L'Oréal (U.K.) Limited
(Registered Number: 00271555)

Financial Statements
For the Year Ended 31 December 2019

L'Oréal (U.K.) Limited

Contents

Registered Address
L'Oréal (U.K.) Limited
255 Hammersmith Road
London
W6 8AZ

L'Oréal (U.K.) Limited

Strategic Report

The directors present their Strategic Report of L'Oréal (U.K.) Limited ("The Company") for the year ended 31 December 2019.

Principal Activities

The Company sells and distributes, in the UK and Ireland, beauty products, hair care, make up, fragrances and skincare under a variety of brands owned by the parent company.

The Company operates through four main divisions and our products are distributed through various channels including retailers, department store chains, beauty and hair salons, wholesalers, online retailers, pharmacies and dermatology practitioners. The Company also has an estate of retail outlets mostly operating under the brand name of Kiehls.

The Company is a private company limited by shares and is incorporated in the United Kingdom and registered in England and Wales.

Business Review

The board of directors monitor the effectiveness of the Company operations by considering various key performance indicators. The main indicators are the evolution in turnover and both operating profit and post- tax profit margins. The Company also closely monitors its market shares in the markets within which it operates as well as various health, safety and environmental indicators.

The turnover in 2019 increased by 2.0% (2018: decrease 1.1%). The operating profit margin dropped to 12.3% (2018: 14.2%) and the post-tax profit margin fell similarly to 9.7% (2018: 11.6%). In 2019 with the decline in the traditional bricks and mortar retail sector we took the decision to reduce our own retail portfolio with the closure of some of our stores. The impact in terms of impairment has therefore been taken in 2019 and this, coupled with a settlement announced in September 2019 between L'Oréal and the French tax authorities which L'Oréal (U.K.) Limited contributed to, has meant that our 2019 profit margins have fallen. Without these items those margins would have been higher than in 2018. The total assets position of the Company stands at £601.8m (2018: £581.6m).

In 2019, the beauty market continued to be challenged by the ongoing retail transformation and macro changes in consumer behaviours and attitudes. Despite this and the ongoing political concerns in the UK, the beauty market continued to grow and was slightly ahead of the growth recorded in 2018. In terms of sell-out the Company outperformed the market in which it operates and maintained its overall market share. The growth coming from online e-commerce continued to be dynamic and our own performance in this sector was very strong.

Our Luxury brands division had a strong year, growing faster than the market. Both the YSL and Lancôme fragrance businesses gained rank and market share thanks to the successful landing of new launches Libre and Idole.

Active Cosmetics Division maintained its exceptional performance, gaining market share, thanks to the continued success of La Roche-Posay a big acceleration on our new brand CeraVe.

The Professional Products Division also had a strong performance of hair retail and professional use products, which account for the majority of the sell-in business.

Our mass market Consumer Division came in just behind the overall market growth despite share gains in the Nielsen index due to a strong performance by a leading competitor which is not on that index.

Despite the challenges facing the retail sector, the business continually develops its strategy to adapt to the changing market environment and consumer needs. Our e-commerce sales, through our own direct e-commerce sites as well as E-retail and Pure Players, are rapidly growing across the business and continue to rise as a proportion of our overall sales.

Strategic Report (continued)

The Company's firm commitment to sustainable development is described in our Sharing Beauty with All programme. Our UK business participates fully in this global programme; in 2019 this included reductions in environmental impacts at our operational sites. At the end of the year 2019, our position compared to a 2005 baseline was as follows:

- CO_2 Emissions (absolute): -100% v 2005
- Water Consumption (per unit): -41.5% v 2005
- Waste (per unit): -64.5% v 2005

In addition, all of our operational sites are certified to the international standards for environmental management, ISO 14001 and the Health and Safety Standard OHSAS 18001. Throughout 2019 only 1 Lost Time Accident was reported for employees throughout the UK (2018: 3). At our 4 main operational sites no Lost Time Accidents were reported (2018: none).

The Company is committed to sustainable development and will continue to innovate and develop its products and packaging to reduce the impact on the environment.

Principal Risks and Uncertainties

<u>Market and economic uncertainties</u> - The markets in which L'Oréal (U.K.) Limited trades can be impacted by periods of economic uncertainty. These uncertainties could impact the Company over an extended period of time and their impact may be unknown. Factors beyond the Company's control, including epidemic outbreaks and geopolitical issues would impact the Company and, though the Health and Beauty market has always been resilient, a significant deterioration in the general economic climate may adversely affect the Company's performance.

<u>Image and reputation</u> –The Company's reputation and brand image may be compromised at any time particularly where the report of an incident is conveyed from consumer to consumer at the speed of the internet. The company takes steps to ensure that all advertising, claims for the effectiveness of its products, are authenticated by our Scientific Advisory team. Relationships with our customers are maintained through our Customer Services and Consumer Advisory teams. The parent company has an Ethics policy to which all employees in any of its subsidiaries are bound. The Ethics policy is re-enforced annually by an Ethics week where all employees have the opportunity to put questions to the group CEO. At a local level, in the UK we have an appointed Ethics Officer and an Ethics day where questions can be put to both the Ethics officer and country CEO. There is also a dedicated intranet site, training for employees and an e-learning course.

<u>Product Quality and Safety</u> – Consumer safety is a priority. The Group has 18 research centres, 5 regional hubs and 3 global research centres, throughout the world. Their task is to develop and test all its products and formulations. The groups factories also operate to the highest standards based on both local and international requirements.

<u>Competition</u> – The Company is subject to intense competition within the markets in which it operates. This is healthy and leads to constant innovation in order to maintain and grow our market share. The company expects the highest standards of ethics when dealing in such a competitive market. Each year the Company's employees undergo training on what constitutes anti-competitive behaviour under current UK, EU, and worldwide legislation.

<u>Information Systems</u> – There is a risk of malfunction or breakdown in our internal systems. The company has strict rules with regard to the backups, data protection, access and security of its hardware and software systems. Every year a full disaster recovery testing process is undertaken.
The Company has an appointed Data Protection Director. Their task is to ensure that the data we hold complies with requirements of the Data Protection Act and the new General Data Protection Regulations (GDPR).

<u>Intellectual property</u> – The group has a portfolio of registered trademarks. Trademarks and the products themselves may be infringed or counterfeited by others seeking to benefit illegally from their reputation and goodwill. Where the trademarks are held by L'Oréal (U.K.) Limited they are treated as a strategic asset. The Company's legal department is entrusted with the protection of these assets.

<u>Changes in regulations</u> – The Company will comply with all local and international regulations with regard to the way in which it operates.

Insurance – The Company insures against all the risks that it perceives could damage its balance sheet or its reputational risk. This includes public, and employee liability, business interruption as well as damage to its buildings and stocks of products.

Key employee risk – The Company acknowledges that the loss of key employees can damage the effectiveness of its operations. It seeks to minimise this, by offering competitive rewards to its staff and having strong succession planning processes.

Financial Risk Management and Objectives

The Company's activities expose it to a number of financial risks including liquidity risks and credit risks. The use of financial derivatives is governed by the board of directors. The company does not use financial derivative instruments for speculative purposes.

Liquidity risk – The Company has very little debt so this risk is low. The L'Oréal S.A. Group Treasury Department manage the liquidity risk worldwide through its bank REGEFI. The L'Oréal Group is rated highly by credit rating agencies such as Standard & Poors, Moodys and Fitch.

Currency risk – The Company has significant currency risks mainly due to its purchasing contracts with L'Oréal factories in Europe and throughout the world. It also has a sales exposure where the bulk of sales to Irish customers are collected in Euros. The Company seeks to minimise its risk to fluctuations in foreign currencies through the use of hedging instruments (forward exchange contracts and options). The Company hedges its entire budget risk. No instruments are purchased for speculative purposes. The effectiveness of our hedging contracts is monitored continuously.

Credit Risks – There is always a risk of non- collection of cash receivables due to cash problems encountered by our customers. The company seeks to alleviate this risk by taking out insurance policies to cover the majority of the potential loss, whilst also closely monitoring debt levels with customers that are uninsured.

Section 172 Statement

The Board of Directors are aware of their duty to act in good faith to promote the success of the Company for the benefit of enlightened shareholder value, in line with the requirements of section 172 of the Companies Act 2006, and in so doing have regard to, amongst other matters:

- the likely long term consequences of any decision;
- Company employees' interests;
- fostering the Company's business relationships with suppliers, customers and others;
- community and environmental impact of the Company's operations;
- the Company maintaining a reputation for high business conduct standards; and
- the need to act fairly as between the Company's shareholders.

Securing our long term success

The Board has created procedures to ensure that it takes into account relevant stakeholder interests when making a decision, in addition to other section 172 factors such as potential long term consequences and upholding a reputation for high business conduct standards.

The Board has sanctioned a stakeholder and section 172 dashboard to be completed and provided in advance for review as part of the board pack for each item tabled at Board Meetings. The purpose of this dashboard is to ensure that the Board is made aware of and considers relevant stakeholder interests when making a decision, in addition to other section 172 factors contained on the dashboard such as potential long term consequences and reputation for high standards of business conduct.

Valuing the interests of our Employees

The Company is the L'Oréal Group's fifth largest subsidiary, employing almost 4,500 people across the UK and Ireland. Our employees work in a wide variety of roles and functions including sales, marketing and operations. The Company is headquartered in Hammersmith (London) with corporate offices in Dublin (Republic of Ireland) and Llantrisant (Wales). The Company has three distribution centres in Bury, Nottingham and Trafford; and hairdressing academies in Dublin, Manchester and London. Our employees also comprise beauty advisors in department stores and stand-alone boutiques across the UK and Ireland.

