, demonstration and promotion, for which the Group does not receive a distinct good or service or for which the fair value of the good or service cannot be reasonably estimated. For these types of arrangements, the reduction of revenue is recorded at the later of when (i) the Group recognises revenue for the transfer of the related goods or services to the customer, or (ii) the Group pays or promises to pay the consideration. To the extent the Group receives a distinct good or service in exchange for consideration and the fair value of the benefit can be reasonably estimated, the Group's consideration payable to the customer is reported in Advertising, promotion and demonstration.

#### ***Licensing income***

Licensing income is recognised over time in accordance with the substance of the relevant agreements and presented in revenue in the consolidated statement of income.

### **2.9 Income tax**

The Group computes taxes in accordance with prevailing tax legislation in the countries where income is taxable. Taxes on income are provided in the same period as the revenue and expenses to which they relate. The income tax charge for the period comprises both the current and deferred tax charge (Note 14).

Deferred income tax is provided using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. No deferred taxes are recognised for temporary differences arising from goodwill for which impairment losses are not deductible for tax purposes or from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss. The measurement of deferred tax amounts depends on the way in which the Group intends to recover or settle the carrying amount of assets and liabilities and is determined using tax rates (and laws) that have been enacted, or substantially enacted, by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets and liabilities are not discounted and are classified in the consolidated statement of financial position under non-current assets and liabilities.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences and the carry-forward of unused tax losses, and of unused tax credits, can be utilised. The Group reviews its deferred tax balances at each statement of financial position date to take into account factors such as the impact of changes in tax laws and the prospects of recovering deferred tax assets from deductible temporary differences and from the carry-forward of unused tax losses and of unused tax credits.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, joint ventures, and associates, except where the Group controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Net balances of deferred tax are calculated based on the tax position of each subsidiary or on the total positions of subsidiaries included within the same consolidated tax group, and are presented in assets or liabilities for the net amount per tax entity.

### **2.10 Property, plant and equipment**

Property, plant, and, equipment is recognised at cost less accumulated depreciation and impairment. The various components of property, plant and equipment are recognised separately based on their estimated useful lives and, therefore, their depreciation periods are significantly different. The cost of an asset includes the expenses that are directly attributable to its acquisition.

Vineyards include the vines associated with the Group's wine businesses. Vines are considered bearer plants and are included within the scope of IAS 16, *Property, Plant, & Equipment* ("IAS 16"). The Group accounts for vines at their historical cost, which is consistent with all other items of property, plant, and equipment. The harvested grapes from the vines are included in inventory, as described in Note 2.15.

Property, plant and equipment is depreciated on a straight-line basis, commencing when the asset is available for use, over the shorter of the expected useful life of the asset or its lease term, if applicable:

- Land improvements up to 45 years
- Buildings up to 45 years
- Machinery, furniture, and equipment up to 10 years
- Leasehold improvements up to 10 years
- Vineyards up to 35 years

Land and assets under construction are not depreciated.

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, annually with the effects of any change in estimate being accounted for on a prospective basis.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the consolidated statement of income. Borrowing costs directly incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed as incurred.

### **2.11 Investment property**

Investment properties are properties held to earn rentals or for capital appreciation, including properties under construction for such purposes and mixed used properties. Properties held under operating leases that are used to earn rentals are not classified as investment property.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, the Group has elected to measure investment property at cost, less accumulated depreciation and accumulated impairment losses applying the same accounting policies as for property, plant and equipment (Note 2.10).

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property is calculated as the difference between the net disposal proceeds and the carrying amount of the asset and is included in the consolidated statement of income in the period in which the property is derecognised.

Transfers are made to (or from) investment property only when there is a change in use.

### **2.12 Leases**

***Policy applicable at 1 January 2019 in accordance with IFRS 16***

#### **The Group as lessee**

The Group assesses whether a contract is or contains a lease at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less), leases of low value assets (less than \$5,000), and for variable payments which are not dependent on an index or a rate. For the short-term and low value leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in



which economic benefits from the leased assets are consumed. Variable payment leases are recognised based on actual payments.

***Lease liability***

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the rate implicit in the lease. If this rate cannot be readily determined, which is generally the case for leases in the Group, the lease payments are discounted using the IBR as appropriate for each lease based on factors such as the lessee legal entity credit risk and the lease term.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- amounts expected to be payable under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options;
- payments in an optional renewal period for which the Group is reasonably certain to exercise a renewal option; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate; or
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in the income statement if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is presented as a separate line in the consolidated statement of financial position.

***Right-of-use assets***

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of the lease.

The Group applies IAS 36 Impairment of Assets to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the property, plant and equipment policy.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

### **The Group as lessor**

The Group determines at lease inception whether the lease is a finance or operating lease. If the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset, then the lease is a finance lease. If not, then the lease is an operating lease.

When the Group is an intermediate lessor, it accounts for its interest in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease.

### ***Policy applicable before 1 January 2019***

#### ***Operating leases***

Payments made under operating leases (net of any incentives received) were charged against profit or loss on a straight-line basis over the lease term. Contingent rentals, including percentage rent based on sales, were recognised as an expense in the period in which they are incurred.

Rental income from operating leases was recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease were added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

#### ***Finance leases***

At commencement of the lease term, assets and liabilities were recognised at the lower of the present value of the future minimum lease payments or fair value of the leased item. All property, plant, and equipment recognised was depreciated or amortised over the shorter of the expected useful life of the asset or its lease term. Each lease payment was allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, were included in non-current borrowings. The interest element of the finance cost was charged to the consolidated statement of income in finance costs, net over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

### **2.13 Cash and cash equivalents**

Cash and cash equivalents consists of cash on hand and demand deposits as well as other short-term highly liquid investments with original maturities of three months or less that are subject to an insignificant risk of change in value. Bank overdrafts are shown within borrowings in current liabilities in the consolidated statement of financial position (Note 17).

### **2.14 Provisions**

Provisions for asset retirement obligations, litigation, restructuring costs, product return and other product-related obligations, and other contingencies and losses are recognised when the Group has a present legal or constructive obligation resulting from past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount of the obligation can be reliably estimated (Note 21).

#### **Restructuring provision and costs**

A restructuring provision is recognised when a formal and detailed restructuring plan exists and the plan has begun to be implemented, or its main features have been announced before the statement of financial position date. Restructuring costs for which a provision is made essentially represent employee costs (severance pay, early retirement plans, retention bonuses, etc.), and the recognition of onerous components of contractual obligations with third parties.

## 2.15 Inventories

Inventories are recorded at the lower of cost and net realisable value. Net realisable value is the estimated sales price in the normal course of business, net of costs to be incurred to complete the sale (Note 16). Inventories are valued using the weighted average cost or first-in-first-out (FIFO) basis, depending on the type of business.

Grapes used to produce wine by the Group are considered agricultural produce as defined in IAS 41, *Agriculture* ("IAS 41"). The fair value of these assets cannot be measured reliably due to the lack of an active market for such unique assets and the volatility of wine prices which vary with global demand and the quality of each season's crop. Therefore, the Group accounts for these assets at their historical cost. Subsequent to their initial recognition, the Group accounts for grapes at the lower of cost and net realisable value. Due to the length of the aging process required for wine, the holding period for these inventories generally exceeds one year. However, in accordance with industry practices, these inventories are nevertheless classified as current assets.

Write-downs of inventories are primarily recognised based on expected turnover, if inventory items are damaged, or if they have become wholly or partially obsolete.

## 2.16 Advertising and promotion expenses

Advertising and promotion expenses include the costs of creating advertising media, purchasing media space, manufacturing samples, and producing marketing materials, and in general, the cost of all activities designed to promote the Group's products. Advertising and promotion expenses are recognised as expenses are incurred.

## 2.17 Goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised (Note 9). Goodwill is not amortised but it is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of a subsidiary include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to CGUs for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which goodwill arose. The CGUs represent the Group's smallest identifiable groups of assets that generates cash inflows that are largely independent of the cash inflows from other cash inflows from other assets or groups of assets.

## 2.18 Other intangible assets

Intangible assets acquired as part of a business combination, which are controlled by the Group and can be measured reliably, and which are separate or arise from contractual or other legal rights, are recognised separately from goodwill. Intangible assets with finite lives are amortised over their estimated useful lives. If it is determined that their recoverable amounts are less than their net carrying amount, they are written down to their recoverable amounts (Note 9).

### ***Capitalised software and related licenses***

Costs that are directly associated with developing, purchasing, implementing, or improving identifiable software having expected benefits beyond one year are recognised as intangible assets and are amortised using the straight-line method over their estimated useful lives, typically up to five years. Licenses are amortised over their contractual lives, if longer than one year. Costs associated with evaluating or maintaining computer software are expensed as incurred. Website costs are capitalised as intangible assets only if certain criteria are met, most importantly the ability of the website to generate probable future economic benefits. Once the Group determines that an internally generated website meets the necessary criteria, specific costs related to the website's development phase are capitalised as other intangible assets. Website costs are amortised over a maximum useful life of three years.

### ***Leasehold rights***

Leasehold rights are defined as payments made by the Group to a landlord or existing tenant to obtain the rights of tenancy. They are considered to have an indefinite useful life and, therefore, are not amortised. An impairment test is performed annually.

### **2.19 Impairment of assets**

Finite-lived intangible assets, tangible fixed assets and right-of-use assets are subject to impairment testing whenever there is any indication that an asset may be impaired, and at least annually in the case of goodwill and indefinite-lived intangible assets. Impairment tests seek to determine whether the recoverable amount of an asset, a CGU or a group of CGUs is less than its net carrying amount. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows, which is typically a boutique. When the carrying amount of such assets is greater than the recoverable amount, which is the higher of their value in use or fair value less cost of disposal, the resulting impairment loss is recognised within the consolidated statement of income.

Impairment losses recognised other than goodwill may be reversed at a later date up to the amount of the losses initially recognised, when the recoverable amount becomes greater than the net carrying amount. Impairment losses pertaining to goodwill may not be reversed.

### **2.20 Research and development expenditure**

Research and development ("R&D") costs are expensed as incurred, unless the criteria for capitalisation has been met, in accordance with International Accounting Standard 38. The Group did not meet the capitalisation criteria and accordingly did not capitalise any of these costs in 2019 or 2018. The Group did not have any amounts related to prior years capitalised in its consolidated statement of financial position as of 31 December 2019 (2018: \$nil).

The Group receives refundable tax credits related to eligible R&D expenditures. These tax credits are reported in accordance with IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, as a reduction of research and development expense in the period in which the Group recognises the related costs for which the credits are intended to compensate.

### **2.21 Financial assets**

#### ***Initial recognition and measurement***

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

#### ***Subsequent measurement***

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

**Financial assets at amortised cost (debt instruments)**

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest ("EIR") method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost include trade receivables, a related party loan and other financial assets.

**Financial assets designated at fair value through OCI (equity instruments)**

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under International Accounting Standard 32 *Financial Instruments*. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group has elected to classify irrevocably its listed and non-listed equity investments. These are strategic investments and the group considers this classification to be more relevant.

**Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. All derivatives are accounted for at fair value through profit and loss.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

**Derecognition**

A financial asset is primarily derecognised when:

- The rights to receive cash flows from the asset have expired or;
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

### ***Impairment of financial assets***

The Group recognises an allowance for expected credit losses ("ECLs") for all financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The bad debt risk on the Group's trade receivables is extremely low and, therefore, there is no impact on applying this approach to the consolidated financial statements. Details of the loss allowance are included in Note 15.

### **2.22 Assets classified as held for sale**

The Group classifies non-current assets and disposal groups as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset or disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset or disposal group and its sale is highly probable. For the sale to be highly probable, management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. It is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. Events or circumstances beyond the Group's control may extend the period to complete the sale beyond one year. An extension of the period required to complete the sale does not preclude an asset or disposal group from being classified as held for sale.

The Group measures non-current assets and disposal groups classified as held for sale at the lower of their carrying amount and fair value less costs to sell (Note 18).

The Group recognises all impairment losses for any initial or subsequent write down of the asset or disposal group to fair value less costs to sell.

There is no depreciation or amortisation recognised while an asset or disposal group is classified as held for sale. The interest and other expenses attributable to the liabilities of the disposal group classified as held for sale will continue to be recognised.

### **2.23 Financial liabilities**

With the exception of derivative liabilities, which are accounted for at fair value through profit or loss, the Group recognises all financial liabilities initially at fair value and subsequently at amortised cost, using the effective interest method. Financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

### **2.24 Derivative instruments**

The Group uses derivative instruments as part of its overall strategy to manage its exposure to market risks associated with interest rates and foreign currency exchange rates. As a matter of policy, the Group does not use derivatives for trading or speculative purposes. Changes in the value of derivative financial instruments are measured at the statement of financial position date and recognised in the consolidated statement of income in finance costs, net. The Group does not apply hedge accounting.

## 2.25 Employee benefits

### *Retirement benefits*

The Group has both defined benefit and defined contribution plans (Note 20). With respect to defined contribution plans, the Group is not obliged to make additional payments beyond contributions already made. Contributions to these plans are expensed as incurred as part of profit from recurring operations in the consolidated statement of income.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive post-employment, dependent on one or more factors such as age, years of service, and compensation. These plans and the termination benefits are valued by independent actuaries. The valuation takes into account the level of future compensation, service period, life expectancy, and staff turnover. Actuarial gains and losses are primarily due to changes in demographic and financial assumptions and the difference between estimated results based on actuarial assumptions and actual results. All actuarial differences with respect to defined benefit plans are recognised immediately in the consolidated statement of comprehensive income. Past service costs, which typically increase a retirement benefit obligation following the introduction of a new plan or change to an existing plan, are recognised immediately in the consolidated statement of income. Retirement expenses are recognised in operating profit in the consolidated statement of income. The interest cost, which represents the interest accumulated on the unpaid balance of the projected benefit obligation is recognised in finance costs, net. The interest earned on the performance of the plan assets is recognised in investment income, net.

### *Executive deferred compensation plans*

The Group has a non-qualified executive deferred compensation plan ("EDCP") that provides certain eligible employees with the opportunity to defer elements of their base compensation and bonuses. Deferred amounts are further increased or decreased based on the results of investment choices selected by the plan participants. Benefits are payable to the employees or their designated beneficiaries at specified future dates, upon retirement, or death. The EDCP and its benefits are valued by an independent actuary on an annual basis. The valuation takes into account such factors as the participants' investment selections, and years until scheduled distributions. Compensation amounts deferred by plan participants during the year, as well as changes in actuarially determined amounts, are recognised in operating profit in the consolidated statement of income. The liability associated with the Group's EDCP is recorded in other liabilities in the consolidated statement of financial position.

## 2.26 Finance costs, net

Finance costs, net is comprised of interest expense, gains and losses related to derivatives and gains and losses related to foreign exchange (Note 5).

## 2.27 Investment income, net

Investment income, net is comprised of items relating to the Group's investment activities, including those related to associates, retirement benefit assets and financial assets. These investment activities support the Group's operations, but they are not part of the Group's core operating business activities. Please refer to Note 6 for details.

## 3. REVENUE

Set out below is the disaggregation of the Group's revenue from contracts with customers. The Group disaggregates revenue by geographical region as this best depicts how the nature, timing and amount of revenue and cash flows are affected by economic factors.

	<u>2019</u>	<u>2018</u>
	\$ millions	\$ millions
<b>Type of sales</b>		
Sales of goods	12,261.8	11,109.2
License income	11.5	9.7
	<u>12,273.3</u>	<u>11,118.9</u>
<b>Geographical markets</b>		
Asia Pacific	5,425.9	4,729.9
Europe	4,534.3	4,280.4
The Americas	2,313.1	2,108.6
	<u>12,273.3</u>	<u>11,118.9</u>

#### 4. OPERATING PROFIT

	<u>2019</u>	<u>2018</u>
	\$ millions	\$ millions
Profit before tax is stated after charging / (crediting):		
Research and development expenditure	146.7	122.5
Restructuring costs expenditure	26.8	28.5
Net Impairment on fixed assets, intangibles and other assets	22.0	4.7
Onerous lease expenditure	-	14.0
Investment (gains) losses on corporate-owned life insurance	(4.8)	8.8
Loss on disposal of assets	1.2	4.7
Exceptional taxes	-	3.7
Other	(2.3)	1.8
	<u>42.9</u>	<u>66.2</u>

#### 5. FINANCE COSTS, NET

Finance costs, net consisted of the following components:

	<u>2019</u>	<u>2018</u>
	\$ millions	\$ millions
Losses on asset linked notes	(104.7)	(11.3)
Interest expense on financial borrowings	(99.7)	(84.0)
Interest expense on lease liabilities	(62.2)	-
Derivatives (losses) gains, net	(29.9)	1.8
Foreign exchange gains (losses), net	20.3	(12.3)
	<u>(276.2)</u>	<u>(105.8)</u>



**6. INVESTMENT INCOME, NET**

Investment income, net consisted of the following components

	<u>2019</u> \$ millions	<u>2018</u> \$ millions
Interest income	44.1	21.0
Interest income on finance lease receivables	1.2	-
Other income (costs), net	9.6	(4.2)
	<u>54.9</u>	<u>16.8</u>

**7. AUDITOR'S REMUNERATION**

	<u>2019</u> \$ millions	<u>2018</u> \$ millions
Fees payable to the Group's auditor for the audit of the Group's annual financial statements	0.9	1.0
Fees payable to the Group's auditor and its associates for the audit of the Group's subsidiaries pursuant to legislation	4.6	3.8
	<u>5.5</u>	<u>4.8</u>
Fees payable to the Group's auditor and its associates for other services:		
Consulting	5.2	4.2
Taxation compliance services	1.0	0.5
Other taxation advisory services	0.2	0.3
Other services	-	0.6
	<u>6.4</u>	<u>5.6</u>

**8. INFORMATION REGARDING EMPLOYEES**

	<u>2019</u> No.	<u>2018</u> No.
<b>Average monthly number of persons employed</b>		
Sales and distribution	15,595	13,870
Administration	6,628	6,104
Production	4,281	3,816
	<u>26,504</u>	<u>23,790</u>
	<u>2019</u> \$ millions	<u>2018</u> \$ millions
<b>Staff costs during the year</b>		
Wages and salaries	1,593.9	1,412.2
Social security costs	333.0	310.0
Pensions costs	104.7	102.0
Other personnel costs	246.9	224.5
	<u>2,278.5</u>	<u>2,048.7</u>

## 9. INTANGIBLE ASSETS

	Capitalised software and related licenses \$ millions	Goodwill \$ millions	Leasehold rights and other \$ millions	Total \$ millions
<b>Cost:</b>				
Balance at 1 January 2018	219.0	119.4	169.9	508.3
Additions	91.5	79.9	42.4	213.8
Disposals	(18.7)	-	(0.4)	(19.1)
Exchange differences	(6.6)	(4.4)	(7.9)	(18.9)
Balance at 31 December 2018	285.2	194.9	204.0	684.1
Additions	115.8	23.1	1.6	140.5
Disposals	(8.4)	-	(3.1)	(11.5)
Transfers to ROU assets	-	-	(59.4)	(59.4)
Exchange differences	(1.9)	(3.8)	(2.8)	(8.5)
Balances at 31 December 2019	390.7	214.2	140.3	745.2
<b>Accumulated amortisation and impairment:</b>				
Balance at 1 January 2018	136.3	29.2	25.4	190.9
Amortisation expense	32.8	-	7.7	40.5
Disposals	(12.6)	-	-	(12.6)
Impairment losses	-	1.8	-	1.8
Exchange differences	(3.8)	(1.0)	(1.6)	(6.4)
Balance at 31 December 2018	152.7	30.0	31.5	214.2
Amortisation expense	41.6	-	3.5	45.1
Disposals	(11.5)	-	-	(11.5)
Transfers to ROU assets	-	-	(23.4)	(23.4)
Impairment losses	14.4	1.6	-	16.0
Exchange differences	(0.9)	(0.3)	(0.5)	(1.7)
Balance at 31 December 2019	196.3	31.3	11.1	238.7
Carrying amount at 31 December 2018	132.5	164.9	172.5	469.9
Carrying amount at 31 December 2019	194.4	182.9	129.2	506.5

Amortisation expense related to intangible assets was reported in cost of sales, distribution and selling, general and administrative.

### Goodwill impairment

The Group tests for impairment annually in accordance with IAS 36 "Impairment of Assets." As a result, the Group recognised impairment losses of \$1.6 million (2018: \$1.8 million), which are reported in selling, general and administrative in the consolidated statement of income.

The key assumptions contained in the value in use calculations include the future revenues, the margins achieved, the assumed life of the business and the discount rates applied. The discount rate used in the analysis was 7.1% in 2019 (2018: 8.0%). The discount rate is a post-tax rate applied to post-tax cash flows, and does not result in impairment conclusions differing from those obtained by applying pre-tax rates to pre-tax cash flows. The long-term growth rates used in the analysis were in the range of 0.0% to 3.0% (2018: 0.0% to 2.0%).

### Sensitivity analysis

A sensitivity analysis has been performed on the value in use calculations by assuming more conservative growth rates beyond the year ending 31 December 2020. With the exception of the impairment losses identified above, we noted that a reduction to the annual growth rate, within a range of 100 to 200 basis points, would not result in the recognition of any further impairment losses. The Group is cognisant of the impact of Covid-19 on the current economic conditions and the potential risk around cash flow forecasts depending on the severity of the interruption to business. However, given the uncertainty of the situation, no sensitivity analysis that is reflective of this scenario has been performed to date.

## 10. PROPERTY, PLANT AND EQUIPMENT

	Land and land improvements	Buildings and building improvements	Machinery, furniture, and equipment	Leasehold improvements	Construction in progress	Vineyard land and producing vineyards	Total
	\$ millions	\$ millions	\$ millions	\$ millions	\$ millions	\$ millions	\$ millions
<b>Cost:</b>							
Balances at 1 January 2018	1,024.9	1,589.3	1,272.9	1,121.1	158.6	24.6	5,191.4
Additions	218.5	305.2	126.7	128.2	203.2	0.5	982.3
Disposals	(0.2)	(63.4)	(52.7)	(50.9)	-	(0.1)	(167.3)
Transfers	(7.7)	77.6	18.5	43.9	(132.5)	0.2	-
Exchange differences	(29.7)	(59.1)	(50.9)	(38.6)	(8.8)	(0.3)	(187.4)
Balances at 31 December 2018	1,205.8	1,849.6	1,314.5	1,203.7	220.5	24.9	5,819.0
Additions	36.4	54.2	150.1	180.6	302.7	1.2	725.2
Disposals	(1.3)	(24.0)	(58.6)	(62.5)	(0.2)	-	(146.6)
Transfer to ROU assets	5.4	55.3	44.1	104.4	(212.9)	0.2	(3.5)
Reclassified as held for sale (Note 18)	-	(58.7)	-	-	-	-	(58.7)
Acquisitions	0.3	1.1	1.6	-	-	-	3.0
Exchange differences	(12.3)	(23.8)	(9.4)	4.0	(3.0)	(0.2)	(44.7)
Balances at 31 December 2019	1,234.3	1,853.7	1,442.3	1,430.2	307.1	26.1	6,293.7
<b>Accumulated depreciation and impairment:</b>							
Balances at 1 January 2018	4.6	684.7	813.1	674.9	0.1	6.1	2,183.5
Disposals	-	(54.6)	(49.4)	(48.7)	-	-	(152.7)
Depreciation expense	0.1	95.6	113.4	136.2	-	1.7	347.0
Impairment losses	-	-	1.0	1.6	0.3	-	2.9
Transfers	-	-	(12.9)	12.9	-	-	-
Exchange differences	(0.1)	(24.3)	(31.4)	(20.9)	-	(0.1)	(76.8)
Balances at 31 December 2018	4.6	701.4	833.8	756.0	0.4	7.7	2,303.9
Disposals	-	(19.2)	(51.8)	(50.3)	-	-	(121.3)
Depreciation expense	0.2	63.7	119.9	142.7	-	1.7	328.2
Impairment losses	-	-	1.2	7.4	-	-	8.6
Transfer to ROU assets	-	(0.6)	-	-	-	-	(0.6)
Reclassified as held for sale (Note 18)	-	(1.3)	-	-	-	-	(1.3)
Exchange differences	-	(8.4)	(6.1)	2.8	-	(0.2)	(11.9)
Balances at 31 December 2019	4.8	735.6	897.0	858.6	0.4	9.2	2,505.6
Carrying amount at 31 December 2018	1,201.2	1,148.2	480.7	447.7	220.1	17.2	3,515.1
Carrying amount at 31 December 2019	1,229.5	1,118.1	545.3	571.6	306.7	16.9	3,788.1

	2019 \$ millions	2018 \$ millions
Contractual commitments for the acquisition of property, plant and equipment	293.3	265.0
Assets held under finance leases secured by buildings	-	0.9
Borrowings secured by property, plant and equipment	675.7	720.8

In 2019, the Group did not capitalise borrowing costs (2018: \$2.6 million). In 2018, a capitalisation rate of 2.88% was used.

***Impairment***

In 2019, the Group recognised \$8.6 million of impairment losses in property, plant, and equipment. These impairments primarily relate to retail boutiques whose discounted cash flows no longer support the carrying amount of the underlying assets and decommissioned counters and that cannot be repurposed for another use (2018: \$2.9 million).

**11. INVESTMENT PROPERTY**

	<u>2019</u>	<u>2018</u>
	\$ millions	\$ millions
Cost:		
Balance at 1 January	144.8	152.3
Additions	0.9	-
Exchange differences	0.9	(7.5)
Balance at 31 December	<u>146.6</u>	<u>144.8</u>
Accumulated depreciation and impairment:		
Balance at 1 January	12.4	10.5
Depreciation expense	2.2	2.4
Exchange differences	-	(0.5)
Balance at 31 December	<u>14.6</u>	<u>12.4</u>
Carrying amount at 31 December	<u>132.0</u>	<u>132.4</u>
Fair value at 31 December	<u>372.6</u>	<u>330.5</u>

As of 31 December 2019 and 2018, investment property consisted of land and buildings in Europe and the United States. Portions of these properties are leased to third parties as operating leases (Note 12) and rental income received is fixed under the contracts.

There were no capitalised borrowing costs recognised in 2019 and 2018 related to investment property.

As of 31 December 2019, the Group had \$88.7 million of its borrowings secured by investment properties (2018: \$87.8 million).

***Amounts recognised in the consolidated statement of income:***

	<u>2019</u>	<u>2018</u>
	\$ millions	\$ millions
Rental income	<u>9.8</u>	<u>10.9</u>
Direct operating expenses	<u>3.8</u>	<u>3.5</u>

There were no impairment losses reversed or impairment losses recognised related to investment properties in 2019 or 2018.

**Fair value**

The Group obtains valuations periodically related to investment properties from third-parties. The valuations consider transaction prices for similar properties in the surrounding area as well as other factors relevant to the location of the buildings. Fair value less costs of disposal was based on a market approach and considered observable factors such as existing rents, lease term of the property, and current market prices for similar properties. In accordance with IFRS 13, the fair value less costs of disposal of the buildings are within Level 2 of the fair value hierarchy. There were no changes to the methods and assumptions in determining fair value less costs of disposal from the prior year.

**12. LEASES**

**I. Disclosures required by IFRS 16**

The Group as lessee

**Right-of-use assets**

The Group's real estate leases are composed primarily of land and buildings for its boutiques and offices. Machinery and equipment leases include vehicles, IT, office, manufacturing, and distribution equipment. Changes in right-of-use assets by underlying asset type during the period:

	<u>Real Estate</u>	<u>Machinery and Equipment</u>	<u>Total</u>
	\$ millions	\$ millions	\$ millions
<b>Gross:</b>			
Balance at 1 January 2019	1,614.7	8.8	1,623.5
New leases	295.2	6.2	301.4
Remeasurements	140.1	(0.2)	139.9
Leases terminated	(24.7)	(0.4)	(25.1)
Acquisitions	0.7	0.8	1.5
Finance sublease	(42.4)	-	(42.4)
Exchange differences	15.6	0.1	15.7
Balance at 31 December 2019	<u>1,999.2</u>	<u>15.3</u>	<u>2,014.5</u>
<b>Accumulated depreciation and impairment:</b>			
Balance at 1 January 2019	-	-	-
Depreciation expense	328.5	5.3	333.8
Impairment	4.4	-	4.4
Leases terminated	(14.4)	(0.3)	(14.7)
Finance sublease	(0.8)	-	(0.8)
Exchange differences	2.0	-	2.0
Balance at 31 December 2019	<u>319.7</u>	<u>5.0</u>	<u>324.7</u>
Carrying amount at 31 December 2019	<u>1,679.5</u>	<u>10.3</u>	<u>1,689.8</u>

## Lease liabilities

Changes in lease liabilities during the period:

	<u>Current</u>	<u>Non-current</u>	<u>Total</u>
	\$ millions	\$ millions	\$ millions
Gross:			
Balance at 1 January 2019	260.5	1,403.0	1,663.5
New leases	38.8	259.3	298.1
Repayments	(347.8)	-	(347.8)
Accrued interest	62.2	-	62.2
Leases terminated	(3.5)	(6.9)	(10.4)
Remeasurements	11.7	127.8	139.5
Acquisitions	0.3	1.2	1.5
Transfers	282.9	(282.9)	-
Exchange differences	1.4	9.0	10.4
Balance at 31 December 2019	<u>306.5</u>	<u>1,510.5</u>	<u>1,817.0</u>

In 2018, the Group only recognised lease assets and lease liabilities in relation to leases that were classified as “finance leases” under IAS 17 Leases. The assets were presented in property, plant and equipment and the liabilities as part of the borrowings. For adjustments recognised on adoption of IFRS 16 on 1 January 2019, please refer to Note 2.2.

The total interest expense on lease liabilities and the total cash outflow in 2019 was \$62.2 million and \$347.8 million, respectively.

Maturity analysis of lease liabilities:

	<u>2019</u>
	\$ millions
Less than one year	393.3
One to five years	1,007.5
More than five years	812.0
	<u>2,212.8</u>

The Group does not face a significant liquidity risk with regard to its lease liabilities.

## Lease payments not recognised as a liability

The Group has elected not to recognise a lease liability for short-term leases or for leases of low-value assets. Payments made under such leases are expensed on a straight-line basis. The expenses relating to payments not included in the measurement of the lease liability and for variable lease payments which are not dependent on an index or a rate, are as follows:

	<u>2019</u>
	\$ millions
Expenses relating to short-term leases	22.4
Expenses relating to low value assets	25.3
Expenses relating to variable lease payments	296.9
	<u>344.6</u>

## Variable lease payments based on sales

Some leases of retail stores contain variable lease payments that are based on sales that are made within a particular store. Total fixed and variable lease payments were \$347.8 million and \$296.9 million, respectively, as of 31 December 2019. Overall, the variable payments constitute 42.8% of the Group’s entire lease payments.

The variable payments are dependent on sales and are expected to represent a similar proportion of total lease payments in future years.

#### Extension options

Some real estate contains extension options. The Group assesses whether it is reasonably certain to exercise the options at lease commencement and subsequently, if there is a change in circumstances within its control. Such assessment involves management judgement and estimate based on information at the time the assessments are made. Extension options are included in the lease term when the group has an economic incentive to exercise the option. The Group considers available evidence at the time of the assessment, including potential favourable terms upon extension, potential termination penalties, the relative costs associated with potential relocation or termination of the lease and the extent of leasehold improvements undertaken. The total amount of undiscounted potential future lease payments not included in the lease liability is \$366.2 million. The proportion of the Group's leases which contain extension options that are included in the lease liability is 25.6%.

#### Leases not yet commenced to which the Group is committed

Future cash flows of leases not yet commenced at the balance sheet date and, therefore, not included in the lease liability at the reporting date are \$73.7 million.

#### The Group as lessor

##### Leases receivables

Lease income from lease contracts in which the Group acts as a lessor:

	<u>2019</u>
	<u>\$ millions</u>
<b>Finance lease</b>	
Finance income on the net investment in the lease	1.2
<b>Operating lease</b>	
Lease income	27.4
	<u>28.6</u>

The income recognised during the year from subletting right-of-use assets was \$4.3 million.

#### Operating leases

The Group leases its investment property and some leased properties to third parties that are considered operating leases since they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets. Refer to Note 11 for additional information regarding investment property operating leases.

Maturity analysis of operating lease receivables, showing the undiscounted lease payments to be received after the reporting date:

	<u>2019</u>
	<u>\$ millions</u>
Less than one year	13.0
One to two years	12.7
Two to three years	12.7
Three to four years	12.3
Four to five years	10.2
More than five years	38.7
<b>Total undiscounted lease payments</b>	<u>99.6</u>

### Finance leases

The Group sublets some office and boutique space that are considered finance leases, since the sublease is for a significant portion of the remaining term of the head lease.