Our people are our greatest strength and the Board believes our long term success will be determined by having a diverse workforce bringing a range of talent, skills and experiences. The Company seeks to hear and understand *all* voices and foster a climate in which people of every social background, gender, age, sexual orientation, disability, religion and ethnicity are not just accepted, but welcomed and valued. This is embodied in a range of employee resource groups, such as: 'Out@L'Oréal' LGBTQ+ and allies network, 'Grow' parent support network and 'Mental Health & Wellbeing' network. Each of these and other employee resource groups run regular Town Halls to facilitate employee engagement, gather questions, ideas, concerns or other feedback as well as generate awareness, organise events, external speaker learning opportunities and campaigns, for example, the Company's #BeatTheStigma mental health initiative. These are open to all employees, attended regularly by the Company's Managing Director and Board member or our Chairman, and the work of the employee resource groups, including employee interests and concerns is fed back to the Board to ensure they understand our people, their values and how to keep them motivated.

Direct and transparent interaction and dialogue with senior leaders is encouraged - including the open door policy of the Company's Managing Director - as a means of enabling our senior leadership to build employee opinions and feedback into strategic decision-making.

As an employer, the Company aims to uphold being a desirable place to work across all its locations and this is recognised from time to time by winning relevant awards. In 2019, our Bury distribution centre was recognised with a RoSPA Gold Award for its occupational health & safety practices and performance due to keeping its employees safe. The Company also seeks to ensure its employees can develop to their fullest potential, through education, training, mentorship and other initiatives designed to help them thrive at every level.

On L'Oréal's annual global Ethics Day, all Company's employees are invited to put their open or anonymised questions, via live webchat, to the Company's Managing Director, together with other members of the Company's Executive Leadership Team. Ethics Day is devoted to transparent discussion, providing an opportunity not only for employees to ask questions and have senior leadership answer, it is also an opportunity to encourage the workforce to consider ethics.

Fostering the Company's business relationships with suppliers, customers and others

- Suppliers

The Company considers the activities of its suppliers as part of its wider social and environmental footprint. In addition to sourcing its core products from the L'Oréal Group companies, the Company works with 1,309 suppliers for other products and services. For example, this includes suppliers of local media and advertising creative assets across on and offline media, fleet facilities management and event management. Working in partnership with our suppliers, the Company ensures alignment with our values and principles as set out in our Modern Slavery Statement and conducts regular social audits across our supplier base to ensure compliance. An integral part of the process of setting up a new supplier is ensuring visibility of and compliance with the Company's high standards relating to laws, ethics, environment and employees.

The Company aims to have a positive impact all along the supply chain through our Solidarity Sourcing Programme that works towards social inclusion. For over 5 years, the Company has been working closely with our suppliers, sub-contractors and organisations, such as WEConnect International, to support women owned enterprises and disadvantaged groups to improve opportunities and job accessibility throughout our supply chain activities in the UK, Ireland and globally. In 2019, the Company implemented a new programme of supplier engagement through a series of virtual workshops with 100 suppliers to highlight best practice examples in existence in our supply chain to reinforce the importance of our Solidarity Sourcing commitments.

- Customers

The Company operates through four main divisions. Our products are supplied to and distributed through various customers including retailers, department stores, beauty and hair salons, spas, wholesalers, online retailers, perfumeries, pharmacies and dermatologists. The size and complexity of our customers ranges from multi-national retailers to sole traders. The collaborative relationships that the Company establishes and maintains with our customers are central to the growth of our business. Many of the UK and Ireland's hairdressers use our products and the Company makes available physical and virtual education and continual professional development training.

- Consumers

Millions of British and Irish consumers enjoy our products every day. The Company's various brands' products can be purchased in major supermarkets, discount chains, department stores, pharmacies, medi-spas, hair and beauty salons and online. The Company is committed to ensuring the quality, efficacy and safety of our cosmetic products for our consumers as without them there would be no business. The Company is equally committed to understanding our consumers and putting them at the heart of our decision making.

- Shareholders

The Company is a wholly owned subsidiary of L'Oréal S.A. and there are regular communications and engagements with members of the L'Oréal S.A. senior management. Any items requiring escalation by the Board to its shareholder and parent company would be brought to L'Oréal S.A.'s attention via the Chairman or the Directors.

- Government and Regulators

The Company attends a range of industry forums as well as meetings and consultations with government bodies and regulators to explain our business views to the policy makers. The directors have engaged with the Government and regulators on subjects such as Brexit, plastics regulation and regulatory matters related to ingredients. This Company is actively involved with our Industry Trade Association, the Cosmetic, Toiletry and Perfumery Association, the Confederation of British Industry as well as the Health & Safety Executive as well as some sector specific associations with a view to protecting consumer interests. Our key focus is on compliance with laws and regulations relating to product safety, health and safety, competition, advertising and data privacy.

- Pension Scheme Beneficiaries

The UK and Ireland business has a Defined Benefit Pension Scheme with over 3800 members, including 1320 pensioners. It also has a Direct Contribution Scheme with over 4000 active members. The Company has made all relevant contributions to both schemes, as well as significant supplementary deficit reduction payments to the Defined Benefit Scheme.

Our impact on the community and the environment

- Local community

The Company engages with its local communities to understand the issues that are important to them and to build trust through these interactions. The Company has a long-standing association with the relevant local authorities in Wales, in Manchester and Hammersmith & Fulham in London.

The Company is committed to making tangible improvements in communities wherever it is present. Actions with local suppliers give concrete form to our principles, allowing us to take an active role in shaping a better environment for everyone, especially where communities are most vulnerable.

'Citizens Day' is an annual global social engagement volunteering day that the L'Oréal Group offers to all of its employees and has done for the past 10 years. Our Company employees have been dedicating an entire day of their work time to bringing their skills and energy to social and environmental organisations. This annual volunteering day has enabled our employees to volunteer hours to non-profit organisations and their beneficiaries in the UK and Ireland in the last decade. Alongside this all employee volunteering day, our employees are entitled to an additional day to use as they wish throughout the year to support a charity of their choice.

- Wider community/Environment

The Company fundamentally believes that it has a responsibility to limit its impact on the environment and to make a positive contribution to both the countries in which it is present and the world at large. This belief is reflected in Sharing Beauty with All (SBWA), our global sustainability programme, which the Company launched in 2013. This programme includes a series of tangible commitments aimed at transforming the L'Oréal Group and its subsidiaries, including the Company, towards a sustainable business model. SBWA encompasses the entire product journey and embodies our commitment to improve the way business is conducted, from the sourcing of raw materials to the production process, product design and distribution to marketing and communications with the consumer.

To maintain constant progress, the Company has opened a dialogue with all its stakeholders to share its sustainable development strategy and co-develop projects on the ground. The Company has incorporated sustainable development performance indicators into its supplier selection process. To support this, the Company's purchasing team provide additional training materials and host supplier webinars and workshops. By marketing more responsible products and encouraging its brands to identify a cause and campaign for it, the Company is also urging its customers to practice sustainable consumption.

The Company has a sustainability agenda aligned with the commitments of the L'Oréal Group including a highly engaged sustainability steering committee headed by our Managing Director. The steering committee continues to drive progress towards meeting and exceeding our local targets.

The Board understands that the Company has a responsibility to play its part in being a force for good and to use its brands to make a positive impact in the communities where it operates, always respecting local cultures and sensitivities. Across our portfolio of brands, the Company has built multiple successful charity partnerships in the UK and Ireland, including with The Prince's Trust and National Literacy Trust.

One of our longest-standing partnerships is with UNESCO UK, with whom the Company has partnered for the past 11 years in our L'Oréal For Women In Science programme. This initiative is designed to champion and support early career researchers in STEM subjects through the allocation of five annual Fellowships. In the UK and Ireland, since 2007, 57 female post-doctoral researchers have been awarded a Fellowship worth £15,000 (equivalent € in Ireland). The fellowships – which are announced in an awards ceremony hosted by the Company's Chairman and our Managing Director – have been designed to provide flexible and practical financial support to ensure these women further their research and careers.

Our Culture and Values

L'Oréal's belief is that everyone aspires to beauty. Our Company mission is to help people around the world realise that aspiration, and to fully express their individual personalities. This is what gives meaning and value to our business and to our employees.

Our strategy is anchored in continuous investment in rigorous scientific research and development. This enables our brands to deliver products that are innovative, highly effective, practical and pleasant to use, and which are manufactured to demanding standards of quality and safety. The Company strives for excellence, to constantly challenge its methods. Great value is placed on honesty and clarity: our consumer advertising is based on proven performance and scientific data. The Company is committed to building strong and lasting relationships with our customers and our suppliers, founded on trust and mutual benefit. The Company conducts its business with integrity: by respecting the laws of the countries in which it operates and adhering to good corporate governance practices. The Company maintains high standards in accounting and reporting and supports the fight against corruption. The Board is responsible for delivering long term, sustained shareholder value by protecting and making the most effective use of the Company's assets.

The Company operates as a responsible corporate citizen, mindful of its impact on the natural environment, including biodiversity, and constantly seeks to reduce it. The Company is committed to the respect of human rights, to help end the exploitation of children in the workplace and the use of forced labour. The L'Oréal Group proactively works to end animal testing in our industry and contribute to the development and acceptance of alternative methods. The Company actively supports the aforementioned by engaging with and encouraging good practices from business partners who share our values and our ethical commitments.

In a changing world, our Ethical Principles of Integrity, Respect, Courage and Transparency serve as our compass for acting ethically day-to-day. These Ethical Principles shape our culture, underpin our reputation, and allow all our employees to build trust through our actions every day.