	<u>2019</u>
	<u>\$ millions</u>
Non-current finance lease receivables	32.0
Current finance lease receivables	3.3
	<u>35.3</u>

Maturity analysis of finance lease receivables, showing the undiscounted lease payments to be received after the reporting date:

	<u>2019</u>
	<u>\$ millions</u>
Less than one year	4.7
One to two years	4.8
Two to three years	5.0
Three to four years	5.1
Four to five years	5.3
More than five years	16.9
<b>Total undiscounted lease payments receivable</b>	<u>41.8</u>
Unearned finance income	(6.5)
<b>Net investment in lease</b>	<u>35.3</u>

## II. Disclosures required by IAS 17

### The Group as lessee

The aggregate minimum rental commitments under these operating leases as of 31 December 2018 were as follows:

	<u>2018</u>
	<u>\$ millions</u>
Not later than one year	310.9
Later than one year and not later than five years	867.7
Later than five years	647.7
	<u>1,826.3</u>

Minimum rentals payable under certain operating leases are subject to revision based on official government indices. Rental expense recognised in the consolidated statement of income with respect to operating leases was \$457.1 million in 2018. Included in rental expense was \$93.9 million of contingent rent from operating leases and \$0.2 million of contingent rent from finance leases in 2018.



The Group as lessor

Operating leases are related to investment properties owned by the Group. The lessees do not have an option to purchase the property at the end of the lease term. The aggregate minimum rental receivable for leased properties as of 31 December 2018 was as follows:

	<b>2018</b>
	<b>\$ millions</b>
Not later than one year	12.8
Later than one year and not later than five years	47.0
Later than five years	51.8
	<u>111.6</u>

There was no contingent rent recognised as income from operating leases. The net rental income earned during the year was \$7.4 million.

**13. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES**

As of 31 December 2019, the Group had \$213.8 million of investments in associates and joint ventures (2018: \$28.0 million). In general, the Group holds ordinary shares in its investments in associates and joint ventures. The details of which were as follows:

Name of associate	Principal activity	Place of incorporation and operation	Ownership percentage as of December 31	
			2019	2018
C&D KK	Restaurant operations	Japan	50%	50%
Montres Romain Gauthier SA	Manufacture and sale of watches	Switzerland	50%	50%
ERPRO 3D Factory	Manufacture and sale of 3D printing manufactured products	France	50%	50%
ETS Denis et Fils	Silk weaving	France	40%	40%
AC&B	Manufacture and sale of skincare products	France	26%	26%
Innois	Manufacture and sale of interior perfumes and dispensing tools	France	33%	33%
Solcen Technologies Private Limited	Global IT solutions	India	49%	26%
Kenissi Holding	Watch movements	Switzerland	20%	20%
Tulcan <sup>2</sup>	Investment in leather goods manufacturer	Luxembourg / Italy	40%	-
Bolduc 2.0 <sup>2</sup>	Luxury apparel manufacturer	France	34%	-
Mabi International S.p.A. <sup>2</sup>	Leather goods manufacturer	Italy	40%	-
Sunrun <sup>1</sup>	Solar energy panels	United States	32%	-
FCL SRL joint venture <sup>1</sup>	Manufacture and surface treatment of stainless steel components	Italy	50%	-

<sup>1</sup> New Investments in 2019

<sup>2</sup> Acquired from a related-party for a total amount of \$169 million

Aggregate financial information of associates and joint ventures is as follows:

	<u>2019</u>	<u>2018</u>
	\$ millions	\$ millions
Total assets	420.8	92.9
Total liabilities	169.9	82.2
Net assets	<u>250.9</u>	<u>10.7</u>
Total revenue	<u>367.1</u>	<u>26.1</u>
Total profit (loss) for the period, net	<u>51.8</u>	<u>(3.8)</u>
Group's share of profit (loss) from associates and joint ventures, net	<u>3.6</u>	<u>(0.1)</u>

In 2019, the Group did not receive a dividend from its associates and joint ventures (2018: \$0.1 million).

In 2019, the Group did not recognise an impairment loss related to its associates and joint ventures (2018: \$1.8 million).

#### 14. INCOME TAXES

The major components of income tax expense were as follows:

	<u>2019</u>	<u>2018</u>
	\$ millions	\$ millions
Consolidated statement of income:		
Current income tax expense	917.5	792.5
Deferred income tax (benefit)	<u>(49.6)</u>	<u>(49.4)</u>
Income tax expense recognised in the consolidated statement of income	<u>867.9</u>	<u>743.1</u>
Consolidated statement of comprehensive income:		
Effect of actuarial gains on defined benefit pension plans	27.1	3.8
Effect of unrealised losses (gains) recognised directly in equity	<u>12.8</u>	<u>(12.9)</u>
Deferred tax expense (benefit) recognised directly in equity	<u>39.9</u>	<u>(9.1)</u>

A reconciliation between income tax expense and Group's accounting profit before income tax multiplied by the blended statutory tax rate of the Group is as follows:

	<u>2019</u>	<u>2018</u>
	<i>as a % of pre-tax income</i>	
Blended statutory rate amongst tax jurisdictions	25.8%	25.9%
Effect of permanent differences	-0.4%	-1.7%
Change in tax rates	-0.4%	-0.3%
Taxes on distributions	0.4%	0.5%
Other <sup>(1)</sup>	<u>1.1%</u>	<u>1.1%</u>
Effective tax rate	<u>26.5%</u>	<u>25.5%</u>

<sup>(1)</sup> Relates mainly to the French CVAE tax.

The components of current income tax receivables were as follows:

	<u>2019</u>	<u>2018</u>
	\$ millions	\$ millions
Tax refund receivable	57.7	39.4
Other	2.4	2.4
Income taxes receivable	<u>60.1</u>	<u>41.8</u>

The components of current income tax liabilities were as follows:

	<u>2019</u>	<u>2018</u>
	\$ millions	\$ millions
Income taxes payable	282.4	139.9
Income tax contingencies	20.2	33.3
Income tax liabilities	<u>302.6</u>	<u>173.2</u>

The following is a roll-forward of net deferred tax assets:

<b>2019</b>	<b>Opening</b>	<b>Recognised in</b>	<b>Recognised in</b>	<b>Acquisitions/</b>	<b>Exchange</b>	<b>Closing</b>
<b>\$ millions</b>	<b>balance</b>	<b>profit or loss</b>	<b>OCI</b>	<b>(disposals)</b>	<b>differences</b>	<b>balance</b>
Inventories	172.0	12.4	-	5.2	(0.3)	189.3
Provisions	100.3	33.6	-	0.2	(0.2)	133.9
Retirement benefit obligations	66.5	(0.1)	27.1	(0.8)	(0.4)	92.3
Foreign earnings	(32.6)	(0.8)	-	-	-	(33.4)
Other	67.8	4.5	12.8	(5.3)	0.2	80.0
	<u>374.0</u>	<u>49.6</u>	<u>39.9</u>	<u>(0.7)</u>	<u>(0.7)</u>	<u>462.1</u>

Deferred income tax assets	554.4
Deferred income tax liabilities	(92.3)
	<u>462.1</u>

<b>2018</b>	<b>Opening</b>	<b>Recognised in</b>	<b>Recognised in</b>	<b>Acquisitions/</b>	<b>Exchange</b>	<b>Closing balance</b>
<b>\$ millions</b>	<b>balance</b>	<b>profit or loss</b>	<b>OCI</b>	<b>(disposals)</b>	<b>differences</b>	<b>Closing balance</b>
Inventories	142.2	30.8	-	0.2	(1.2)	172.0
Provisions	76.4	26.0	-	-	(2.1)	100.3
Retirement benefit obligations	94.5	(30.8)	3.8	-	(1.0)	66.5
Foreign earnings	(32.1)	(0.5)	-	-	-	(32.6)
Other	67.5	23.9	(12.9)	(7.7)	(3.0)	67.8
	<u>348.5</u>	<u>49.4</u>	<u>(9.1)</u>	<u>(7.5)</u>	<u>(7.3)</u>	<u>374.0</u>

Deferred income tax assets	466.5
Deferred income tax liabilities	(92.5)
	<u>374.0</u>

As of 31 December 2019, the deferred tax assets not recognised relating to unused tax losses and deductible temporary differences were \$22.5 million (2018: \$37.4 million). The majority of these tax losses and deductible temporary differences may be carried forward for an indefinite period of time. The Group did not utilise any unrecognised tax loss carry-forwards during 2019 or 2018.

Deferred tax assets and liabilities are offset where there is a legally enforceable right of offset and the intention is to settle the balances on a net basis.

## 15. TRADE RECEIVABLES AND OTHER ASSETS

	2019		2018	
	Current \$ millions	Non-current \$ millions	Current \$ millions	Non-current \$ millions
Financial <sup>(a)</sup>				
Trade receivables	1,090.1	-	1,073.9	-
Loan to related party	-	46.9	-	74.7
Derivatives	36.9	-	57.9	2.0
Deposits	-	80.2	-	-
Other	148.3	95.3	75.7	188.0
	<u>1,275.3</u>	<u>222.4</u>	<u>1,207.5</u>	<u>264.7</u>
Non-financial				
Cash surrender value of corporate-owned life insurance	-	165.4	-	144.1
Other taxes receivable	183.3	-	181.6	-
Prepaid expenses	127.0	-	117.2	-
Advances to suppliers	148.3	-	108.2	-
Other	20.7	37.5	7.3	108.9
	<u>479.3</u>	<u>202.9</u>	<u>414.3</u>	<u>253.0</u>
	<u>1,754.6</u>	<u>425.3</u>	<u>1,621.8</u>	<u>517.7</u>

<sup>(a)</sup> See Note 23

Trade receivables consisted of the following:

	2019 \$ millions	2018 \$ millions
Gross trade receivables	1,102.9	1,083.8
Allowance for doubtful accounts	(12.8)	(9.9)
Net carrying amount	<u>1,090.1</u>	<u>1,073.9</u>
Ageing of trade receivables:		
Not past due	883.2	861.7
Less than one month past due	118.4	126.1
Greater than one month past due	67.2	58.6
Due from related parties	34.1	37.4
	<u>1,102.9</u>	<u>1,083.8</u>

Movement in allowance for doubtful accounts is as follows:

	<u>2019</u>	<u>2018</u>
	\$ millions	\$ millions
Balance at 1 January	(9.9)	(8.6)
Impairment losses	(5.5)	(3.3)
Amounts recovered during the year	0.6	0.6
Amounts written off as uncollectible	0.8	1.1
Reversals of impairment losses charged to profit or loss	1.1	-
Exchange differences	0.1	0.3
Balance at 31 December	<u>(12.8)</u>	<u>(9.9)</u>

Trade receivables relating to the Group's wholesale activities have payment terms that are generally less than three months.

There are no differences between the market value of trade receivables and their carrying amount due to their short-term nature. As a result, the amounts reflected in the consolidated statement of financial position were based on the expected cash flows which were not discounted as they are expected to be received within the next three months.

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of internationally-dispersed customers. The Group has established credit check procedures to ensure the high creditworthiness of its customers.

As of 31 December 2019 and 2018, there was no allowance for doubtful accounts related to accounts which were not past due.

## 16. INVENTORIES

	<u>2019</u>	<u>2018</u>
	\$ millions	\$ millions
Finished goods	1,423.8	1,294.2
Raw materials	301.8	273.1
Work in process	128.7	128.0
Component inventory	131.2	132.6
Reserves	(528.7)	(455.2)
	<u>1,456.8</u>	<u>1,372.7</u>

The cost of inventories recognised in the Group's consolidated statement of income was \$2,171.1 million (2018: \$2,072.2 million). In addition, the Group recognised \$326.2 million (2018: \$302.3 million) related to the write-down of inventory to net realisable value.

### Sensitivity analysis

A sensitivity analysis has been performed on the net realisable value of inventory assuming a downturn in the business that could result in providing for additional reserves on existing stock levels. An increase of 10% in the reserves balance at 31 December 2019 would reduce net inventory by \$52.9 million.

## 17. CASH AND CASH EQUIVALENTS

	<u>2019</u>	<u>2018</u>
	<u>\$ millions</u>	<u>\$ millions</u>
Cash in bank	2,850.3	2,477.2
Time deposits	0.5	0.8
	<u>2,850.8</u>	<u>2,478.0</u>

The Group operates a global cash pooling arrangement whereby positive bank account balances of the Company and its subsidiaries are offset against the overdrafts of other subsidiaries. As of 31 December 2019, the positive bank account balances of the Company and its subsidiaries were \$3,654.5 million (2018: \$2,794.3 million), which were offset against the overdrafts of other subsidiaries of \$976.4 million (2018: \$897.0 million). As of 31 December 2019, other entities under common control had net overdrafts from the cash pool of \$2,074.0 million (2018: \$1,796.6 million), leaving a net surplus of \$604.1 million (2018: \$100.7 million).

## 18. ASSETS CLASSIFIED AS HELD FOR SALE

	<u>2019</u>	<u>2018</u>
	<u>\$ millions</u>	<u>\$ millions</u>
Assets classified as held for sale	<u>57.4</u>	<u>-</u>

As of 31 December 2019, assets classified as held for sale are comprised of real estate in France and Australia.

### **Boutique Space**

The Group acquired a building located in France on 7 December 2018. The building includes office space as well as four boutiques located on the ground floor, which were occupied at the date of the acquisition. In 2019, the Group decided to sell two of the boutiques and signed a sales mandate on 1 August 2019 to actively market the property for sale, which is valid for 12 months with tacit renewal. As of 31 December 2019, a search for a buyer was still ongoing but the Group anticipates a sale by the end of 2020. The carrying amount of the property as of 31 December 2019 was \$54.5 million.

### **Office space**

On 18 December 2019, the Group exchanged a sale contract for real estate with a third party, with settlement expected to be complete by 30 June 2020. The carrying amount of the property as of 31 December 2019 was \$2.9 million. The sale contract is in excess of this value.

**19. BORROWINGS**

Borrowings consisted of the following:

	2019		2018	
	Current	Non-current	Current	Non-current
	\$ millions	\$ millions	\$ millions	\$ millions
<b>Unsecured</b>				
Senior notes	-	1,268.7	-	1,282.8
Bank debt	46.3	98.2	14.7	120.5
Bank overdrafts	0.9	-	4.2	-
Finance lease obligations	-	-	0.5	0.2
	<u>47.2</u>	<u>1,366.9</u>	<u>19.4</u>	<u>1,403.5</u>
<b>Secured</b>				
Bank debt	42.6	687.7	43.3	708.6
Promissory notes	-	60.0	-	60.0
Bank overdrafts	-	-	1.0	-
Finance lease obligations	-	-	0.4	2.1
	<u>42.6</u>	<u>747.7</u>	<u>44.7</u>	<u>770.7</u>
	<u>89.8</u>	<u>2,114.6</u>	<u>64.1</u>	<u>2,174.2</u>

As part of the application of IFRS 16, capitalised leases formerly included in "Borrowings" are now reported in "Lease liabilities," as of 31 December 2019.

Reconciliation of liabilities arising from financing activities:

	Non-cash changes				
	1 January 2019	Cash flows	Reclassifications	Foreign exchange	31 December
	\$ millions	\$ millions	and other	movements	2019
			\$ millions	\$ millions	\$ millions
Long-term borrowings	2,171.9	-	(37.0)	(20.3)	2,114.6
Short-term borrowings	63.2	(15.9)	41.9	0.6	89.8
Lease liabilities	3.2	-	(3.2)	-	-
	<u>2,238.3</u>	<u>(15.9)</u>	<u>1.7</u>	<u>(19.7)</u>	<u>2,204.4</u>
	Non-cash changes				
	1 January 2018	Cash flows	Reclassifications	Foreign exchange	31 December
	\$ millions	\$ millions	and other	movements	2018
			\$ millions	\$ millions	\$ millions
Long-term borrowings	1,854.7	388.6	(21.7)	(49.7)	2,171.9
Short-term borrowings	110.2	(75.7)	29.0	(0.3)	63.2
Lease liabilities	28.3	(25.0)	-	(0.1)	3.2
	<u>1,993.2</u>	<u>287.9</u>	<u>7.3</u>	<u>(50.1)</u>	<u>2,238.3</u>

The following is a breakdown of borrowings by maturity:

	<u>Total</u>
	<u>\$ millions</u>
2020	89.8
2021	150.4
2022	70.0
2023	34.3
2024	351.4
Thereafter	<u>1,515.2</u>
	2,211.1
Less unamortised debt issuance cost	<u>(6.7)</u>
	2,204.4
Less current borrowings	(89.8)
Non-current borrowings	<u><u>2,114.6</u></u>

The Group's borrowings are denominated in the following currencies:

	<u>2019</u>	<u>2018</u>
	<u>\$ millions</u>	<u>\$ millions</u>
Euro	1,072.3	1,103.8
US dollar	657.4	658.1
Japanese yen	212.8	219.6
Sterling	89.1	88.4
South Korean won	72.9	81.5
Swiss franc	72.7	74.0
Other	27.2	12.9
	<u>2,204.4</u>	<u>2,238.3</u>

The Group's borrowings are subject to fixed and floating interest rates as follows:

	<u>2019</u>	<u>2018</u>
	<u>\$ millions</u>	<u>\$ millions</u>
Fixed rate borrowings	1,609.8	1,622.4
Floating rate borrowings	594.6	612.7
Finance lease obligations	-	3.2
	<u>2,204.4</u>	<u>2,238.3</u>

The Group has fixed rate borrowings ranging from 0.10% to 4.59% and maturing through to 2056. The Group entered into several interest rate swap agreements to fix the rates on its floating rate loans.