<u>The need to act fairly as between members of the Company</u>

After taking into account all relevant factors, the Board considers which course of action best enables delivery of the Company's success and strategy through the long term, with consideration of the impact on stakeholders, including its shareholders. In doing so, the Board acts fairly as between the Company's shareholders. In its decision making, the Board also assesses the requirements of our parent company and shareholder to balance this with the needs of the Company and the specificities of the UK and Irish market.

Stakeholder Engagement Statement

The long-term, sustainable success of our business relies on the support of our key stakeholders. Through ongoing dialogue with our key stakeholders, the Board is able to form a clear understanding of their respective requirements and consider the likely impact on them in its decision making process. Engagement with our stakeholders can take place at both an operational and a Board level. The engagement at an operational level through the Company's Executive Leadership Team is considered by the Board when making its decisions.

<u>Two Examples of Engagement in Action</u>

The Board understands that the way the Company conducts its business is just as important as financial performance and the quality of its products and services - this includes how its teams operate and how the Company works with its supplier partners. The Company is committed to fairness and ethics in all aspects of supplier and human relations, and the L'Oréal Spirit places special emphasis on diversity and inclusion.

- <u>Suppliers</u>

<u>Example 1: Modern Slavery</u>
The Board inputs and reviews the actions the Company has taken to prevent modern slavery and associated behaviours in any part of our supply chain. The Board then approves the annual Modern Slavery Statement.

<u>Example 2: Late Payment of Suppliers</u>
The Company aims to pay suppliers promptly and the Board inputs and reviews the actions taken to continuously improve payment practices, such as the implementation of an established supplier management programme that has driven a reduction in late payment. The Board approves the annual Late Payment of Suppliers Statement.

- <u>Employee Engagement Statement</u>

<u>Example 1: Employee Survey</u>
The Company's annual Pulse Survey tracks employee satisfaction and provides a good understanding of employee views and concerns. The Board regularly reviews the Pulse survey results. After listening to our employees' feedback in 2019, the Company's vision was rolled out - Connect, Innovate, Accelerate - to help everyone be aligned to a shared vision that drives us towards common objectives.

<u>Example 2: Ethics Day</u>
Refer to *Valuing the interests of our Employees*.

Example 3: Town Halls, Business Updates and Internal Communications
The Company creates regular opportunities - through Town Halls, business update meetings and internal communications – for employees to be regularly updated on: business performance, objectives and vision; any financial, economic or political factors potentially affecting company performance; relevant industry or market context, or other challenges potentially affecting company performance; and other matters of interest, such as employee initiatives. Town Halls and Business Updates are open to all employees and provide an opportunity for question and answer engagement with the Company's Managing Director, together with other members of the Company's Executive Leadership Team.

Example 4: Employee Share Scheme and Profit Share Scheme
The Company encourages employees' involvement in its performance, with the Board approving the Company's employee share scheme. In addition, the Company continues to offer a profit share scheme that has run for many years.

Three Strategic Decisions taken during 2019 that demonstrate how the Board promoted the success of the Company for the benefit of enlightened shareholder value

- Approval of the establishment of anti-corruption committee and corporate criminal offence risk management programme

In September 2019, the Board approved: (i) the creation of an anti-corruption committee to oversee and manage the risk management processes and controls for financial crime risk at the Company; and (ii) a corporate criminal offence risk management programme covering anti-money laundering, economic sanctions and embargoes, the corporate criminal offence of failing to prevent the facilitation of tax evasion and anti-bribery. In making this decision, the Board considered the financial and legal compliance risks of not doing so and, in particular, the importance of the Company maintaining its own and its shareholders' reputation for high standards of business conduct with its employees, customers, suppliers, consumers and regulators.

- Approval of actions taken in preparation for Brexit

At the March and September 2019 Board Meetings, the Board considered the impact of Brexit on all relevant stakeholders and approved the steps taken by the Company to mitigate the risks of a "no deal" Brexit. These included adapting our IT systems, emergency stockpiling, improving our product inflows from Europe and outflows to Ireland and giving human resources support and advice to our employees from other EU countries. The Board focussed on the interests of our employees, customers, consumers, suppliers and shareholders in making these decisions and engaged in widespread consultation with many actors including Government departments and the CBI for defining its policies to navigate Brexit.

- Approval of New White City HQ

In December 2019 the Board approved the signing of an agreement for lease of a new purpose built office headquarters for the Company at White City Place, West London from Autumn 2023. In deciding to approve the relocation of the Company's headquarters in Hammersmith after 20 successful years, the Board primarily focussed on the interests of our employees in addition to our shareholders and gave particular regard to the long term consequences given that the current Hammersmith building would no longer be fit for purpose by 2023. The Board listened to feedback from employee focus groups on their expectations and requirements of a new office. The Board also took into account the positive effect of White City Place on the regeneration of this area for the existing Hammersmith & Fulham borough local community, the proximity to prevailing commuting patterns of employees and the benefits to the environment from the sustainable nature of the new offices. In line with its values of transparency and responsibility, the Company ensured that its employees were informed of this decision, the reasons for it and that they were at the heart of it, prior to it being in the public domain.

Strategic Report (continued)

Future Prospects/Strategy

Following the 2016 referendum vote in the UK to the leave the European Union there still remains political and regulatory uncertainty.

Despite the continued uncertainty regarding the negotiations with the European Union during the transition period, the Company is well prepared, whatever the outcome. Our multi-divisional, multi-functional taskforce has been working since 2016 to prepare for Brexit and we have strong business continuity plans in place. In partnership with our logistics partners in the UK and Ireland, we are holding higher levels of stock in our Distribution Centres. The Company achieved AEO status in February 2019. We are also working closely with regulatory bodies to help ensure that our products remain compliant with any future UK cosmetics regulations.

We continue to assess and monitor the potential risks and impacts of these changes on our customers, supply chains and colleagues so that we can take appropriate action.

During 2020 the outbreak and global spread of COVID-19 caused a significant disruption in the Company's operating environment.

Throughout the spread of COVID-19 the Company's Executive Leadership Team has remained focused on the health and safety of its employees, beauty advisors and consumers.

During this challenging period, following Government guidelines, the Company implemented a number of measures which included the temporary closure of owned retail outlets, remote working and worldwide travel bans. Our distribution centres remained open at a reduced capacity in order to serve our customers during this time. The Company also recognised its responsibility to supporting its suppliers at this time.

Nevertheless each division has demonstrated great business resilience. The Active Cosmetics Division has managed to maintain good growth. The Consumer Products Division limited the impact on sales despite its weight in makeup, which was the category that slowed the most. The L'Oréal Luxe and Professional Products Divisions were remarkably successful at maintaining relatively solid activity, thanks to e-commerce, despite the closure of almost all of their points of sale. Our activity has accelerated month after month since April, and is progressively returning to growth.

We are confident that our profit margins will be maintained at healthy levels and there are no significant risks to the cash position.

Approved by the Board of Directors and signed on its behalf by

V Sharma
Director

25 September 2020

L'Oréal (U.K.) Limited

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 December 2019.

Results and dividend

The profit for the financial year amounted to £107,572,000 (2018: £126,394,000).

A dividend of 31.12p (2018: 38.73p) per ordinary share amounting to £126,394,000 (2018: £157,308,000) was paid during the year. A dividend of 26.49p per share has been proposed for the year ended 31 December 2019, amounting to £107,572,000, which was approved and paid in 2020.

Future developments

Future developments are discussed in the Strategic Report on page 10.

Going concern

The directors have assessed the relevant business risks and believe that the Company is well placed to manage these risks successfully. The Company is operationally and financially strong with past performance showing that it consistently generates profits and cash.

L'Oréal (U.K.) Limited has made projections for the remainder of 2020 and up until 31 December 2021. We have considered the impact of the COVID-19 pandemic, potential outcomes of Brexit, including a no deal, and the impact these events could have on the wider economy. Based on these factors we have looked at our business and its forecasted evolution, our beauty market by category, developments in our brands and our program for new launches. We have considered cash flows, revenues and profits. We are satisfied that our profit levels will be maintained at healthy levels, our credit levels are well controlled and there are no significant risks to the cash position.

The directors have, at the time of approving the financial statements, an expectation that the Company, being part of the L'Oréal worldwide banking arrangement, has adequate resources to continue in operational existence for at least 12 months from the signing of these financial statements. For this reason they continue to adopt the going concern basis of accounting in preparing the financial statements.

Charitable and Political donations

During the year £11,113 (2018 restated: £24,377) was donated for charitable purposes.
No political donations were made (2018: Nil).

Financial risk management

Information about the Company's risk management policies can be found in the Strategic Report and note 25.

Post balance sheet events

Events since the balance sheet date are disclosed in note 26 to the financial statements.

Directors

The directors during the financial year and up to the date of this report were:

G Skingsley (Chairman)
Y Chalme
S Bezy (resigned 13 September 2019)
V Sharma
V Derville
D Gros (appointed 13 September 2019)

Directors' Report (continued)

Directors' indemnities

The Company has not made any qualifying third party indemnity provision for the benefit of its directors during the year. No qualifying third party indemnity provision exists at the date of this report.

Corporate Governance Statement

The Board is responsible for nurturing and upholding the culture, values, standards, ethics and reputation of the Company to ensure that our obligations to our shareholders and our stakeholders are met. The Board considers each matter before it in the context of the stakeholders who may be affected, and their interests are carefully considered as part of the Board's decision-making process. The Board takes account of the broader socio-environmental context within which our business operates, including the impact of the Company's operations on communities and the wider world, particularly in relation to climate change, human rights and sustainability. The Board is comprised of the Managing Director of the Company's UK and Ireland business, the Managing Director of the L'Oréal Group's Western Europe Zone, the L'Oréal Group General Counsel, the Chief Financial Officer of L'Oréal Luxe International Brands and the Chairman who has significant operational, marketing and human resources experience gained from over 30 years in the L'Oréal Group. As a result, the directors bring a balance of skills, experience and knowledge to the Board. L'Oréal S.A sets the remuneration level of the Board within structures aligned to the long-term sustainable success of the Company and the Group.

As further detailed in the Strategic Report under the heading 'Section 172 Statement', Board Meetings were held in March and September 2019 following an agenda agreed in advance by the Chairman, the Company's Managing Director and Company Secretary. In addition, a number of decisions were made during the year by written resolutions of the Directors. Specific other matters have been delegated by the Board to committees:

- the Board has established a sustainability steering committee that drives our local sustainability targets. Our Managing Director for UK & Ireland sits on that committee with others including our Operations Director (see also page 7, Strategic Report). The Board received a detailed update on the work of that committee at the September 2019 Board Meeting; and
- at the September 2019 Board meeting, the Board approved the establishment of a new committee focussed on anti-corruption (see decision referred to at Page 9, Strategic Report).

Both the Board, in its decision-making processes and considerations, and the executive team and committees reporting to the Board, are mindful of the need to uphold a positive corporate culture and to take into account the interests of all stakeholders. Board deliberations are conducted in a spirit that encourages independent thought and challenge, with the aim of balancing risks and opportunities. Our governance policies and processes are kept under review, to ensure that there is a clear understanding of accountability and responsibilities and that these structures develop with our business.

To this end, towards the end of 2019, the Chairman and Company Secretary undertook a detailed review of the Company's corporate governance with the law firm Baker McKenzie LLP. In December 2019, it was agreed to hold a special purpose Board Meeting in January 2020 at which Baker McKenzie LLP conducted a refresher training session for the Board on effective corporate governance, stakeholders and decision making, and director duties. The Board discussed the nature of and opportunities for enhancing future engagement with stakeholders and consideration of all section 172 factors. As a result, the Board resolved to take certain steps to formalise and enhance its governance practices, namely to:

- formally adopt the Wates Principles as the Company's Corporate Governance Code (noting that the Board considered that, in its decision-making structures and processes, the company already applied the broad principles set out in the Wates Principles, as noted above in the Strategic Report under the heading 'Section 172 Statement'. For example, "Purpose and Leadership" (see pages 4 to 8), "Board Responsibilities" (see page 4), "Opportunity and Risk" (see pages 4 and 9), "Stakeholder Relationships and Engagement" (see pages 8 and 9), "Board Composition" (see above) and "Remuneration" (see above));
- aim to hold at least four Board Meetings per year;

- appoint a Board Advisor relating to corporate governance matters to support the Chairman and Company Secretary and to ensure Board papers are provided for review at least one week in advance of meetings, which signpost all applicable section 172 issues; and
- create a stakeholder and section 172 dashboard to ensure decisions are taken with due deliberation of the impact on relevant stakeholders and to strengthen the Board's focus on the delivery of all the requirements of section 172.

Employment policies

The Company has maintained its policy of communicating with employees on matters that concern them through representatives attending meetings with senior management and participating on safety committees and trade union negotiating committees.

Employees, or their representatives, continue to be consulted on decisions likely to affect their interests.

The Company is a wholly-owned subsidiary of an overseas company and that parent company operates a share incentive scheme for employees. Details of the parent company can be found in note 28 to these financial statements.

Information concerning financial and economic factors affecting the performance of the Company is provided regularly to employees.

The Company has a policy of ensuring equality of employment opportunity regardless of sex, age, marital status, sexual orientation, disability, colour, nationality or race. The aim of this policy is to ensure that all employees have the opportunity to develop as fully as possible in accordance with their individual abilities and the needs of the Company.

In the event of a member of staff becoming disabled every effort is made to ensure that their employment with the Company continues and the appropriate training is arranged. It is the policy of the Company to offer the same opportunity to disabled people as to all others in matters of recruitment and career advancement, provided they have the ability to perform the tasks required with or without training.

Branches outside the UK

The Company has one branch operating outside of the UK. This branch supplies the Irish market, with the head office located in Dublin.

Statement of Directors' responsibilities in respect of the financial statements

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 prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). 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 company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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.

The directors 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.

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Independent Auditor

A resolution to reappoint Deloitte LLP as auditor will be put to the members at the Annual General Meeting.

Approved by the Board of Directors and signed on its behalf by

V Sharma
Director

25 September 2020

Independent auditor's report to the members of L'Oréal (U.K.) Limited

Report on the audit of the financial statements

Opinion

In our opinion, the financial statements of L'Oréal (U.K.) Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 28.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

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 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 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.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises of 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.

Independent auditor's report to the members of L'Oréal (U.K.) Limited (continued)

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 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 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. 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.

In the light of the knowledge and understanding of the company and its 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Independent auditor's report to the members of L'Oréal (U.K.) Limited (continued)

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.

Darren Longley FCA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

[Date] 25 September 2020

Income Statement
For the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Turnover	2	**1,113,500**	1,091,886
Cost of sales		**(426,191)**	(422,690)
Gross profit		**687,309**	669,196
Advertising and promotion expenses		**(337,625)**	(339,986)
Selling, general and administrative expenses		**(212,299)**	(174,256)
Operating profit	3	**137,385**	154,954
Finance costs	4	**(961)**	(86)
Finance income	5	**3,673**	2,250
Finance income - net		**2,712**	2,164
Profit before taxation		**140,097**	157,118
Tax on profit	7	**(32,525)**	(30,724)
Profit for the financial year	19	**107,572**	126,394

All amounts relate to continuing operations and are attributable to the equity shareholders of the Company.

L'Oréal (U.K.) Limited

Statement of Comprehensive Income
For the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Profit for the financial year	19	**107,572**	126,394
Other comprehensive (expense)/income:			
Items that may not be reclassified to profit or loss			
Actuarial (loss)/gain on defined benefit obligations		**(23,852)**	26,301
Items that may be reclassified to profit or loss			
(Loss)/gain on cash flow hedges		**(13,878)**	905
Total other comprehensive (expense)/income for the year, net of tax		**(37,730)**	27,206
Total comprehensive income for the year		**69,842**	153,600

Balance Sheet
As at 31 December 2019

	Note	2019 31 December £'000	2018 31 December £'000
ASSETS			
Non current assets		**190,679**	174,753
Goodwill	9	**2,765**	2,765
Other intangible assets	9	**9,586**	11,257
Tangible assets	10	**33,810**	49,533
Right of use assets	11	**49,296**	-
Investments	12	**273**	352
Employee retirement surplus and related benefits	21	**94,949**	110,846
Current assets		**411,106**	406,843
Inventories	14	**63,035**	59,227
Trade and other receivables	15	**211,156**	218,353
Other current assets	16	**11,743**	19,042
Derivative financial instruments		**9,407**	3,630
Cash and cash equivalents		**115,765**	106,591
TOTAL		**601,785**	581,596
EQUITY AND LIABILITIES			
Capital and reserves		**161,007**	218,184
Called up share capital	17	**101,533**	101,533
Share premium account	17	**277**	277
Other reserves	18	**(83,444)**	(71,529)
Retained earnings	19	**142,641**	187,903
Non current liabilities		**46,992**	17,272
Provisions for liabilities	22	**8,987**	6,948
Deferred tax	13	**2,558**	10,324
Lease liabilities	11	**35,447**	-
Current liabilities		**393,786**	346,140
Trade and other payables	23	**187,428**	178,409
Provisions for liabilities	22	**17,631**	14,822
Other current liabilities	24	**135,612**	140,252
Lease liabilities	11	**15,553**	-
Derivative financial instruments		**24,320**	2,055
Current tax		**13,242**	10,602
TOTAL		**601,785**	581,596

The notes on pages 22 to 53 form an integral part of these financial statements.

The financial statements on pages 18 to 53 were approved by the board of directors on 25 September 2020 and signed on its behalf by:

V Sharma
Director

L'Oréal (U.K.) Limited
00271555

L'Oréal (U.K.) Limited

Statement of Changes in Equity
For the year ended 31 December 2019

	Called up share capital £'000	Share premium account £'000	Merger reserve £'000	Hedging reserve £'000	Cost of hedging reserve £'000	Share based payment reserve £'000	Retained earnings £'000	Total Equity £'000
Balance at 1 January 2018	101,533	277	(83,502)	2,535	(2,315)	8,968	192,516	220,012
Profit for the financial year	-	-	-	-	-	-	126,394	126,394
Other comprehensive (expense)/income for the year	-	-	-	(43)	948	-	26,301	27,206
Total comprehensive income for the year	-	-	-	(43)	948	-	152,695	153,600
Dividend paid	-	-	-	-	-	-	(157,308)	(157,308)
Equity settled share based payment expense	-	-	-	-	-	1,880	-	1,880
Balance at 31 December 2018	101,533	277	(83,502)	2,492	(1,367)	10,848	187,903	218,184
Effect of change in accounting policy (see note 1)							(2,588)	(2,588)
Balance at 1 January 2019	101,533	277	(83,502)	2,492	(1,367)	10,848	185,315	215,596
Profit for the financial year	-	-	-	-	-	-	107,572	107,572
Other comprehensive expense for the year	-	-	-	(13,464)	(414)	-	(23,852)	(37,730)
Total comprehensive income for the year	-	-	-	(13,464)	(414)	-	83,720	69,842
Dividend paid	-	-	-	-	-	-	(126,394)	(126,394)
Equity settled share based payment expense	-	-	-	-	-	2,186	-	2,186
On dissolution of subsidiary company IT Cosmetics Limited	-	-	(223)	-	-	-	-	(223)
Balance at 31 December 2019	101,533	277	(83,725)	(10,972)	(1,781)	13,034	142,641	161,007

L'Oréal (U.K.) Limited

Notes to the Financial Statements

1. Accounting policies

General information

L'Oréal (U.K.) Limited is a private company limited by share capital and registered in England and Wales and domiciled in the United Kingdom. The address of the registered office is given on page 1 of these financial statements.