An analysis of the Group's issued Senior Notes is as follows:

Nominal amount (in local currency)	Date of issuance	Maturity	Interest rate (%)	2019	2018
				\$ millions	\$ millions
EUR 205 million	2016	2026	1.84%	229.9	234.9
EUR 190 million	2016	2028	2.04%	213.1	217.7
EUR 115 million	2016	2031	2.28%	129.0	131.8
EUR 90 million	2016	2036	2.75%	101.0	103.1
USD 200 million	2014	2024	3.77%	200.0	200.0
USD 175 million	2014	2026	3.92%	175.0	175.0
USD 100 million	2014	2029	4.07%	100.0	100.0
USD 125 million	2014	2034	4.59%	125.0	125.0
				<u>1,273.0</u>	<u>1,287.5</u>

As of 31 December 2019, the Group had lines of credit totalling \$243.7 million (2018: \$318.5 million). These lines primarily support the borrowing needs of the Group's subsidiaries. Interest rates and other terms of borrowing under these lines of credit vary from country to country, depending on local market conditions. As of 31 December 2019, total outstanding borrowings against these lines of credit were \$20.9 million (2018: \$21.3 million).

As of 31 December 2019, the Group had letters of credit outstanding of \$7.4 million (2018: \$8.0 million).

The Group was in compliance with all financial covenants in its debt agreements as of 31 December 2019.

## 20. RETIREMENT BENEFIT OBLIGATIONS

### *Defined Contribution Plans*

The Group operates a number of defined contribution retirement benefit plans for all qualifying employees. The assets of the plan are held separately from those of the Group in funds under administration by trustees. The Group recognised an expense of \$45.0 million (2018: \$31.5 million) related to its defined contribution plans in 2019.

### *Defined Benefit Plans*

The Group operates defined benefit retirement plans in various countries, with its most significant plans in the U.S., France, the United Kingdom and Japan. The liabilities for defined benefit retirement plans are computed on actuarial bases and are either funded currently or accumulated in unfunded reserves. The Group also has executive retiree medical plans in the U.S. and Canada. The Group recognised net benefits expense of \$0.6 million in 2019 (2018: \$nil million) related to its executive retiree medical plans. The Group recognised net liabilities related to its executive retiree medical plans of \$8.9 million in 2019 (2018: \$7.7 million) in its consolidated statement of financial position. Disclosures presented below for defined benefit plans include the executive retiree medical plans.

The defined benefit plans expose the Group to certain risks, such as interest rate risk, mortality risk, and salary risk.

- Interest rate risk – A decrease in the bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plans' debt investments
- Mortality risk – The present value of the defined benefit plan liability is calculated using the best estimate of the mortality of plan participants during and after their employment. An increase in the life expectancy of the plan participants will increase the plans' liability

- **Salary risk** – The present value of the defined benefit plan liability is calculated using the future salaries of plan participants. An increase in the salary of the plan participants will increase the plans' liability

The most recent valuation was performed by the Group's actuaries as of 31 December 2019. The present value of the defined benefit obligation and all of its related components were measured using the projected unit credit method.

The principal assumptions used for the valuations of the defined benefit plans that are presented below based on a weighted average of the applicable countries were as follows:

	<u>2019</u>	<u>2018</u>
Discount rate	2.0%	2.9%
Expected rate of salary increase	3.3%	3.4%
The average life expectancy in years of pensioner retiring at age 65:		
Male	21.0	21.8
Female	23.1	23.9

Amounts recognised in the consolidated statement of income and consolidated statement of comprehensive income with respect to the defined benefit plans were as follows:

	<u>Defined Benefit Plans</u>	
	<u>2019</u>	<u>2018</u>
	<u>\$ millions</u>	<u>\$ millions</u>
Service cost:		
Current service cost, including administrative expenses	58.0	57.2
Past service (credit) cost	(6.9)	4.3
Net interest	8.6	8.5
Components of defined benefit costs recognised in consolidated statement of income	<u>59.7</u>	<u>70.0</u>
Remeasurements on the net defined benefit liability:		
Return on plan assets, excluding amounts included in net interest	(75.2)	54.4
Actuarial (gains) losses due to changes in demographic assumptions	(15.5)	0.3
Actuarial losses (gains) due to changes in financial assumptions	162.3	(56.1)
Actuarial losses (gains) due to experience adjustments	25.6	9.2
Adjustments due to disposals	(1.7)	-
Components of defined benefits costs recognised in other comprehensive income	<u>95.5</u>	<u>7.8</u>
Components of defined benefit costs recognised in consolidated statement of comprehensive income	<u>155.2</u>	<u>77.8</u>

Accumulated actuarial losses recognised in shareholder's equity were \$454.6 million as of 31 December 2019 (2018: \$359.1 million).

The amounts included in the consolidated statement of financial position with respect to the defined benefit plans were as follows:

	<b>Defined Benefit Plans</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$ millions</b>	<b>\$ millions</b>
Present value of funded defined benefit obligation	(991.6)	(862.0)
Fair value of plan assets	952.5	820.0
Funded shortfall	(39.1)	(42.0)
Present value of unfunded defined benefit obligation	(287.1)	(238.0)
Net liability on the consolidated statement of financial position	(326.2)	(280.0)

Movements in the present value of the defined benefit obligation were as follows:

	<b>Defined Benefit Plans</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$ millions</b>	<b>\$ millions</b>
Defined benefit obligation, at 1 January	1,100.0	1,137.4
Current service cost	56.5	55.9
Interest cost	31.6	28.5
Contributions from plan participants	2.4	2.3
Past service (credit) cost	(6.9)	4.3
Net decrease from acquisitions/disposals	(40.9)	0.7
Actuarial (gains) losses due to changes in demographic assumptions	(15.5)	0.3
Actuarial losses (gains) due to changes in financial assumptions	162.3	(56.1)
Actuarial losses (gains) due to experience adjustments	25.6	9.2
Benefits paid	(32.0)	(62.6)
Settlements	(6.9)	-
Exchange differences	2.5	(19.9)
Defined benefit obligation, at 31 December	1,278.7	1,100.0

Movements in the fair value of the plan assets were as follows:

	<b>Defined Benefit Plans</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$ millions</b>	<b>\$ millions</b>
Fair value of plan assets, at 1 January	820.0	803.3
Interest income	23.0	20.0
Return on plan assets, excluding amounts in interest income	75.2	(54.4)
Contributions from the employer	107.1	128.0
Contributions from plan participants	2.4	2.3
Benefits paid	(32.0)	(62.6)
Administrative expenses paid	(1.5)	(1.3)
Net decrease from acquisitions/disposals	(37.5)	-
Settlements	(7.8)	-
Exchange differences	3.6	(15.3)
Fair value of plan assets, at 31 December	952.5	820.0

The fair value of the plan assets at 31 December 2019 and 31 December 2018 for each category are as follows:

	<u>2019</u>	<u>2018</u>
	Fair value of plan assets	Fair value of plan assets
	\$ millions	\$ millions
Equity securities	332.4	296.5
Insurance contracts	243.7	208.3
Corporate bonds	208.2	154.3
Government bonds	66.5	69.0
Property	37.2	27.1
Other	64.5	64.8
	<u>952.5</u>	<u>820.0</u>

The Group's funding policy is to contribute an amount that maintains a level of funding in the funded plans that is consistent and is sound on an actuarial basis, while remaining compliant with current pension laws. The Group targets an overall minimum funding level of 80%.

The Group expects the portfolio to remain fully invested and frequently reviews the need to have cash available to pay retirement benefits without disrupting the portfolio strategy. In 2020, the Group is committed to make a contribution of \$22.8 million and expects to contribute an additional \$2.9 million.

The average duration of the defined benefit obligation is 14.0 years (2018: 13.7 years). Further breakdown is as follows:

- Active members: 14.8 years (2018: 14.6 years);
- Deferred vested members: 8.1 years (2018: 8.2 years); and
- Retired members: 5.6 years (2018: 5.6 years)

The significant assumptions used in determining the defined benefit obligation are the discount rate, expected rate of salary increase, and life expectancy. The sensitivity analysis below has been determined based on possible changes to the significant assumptions while holding all other assumptions constant.

An increase in the discount rate of half a percentage point would decrease the defined benefit obligation by \$88.5 million.

An increase in the expected rate of salary increase of half a percentage point would increase the defined benefit obligation by \$72.7 million.

A decrease in the mortality rate of 10% for both men and women would increase the defined benefit obligation by \$15.5 million.

The present value of the defined benefit obligation in the sensitivity analysis above has been calculated using the projected unit credit method, which is also the method used in calculating the defined benefit obligation for the consolidated statement of financial position. The sensitivity analysis may not be representative of the actual change in the defined benefit obligation. There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior year.

## 21. PROVISIONS

The following is a roll-forward of provisions:

	Product-related \$ millions	Asset retirement obligations \$ millions	Litigation \$ millions	Restructuring costs \$ millions	Other \$ millions	Total \$ millions
Balances at 1 January 2018	128.6	54.2	12.0	13.4	33.0	241.2
Additional provisions recognised	98.8	4.6	4.0	11.0	21.8	140.2
Used during the year	(66.3)	(0.6)	(2.7)	(12.9)	(6.1)	(88.6)
Unused amounts reversed	(20.7)	(1.4)	(1.5)	-	(1.6)	(25.2)
Unwinding of the discount	-	0.2	-	-	-	0.2
Exchange difference	(2.5)	(1.5)	(0.5)	(0.2)	(1.9)	(6.6)
<b>Balances at 31 December 2018</b>	<b>137.9</b>	<b>55.5</b>	<b>11.3</b>	<b>11.3</b>	<b>45.2</b>	<b>261.2</b>
Additional provisions recognised	147.5	13.4	2.6	(7.1)	5.7	162.1
Used during the year	(101.6)	(1.8)	(3.1)	(3.5)	(6.6)	(116.6)
Unused amounts reversed	(26.4)	(1.4)	(0.9)	-	(12.3)	(41.0)
Unwinding of the discount	-	0.2	-	-	0.6	0.8
(Disposal)/acquisition	-	(0.6)	-	-	1.4	0.8
Exchange difference	(1.9)	(0.3)	(0.2)	-	2.2	(0.2)
<b>Balances at 31 December 2019</b>	<b>155.5</b>	<b>65.0</b>	<b>9.7</b>	<b>0.7</b>	<b>36.2</b>	<b>267.1</b>
Of which, at 31 December 2018:						
Non-current	5.2	53.9	7.8	0.8	36.7	104.4
Current	132.7	1.6	3.5	10.5	8.5	156.8
	<b>137.9</b>	<b>55.5</b>	<b>11.3</b>	<b>11.3</b>	<b>45.2</b>	<b>261.2</b>
Of which, at 31 December 2019:						
Non-current	15.8	63.3	7.5	0.7	32.1	119.4
Current	139.7	1.7	2.2	-	4.1	147.7
	<b>155.5</b>	<b>65.0</b>	<b>9.7</b>	<b>0.7</b>	<b>36.2</b>	<b>267.1</b>

### **Product related**

Provisions for product sales returns are recognised based on sales performance and historical trends and represent the refund liability for the expected returns to customers.

### **Asset retirement obligations**

The Group records a provision reflecting the cost to restore an item of property, plant and equipment back to its original condition at the end of its useful life.

### **Litigation**

Litigation includes provisions for legal claims brought against the Group.

### **Restructuring costs**

Restructuring costs primarily relate to the relocation of certain corporate functions to the UK. The amounts provided for predominantly comprise retention costs and employee severance.

### **Other**

Other provisions are mainly related to long-term service awards.

## 22. TRADE PAYABLES AND OTHER LIABILITIES

	2019		2018	
	Current	Non-current	Current	Non-current
	\$ millions	\$ millions	\$ millions	
Financial <sup>(a)</sup>				
Trade payables	670.1	-	597.3	-
Salaries, commissions and related	479.5	-	410.7	-
Inventory accruals	181.5	-	295.1	-
Advertising, promotion and demonstration	164.4	-	164.8	-
Loans from related parties	411.1	3.9	312.8	3.6
Derivatives	53.4	15.6	58.0	10.4
Other	399.1	208.1	215.9	251.8
	<u>2,359.1</u>	<u>227.6</u>	<u>2,054.6</u>	<u>265.8</u>
Non-financial				
Customer deposits	100.7	-	115.8	-
Other	187.0	66.8	169.9	57.8
	<u>287.7</u>	<u>66.8</u>	<u>285.7</u>	<u>57.8</u>
Total trade payables and other liabilities	<u>2,646.8</u>	<u>294.4</u>	<u>2,340.3</u>	<u>323.6</u>

<sup>(a)</sup> See Note 23

The contract liability was \$100.7 million and \$115.8 million as of 31 December 2019 and 31 December 2018, respectively. The contract liability increased during the period from customer deposits not recognised in revenue offset by revenue recognised in 2018 that was included in the contract liability at the beginning of the period. The majority of the customer deposits received at the end of the reporting period are settled within one year.

## 23. FINANCIAL INSTRUMENTS

### Classification

The following table shows the classes of financial instruments based on their nature and characteristics.

#### Financial Assets

	2019		2018	
	Current \$ millions	Non-Current \$ millions	Current \$ millions	Non-Current \$ millions
Financial assets at amortised cost:				
Trade receivables	1,090.1	-	1,073.9	-
Loan to related party	-	46.9	-	74.7
Finance lease receivables	3.3	32.0	-	-
Cash and cash equivalents	2,850.8	-	2,478.0	-
Other	57.0	96.8	75.4	24.0
Financial assets at FVOCI:				
Listed equity investments	87.8	1.0	-	150.9
Non-listed equity investments	0.2	28.6	0.3	8.9
Financial assets at FVTPL:				
Convertible bonds	-	17.1	-	4.2
Derivatives:				
Forward contracts and options	36.8	-	57.4	-
Interest Rate Swaps	0.1	-	0.5	2.0
	<u>4,126.1</u>	<u>222.4</u>	<u>3,685.5</u>	<u>264.7</u>

#### Financial Liabilities

	2019		2018	
	Current \$ millions	Non-Current \$ millions	Current \$ millions	Non-Current \$ millions
Financial liabilities at amortised cost:				
Borrowings	89.8	2,114.6	64.1	2,174.2
Trade payables	670.1	-	597.3	-
Lease liabilities	306.9	1,510.1	-	-
Loans from related parties	411.1	3.9	312.8	3.6
Other	1,224.5	208.1	1,086.5	251.8
Financial liabilities at FVTPL:				
Derivatives:				
Forward contracts and options	50.4	-	54.8	-
Interest rate swaps	3.0	15.6	3.2	10.4
	<u>2,755.8</u>	<u>3,852.3</u>	<u>2,118.7</u>	<u>2,440.0</u>

#### Fair Value Measurement and Hierarchy Levels

The carrying amounts of financial assets and liabilities measured at amortised cost approximate fair value.

There is an active market for the Group's listed equity investments so the fair value is determined based on quoted market prices on the last day of the period for all years presented. The quoted market price used for financial assets held by the Group is the current bid price.

The fair values of non-listed equity investments that were purchased in 2019 are assumed to approximate the purchase price. The fair values of the remaining non-listed equity investments have either been determined via an external valuation or estimated internally using a discounted cash flow model. The latter valuation requires management to make certain assumptions about the model inputs, including forecasted cash flows, the discount rate, credit risk and volatility. The probabilities of the various estimates within the range can be reasonably assessed and are used in equity investments.

The Group's derivative instruments are traded in the over-the-counter market and their fair value is determined using quantitative models that require the use of multiple inputs including interest rates, prices, and indices to generate pricing and volatility factors. The predominance of market inputs are actively quoted and can be validated through external sources including brokers, market transactions, and third-party pricing services.

The table below provides an analysis of financial instruments that were measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1 — Quoted (unadjusted) prices for identical assets in active markets.

Level 2 — Other observable inputs, either directly or indirectly, including: quoted prices for similar assets in active and non-active markets (e.g. few transactions, limited information, non-current prices, high variability over time, etc.); inputs other than quoted prices that are observable for the asset (e.g. interest rates, yield curves, volatilities, default rates, etc.); and inputs that are derived principally from or corroborated by other observable market data.

Level 3 — Unobservable inputs that cannot be substantiated by observable market data.