These financial statements are presented in pounds Sterling which is the functional currency of the Company. Foreign operations are included in accordance with the policies set out below.

Foreign currency transactions are translated at the rate effective at the transaction date. Monetary assets and liabilities denominated in foreign currencies have been translated using exchange rates effective at Balance Sheet date. Gains and losses from foreign currency transactions are included in the Income Statement.

Basis of accounting

These financial statements have been prepared in accordance with the Companies Act 2006 as applicable to companies using Financial Reporting Standard 101, *FRS 101 Reduced Disclosure Framework*. These financial statements have been prepared under the historical cost convention with the exception of financial instruments which are recognised at fair value. Significant accounting policies have been included in the relevant notes to which the policies relate. These policies have been consistently applied to all years presented, unless otherwise stated.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

1) Paragraphs 45b and 46 to 52 of *IFRS 2 Share-based payment* (details of the number and weighted average exercise prices of share options, and how the fair value of goods and services received was determined).
2) *IFRS 7 Financial Instruments: Disclosures.*
3) Paragraphs 91 to 99 of *IFRS 13 Fair value measurement* (disclosure of the valuation techniques and inputs used for fair value measurement of assets and liabilities).
4) The requirements of the second sentence of paragraph 110 and paragraph 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of *IFRS 15 Revenue from contracts with customers.*
5) Paragraph 38 of *IAS 1 Presentation of financial statements,* comparative information requirements in respect of:
    - paragraph 79 (a) (iv) of *IAS 1 Presentation of financial statements*
    - paragraph 73 (e) of *IAS 16 Property, plant and equipment*
    - paragraph 118 (e) of *IAS 38 Intangible assets* (reconciliation between the carrying amount at the beginning and end of the period).
6) The following paragraphs of *IAS 1 Presentation of financial statements:*
    - 10 (d) (statement of cash flows)
    - 10 (f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or make a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements)
    - 16 (statement of compliance with all IFRS)
    - 38A (requirement for a minimum of two primary statements, including cash flow statement)
    - 38B-D (additional comparative information)
    - 40A-D (change in accounting policy, retrospective of reclassification)
    - 111 (cash flow statement information)
    - 134 to 136 (capital management disclosures).
7) *IAS 7 Statement of cash flows.*
8) Paragraph 30 and 31 of *IAS 8 Accounting policies, changes in accounting estimates and errors* (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
9) Paragraph 17 and 18A *IAS 24 Related party disclosures* (key management compensation).

1. **Accounting policies** (continued)

10) The requirements in *IAS 24 Related party disclosures* to disclose related party transactions entered into between two or more members of the group.
11) Paragraphs 134 (d) to 134 (f) and 135 (c) to 135 (e) of *IAS 36 Impairment of assets* (assumptions involved in estimating recoverable amounts of cash generating units containing goodwill or intangible assets with indefinite useful lives and management's approach to determining these amounts).

The Company is exempt from the requirements of *IFRS 8 Operating Segments* on the grounds that its shares are not traded on the stock exchange. Segmental data is included in the consolidated financial statements of the parent company, L'Oréal S.A., and these can be obtained as set out in note 28.

Change in accounting policy applied 1 January 2019

In 2019 the Company adopted *IFRS 16 Leases* with effective date 1 January 2019. This accounting standard replaces *IAS17 Accounting for Leases* and removes the distinction between operating and finance leases by introducing some new principles for the recognition, measurement, presentation and disclosure of leases including:

(a) The introduction of a single lessee accounting model which requires a lessee to recognise in the Balance Sheet a right of use (ROU) asset and lease liability on most of its leases, except for short-term leases and leases of low value assets which are instead expensed as an operating expense in the income statement on a straight line basis over the lease term
(b) In the Income Statement rental costs are replaced with depreciation charges on the right of use asset and interest costs on the lease liability

The Company has a number of property and equipment leases. Details of the Company's accounting policies under *IFRS 16 Leases* are set out in note 11 below. At the point of adoption of the standard the Company had to apply judgement to assess if it was reasonably certain to exercise termination or extension options available within a number of real estate contracts. Judgements was also applied determining an incremental borrowing rate. The majority of retail real estate leases in the Company's portfolio contain termination and/or extension clauses as within the retail industry it is usual that lease agreements include these clauses to allow for business flexibility.

The Company has elected to apply the simplified retrospective approach to *IFRS 16 Leases* and has applied the following transition options available under this approach:

(a) To account for any lease and associated non-lease components as a single arrangement
(b) To rely on the previous assessment of whether leases are onerous in accordance with *IAS 37 Provisions, contingent liabilities and contingent assets* immediately before the date of initial application as an alternative to performing an impairment review
(c) To apply the recognition exemption for leases with a term not exceeding 12 months
(d) To use hindsight in determining the lease term if the contract contains options to extend or terminate the lease.

The cumulative effect of initial application at 1 January 2019 has been recognised in the opening Balance Sheet within Retained Earnings as at 1 January 2019. The value of the right of use (ROU) assets recognised on transition to *IFRS16 Leases* was £68,410,000 and the value of the lease liability recognised was £70,024,000. The cumulative transitional impact on Retained Earnings was £2,846,000, including the difference between the opening right of use asset value and the opening lease liability and adjustments for lease conditions already partially recognised in prior financial periods, including lease incentives and prepaid rent as at 31 December 2018. Deferred tax in relation to the opening right of use asset and lease liability amounting to £258,000 has also been recognised in these financial statements within Retained Earnings.

The weighted average discount rate applied during the year was 1.57% for contracts in GBP and 0.02% for contracts in EURO.

Notes to the Financial Statements

1. Accounting policies (continued)

Comparative information has not been restated and continues to be reported under *IAS 17 Leases*. Under *IAS 17 Leases* all of the Company's leases were classified as operating leases and therefore rental expenses were charged directly to the Income Statement. Lease incentives received by the Company were initially recognised as a liability. They were then recognised as a reduction of rental expense on a straight-line basis over the lease term.

The following is a reconciliation of total operating lease commitments as at 31 December 2018 to the lease liabilities recognised at 1 January 2019:

	£'000
Total operating lease commitments at 31 December 2018	**70,542**
Out of scope contracts	(1,289)
Discount rate impact	(2,898)
Other	3,669
Total lease liabilities recognised under IFRS16 at 1 January 2019	**70,024**

Other includes lease contracts where negotiations were completed in 2019 with a backdated lease commencement of 2018.

Changes in accounting policies not adopted

The following other standards, interpretations and amendments to existing standards became effective on 1 January 2019 and have not had a material impact on the Company:

- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 : Prepayment Features with Negative Compensation
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
- Annual improvements to IFRS Standards 2015 – 2017 Cycle

The following other standards, interpretations and amendments to existing standards have been issued but were not mandatory for accounting periods beginning on 1 January 2019 and are not expected to have a material impact on the Company:

- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendments to IAS 1 and IAS 8 : Definition of Material

Change in accounting policy applied 1 January 2018

In 2018 the Company adopted *IFRS 9 Financial instruments* with effective date 1 January 2018 and applied from 1 January 2017. This accounting standard replaces *IAS39 Financial instruments: recognition and measurement* and introduces some new principles:

(a) New requirements for the classification and measurement of financial assets and liabilities. Financial assets are measured at amortised cost or fair value. Gains and losses on assets measured at fair value are recognised either through the Income Statement or in Other Comprehensive Income. Classification is determined by the nature of the cash flows and the business model within which they are held. The principles for the recognition and measurement of financial liabilities has, on the whole, remained unchanged from the requirements of IAS39.
(b) New approach for recognising impairments of financial assets based on an "expected loss" model.
(c) Improvements in the area of hedge accounting, to better align the accounting for hedges with the risk management activities of the company.

Notes to the Financial Statements

1. **Accounting policies** (continued)

The Company is primarily concerned by the changes in the hedge accounting requirements of the new standard. The Company uses forward foreign exchange contracts and options to hedge exposure to variations in cash flows. For options, the part of the market value linked to the variations in the time value was recorded directly in the Income Statement. *IFRS 9 Financial instruments* allows a company to reflect the risk management activities of the company in the financial statements by matching gains and losses on foreign exchange contracts with the gains and losses on the hedged forecast transaction.

In adopting *IFRS 9 Financial instruments* the Company restated Equity in the Balance Sheet as at 1 January 2018 to account for the time value of options within the Hedging reserve rather than in Retained earnings. The value of the restatement was £2,090,000 which was the time value of options expensed in the Income Statement in the year ending 31 December 2017. A restatement for deferred tax amounting to £397,000 between the Hedging reserve and Retained earnings was also made in these financial statements.

IFRS 15 Revenue from contracts with customers came into force on 1 January 2018. This new accounting standard supersedes all current IFRS revenue recognition requirements. The accounting standard defines a five step model which should be applied to contracts with customers in order to determine when revenue should be recognised and at what amount. Revenue is recognised once control of the goods or services is transferred to a customer at the amount which the company expects to be entitled. *IFRS 15 Revenue from contracts with customers* has been adopted by the Company and no changes to revenue recognition have resulted from this.

Consolidated financial statements

The Company is a wholly-owned subsidiary of L'Oréal S.A. and is included in the consolidated financial statements of L'Oréal S.A. which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

True and fair override not to amortise goodwill

The Company Balance Sheet shows acquired goodwill at a value of £2,765,000 relating to the professional haircare brand Matrix. The Matrix brand continues to grow thanks to the success of innovative hair products especially made for hairdressers and salons therefore the directors consider it appropriate to assign an indefinite life to the goodwill. Goodwill is tested for impairment annually and again whenever indicators of impairment are detected and is carried at cost less any provision for impairment.

Paragraph 28 of schedule 9 to the Companies Act 2006 requires that goodwill carried on the Balance Sheet should be amortised. The directors consider that it is appropriate to depart from this requirement in order to comply with the over-riding requirement for the financial statements to show a true and fair view. If this goodwill was amortised over a period of 20 years, profit before taxation for the year ended 31 December 2019 would be £138,000 lower and the net book value of the goodwill would be £74,000.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 1, the directors are required to make judgements, 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.

There are no critical accounting judgements to be disclosed.

Notes to the Financial Statements

1. **Accounting policies** (continued)

Defined benefit scheme

The Company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including: life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Actuaries estimate these factors in determining the net pension obligation in the Balance Sheet. The assumptions reflect historical experience and current trends. See note 21 for further details.

2. Turnover

Accounting policy

IFRS 15 Revenue from contracts with customers defines a five step model which should be applied to contracts with customers in order to determine when revenue should be recognised and at what amount. Revenue is recognised once control of the goods or services is transferred to a customer at the amount which the company expects to be entitled.

Turnover comprises the amounts receivable for goods provided outside the L'Oréal S.A. group in the normal course of business, net of value added tax, sales incentives, cash discounts and returns.

Sales incentives, cash discounts and product returns are deducted from sales, as are incentives granted to distributors or consumers resulting in a cash outflow, such as commercial cooperation, coupons, discounts and loyalty programmes.

Sales incentives, cash discounts, provisions for returns and incentives granted to customers are recorded simultaneously to the recognition of the sales if they can be estimated in a reasonably reliable manner, based mainly on statistics compiled from past experience and contractual conditions.

Turnover originates from the United Kingdom. The geographical destination of turnover is the United Kingdom and Ireland.

3. Operating profit

	2019	2018
	£'000	£'000
Operating profit is stated after charging/(crediting):		
Impairment charges on intangible assets	**3**	32
Amortisation of intangible assets	**4,212**	4,118
Impairment charges on tangible assets	**3,246**	1,372
Depreciation of property, plant and equipment	**21,944**	24,715
Impairment charges on right of use assets	**4,906**	-
Depreciation of right of use assets	**15,205**	-
Cost of inventories recognised as an expense	**328,880**	318,876
Write downs of inventories recognised as an expense	**1,874**	4,147
Impairment loss recognised on loans receivable carried at amortised cost	**27**	-
Impairment loss recognised on trade receivables	**292**	1,302
Gain on foreign exchange	**(1,132)**	(5,344)
Costs of hedging transactions	**3,876**	5,392
Restructuring costs	**3,657**	1,743

Notes to the Financial Statements

3. Operating profit (continued)

Services provided by the Company's auditors and its associates
During the year the Company obtained the following services from its auditors as detailed below:

	2019 £'000	2018 £'000
Fees payable to the Company's auditors for the audit	**276**	257
Fees payable to the Company's auditors and its associates for other services:		
Other services	**9**	15
	285	272

4. Finance costs

	2019 £'000	2018 £'000
Interest payable	**50**	71
Interest expense on lease liabilities	**911**	-
Other finance costs	**-**	15
	961	86

5. Finance income

	2019 £'000	2018 £'000
Bank interest	**291**	282
Other finance income	**3,382**	1,968
	3,673	2,250

6. Staff costs

The average monthly number of persons employed by the Company during the year, including directors, was:

	2019 Number	2018 Number
Selling and distribution	**3,950**	4,464
Administration	**393**	400
	4,343	4,864

The aggregate costs of employment were as follows:

	2019 £'000	2018 £'000
Wages and salaries	**156,443**	156,623
Social security costs	**17,184**	16,933
Defined contribution pension contributions	**11,439**	9,890
Defined benefit pension costs (see note 21)	**3,578**	6,015
Equity settled share based payment cost	**2,186**	1,880
	190,830	191,341

Notes to the Financial Statements

6. Staff costs (continued)

Directors' emoluments:	**2019**	2018
	£'000	£'000
Aggregate emoluments	**1,110**	1,033
Aggregate gains on exercise of share incentives	**844**	687
Aggregate emoluments	**1,954**	1,720

Highest paid director:	**2019**	2018
	£'000	£'000
Aggregate emoluments (excluding pension costs)	**790**	761
Aggregate gains on exercise of share incentives	**218**	134
Aggregate emoluments	**1,008**	895

No retirement benefits are accruing to directors (2018: none) under the Company defined contribution pension scheme or defined benefit scheme and no contributions were paid by the Company into the schemes during the year (2018: none).

An amount of £31,451 (2018: £29,880) was recharged to L'Oréal UK from another group company in respect of retirement benefits accruing to 1 director (2018: 1 director) under a defined contribution scheme.

During the year 2 directors (2018: 2) exercised options over shares of the ultimate parent company.

7. Tax on profit

	2019	2018
	£'000	£'000
Current tax:		
United Kingdom corporation tax on profits for the year	**34,443**	29,525
Adjustment in respect of prior years	**(434)**	(1,834)
	34,009	27,691
Deferred tax:		
Origination and reversal of temporary differences in the current year	**(2,412)**	502
Adjustment in respect of prior years	**588**	2,679
Effect of change in tax rates	**340**	(148)
	(1,484)	3,033
Tax expense for the year in income statement	**32,525**	30,724

In addition to the amount charged to the income statement, the following amounts relating to tax have been recognised directly in equity:

	2019	2018
	£'000	£'000
Current tax credit relating to pension deduction	**(2,183)**	-
Deferred tax on actuarial loss/gain on defined benefit obligations	**(2,702)**	5,386
Deferred tax on cash flow hedges	**(3,322)**	178
Tax recognised directly in equity	**(8,207)**	5,564

The tax assessed for the year is higher (2018: higher) than the standard rate applied in the UK: 19% (2018: 19%). The differences are explained below:

7. Tax on profit (continued)

	2019	2018
	£'000	£'000
Profit before taxation	**140,097**	157,118
Tax at the UK corporation tax rate of 19% (2018: 19%)	**26,618**	29,852
Effects of expenses that are not deductible for tax purposes	**6,438**	1,138
Origination and reversal of temporary differences	**(1,025)**	(963)
Adjustment in respect of prior years	**154**	845
Effect of change in tax rates	**340**	(148)
Tax expense for the year in income statement	**32,525**	30,724

The Company's profits for the accounting period to 31 December 2019 were taxed at an effective rate of 23.22% (2018: 19.55%).

The main rate of UK corporation tax is 19%, effective since 1 April 2018. Legislation, now enacted, to further reduce the main rate of corporation tax from 19% to 17% with effect from 1 April 2020 was included in Finance Act 2016. The effect of the rate reductions on the deferred tax balances as at 31 December 2019 has been considered in calculating the above figures. On 11 March 2020, the Chancellor announced a reversal of the planned corporation tax reduction, so the rate will remain at 19%.

8. Dividends

	2019	2018
	£'000	£'000
Equity dividend paid: 31.12p (2018: 38.73p) per 25p share	**126,394**	157,308

The directors proposed a final dividend for the year ended 31 December 2019 of £107,572,000 (2018: £126,394,000) which equates to 26.49p (2018: 31.12p) per share. The proposed final dividend was approved by the Board of Directors and paid in 2020. It has not been included as a liability in these financial statements.

9. Intangible assets

Accounting policy

Goodwill

Goodwill represents the excess of the fair value of the acquired assets and liabilities over the fair value of the identified assets and liabilities. Goodwill is allocated to the Cash Generating Units (CGU) expected to benefit from the acquisition. Goodwill is considered to have an indefinite useful life. Goodwill is tested for impairment annually and again whenever indicators of impairment are detected and is carried at cost less any provision for impairment.

The goodwill balance above is allocated to one cash-generating unit. The value of goodwill was tested for impairment during the current year by means of comparing the recoverable amount of the CGU with the carrying value of its goodwill.

Recoverable values are determined on the basis of discounted operating cash flow forecasts covering a period of 5 years and a terminal value. The discount rate used for these calculations is based on the weighted average cost of capital and has been determined by L'Oréal S.A. to be 6.9% in 2019 (2018: 7.2%). The assumptions adopted in terms of sales growth and terminal values are reasonable and consistent with the available market data. No impairment loss was identified in 2019 or 2018. There is sufficient headroom such that a reasonably possible change in the key assumptions used would not result in an impairment of the goodwill.

9. Intangible assets (continued)

Other intangible assets

Premiums paid for the benefit of securing leased premises are considered to have a definite useful life and are amortised on a straight line basis over the period of the lease term.
Trademarks are measured at purchase cost and are amortised on a straight line basis over their estimated useful lives.
Software acquired for internal use is recorded at purchase cost less any subsequent accumulated amortisation.
Costs are classed as under construction and are not amortised until such a time that the main functions of the software application become operational. Completed software is amortised on a straight line basis over its probable service life, with a maximum of 5 years.
Amortisation is charged to selling, general and administrative expenses.