<b>2019</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>\$ millions</b>	<b>\$ millions</b>	<b>\$ millions</b>	<b>\$ millions</b>
<b>Financial assets:</b>				
Listed equity investments	88.8	-	-	88.8
Non-listed equity investments	-	-	28.8	28.8
Convertible bonds	-	-	17.1	17.1
<b>Derivatives:</b>				
Forward contracts and options	-	36.8	-	36.8
Interest rate swaps	-	0.1	-	0.1
	<u>88.8</u>	<u>36.9</u>	<u>45.9</u>	<u>171.6</u>
<b>Financial liabilities:</b>				
<b>Derivatives:</b>				
Forward contracts and options	-	50.4	-	50.4
Interest rate swaps	-	18.6	-	18.6
	<u>-</u>	<u>69.0</u>	<u>-</u>	<u>69.0</u>



<b>2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>\$ millions</b>	<b>\$ millions</b>	<b>\$ millions</b>	<b>\$ millions</b>
Financial assets:				
Listed equity investments	150.9	-	-	150.9
Non-listed equity investments	-	-	9.2	9.2
Convertible bonds	-	-	4.2	4.2
Derivatives:				
Forward contracts and options	-	57.4	-	57.4
Interest rate swaps	-	2.5	-	2.5
	<u>150.9</u>	<u>59.9</u>	<u>13.4</u>	<u>224.2</u>
Financial liabilities:				
Derivatives:				
Forward contracts and options	-	54.8	-	54.8
Interest rate swaps	-	13.6	-	13.6
	<u>-</u>	<u>68.4</u>	<u>-</u>	<u>68.4</u>

The reconciliation of Level 3 financial assets designated at fair value through OCI is as follows:

	<b>Total</b>
	<b>\$ millions</b>
As of 1 January 2018	10.7
Remeasurement recognised in OCI	(2.6)
Purchases	5.8
Sales	(0.1)
Exchange difference	(0.4)
As of 31 December 2018	<u>13.4</u>
Remeasurement recognised in OCI	0.4
Purchases	33.5
Sales	(1.2)
Exchange difference	(0.2)
As of 31 December 2019	<u>45.9</u>

### ***Risks associated with financial instruments***

#### ***Capital risk management***

The Group's objective regarding capital risk management is to maintain a strong capital base and to sustain future development of business primarily through the use of operating cash flow. The Group's management regularly reviews the capital structure of its businesses and determines the most economic approach to fund various transactions.

#### ***Financial risk management***

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk, and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to mitigate potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to manage its foreign exchange and interest rate risk exposures.

Risk management is generally carried out by the Group's treasury department, which identifies, evaluates, and manages financial risks in close cooperation with the Group's operating units.

## **Market risk**

### **Foreign currency risk**

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities, and net investments in foreign operations. The Group takes a long-term view of its foreign exchange risk and does not normally seek to mitigate this risk, unless there is a specific circumstance that causes elevated volatility in a particular currency. Given the uncertainty of terms in which the United Kingdom will leave the European Union, Management entered into forward currency contracts to moderate the risk stemming from the elevated volatility of the British Pound.

The Group maintains forward currency contracts with third parties that are predominantly offset by contracts with a related party. As of 31 December 2019, the total notional amount of the Group's outstanding forward currency contracts with third parties was \$1,746.9 million (2018: \$2,372.0 million), and offsetting contracts with a related party of \$1,561.4 million (2018: 2,159.0 million).

### **Sensitivity analysis**

The Group performed an analysis to estimate the impact of a change in foreign exchange rates on commercial exposures relating to its future commercial transactions and held foreign currency derivatives. To demonstrate the sensitivity of a change in foreign exchange rates, the Group estimated the impact of a 10% strengthening of its main currency exposures (assuming all other variables remain constant). A 10% weakening would be comparable in amount with an opposite impact.

	USD		EUR	
	2019	2018	2019	2018
	\$ millions	\$ millions	£ millions	£ millions
Profit (loss) before income tax	109	107	(253)	(280)
Shareholder's equity	-	-	-	-

### **Interest rate risk**

The Group holds a number of interest rate swaps to manage the exposure to interest rate risk arising from its variable rate borrowings. Interest rate swaps are not designated in hedge accounting relationships. With respect to the Group's outstanding interest rate swap agreement as of 31 December 2019 and 2018, the Group receives a floating rate of interest and pays interest based on a fixed rate. As of 31 December 2019, the total notional amount of the Group's outstanding interest rate swap agreement was \$485.9 million (2018: \$479.7 million). The maturity date for this agreement is July 2021.

The Group performed an analysis and determined that a 1% increase or decrease in market interest rates would not impact profit for the years ended 31 December 2019 nor 2018.

### **Price risk**

The Group is exposed to risks of share price changes as a result of its holdings of listed equity investments. The Group performed an analysis and determined that a 10% increase or decrease in the market price of its listed equity investments would not have a significant impact on shareholder's equity.

The Group is also exposed to commodity price risk relating to the purchase of precious metals and stones for use in its fine jewellery and watch manufacturing processes. In 2019 and 2018, the Group deemed this risk insignificant.

### Liquidity risk management

Liquidity risk is the risk that the Group may encounter difficulties in meeting its financial liabilities that are settled in cash. In managing this risk, the Group monitors closely the liquidity risk of the Group and its individual subsidiaries. A global cash pool is maintained alongside local bank credit facilities and an intercompany lending programme to ensure that local companies can operate with a high level of liquidity. The Group has uncommitted credit lines (Note 19) and applies a policy of maintaining zero net debt at each reporting period.

The following table details the Group's outstanding contractual maturities for its financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows, except for derivative financial liabilities, which are included at their fair value.

For detail on lease liabilities, see Note 12.

2019	Less than 1	1-5 years	5+ years	Total
	year			
	\$ millions	\$ millions	\$ millions	\$ millions
Financial liabilities at amortised cost:				
Borrowings	89.8	599.4	1,515.2	2,204.4
Trade payables	670.1	-	-	670.1
Loans from related parties	411.1	3.9	-	415.0
Other	1,224.5	143.7	64.4	1,432.6
Derivatives (at FVTPL):				
Forward contracts and options	50.4	-	-	50.4
Interest rate swaps	3.0	12.3	3.3	18.6
	<u>2,448.9</u>	<u>759.3</u>	<u>1,582.9</u>	<u>4,791.1</u>

2018	Less than 1	1-5 years	5+ years	Total
	year			
	\$ millions	\$ millions	\$ millions	\$ millions
Financial liabilities at amortised cost:				
Borrowings	64.1	288.7	1,885.5	2,238.3
Trade payables	597.3	-	-	597.3
Loans from related parties	312.8	3.6	-	316.4
Other	1,086.5	163.8	88.0	1,338.3
Derivatives (at FVTPL):				
Forward contracts and options	54.8	-	-	54.8
Interest rate swaps	3.2	8.7	1.7	13.6
	<u>2,118.7</u>	<u>464.8</u>	<u>1,975.2</u>	<u>4,558.7</u>

### Credit risk management

The Group has a large number of customers in a wide range of business segments and is therefore not exposed to any concentration of credit risk on its receivables. The Group's operating units have policies in place to ensure that the sales of products are made to customers with an appropriate credit history.

All derivatives instruments and cash and cash equivalents are held with counterparties with investment grade status.

While the Group takes steps to mitigate its credit risk, the maximum exposure to credit risk is the total value of financial assets and cash and cash equivalents.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or

has entered into bankruptcy proceedings. None of the trade receivables that have been written off are subject to enforcement activities.

#### 24. EQUITY DIVIDENDS AND SHARE PREMIUM

	<u>2019</u>	<u>2018</u>
	\$ millions	\$ millions
<b>Interim dividends paid</b>		
Chanel Limited interim dividends paid, \$10.9 million per ordinary share (2018: \$5.2 million per ordinary share)	1,683.6	800.0
Other interim dividends paid	-	42.4
Chanel Limited dividend-in-kind paid	<u>25.5</u>	<u>-</u>
Total dividends paid to the parent	1,709.1	842.4
Dividends paid to non-controlling interests	0.9	0.7
Total dividends paid	<u><u>1,710.0</u></u>	<u><u>843.1</u></u>

Chanel Limited paid interim dividends to its parent of \$507.9 million and \$1,175.7 million in July and December 2019, respectively. In July 2019, Chanel Limited also paid a dividend-in-kind to its parent with a value of \$25.5 million for 100% of the outstanding shares in a subsidiary.

A final dividend with respect to the year ended 31 December 2019 has not been proposed (2018: \$nil). Additionally, no interim dividends have been proposed in 2020.

As noted in the directors' report on pages 18 to 20, the directors approved the cancellation of the share premium of \$963.4 million to a distributable reserve account. Hence, of the total cash dividends paid in 2019 of \$1,683.6 million, \$963.4 million was distributed out of share premium and the remaining balance of \$720.2 million was distributed out of retained earnings.

In 2018, other interim dividends were paid by entities prior to the contribution of their shares by the Group's parent. Under merger accounting, these dividends are presented as a reduction to the consolidated shareholder's equity of the Group.

#### 25. CALLED UP SHARE CAPITAL

Authorised:

	<u>2019</u>	<u>2018</u>
	£	£
1,000 (2018: 1,000) ordinary shares of £1 each	<u>1,000.0</u>	<u>1,000.0</u>

Called up, allotted and fully paid:

	<u>2019</u>	<u>2018</u>
	£	£
155 (2018: 155) ordinary shares of £1 each	<u>155.0</u>	<u>155.0</u>

**26. CHANGES IN WORKING CAPITAL**

Changes in working capital consisted of the following components:

	<u>2019</u>	<u>2018</u>
	\$ millions	\$ millions
Inventories	(114.1)	(140.4)
Trade receivables	(15.1)	(79.3)
Trade payables	73.6	27.1
Other receivables and payables	113.7	(26.9)
	<u>58.1</u>	<u>(219.5)</u>

**27. RELATED-PARTY TRANSACTIONS**

2019	<u>Transactions and balances between the Group and entities under common control</u>	<u>Transactions and balances between the Group and its associates under common control</u>
	\$ millions	\$ millions
Trade receivables and other current assets	55.2	14.8
Other non-current assets	47.0	-
Trade payables and other current liabilities	428.6	72.5
Other liabilities	3.9	-
Revenue	-	29.2
Cost of sales	-	423.8
Finance (costs) income	(106.1)	0.4

As of 31 December 2019, the Group had a loan receivable from its parent of \$43.6 million (2018: \$74.7 million).

As of 31 December 2019, the Group had a loan receivable from an entity under common control of \$3.3 million (2018: \$nil), which carried an interest rate based on the three-month Euribor rate plus 265 basis points. The maturity date for this receivable is January 2024.

As of 31 December 2019, the Group had a loan from its parent of \$411.1 million (2018: \$312.8 million), which carried an interest rate based on the twelve-month Euribor rate plus 82 basis points. The loan is revalued based on the fair market value of certain real estate properties.

As of 31 December 2019, the Group had a current payable to an entity under common control of \$3.9 million (2018: \$3.6 million), which carried an interest rate based on the one-month Bibor rate plus 150 basis points (2018: one-month Bibor plus 150 basis points). The maturity date for this loan is February 2020.

<b>2018</b>	<u>Transactions and balances between the Group and entities under common control</u> \$ millions	<u>Transactions and balances between the Group and its associates under common control</u> \$ millions
Trade receivables and other current assets	74.8	5.7
Other non-current assets	74.8	-
Trade payables and other current liabilities	332.3	70.9
Other liabilities	3.6	-
Revenue	-	24.9
Cost of sales	-	366.0
Finance costs	(12.6)	-

In 2018, Chanel Limited purchased subsidiaries from entities under common control. The difference between the value of the consideration paid and the share capital of these companies resulted in a merger reserve of \$13.3 million. The consideration for the acquired entities was \$43.8 million and was paid in 2018.

#### ***Cash flow analysis***

	<u>2019</u> \$ millions	<u>2018</u> \$ millions
Cash flows from investing activities:		
Purchases of subsidiaries from entities under common control	-	(43.8)
	-	(43.8)
Cash flows from financing activities:		
Repayment of loans from related parties	-	(17.5)
	-	(17.5)
	-	(61.3)

#### ***Compensation of key management personnel***

The remuneration earned by key management personnel of the Group during the year was as follows:

	<u>2019</u> \$ millions	<u>2018</u> \$ millions
Short-term benefits	71.0	72.3
Post-employment benefits	6.0	6.8
Other long-term benefits	25.4	14.3
Termination benefits	3.1	-
	<u>105.5</u>	<u>93.4</u>

**Information regarding directors**

Directors' emoluments totalled \$14.3 million (2018: \$5.5 million) and pension costs totalled \$2.2 million (2018: \$0.7 million). All emoluments are considered short-term benefits with the exception of long-term incentive arrangements of \$15.8 million (2018: \$3.2 million) and compensation for loss of office of \$nil (2018: \$nil).

Three (2018: five) directors accrued benefits under defined benefit pension plans. Three directors (2018: three) accrued benefits under defined contribution plans. The highest paid director received remuneration of \$9.6 million (2018: \$4.2 million) and participated in defined benefit pension plans with an accrued annual entitlement of \$0.9 million. He did not participate in a Group pension scheme in 2018.

**28. BUSINESS COMBINATIONS****2019 Transactions**

In 2019, the Group made four acquisitions that support manufacturing functions of the business for \$20.5 million. In addition, the Group recognised non-controlling interests of \$0.5 million and liabilities for its obligation to purchase the remaining shares of \$8.4 million. As a result of the acquisitions, the Group recognised goodwill in the consolidated financial statements of \$23.1 million.

**2018 Transactions**

In 2018, the Group made two acquisitions.

On 18 July 2018, the Group purchased 100% of Colomer Leather Group for \$90 million. Colomer Leather Group is a company specialising in river and tanning operations that support manufacturing functions of the business. Colomer Leather Group includes subsidiaries of which two have existing minority shareholders. As a result, the Group recognised a non-controlling interest in the consolidated financial statements.

On 25 September 2018, the Group purchased 100% of Orlebar Brown Limited for \$44.1 million. Orlebar Brown is a high-end men's apparel company specialising in men's swimming shorts as well as resort wear. Orlebar Brown is a complementary brand to specific businesses of the Group and there are multiple synergies that are beneficial to these activities.

Assets acquired and liabilities assumed in business combinations were recorded in the consolidated statement of financial position as of the respective acquisition dates based upon their estimated fair values at such dates. The results of operations of businesses acquired by the Group have been included in the consolidated statement of income since their respective dates of acquisition.

The consideration transferred for businesses acquired are shown in aggregate as follows:

	<u>2019</u> \$ millions	<u>2018</u> \$ millions
Cash consideration	20.5	134.0
Less: Cash acquired	<u>(1.5)</u>	<u>(11.2)</u>
	<u>19.0</u>	<u>122.8</u>

The excess of consideration transferred over the estimated fair values of the underlying assets acquired and liabilities assumed was allocated to goodwill. None of the consideration is contingent.

The goodwill of \$23.1 million (2018: \$79.9 million) arising from these acquisitions is attributable to the specific know-how and multiple synergies that will benefit the Group in both manufacturing and in a digital capacity. None of the goodwill is deductible for income tax purposes.

The preliminary allocation of the total purchase price for businesses acquired is summarised as follows:

	<u>2019</u> \$ millions	<u>2018</u> \$ millions
Cash consideration	20.5	134.0
Fair value of assets acquired in excess of liabilities assumed	(6.3)	(60.8)
Non-controlling interests	0.5	6.7
Obligation to purchase non-controlling interests	8.4	-
Goodwill arising on acquisitions	<u>23.1</u>	<u>79.9</u>

The following table summarises the fair values of the assets acquired and liabilities assumed in connection with the acquisitions:

	<u>2019</u> \$ millions	<u>2018</u> \$ millions
<b>Non-current assets:</b>		
Property, plant and equipment	8.3	27.5
Intangible assets	-	28.3
Right-of-use assets	1.5	-
Other assets	0.4	1.1
<b>Current assets:</b>		
Inventories	6.0	12.2
Trade receivables and other assets	8.6	12.3
Cash and cash equivalents	1.5	11.2
<b>Non-current liabilities:</b>		
Borrowings	(1.5)	(1.8)
Other liabilities	(2.2)	(11.9)
Lease liability	(1.1)	-
<b>Current liabilities:</b>		
Trade payables and other liabilities	(11.5)	(16.1)
Borrowings	(3.4)	(2.0)
Lease liability	(0.3)	-
	<u>6.3</u>	<u>60.8</u>

	<u>2019</u> \$ millions	<u>2018</u> \$ millions
Acquisition costs	1.4	2.0
<b>Net revenue of business combinations:</b>		
As of acquisition date	8.0	20.2
Full year	26.9	75.2
<b>Net income of business combinations:</b>		
As of acquisition date	(0.5)	(0.6)
Full year	(0.6)	8.1

Acquisition costs were recorded within selling, general, and administrative expenses in the consolidated statement of income.