	Goodwill £'000	Lease premium £'000	Trademarks £'000	Software £'000	Software under construction £'000	Total £'000
Cost						
At 1 January 2019	2,765	1,349	677	21,736	1,219	27,746
Additions	-	-	-	1,540	1,580	3,120
Disposals	-	-	-	(4,668)	-	(4,668)
Transfer to right of use	-	(1,349)	-	-	-	(1,349)
Transfers	-	-	-	280	(280)	-
At 31 December 2019	**2,765**	**-**	**677**	**18,888**	**2,519**	**24,849**
Accumulated amortisation						
At 1 January 2019	-	773	657	12,294	-	13,724
Disposals	-	-	-	(4,668)	-	(4,668)
Charge for the year	-	-	15	4,197	-	4,212
Transfer to right of use	-	(773)	-	-	-	(773)
Impairment	-	-	-	3	-	3
At 31 December 2019	**-**	**-**	**672**	**11,826**	**-**	**12,498**
Net book value						
At 31 December 2019	**2,765**	**-**	**5**	**7,062**	**2,519**	**12,351**
At 31 December 2018	2,765	576	20	9,442	1,219	14,022

Lease premium was transferred to right of use asset class in the year (see note 11).

Notes to the Financial Statements

10. Tangible assets

Accounting policy

Tangible assets are recorded on the Balance Sheet at purchase cost less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Short leasehold property represents leasehold improvement provisions and other direct costs associated with those leasehold properties. At 1 January 2019 the leasehold improvement provision was reclassified as a right of use asset and is now included within note 11. Other short leasehold assets have been transferred to other tangible assets within the below table.

Assets in the course of construction are carried at purchase cost and are not depreciated until ready for their intended use. Depreciation is provided on all fixed assets using the straight line method, except assets in the course of construction, at the following rates:

Point of sale advertising, stands and displays	- 3 or 5 years
Other tangible assets	- 2 to 15 years

The Company reviews the carrying amounts of its property, plant and equipment to determine whether there has been an indication of impairment loss. If an indication exists then the recoverable amount of the asset, being the higher of its fair value less disposal costs and its value in use, is estimated to determine the extent of the impairment loss.
Where the asset does not generate cash flows independently from other assets, the asset is allocated to a Cash Generating Unit (CGU) to which the asset belongs.

	Short leasehold property £'000	Point of sale advertising, stands and displays £'000	Other tangible assets £'000	Assets under construction £'000	Total £'000
Cost					
At 1 January 2019	24,536	88,848	21,648	3,113	138,145
Additions	-	7,985	2,275	1,408	11,668
Disposals	(1,781)	(6,501)	(3,254)	-	(11,536)
Transfer to right of use	(6,360)	-	-	-	(6,360)
Transfers	(16,395)	1,441	16,422	(1,468)	-
At 31 December 2019	-	**91,773**	**37,091**	**3,053**	**131,917**
Accumulated depreciation					
At 1 January 2019	17,507	56,894	14,211	-	88,612
Charge for the year	-	18,972	2,972	-	21,944
Disposals	(1,905)	(6,501)	(3,130)	-	(11,536)
Impairment	-	212	3,034	-	3,246
Transfer to right of use	(4,159)	-	-	-	(4,159)
Transfers	(11,443)	-	11,443	-	-
At 31 December 2019	-	**69,577**	**28,530**	-	**98,107**
Net book value					
At 31 December 2019	-	**22,196**	**8,561**	**3,053**	**33,810**
At 31 December 2018	7,029	31,954	7,437	3,113	49,533

Notes to the Financial Statements

10. Tangible fixed assets (continued)

During 2019 the Company has reported impairment losses within its portfolio of retail stores due to changes in UK market conditions which resulted in lower store performance. An impairment loss on tangible assets of £3,246,000 (2018: £1,372,000) was charged to the Income Statement in the year. The discount rate used within the impairment calculation was 6.9%.

Capital commitments

	2019	2018
	£'000	£'000
Contracted, placed for future capital expenditure not provided for in the financial statements	**3,433**	3,124

11. Leases

Accounting policy

The Company has applied *IFRS16 Leases* from 1 January 2019.

At inception of a contract the Company assesses whether a contract is, or contains, a lease. A contract is, or contains a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company leases buildings for offices, distribution centres, hair academies and retail stores. Lease terms are negotiated on an individual basis and contain a wide range of terms and conditions. Leases are typically made for a fixed period of 10 – 15 years and may include extension options which provide operational flexibility. The Company also leases vehicles and equipment for use in the business. Lease terms on these are generally 3 – 7 years.

Right of use (ROU) assets are initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of the costs to restore the underlying asset or site on which it is located, less any lease incentives received.

The right of use asset is subsequently depreciated using the straight line method from the commencement date to the earlier of; the end of the useful life of the right of use asset or the end of the lease term.

Under IFRS 16, right of use assets are tested for impairment in accordance with *IAS 36 Impairment of Assets*. This replaces the previous requirement to recognise a provision for onerous lease contracts.

The lease liability at commencement date is measured as the present value of future lease payments, discounted by the interest rate implicit in the lease, or where this is not readily determined, the Company's incremental borrowing rate.

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

(a) fixed lease payments (including in substance fixed payments), less any lease incentives
(b) variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date
(c) the exercise price of purchase options, if the lessee is reasonably certain to exercise the options, and
(d) payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

Notes to the Financial Statements

11. Leases (continued)

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right of use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included as operating expenses in the Income Statement.

The lease liability is subsequently measured at amortised cost, increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made. The liability is re-measured when there is a change in future lease payments due to a change in assessment of exercising a purchase, extension or termination option.

Leased right of use assets

	Buildings £'000	Buildings Retail £'000	Other tangible assets £'000	Total £'000
Cost				
At 1 January 2019	-	-	-	-
Adjustment on transition to IFRS16	76,248	46,623	6,973	129,844
Additions	6,269	827	283	7,379
Disposals	(1,907)	(3,388)	-	(5,295)
Transfer from owned assets	6,360	1,349	-	7,709
Lease modifications	-	(7,649)	(434)	(8,083)
At 31 December 2019	**86,970**	**37,762**	**6,822**	**131,554**
Accumulated depreciation				
At 1 January 2019	-	-	-	-
Adjustment on transition to IFRS16	45,719	15,167	549	61,435
Charge for the year	8,555	5,911	739	15,205
Disposals	(1,907)	(2,313)	-	(4,220)
Impairment	-	4,906	-	4,906
Transfer from owned assets	4,159	773	-	4,932
At 31 December 2019	**56,526**	**24,444**	**1,288**	**82,258**
Net book value				
At 31 December 2019	**30,444**	**13,318**	**5,534**	**49,296**

During 2019 the Company has reported impairment losses within its portfolio of retail stores due to changes in UK market conditions which resulted in lower store performance. An impairment loss on right of use assets of £4,906,000 was charged to the Income Statement in the year. The discount rate used within the impairment calculation was 6.9%. A 1% increase in the discount rate would have increased the impairment loss on right of use assets by £207,000.

Notes to the Financial Statements

11. Leases (continued)

Lease liabilities

	2019 £'000
At 1 January 2019	-
Adjustment on transition to IFRS16	70,024
New leases	5,572
Disposals	(1,075)
Cash payments	(15,310)
Exchange and other movements	(129)
Lease modifications	(8,082)
As at 31 December 2019	**51,000**

The maturity analysis of lease liabilities is as follows:

	2019 £'000
Due within one year	15,553
Due between two and five years	33,032
Due after five years	2,415
	51,000

The company has elected not to recognise a right of use asset for short term leases or for leases of low value assets. Rental payments on these leases are charged directly to the Income Statement as follows:

	2019 £'000
Short term leases	536
Low value asset leases	718
Variable lease payments not included in the lease liability	69
	1,323

The future commitments on short term and low value assets are £688,000 due in less than 1 year and £584,000 due between 2 and 5 years.

The effects of excluding future cash outflows arising from variable lease payments, termination options and residual value guarantees from lease liabilities was not material.

Notes to the Financial Statements

11. Leases (continued)

Leases not yet commenced

The company has committed to leases with a future commencement date. In particular the Company has signed an agreement for a 15 year lease commencing in 2022. The future aggregate minimum lease payments on such leases is as follows:

	As at December 2019 £'000
Due within one year	139
Due between two and five years	1,185
Due after five years	91,262
	92,586

IAS17 Leases disclosures

Operating lease rentals charged to the income statement for the year ended 31 December 2018 were as follows:

	2018 £'000
Buildings	14,748
Other	2,259
Sub lease income	(45)
	16,962

	As at December 2018 £'000
Due within one year	16,718
Due between two and five years	45,231
Due after five years	8,593
	70,542

Notes to the Financial Statements

12. Investments

Investments are recognised at amortised cost less any provision considered necessary for impairment.

	2019 £'000 Other	2018 £'000 Other
At 1 January	**352**	-
Addition	-	399
Amortisation	**(79)**	(47)
At 31 December	**273**	352

During the year ended 31 December 2018, employees of the Company were invited to join a Share Incentive Plan and purchase shares in L'Oréal S.A. Participants were awarded 'Matching (bonus) shares'. The Company funded the purchase of these bonus shares and is amortising the value of the loan over the 5 year vesting period of the Plan.

At 31 December 2019, the Company held ordinary shares in the following subsidiary undertakings:

Subsidiary undertaking	Country of incorporation	Registered office	Percentage holding of ordinary share capital	Nature of business
Two Five Five Limited	England and Wales	255 Hammersmith Road, London, W6 8AZ	100%	Not trading

13. Deferred tax liability

Accounting policy

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits, and is accounted for using the balance sheet liability method.