## 29. COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, the Group has reported various liabilities due to contractual commitments pursuant to its property (Note 10) and retirement benefit plans (Note 20). The Group also has other commitments of \$22.6 million related to global climate initiatives.

As part of its day-to-day management, the Group is party to various legal proceedings concerning brand rights, the protection of intellectual property rights, the setup of selective retailing networks, licensing arrangements, employee relations, tax audits, and other areas relating to its business. Based on consultations with legal counsel, the Group believes that the amounts reported in the consolidated statement of financial position in respect of these risks, litigation, or disputes, known or outstanding at year-end, are sufficient to avoid its consolidated financial statements from being materially impacted in the event of an unfavourable outcome.

## 30. ULTIMATE PARENT COMPANY

The Group's consolidated financial statements represent the largest group in which the financial statements of the Group are consolidated and publicly available. The directors regard the Group's immediate and ultimate parent company to be Litor Limited, a company incorporated and registered in the Cayman Islands.

## 31. SUBSEQUENT EVENTS

The Covid-19 pandemic has severely impacted the global economy and could adversely impact the Group depending on the duration of business disruption and the reduced ability to produce and commercialise our products.

The Group has always maintained a healthy balance sheet with strong cash flows and to further secure this position, the Group has obtained additional funding in 2020 so that it can continue to invest in the long-term vision of the brand, whilst it navigates through these unprecedented times. The details of the borrowing arrangements are as follows:

- On 22 April, the Group issued \$756.0 million (£600.0 million) of Commercial Paper through the Covid Corporate Financing Facility. This Commercial Paper is unsecured and short-term in nature and has been fully drawn down at the prevailing SONIA rate plus 40bps, resulting in an all-in borrowing cost of 0.5%.
- On 27 April, the Group obtained a \$275.0 million (€250.0 million) revolving credit facility from BNP Paribas. On 4 May, the Group obtained a \$843.7 million (€767.0 million) syndicated revolving credit facility arranged by Citigroup Global Markets Limited. These facilities terminate on the first anniversary of the signing of the agreement, with two six month extension options available at the Group's request, meaning that the total length of the facility could be up to two years. Terms of the facilities include: a participation fee; a commitment fee; a utilization fee; an extension fee; and a margin and will result on an all-in financing cost between 0.8% and 2.05% plus the borrowing rate under LIBOR or EURIBOR, depending on the drawdown currency.

### Inventory

The Group has considered the level of inventory provisions recognised at 31 December 2019 and has concluded that there is no further material impairment to inventory held at this point in time resulting from Covid-19. The Group is currently assessing the inventory cycles of the seasonal collections and the impact, if any, on its provisioning policy in 2020.

### Intangible assets

The Group has considered the potential impairment of intangible assets on its financial statements as of 31 December 2019. Intangible assets includes assets with indefinite useful lives, such as goodwill (\$182.9 million) and leasehold rights (\$81.7 million), that are tested for impairment annually in accordance with IFRS. Certain other intangible assets with definite useful lives and mainly a result of recent business acquisitions

will require impairment testing triggered by the impact of Covid-19. The assumptions used to test for impairment at the reporting date will need to be reassessed in 2020 to reflect the current economic conditions and specifically to address the increased risk and uncertainty related to Covid-19. Whilst we recognise that there will be an adverse impact on revenues and cash inflows for some portions of 2020, we expect a recovery in the future but it is difficult to assess the timing of a turnaround with certainty.

These events are non-adjusting subsequent events and, therefore, the financial position and results of operations as of and for the year ended 31 December 2019 have not been adjusted to reflect their impact. Other impacts from Covid-19 to business in 2020 have been disclosed in Note 2.4.

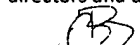
No other significant subsequent events were noted by the Group up to the date of the signing of these accounts.

**COMPANY STATEMENT OF FINANCIAL POSITION**  
**AS OF 31 DECEMBER 2019**  
(In millions of Sterling)

ASSETS	Notes	2019	2018
<b>Non-current assets:</b>			
Intangible assets	E	4.6	9.3
Property, plant and equipment	F	67.9	62.2
Investment property	G	50.1	50.4
Right-of-use assets	H	185.3	-
Investment in subsidiaries	I	1,041.3	1,074.9
Retirement benefit asset	N	6.9	0.4
Deferred income tax assets	J	7.5	-
Investment in associate		1.7	0.9
Other assets	Q	22.3	141.6
<b>Total non-current assets</b>		<b>1,387.6</b>	<b>1,339.7</b>
<b>Current assets:</b>			
Inventories	L	30.5	26.8
Trade receivables and other assets	K	160.7	126.9
Prepayments		9.4	12.9
Cash		1,754.6	86.3
<b>Total current assets</b>		<b>1,955.2</b>	<b>252.9</b>
<b>TOTAL ASSETS</b>		<b>3,342.8</b>	<b>1,592.6</b>
<b>SHAREHOLDER'S EQUITY AND LIABILITIES</b>			
<b>SHAREHOLDER'S EQUITY</b>			
Share capital	25	-	-
Share premium	24	-	738.6
Reserves		5.4	47.3
Retained earnings		2,907.2	556.1
<b>TOTAL SHAREHOLDER'S EQUITY</b>		<b>2,912.6</b>	<b>1,342.0</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities:</b>			
Borrowings	M	64.9	66.7
Lease liabilities	H	178.6	-
Other liabilities	Q	5.6	26.7
Deposits		-	2.7
Deferred income tax liabilities	J	-	3.6
<b>Total non-current liabilities</b>		<b>249.1</b>	<b>99.7</b>
<b>Current liabilities:</b>			
Trade payables and other liabilities	O	131.7	102.7
Income tax liabilities		11.2	17.0
Borrowings	M	1.9	1.9
Lease liabilities	H	10.4	-
Provisions	P	9.9	12.3
Other taxes payable		16.0	17.0
<b>Total current liabilities</b>		<b>181.1</b>	<b>150.9</b>
<b>TOTAL LIABILITIES</b>		<b>430.2</b>	<b>250.6</b>
<b>TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES</b>		<b>3,342.8</b>	<b>1,592.6</b>

Profit for the year was £2,932.3 million (2018: £1,001.7 million).

The financial statements of Chanel Limited (registered number 00203669) on pages 82 to 105 were approved by the board of directors and authorised for issue on 28 May 2020. They were signed on its behalf by:



P.B. Blondiaux  
Director

**COMPANY STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2019  
(In millions of Sterling)**

	Share capital	Share premium	Equity investment revaluation reserve	Other reserves	Retained earnings	Total shareholder's equity
<b>Balances as of 1 January 2018</b>	-	738.6	-	-	190.4	929.0
Profit for the period	-	-	-	-	1,001.7	1,001.7
Other comprehensive income for the period	-	-	47.3	-	(4.2)	43.1
Total comprehensive income for the period	-	-	47.3	-	997.5	1,044.8
Contribution to shareholder	-	-	-	-	-	-
Payment of dividends	-	-	-	-	(631.8)	(631.8)
<b>Balances as of 31 December 2018</b>	-	738.6	47.3	-	556.1	1,342.0
Profit for the period	-	-	-	-	2,932.3	2,932.3
Other comprehensive income for the period	-	-	(41.9)	-	5.6	(36.3)
Total comprehensive income for the period	-	-	(41.9)	-	2,937.9	2,896.0
Share premium reduction	-	(738.6)	-	738.6	-	-
Payment of dividends	-	-	-	(738.6)	(586.8)	(1,325.4)
<b>Balances as of 31 December 2019</b>	-	-	5.4	-	2,907.2	2,912.6

**COMPANY STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**  
(In millions of Sterling)

	Notes	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Operating profit		218.2	202.7
Adjustments to reconcile operating profit to net cash provided by operating activities:			
Depreciation and amortisation of fixed assets and intangibles		15.7	11.9
Depreciation on right-of-use assets		13.0	-
Net impairment of property, plant, and equipment	F	-	1.4
Loss on disposal of property, plant and equipment		(0.2)	-
Settlement of derivatives		(4.8)	-
Net retirement benefit pension plan contribution		0.2	0.1
Other		7.4	-
Cash flows from operations before changes in working capital		<u>249.5</u>	<u>216.1</u>
Changes in working capital		43.2	-
Cash flows from operations		292.7	216.1
Interest received		7.9	2.7
Interest paid on financial borrowings		(3.9)	(6.2)
Interest paid on lease liabilities		(5.8)	-
Income taxes paid		<u>(57.6)</u>	<u>(42.2)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		<u>233.3</u>	<u>170.4</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchases of property, plant, and equipment		(17.4)	(27.7)
Purchase of intangibles		(1.7)	(4.6)
Purchases of subsidiaries from entities under common control		(33.0)	(345.3)
Dividends received		2,783.5	853.2
Purchase of financial assets		-	(61.2)
Return of capital	I	38.5	-
Other		<u>(0.5)</u>	<u>-</u>
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>		<u>2,769.4</u>	<u>414.4</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Repayment of borrowings		(1.9)	(1.9)
Repayment of lease liabilities		(11.1)	-
Proceeds from repayment of loan to related party		1.2	3.5
Repayment of loan from related party		(17.6)	-
Dividends paid		<u>(1,305.0)</u>	<u>(631.8)</u>
<b>NET CASH USED IN FINANCING ACTIVITIES</b>		<u>(1,334.4)</u>	<u>(630.2)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		1,668.3	(45.4)
CASH AND CASH EQUIVALENTS, Beginning of year		86.3	131.7
<b>CASH AND CASH EQUIVALENTS, End of year</b>		<u>1,754.6</u>	<u>86.3</u>

**NOTES TO THE COMPANY FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019**  
(In millions of Sterling, except where specifically indicated otherwise)

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**A. GENERAL INFORMATION**

Chanel Limited (the 'Company') is a private company limited by shares incorporated and registered in England and Wales under the Companies Act of 2006. The address of the registered office is given on page 30. The nature of the Company's operations and its principal activities are set out in the strategic report on pages 3 to 11.

The separate financial statements are prepared in accordance with IFRS, as adopted by the EU and with the Companies Act 2006.

The information regarding the ultimate parent company is consistent with that provided in Note 30 of the consolidated financial statements.

**B. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies are consistent with those given on pages 30 - 46.

**Impact of Adoption of IFRS 16**

**Company statement of financial position**

On transition to IFRS 16, the Company recognised £197.5 million of right-of-use assets and £198.5 million of lease liabilities. In its measurement of lease liabilities, the Company discounted lease payments using the IBR as appropriate for each lease based on factors such as the lessee legal entity credit risk and the remaining lease term at 1 January 2019. The weighted average IBR applied to the lease liabilities on 1 January 2019 was 3.5 percent.

**Company income statement**

The impact of applying IFRS 16 was a £2.8 million improvement to operating profit and a £4.0 million deterioration to profit before tax.

**Company cash flow statement**

The change in the presentation of the cash flows resulted in an improvement of cash flow generated from operating activities of £15.8 million, offset entirely by a corresponding decline in cash flow from financing activities. There is no overall cash flow impact from the adoption of IFRS 16.

**Reconciliation between the Company's operating lease commitments and lease liability**

The following table reconciles the Company's operating lease commitments as a lessee at 31 December 2018, as previously disclosed in the Company's financial statements, to the lease liability recognised on initial application of IFRS 16 at 1 January 2019:

	<u>£ millions</u>
Operating lease commitments as of 31 December 2018	232.2
Effect of discounting on payments included in the calculation of the lease liability	(65.8)
Extension and termination option adjustments	32.9
Other reconciling items	(0.8)
<b>Lease liability as at 1 January 2019</b>	<u><u>198.5</u></u>

**C. PROFIT FOR THE YEAR**

In accordance with the exemption allowed by the Companies Act 2006, Section 408, the Company has not presented its own statement of income.

**D. INFORMATION REGARDING EMPLOYEES**

	<u>2019</u>	<u>2018</u>
	No.	No.
<b>Average monthly number of persons employed (including directors)</b>		
Sales and distribution	1,139	1,190
Administration	271	302
	<u>1,410</u>	<u>1,492</u>
	<u>2019</u>	<u>2018</u>
	£ millions	£ millions
<b>Staff costs during the year (including directors)</b>		
Wages and salaries	85.4	65.7
Social security costs	8.6	6.2
Pensions costs	6.1	4.4
Other personnel costs	4.5	5.0
	<u>104.6</u>	<u>81.3</u>

**E. INTANGIBLE ASSETS**

	<b>Capitalised software and related licenses</b>	<b>Leasehold rights and other</b>	<b>Total</b>
	<b>£ millions</b>	<b>£ millions</b>	<b>£ millions</b>
<b>Cost:</b>			
Balance at 1 January 2018	2.6	6.0	8.6
Additions	4.7	-	4.7
Balance at 31 December 2018	7.3	6.0	13.3
Additions	1.7	-	1.7
Transfer to right-of-use assets	-	(6.0)	(6.0)
Balances at 31 December 2019	9.0	-	9.0
<b>Accumulated amortisation and impairment:</b>			
Balance at 1 January 2018	1.5	1.6	3.1
Amortisation expense	0.7	0.2	0.9
Balance at 31 December 2018	2.2	1.8	4.0
Amortisation expense	2.2	-	2.2
Transfer to right-of-use assets	-	(1.8)	(1.8)
Balance at 31 December 2019	4.4	-	4.4
Carrying amount at 31 December 2018	5.1	4.2	9.3
Carrying amount at 31 December 2019	4.6	-	4.6

Amortisation expense related to intangible assets was reported in cost of sales, distribution and selling, general, and administrative.



**F. PROPERTY, PLANT AND EQUIPMENT**

	<b>Leasehold improvements</b>	<b>Machinery, furniture and equipment</b>	<b>Buildings and building improvements</b>	<b>Construction in progress</b>	<b>Total</b>
	<b>£ millions</b>	<b>£ millions</b>	<b>£ millions</b>	<b>£ millions</b>	<b>£ millions</b>
<b>Cost:</b>					
Balances at 1 January 2018	73.7	36.0	5.1	2.8	117.6
Additions	22.5	2.2	-	4.1	28.8
Disposals	(4.7)	(0.9)	-	-	(5.6)
Transfers	1.9	0.8	-	(2.8)	(0.1)
Balances at 31 December 2018	<u>93.4</u>	<u>38.1</u>	<u>5.1</u>	<u>4.1</u>	<u>140.7</u>
Additions	10.3	2.1	-	6.3	18.7
Disposals	(8.1)	(6.6)	-	-	(14.7)
Transfers	3.2	1.7	-	(4.9)	-
Balances at 31 December 2019	<u>98.8</u>	<u>35.3</u>	<u>5.1</u>	<u>5.5</u>	<u>144.7</u>
<b>Accumulated depreciation and impairment:</b>					
Balances at 1 January 2018	49.2	22.3	0.4	-	71.9
Disposals	(4.6)	(1.0)	-	-	(5.6)
Depreciation expense	7.6	3.1	0.1	-	10.8
Impairment losses	0.4	0.8	-	0.2	1.4
Transfers	10.1	(10.1)	-	-	-
Balances at 31 December 2018	<u>62.7</u>	<u>15.1</u>	<u>0.5</u>	<u>0.2</u>	<u>78.5</u>
Disposals	(8.1)	(6.8)	-	-	(14.9)
Depreciation expense	10.3	2.8	0.1	-	13.2
Balances at 31 December 2019	<u>64.9</u>	<u>11.1</u>	<u>0.6</u>	<u>0.2</u>	<u>76.8</u>
Carrying amount at 31 December 2018	<u>30.7</u>	<u>23.0</u>	<u>4.6</u>	<u>3.9</u>	<u>62.2</u>
Carrying amount at 31 December 2019	<u>33.9</u>	<u>24.2</u>	<u>4.5</u>	<u>5.3</u>	<u>67.9</u>

Depreciation expense related to property, plant and equipment was reported in cost of sales and within other components of operating profit.

The Company had no contractual commitments for the acquisition of property, plant and equipment as of 2019 and 2018.

**G. INVESTMENT PROPERTY**

	<u>2019</u>	<u>2018</u>
	<u>£ millions</u>	<u>£ millions</u>
Cost:		
Balance at 1 January and 31 December	<u>51.9</u>	<u>51.9</u>
Accumulated depreciation and impairment:		
Balance at 1 January	1.5	1.3
Depreciation expense	<u>0.3</u>	<u>0.2</u>
Balance at 31 December	<u>1.8</u>	<u>1.5</u>
Carrying amount at 31 December	<u>50.1</u>	<u>50.4</u>
Fair value at 31 December	<u>163.0</u>	<u>150.0</u>

The Company obtains valuations periodically related to its investment property from a third-party. The valuations consider transaction prices for similar properties in the surrounding area as well as other factors relevant to the location of the buildings. Fair value less costs of disposal was based on a market approach and considered observable factors such as existing rents, lease term of the property, and current market prices for similar properties. In accordance with IFRS 13, the fair value less costs of disposal of the building is within Level 2 of the fair value hierarchy. There was no change to the methods and assumptions in determining fair value less costs of disposal from the prior year.

The Company has pledged its investment property to secure a bank loan, as set out in Note 19 of the consolidated financial statements. The Company had no contractual commitments related to its investment property as of 31 December 2019 (2018: \$nil).

The property rental income earned by the Company from its investment property, which is leased out under operating leases, amounted to £3.0 million (2018: £3.2 million). Direct operating expenses including depreciation arising on the investment property, all of which generated rental income in the period, amounted to £0.2 million (2018: £0.3 million).

**H. LEASES****I. Disclosures required by IFRS 16***The Company as a lessee***Right-of-use assets**

The Company's real estate leases are composed primarily of land and buildings for its boutiques and offices. Machinery and equipment leases include vehicles, IT, office, and distribution equipment.

Changes in right-of-use assets by underlying asset type during the period:

	<u>Real estate</u>	<u>Machinery and</u> <u>equipment</u>	<u>Total</u>
	<u>£ millions</u>	<u>£ millions</u>	<u>£ millions</u>
Gross:			
Balance at 1 January 2019	197.2	0.3	197.5
New leases	-	0.4	0.4
Remeasurements	0.4	-	0.4
Leases terminated	-	(0.1)	(0.1)
Balance at 31 December 2019	<u>197.6</u>	<u>0.6</u>	<u>198.2</u>
Accumulated depreciation and impairment:			
Balance at 1 January 2019	-	-	-
Depreciation expense	12.7	0.3	13.0
Leases terminated	-	(0.1)	(0.1)
Balance at 31 December 2019	<u>12.7</u>	<u>0.2</u>	<u>12.9</u>
Carrying amount at 31 December	<u>184.9</u>	<u>0.4</u>	<u>185.3</u>

**Lease liabilities**

Changes in lease liabilities during the period:

	<u>Current</u>	<u>Non-current</u>	<u>Total</u>
	<u>£ millions</u>	<u>£ millions</u>	<u>£ millions</u>
Gross:			
Balance at 1 January 2019	10.1	188.4	198.5
New leases	0.1	0.3	0.4
Repayments	(16.9)	-	(16.9)
Accrued interest	6.7	-	6.7
Remeasurements	-	0.3	0.3
Transfers	10.4	(10.4)	-
Balance at 31 December 2019	<u>10.4</u>	<u>178.6</u>	<u>189.0</u>

The total interest expense on lease liabilities and the total cash outflow in 2019 was £6.7 million and £16.9 million, respectively.

Maturity analysis of lease liabilities:

	<u>2019</u>
	£ millions
Less than one year	16.9
One to five years	66.7
More than five years	164.3
	<u>247.9</u>

The Company does not face a significant liquidity risk with regard to its lease liabilities.

#### **Lease payments not recognised as a liability**

The Company has elected not to recognise a lease liability for short-term leases or for leases of low-value assets. Payments made under such leases are expensed on a straight-line basis. There were no expenses relating to short-term leases or low value assets in 2019. The expenses relating to variable lease payments which were not dependent on an index or a rate were £0.2 million.

#### **Variable lease payments based on sales**

Some leases of retail stores contain variable lease payments that are based on sales that are made within a particular store. Total fixed and variable lease payments were £16.9 million and £0.2 million, respectively, as of 31 December 2019. Overall, the variable payments constitute 1.2% of the Company's entire lease payments. The variable payments are dependent on sales and are expected to represent a similar proportion of total lease payments in future years.

#### **Extension options**

Some leases of office buildings and boutique space contain extension options. The Company assesses whether it is reasonably certain to exercise the options at lease commencement and subsequently, if there is a change in circumstances within its control. Such assessment involves management judgment and estimate based on information at the time the assessments are made. Extension options are included in the lease term when the group has an economic incentive to exercise the option. The Company considers available evidence at the time of the assessment, including potential favourable terms upon extension, potential termination penalties, the relative costs associated with potential relocation or termination of the lease and the extent of leasehold improvements undertaken. There were no undiscounted potential future lease payments not included in the lease liability.

#### **Leases not yet commenced to which the Company is committed**

There were no future cash flows of leases not yet commenced and, therefore, not included in the lease liability at the reporting date.

#### **The Company as a lessor**

##### **Lease receivables**

Income recognised during the year from operating leases is £5.4 million. Of that amount, £2.4 million is attributable to subletting right-of-use assets.

##### **Operating leases**

The Company leases out its investment property and some leased properties to third parties that are considered operating leases since they do not transfer substantially all of the risks and rewards incidental to

the ownership of the assets. Refer to Note G for additional information regarding investment property operating leases.

Maturity analysis of operating lease receivables, showing the undiscounted lease payments to be received after the reporting date:

	<u>2019</u>
	£ millions
Less than one year	5.0
One to two years	5.0
Two to three years	5.0
Three to four years	5.0
Four to five years	5.0
More than five years	<u>27.1</u>
<b>Total undiscounted lease payments</b>	<b><u>52.1</u></b>

The Company does not have any finance leases.

## II. Disclosures required by IAS 17

### The Company as a lessee

The Company has entered into operating leases for boutique, office and warehouse space, computer equipment and vehicles. The aggregate minimum rental commitments under these operating leases as of 31 December 2018 were as follows:

	<u>2018</u>
	£ millions
Not later than one year	16.8
Later than one year and not later than five years	65.7
Later than five years	<u>149.7</u>
	<b><u>232.2</u></b>

Minimum rentals payable under certain operating leases are subject to revision based on official government indices. Rental expense recognised with respect to operating leases was £13.7 million in 2018. There was no contingent rent from operating leases or contingent rent from finance leases in 2018.

Chanel Limited as lessor

Operating leases are related to the investment property owned by the Company. The lessee does not have an option to purchase the property at the end of the lease term. The aggregate minimum rental receivable for leased property as of 31 December 2018 was as follows:

	<b>2018</b>
	<b>£ millions</b>
Not later than one year	5.4
Later than one year and not later than five years	21.5
Later than five years	33.6
	<u>60.5</u>

There was no contingent rent recognised as income from the operating lease. The net rental income earned during the year was £2.9 million.

**I. INVESTMENT IN SUBSIDIARIES**

Investments in subsidiaries consisted of the following components:

	<b>2019</b>	<b>2018</b>
	<b>£ millions</b>	<b>£ millions</b>
Investment in subsidiaries	1,057.8	1,131.3
Impairment	(16.5)	(56.4)
	<u>1,041.3</u>	<u>1,074.9</u>

	<b>2019</b>	<b>2018</b>
	<b>£ millions</b>	<b>£ millions</b>
<b>Cost:</b>		
Balance at 1 January	1,131.3	786.0
Additions	33.0	345.3
Return of capital	(38.5)	-
Disposals	(68.0)	-
Balance at 31 December	<u>1,057.8</u>	<u>1,131.3</u>
<b>Accumulated impairment:</b>		
Balance at 1 January	56.4	41.9
Impaired	7.7	14.5
Disposals	(47.6)	-
Balance at 31 December	<u>16.5</u>	<u>56.4</u>
Carrying Amount at 31 December	<u>1,041.3</u>	<u>1,074.9</u>

**Acquisitions, Disposals and Return of Capital**

On 25 June 2019, the Company paid a dividend-in-kind to its parent, comprising the entire issued share capital of Holland & Holland Limited, having a value of £20.4 million.

On 26 September 2019, the Company purchased the entire issued share capital of Trochair Limited from an affiliate for £33 million, which represents the enterprise value of the shares as of the sale date.

On 16 December 2019, the Company received a return of share premium of £38.5 million from its subsidiary, Chanel SARL.

### Impairment

The Company assessed all investments in subsidiaries for impairment indicators at 31 December 2019. The Company recognised an additional impairment of £7.7 million in 2019 (2018: £14.5 million).

In 2018, based on this assessment following a capital contribution of £38 million, the Company recognised a £14.5 million impairment in its investment in Holland & Holland Limited. The valuation of Holland & Holland Limited was based on the fair value of the company and its subsidiaries in order to determine the carrying amount of the investment, which was calculated to be £23.5 million as of 31 December 2018.

For a list of the consolidated subsidiaries, refer to Note T of the financial statements.

## J. INCOME TAXES

The following is a roll-forward of the deferred tax asset as of 31 December 2019 and the deferred tax liability as of 31 December 2018:

2019 £ millions	Opening balance	Recognised in income statement	Recognised directly in equity	Closing balance
Property, plant, and equipment	4.2	(0.2)	-	4.0
Other financial assets	(9.2)	2.3	9.8	2.9
Retirement benefit obligations	(0.1)	-	(1.1)	(1.2)
Provisions	1.1	0.4	-	1.5
Other	0.4	(0.1)	-	0.3
	<u>(3.6)</u>	<u>2.4</u>	<u>8.7</u>	<u>7.5</u>

2018 £ millions	Opening balance	Recognised in income statement	Recognised directly in equity	Closing balance
Property, plant, and equipment	3.9	0.3	-	4.2
Other financial assets	1.1	(0.6)	(9.7)	(9.2)
Retirement benefit obligations	(1.0)	-	0.9	(0.1)
Provisions	0.9	0.2	-	1.1
Other	-	0.4	-	0.4
	<u>4.9</u>	<u>0.3</u>	<u>(8.8)</u>	<u>(3.6)</u>

**K. TRADE RECEIVABLES AND OTHER ASSETS**

	<u>2019</u>	<u>2018</u>
	<u>£ millions</u>	<u>£ millions</u>
Trade receivables	91.7	117.2
Loan to related party	-	1.2
Derivatives	-	2.0
Other assets	69.0	6.5
	<u>160.7</u>	<u>126.9</u>

Trade receivables consisted of the following components:

	<u>2019</u>	<u>2018</u>
	<u>£ millions</u>	<u>£ millions</u>
Gross trade receivables	92.9	118.4
Allowance for doubtful accounts	(1.2)	(1.2)
Net carrying amount	<u>91.7</u>	<u>117.2</u>
Aging of trade receivables:		
Not past due	37.5	46.7
Less than one month past due	11.9	14.4
Greater than one month past due	2.2	1.0
Due from related party	41.3	56.3
	<u>92.9</u>	<u>118.4</u>
Movement in allowance for doubtful accounts:		
Balance at 1 January	(1.2)	(0.3)
Impairment losses	-	(0.9)
Balance at 31 December	<u>(1.2)</u>	<u>(1.2)</u>

Trade receivables relating to the Company's wholesale activities have payment terms that are generally less than three months.

There is no concentration of credit risk with respect to trade receivables as the Company has a large number of customers. The Company has established credit check procedures to ensure the high creditworthiness of its customers.



**L. INVENTORIES**

Inventories consisted of the following components:

	<u>2019</u> £ millions	<u>2018</u> £ millions
Finished goods	46.8	41.6
Reserves	<u>(16.3)</u>	<u>(14.8)</u>
	<u>30.5</u>	<u>26.8</u>

The cost of inventories recognised in the consolidated statement of income was £162.8 million (2018: £153.8 million).

In addition, the Company recognised £8.6 million (2018: £6.9 million) related to the write-down of inventory to net realisable value.

**M. BORROWINGS**

The following is a breakdown of borrowings by maturity:

	<u>Bank Debt</u> £ millions
2020	1.9
2021	1.9
2022	1.9
2023	1.9
2024	1.9
Thereafter	<u>57.5</u>
	<u>67.0</u>
Less unamortised debt issuance cost	(0.2)
Less current borrowings	<u>(1.9)</u>
Non-current borrowings	<u>64.9</u>

At 31 December 2019, the loan balance was £67.0 million (2018: £68.9 million). The entire loan balance is secured by the Company's investment property. The repayment schedule for this loan commenced in April 2016 and consists of quarterly installments, with a final maturity in 2028. The interest rate for this loan is the three-month Libor rate plus 185 basis points. To manage interest rate risk, the Company entered into an interest rate swap agreement to fix the rate of interest on this loan at 4.145% throughout the life of the loan. The costs of raising loan finance are amortised to the profit and loss account over the term of the loan. The amortisation charge for 2019 and 2018 was less than £0.1 million.

The Company had access to a credit line of £20 million in 2019 (2018: £20 million). No amounts were outstanding in 2019 (2018: £nil).

## N. RETIREMENT BENEFIT OBLIGATIONS

A description of the retirement plan and detail of the risks and actuarial assumptions of the plan are discussed in Note 20 of the consolidated financial statements. The Company recognised an expense of £2.3 million and £2.1 million related to its defined contribution plans in 2019 and 2018, respectively.

The principal assumptions used for the valuations of the defined benefit plans were as follows:

	<u>2019</u>	<u>2018</u>
	<u>Defined Benefit Plans</u>	<u>Defined Benefit Plans</u>
Discount rate	2.0% - 3.1%	2.6% - 4.2%
Expected rate of salary increase	3.0% - 3.8%	3.8% - 4.0%
Future pension increases	2.7% - 3.1%	3.1%
Inflation	2.1% - 3.3%	2.3% - 3.3%
The average life expectancy in years of pensioner retiring at age 65:		
Male	22.5	23.5
Female	23.8	24.6

Amounts recognised in the financial statements with respect to the defined benefit plans were as follows:

	<u>Defined Benefit Plans</u>	
	<u>2019</u>	<u>2018</u>
	<u>£ millions</u>	<u>£ millions</u>
Service cost:		
Current service cost, including administrative expenses	2.4	1.5
Net interest	0.4	-
Components of defined benefit costs	<u>2.8</u>	<u>1.5</u>
Remeasurements on the net defined benefit liability:		
Return on plan assets, excluding amounts included in net interest	(11.8)	6.2
Actuarial (gains) losses due to changes in demographic assumptions	(1.5)	0.4
Actuarial losses (gains) due to changes in financial assumptions	6.6	(3.9)
Actuarial losses due to experience adjustments	-	2.4
Components of defined benefits costs	<u>(6.7)</u>	<u>5.1</u>

The Company recognised £6.7 million of actuarial gains and £5.1 million of actuarial losses on defined benefit retirement plans directly in shareholder's equity in 2019 and 2018, respectively. Accumulated actuarial losses recognised in shareholder's equity were £3.7 million (2018: £3.0 million)

The amounts included in the statement of financial position with respect to the defined benefit plans were as follows:

	Defined Benefit Plans	
	2019	2018
	£ millions	£ millions
Present value of funded defined benefit obligation	(74.3)	(68.2)
Fair value of plan assets	81.2	68.6
Funded status	6.9	0.4
Present value of unfunded defined benefit obligation	-	-
Net asset on the statement of financial position	6.9	0.4

Movements in the present value of the defined benefit obligation were as follows:

	Defined Benefit Plans	
	2019	2018
	£ millions	£ millions
Defined benefit obligation, 1 January	68.2	67.6
Current service cost	2.4	1.5
Interest cost	2.6	1.8
Contributions from plan participants	0.1	0.1
Actuarial (gains) losses due to changes in demographic assumptions	(1.5)	0.4
Actuarial losses (gains) due to changes in financial assumptions	6.6	(3.9)
Actuarial losses due to experience adjustments	-	2.4
Net decrease due to disposal of subsidiary	(2.2)	-
Benefits paid	(1.9)	(1.7)
Defined benefit obligation, 31 December	74.3	68.2

Movements in the fair value of the plan assets were as follows:

	Defined Benefit Plans	
	2019	2018
	£ millions	£ millions
Fair value of plan assets, 1 January	68.6	73.4
Interest income	2.2	1.8
Return on plan assets, excluding amounts in interest income	11.8	(6.2)
Contributions from the employer	0.7	1.2
Contributions from plan participants	0.1	0.1
Net decrease due to disposal of subsidiary	(0.3)	-
Benefits paid	(1.9)	(1.7)
Fair value of plan assets, 31 December	81.2	68.6

The fair value of the plan assets at 31 December 2019 and 31 December 2018 for each category are as follows:

	<u>2019</u>	<u>2018</u>
	Fair value of plan assets	Fair value of plan assets
	£ millions	£ millions
Equity securities	61.4	46.7
Government bonds	12.2	13.2
Corporate bonds	3.4	3.2
Property	3.6	3.6
Other	0.6	1.9
	<u>81.2</u>	<u>68.6</u>

In 2020, the Company is committed to make a contribution of £0.7 million.

The average duration of the defined benefit obligation is 18.9 years (2018: 18.7 years). Further breakdown is as follows:

- Active members: 21.9 years (2018: 21.6 years);
- Deferred vested members: 21.6 years (2018: 21.6 years); and
- Retired members: 11.5 years (2018: 11.4 years)

The significant assumptions used in determining the defined benefit obligation are the discount rate, expected rate of salary increase, and life expectancy. The sensitivity analysis below has been determined based on possible changes to the significant assumptions while holding all other assumptions constant.

An increase in the discount rate of half a percentage point would decrease the defined benefit obligation by £6.7 million.

An increase in the expected rate of salary increase of half a percentage point would increase the defined benefit obligation by £1.5 million.

A decrease in the mortality rate of 10% for both men and women would increase the defined benefit obligation by £2.2 million.

The present value of the defined benefit obligation in the sensitivity analysis above has been calculated using the projected unit credit method, which is also the method used in calculating the defined benefit obligation for the consolidated statement of financial position. The sensitivity analysis may not be representative of the actual change in the defined benefit obligation. There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior year.

**O. TRADE PAYABLES AND OTHER LIABILITIES**

Trade payables and other liabilities consisted of the following:

	<u>2019</u>	<u>2018</u>
	<u>£ millions</u>	<u>£ millions</u>
Trade payables	<u>59.5</u>	<u>52.9</u>
Derivatives:		
Forward contracts and options	10.2	-
Interest rate swaps	0.8	0.7
Other liabilities:		
Salaries, commissions, and related	37.5	16.9
Advertising, promotion, and demonstration	4.2	11.0
Other liabilities	<u>19.5</u>	<u>21.2</u>
	<u>72.2</u>	<u>49.8</u>
	<u>131.7</u>	<u>102.7</u>

There was no contract liabilities reported as of 31 December 2019 (2018: £0.1 million). There were no significant changes in the contract liability balances during the reporting period.

**P. PROVISIONS**

	<u>Product-related</u>	<u>Asset retirement obligations</u>	<u>Restructuring costs</u>	<u>Provisions with related parties</u>	<u>Total</u>
	<u>£ millions</u>	<u>£ millions</u>	<u>£ millions</u>	<u>£ millions</u>	<u>£ millions</u>
Balances at 1 January 2018	2.2	0.2	-	7.6	10.0
Additional provisions recognised	0.8	-	2.7	-	3.5
Used during the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1.2)</u>	<u>(1.2)</u>
Balances at 31 December 2018	3.0	0.2	2.7	6.4	12.3
Additional provisions recognised	1.1	-	-	0.4	1.5
Used during the year	<u>-</u>	<u>-</u>	<u>(2.7)</u>	<u>(1.2)</u>	<u>(3.9)</u>
Balances at 31 December 2019	<u>4.1</u>	<u>0.2</u>	<u>-</u>	<u>5.6</u>	<u>9.9</u>

***Product related***

Provisions for product sales returns are recognised based on sales performance and historical trends and represent the refund liability for the expected refunds to customers.

***Asset retirement obligations***

The Company records a provision reflecting the cost to restore an item of property, plant and equipment back to its original condition at the end of its useful life.

**Restructuring costs**

Restructuring costs primarily relate to the relocation of certain corporate functions to the UK. The amounts provided for predominantly comprise retention costs and employee severance.

**Provisions with related parties**

This represents the Company's inventory reserves for inventory held by the related party supplier companies. As the Company is not holding the physical inventory, the provision is recorded in current provisions.

**Q. FINANCIAL INSTRUMENTS****Categories of financial assets and liabilities**

The Company's categories of financial assets and financial liabilities are as follows:

**Financial Assets**

	2019		2018	
	Current £ millions	Non-Current £ millions	Current £ millions	Non-Current £ millions
Financial assets at amortised cost:				
Trade receivables	91.7	-	117.2	-
Loan to related party	-	-	1.2	-
Cash and cash equivalents	1,754.6	-	86.3	-
Other	2.7	22.3	6.5	23.5
Financial assets at FVOCI:				
Listed equity investments	66.3	-	-	118.1
Financial assets at FVTPL:				
Derivatives:				
Forward contracts and options	-	-	2.0	-
	<u>1,915.3</u>	<u>22.3</u>	<u>213.2</u>	<u>141.6</u>

**Financial Liabilities**

	2019		2018	
	Current £ millions	Non-Current £ millions	Current £ millions	Non-Current £ millions
Financial liabilities at amortised cost:				
Borrowings	1.9	64.9	1.9	66.7
Trade payables	59.5	-	52.9	-
Lease liabilities	10.4	178.6	-	-
Loans from related parties	-	-	-	17.6
Other	61.2	-	48.1	4.8
Financial liabilities at FVTPL:				
Derivatives:				
Forward contracts and options	10.2	-	-	-
Interest rate swaps	0.8	5.6	0.7	4.3
	<u>144.0</u>	<u>249.1</u>	<u>103.6</u>	<u>93.4</u>

The fair value measurement and hierarchy levels are disclosed in Note 23.

The following table details the Company's outstanding contractual maturities for its financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows, except for derivative financial liabilities, which are included at their fair value.

For detail on lease liabilities, see Note H.

2019	Less than 1	1-5 years	5+ years	Total
	year			
	£ millions	£ millions	£ millions	£ millions
Financial liabilities at amortised cost:				
Borrowings	1.9	7.4	57.5	66.8
Trade payables	59.5	-	-	59.5
Other	61.2	-	-	61.2
Derivatives (at FVTPL):				
Forward contracts and options	10.2	-	-	10.2
Interest rate swaps	0.8	3.5	2.1	6.4
	<u>133.6</u>	<u>10.9</u>	<u>59.6</u>	<u>204.1</u>

2018	Less than 1	1-5 years	5+ years	Total
	year			
	£ millions	£ millions	£ millions	£ millions
Financial liabilities at amortised cost:				
Borrowings	1.9	7.3	59.4	68.6
Trade payables	52.9	-	-	52.9
Loans from related parties	-	17.6	-	17.6
Other	48.1	4.8	-	52.9
Derivatives (at FVTPL):				
Interest rate swaps	0.7	2.6	1.7	5.0
	<u>103.6</u>	<u>32.3</u>	<u>61.1</u>	<u>197.0</u>

There are various risks associated with financial instruments, including capital risk, financial risk, market risk, liquidity risk and credit risk. Further details of these risks are discussed in Note 23 of the consolidated financial statements.

**R. RELATED-PARTY TRANSACTIONS***Balances and transactions between the Company and entities under common control*

	<u>2019</u> £ millions	<u>2018</u> £ millions
Trade receivables and other current assets	41.3	59.5
Other non-current assets	22.4	23.5
Trade payables and other current liabilities	62.0	49.6
Other non-current liabilities	-	17.6
Revenue	179.7	162.5
Cost of sales	44.6	41.2
Dividend income	2,783.4	853.1
Investment income, net	-	0.2
Finance costs, net	(0.6)	(0.8)

**S. COMMITMENTS**

The Company has commitments of £7.3 million related to global climate initiatives.



**T. ENTITIES INCLUDED IN CONSOLIDATION**

<u>Entity (Legal Name)</u>	<u>Country of Incorporation</u>	<u>Ownership Percentage (%)</u>	<u>Entity (Legal Name)</u>	<u>Country of Incorporation</u>	<u>Ownership Percentage (%)</u>
Chanel Limited	United Kingdom	Parent			
Activite Creation Tissage 3	France	100%	Chanel S.A. de C.V.	Mexico	100%
Adobinve SL <sup>1</sup>	Spain	68%	Chanel S.A. Genève	Switzerland	100%
Afroditi Inc.	United States	100%	Chanel S.L.U	Spain	100%
Artlux S.A.	Switzerland	100%	Chanel S.r.l.	Italy	100%
Barrie France	France	100%	Chanel s.r.o <sup>2</sup>	Czech Republic	100%
Barrie Knitwear Limited	United Kingdom	100%	Chanel Saint Honoré	France	100%
Biella Filatura S.r.l. <sup>1</sup>	Italy	100%	Chanel SARL *	Luxembourg	100%
Blue Wave USA Inc. <sup>2</sup>	United States	93%	Chanel SARL *	Switzerland	100%
Calzaturificio Gensl Group S.r.l	Italy	80%	Chanel Sdn. Bhd. *	Malaysia	100%
Capsum	France	93%	Chanel SPRL	Belgium	100%
Capsum (Shanghai) Trading Co., Ltd.	China	93%	Chanel Sweden AB *	Sweden	100%
Capsum Inc.	United States	93%	Chanel Unipessoal Limitada	Portugal	100%
Centre de Recherches et d'Investigations Epidermiques et Sensorielles (C.E.R.I.E.S.)	France	100%	Chanel Vietnam Company Limited *	Vietnam	100%
Chanel *	Monaco	100%	Chanel, Inc. and Subsidiaries *	United States	100%
Chanel *	France	100%	Château Rauzan-Ségla	France	100%
Chanel (Australia) Pty. Limited *	Australia	100%	Colomer Hides and Skins Holding SLU <sup>1</sup>	Spain	100%
Chanel (China) Co. Ltd.	China	100%	Colomer Leather Group S.L. <sup>1</sup>	Spain	98%
Chanel (India) Private Limited *	India	100%	Compania Universal de Perfumeria Francesca (CUPFSA)		
Chanel (Kuala Lumpur) Sdn Bhd. *	Malaysia	100%	S.de R.L. *	Panama	100%
Chanel (Pty) Limited *	South Africa	100%	Conceria Samanta S.p.A. <sup>2</sup>	Italy	53%
Chanel (Thailand) Limited *	Thailand	100%	Croydon Logistics Limited *	United Kingdom	100%
Chanel Argentina S. de R.L.	Argentina	100%	Defluxe SAS	France	100%
Chanel Asia Pacific Pte Limited *	Singapore	100%	Desrués	France	100%
Chanel Canada ULC *	Canada	100%	Domaine de L'île <sup>2</sup>	France	90%
Chanel Coordination	France	100%	ERES *	France	100%
Chanel Coordination B.V.	Netherlands	100%	Eres Belgique SPRL	Belgium	100%
Chanel Coordination S.r.l.	Italy	100%	Eres Fashion UK Limited	United Kingdom	100%
Chanel Creation B.V.	Netherlands	100%	Eres GmbH	Germany	100%
Chanel Denmark ApS *	Denmark	100%	Eres Italie S.r.l.	Italy	100%
Chanel Distribution Parfums Beauté France	France	100%	Eres LLC	United States	100%
Chanel Europe B.V.	Netherlands	100%	Eres Moda ve Lüks Tüketim Ürünleri Limited	Turkey	100%
Chanel Finance B.V.	Netherlands	100%	Eres Paris S.L.	Spain	100%
Chanel G.K.	Japan	100%	Eres U.S. Inc.	United States	100%
Chanel Gayrimenkul ve Tekstil Limited Sirket	Turkey	100%	Établissements Bodin Joyeux	France	100%
Chanel Global Store Design, Inc.	United States	100%	Europarfumeria, S.A.	Panama	100%
Chanel GmbH	Austria	100%	Europrestigio Distribuição e Comércio de Artigos de Luxo Ltda.	Brazil	100%
Chanel GmbH	Germany	100%	Excelsia S.R.L. <sup>2</sup>	Costa Rica	100%
Chanel Hong Kong Limited *	Hong Kong	100%	G. et F. Châtelain S.A.	Switzerland	100%
Chanel Inc. *	Taiwan	100%	G.K. Chanel Research and Technology Development	Japan	100%
Chanel India Business Solutions Private Limited	India	100%	Gant Causse	France	100%
Chanel International B.V. *	Netherlands	100%	Goossens Paris	France	100%
Chanel Korea YH	South Korea	100%	Grupo Ledexport <sup>1</sup>	Spain	100%
Chanel Limitada	Macau	100%	Holland & Holland <sup>3</sup>	France	100%
Chanel Limited *	New Zealand	100%	Holland & Holland Holdings Limited <sup>3</sup>	United Kingdom	100%
Chanel Limited *	Hong Kong	100%	Holland & Holland Limited <sup>3</sup>	France	100%
Chanel Limited FZE *	United Arab Emirat	100%	Holland & Holland Limited <sup>3</sup>	United Kingdom	100%
Chanel LLC	Ukraine	100%	Holland & Holland Sporting Weapons Limited <sup>3</sup>	United States	100%
Chanel Moda ve Lüks Tüketim Ürünleri Limited Sirketi	Turkey	100%	Holland & Holland U.S. LLC <sup>3</sup>	United States	100%
Chanel Norway AS *	Norway	100%	Hugotag Ennoblement	France	100%
Chanel Parfums Beauté	France	100%	Icarus Limited	Hong Kong	100%
Chanel Pte Limited *	Singapore	100%	Immobili Rosmini S.r.l.	Italy	100%
Chanel S. de R.L. *	Panama	100%	International Metal and Jewelry Co., Ltd.	Thailand	100%
			ISPB	France	100%

<u>Entity (Legal Name)</u>	<u>Country of Incorporation</u>	<u>Ownership Percentage (%)</u>	<u>Entity (Legal Name)</u>	<u>Country of Incorporation</u>	<u>Ownership Percentage (%)</u>
Kamel	France	100%	Parfumerie Versailles (1991) Limitee	Canada	100%
L'Atelier des Matier <sup>2</sup>	Luxembourg	100%	Parfumerie Versailles, S de R.L. de C.V.	Mexico	100%
Lapoduk SARL	Luxembourg	100%	Parfums Chanel Limited *	Ireland	100%
Lemarié	France	100%	Paviliaux SAS	France	100%
Les Ateliers de Verneuil-en-Halette	France	100%	Pells del Llobregat, SA <sup>1</sup>	Spain	60%
Les Moulinaiges de Riotord	France	80%	Perfumèria Francesca (Bolivia) S.r.l <sup>2</sup>	Bolivia	100%
Lesage Interieurs	France	73%	Pieles del Segura, SA <sup>1</sup>	Spain	100%
Lesage Paris	France	100%	Pieles Quintana, SA <sup>1</sup>	Spain	100%
Maison Massaro	France	100%	Pournefoi	France	100%
Maison Michel	France	100%	Roveda S.r.l. and Subsidiary	Italy	100%
Maison Michel UK Limited	United Kingdom	100%	Rowland Ward of Bruton Street Limited <sup>3</sup>	United Kingdom	100%
Manufacture de Cuir Gustave Degermann <sup>2</sup>	France	100%	SC Ateliers de Verneuil-en-Halatte	France	100%
Manufactures de Mode	France	100%	SCI Aineuil	France	100%
Med Participations	France	100%	SCI Anbras	France	100%
Mégisserie Richard	France	80%	SCI Bokoutro	France	100%
Montex	France	100%	SCI Faimin	France	100%
Moussax	France	100%	SCI Kamel 2	France	100%
Moussefork B.V.	Netherlands	100%	SCI Onurb	France	100%
Mousstree	France	100%	SCI Pantino	France	100%
MUSPAC <sup>2</sup>	France	100%	SCI Passysimple <sup>2</sup>	France	100%
Neverwill	France	100%	SCI Saroule	France	100%
OOO Chanel	Russia	100%	SCI Sarouleagain	France	100%
Orlebar Brown (US) Wholesale LLC <sup>1</sup>	United States	100%	SCI Teteatete	France	100%
Orlebar Brown France <sup>2</sup>	France	100%	SCI Traudepezze <sup>2</sup>	France	100%
Orlebar Brown Inc. <sup>1</sup>	United States	100%	Société en Nom Collectif Encorin <sup>1</sup>	France	99.9%
Orlebar Brown Limited *	United Kingdom	100%	Sotraflor	France	50%
Orlebar Brown Miami LLC <sup>1</sup>	United States	100%	St. Supéry, Inc.	United States	100%
Orlebar Brown NY1 LLC <sup>1</sup>	United States	100%	Tannerries Haas	France	100%
Orlebar Brown Spain S.L. <sup>2</sup>	Spain	100%	The Chanel Company Limited *	United States	100%
Paloma	France	100%	Tmine Inc.	United States	100%
Paraffection	France	100%	Trochair Limited *	United Kingdom	100%
Pardesir	France	100%	Vastrakala Exports Private Limited	India	90%
Pardestin	France	100%	W & C Scott (Gunmakers) Limited <sup>3</sup>	United Kingdom	100%

<sup>1</sup> Entity was acquired/created in 2018.

<sup>2</sup> Entity was acquired/created in 2019.

<sup>3</sup> Entity was disposed of in 2019.

\* Chanel Limited has a direct ownership in the entity

All shares issued and owned are ordinary.

Eres Fashion UK Limited, Maison Michel UK Limited and Trochair Limited are companies registered in the United Kingdom under company number 00893083, 09083975 and 00246398, respectively. They are consolidated in these financial statements and have benefitted from an audit exemption for their financial statements for the year ended 31 December 2019, pursuant to Article 479A of the UK Companies Act 2006.