Deferred tax is measured using the tax rate enacted at the closing date.

Deferred tax assets are only recognised to the extent it is probable that sufficient future taxable profits will be available against which they can be utilised.

Deferred tax assets and liabilities are offset as the Company has a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

Notes to the Financial Statements

13. Deferred tax liability (continued)

The following are the major deferred tax assets and (liabilities) recognised and movements during the current and prior years.

	Accelerated tax depreciation £'000	Share based payments £'000	Retirement benefit obligations £'000	FX derivatives £'000	Other £'000	Total £'000
At 1 January 2018	**5,112**	**1,156**	**(10,798)**	**(48)**	**3,250**	**(1,328)**
Credit/(charge) to income statement	1,136	(43)	(3,089)	-	(1,185)	(3,181)
Credit/(charge) to equity or other comprehensive income Restated	-	-	(5,386)	(178)	(399)	(5,963)
Effect of change in tax rate in the income statement	(223)	(54)	430	-	(5)	148
At 1 January 2019	**6,025**	**1,059**	**(18,843)**	**(226)**	**1,661**	**(10,324)**
Effect of a change in accounting policy (see note 1)	-	-	-	-	258	258
Credit/(charge) to income statement	1,533	307	(257)	-	241	1,824
Credit to equity or other comprehensive income	-	-	2,702	3,322	-	6,024
Effect of change in tax rate in the income statement	(234)	(105)	257	-	(258)	(340)
At 31 December 2019	**7,324**	**1,261**	**(16,141)**	**3,096**	**1,902**	**(2,558)**

Deferred tax is measured at 17% (2018: 19% and 17%). An increase in the tax rate from 17% to 19% would lead to a increase of £628,000 in the deferred tax liability. Profit for the financial year would increase by £949,000 and an additional expense of £1,577,000 would be recorded in other comprehensive expense.

There is an unrecognised deferred tax asset in respect of trading losses carried forward of £166,754 (2018: £166,754) relating to three ancillary trades carried on by the Company. These losses may only be offset against future profits arising from those particular trades. In the view of the directors of the Company it is not considered that, in the foreseeable future, sufficient suitable profits will arise against which the losses may be offset and therefore no deferred tax asset is recognised in respect of these losses.

Notes to the Financial Statements

14. Inventories

Accounting policy

Stocks are valued at the lower of cost and estimated net realisable value. Cost is calculated at purchase price on the basis of weighted average prices, less costs to bring the inventories to their present location and condition. Net realisable value is based on estimated selling price in the ordinary course of business, less applicable variable selling expenses. The difference between the balance sheet value of inventories and the replacement value is not material.

	2019 £'000	2018 £'000
Finished products	69,089	65,335
Less: provision for obsolete inventories	(6,054)	(6,108)
Net inventories	**63,035**	59,227

15. Trade and other receivables

Accounting policy

In line with the requirement of *IFRS 9 Financial instruments,* trade receivables are recorded net of an allowance for expected credit loss. The amount of expected credit loss is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective trade receivable.

The Company always recognises lifetime expected credit losses for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

Movement in the expected credit loss is shown within selling, general and administrative expenses in the Income Statement.

Trade receivables are due within one year.

	2019 £'000	2018 £'000
Trade receivables	165,350	176,693
Amounts owed by parent company	250	242
Amounts owed by group undertakings	46,617	42,447
Less: expected credit losses on trade receivables	(1,061)	(1,029)
Net trade receivables	**211,156**	218,353

Amounts owed by parent company and group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand. No allowance for credit loss is recognised on intercompany receivables.

Notes to the Financial Statements

16. Other current assets

Accounting policy

Loans and other receivables are recorded at amortised cost. Loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as other current assets.

	2019 £'000	2018 £'000
Tax and employee related receivables (excluding current tax)	**5,558**	4,799
Prepaid expenses	**5,822**	12,320
Other	**363**	1,923
	11,743	19,042

Other includes an amount of £148,000 (2018: £189,000) which is due after more than one year.

Other also includes an amount of £160,000 (2018: £189,000) which is impaired at the Balance Sheet date and is carried at a nominal value of £nil (2018: £20,624). Movements in the provision for impaired other current assets is shown within selling, general and administrative costs in the Income Statement.

17. Called up share capital and share premium account

Ordinary shares issued are classified as equity.

	2019 '000	2018 '000	**2019 £'000**	2018 £'000
Called up share capital				
Allotted and fully paid ordinary shares (par value £0.25)	**406,133**	406,133	**101,533**	101,533
Share premium account				
Share premium			**277**	277

Notes to the Financial Statements

18. Other reserves

	Merger reserve £'000	Hedging reserve £'000	Cost of hedging reserve £'000	Share based payment reserve £'000	Total other reserves £'000
Balance at 1 January 2018	**(83,502)**	**2,535**	**(2,315)**	**8,968**	**(74,314)**
Effective portion of gains and losses on cash flow hedges (net of tax)	-	(43)	948	-	**905**
Change in fair value of equity-settled share based payment transactions (net of tax)	-	-	-	1,880	**1,880**
Balance at 31 December 2018 and 1 January 2019	**(83,502)**	**2,492**	**(1,367)**	**10,848**	**(71,529)**
Effective portion of gains and losses on cash flow hedges (net of tax)	-	(13,464)	(414)	-	**(13,878)**
Change in fair value of equity-settled share based payment transactions (net of tax)	-	-	-	2,186	**2,186**
On dissolution of subsidiary company IT Cosmetics Limited	(223)	-	-	-	**(223)**
Balance at 31 December 2019	**(83,725)**	**(10,972)**	**(1,781)**	**13,034**	**(83,444)**

The merger reserve was created in 2009 and was later adjusted following the transfer of Decleor (U.K.) Limited in 2015 of its assets and liabilities. The merger reserve was further adjusted following the transfer of IT Cosmetics Limited assets and liabilities on 1 July 2018 and again on dissolution on 8 January 2019.

The hedging reserve represents the cumulative effective fair value gains and losses on cash flow hedges. These gains and losses are reclassified to the Income Statement in the period when the hedged item affects the profit or loss.

The share based payment reserve represents the fair value gains and losses on equity-settled share based payment transactions.

Notes to the Financial Statements

19. Retained earnings

	Total retained earnings £'000
Balance at 1 January 2018	**192,516**
Profit for the financial year	126,394
Dividends paid	(157,308)
Actuarial gain on defined benefit obligations (net of tax)	26,301
Balance at 31 December 2018	**187,903**
Effect of change in accounting policy (see note 1)	(2,588)
Balance at 1 January 2019	**185,315**
Profit for the financial year	107,572
Dividends paid	(126,394)
Actuarial loss on defined benefit obligations (net of tax)	(23,852)
Balance at 31 December 2019	**142,641**

20. Share-based payments

Accounting policy

The financial statements are prepared in accordance with the requirements of standard IFRS 2 Share-based Payment in respect of options granted to employees to purchase or subscribe for shares in its parent Company. The fair value of equity-settled share-based payments is determined at the date of grant and is expensed to the income statement on a straight-line basis over the vesting period, which is five years for purchase options and four years for free shares.

As the share options are equity-settled the corresponding entry is recognised in equity.

The fair value of stock options is determined using the Black Scholes model. This model allows for the characteristics of the plan such as exercise price and exercise period, market data at the grant date such as the risk-free rate, share price, volatility, expected dividends and behavioural factors of the beneficiaries. The fair value of free shares corresponds to the value of the share at the grant date, less dividends expected to be paid during the vesting period.

Share purchase and subscription options

There was a Company stock option plan for senior managers which granted a number of options with a vesting period of 5 years and a holding period of 10 years and no performance conditions. The plan was terminated following the 2011 grant.

The table below sets out the data concerning option plans issued after 7 November 2002 and in force at 31 December 2019.

Year of Grant	Number of options	Number of options not yet exercised	Exercise Period	Exercise Price (Euros)
2010	52,000	2,000	28.04.15 – 27.04.20	80.03

Notes to the Financial Statements

20. Share-based payments (continued)

The fair value of options is determined using the Black Scholes method based on the following key assumptions:

Subscription Options	**April 2010**
Risk free rate of return	2.83%
Expected lifespan	7 years
Expected volatility	23.53%
Expected dividends	1.86%
Share Price (Euros)	80.50
Exercise Price (Euros)	80.03
Fair Value (Euros)	17.17

Data concerning share option plans during 2019 and 2018 are set out below:

	2019		2018	
	Number of options	**Weighted Average price (Euros)**	Number of options	Weighted Average price (Euros)
Number of options outstanding at the beginning of the year	7,000	€75.76	14,600	€75.90
Options exercised	(5,000)	€74.05	(7,600)	€76.03
Number of options outstanding at the end of the year	2,000	€80.03	7,000	€75.76
Of which: number of exercisable options at end of the year	2,000	€80.03	7,000	€75.76

ACAS shares

These are 'free shares' given to senior employees of the global Company on an annual basis. The scheme has been in place since 2009. For the UK, approximately 50 participate each year. The grant date is usually April of each year, and the plans have a 4 year vesting period. The plans are subject to performance criteria as follow for the 2015 - 2019 plans:

- For one half, L'Oréal growth when compared to cosmetic sales of a panel of competitors
- For one half, the growth in consolidated operating profit of the L'Oréal Group
  In addition, the participants must remain employed by the Company throughout the vesting period.

20. Share based payments (continued)

The table below summarises data related to the free share plan:

Share Subscription plans	Share purchase plans	Vesting date	Number of shares granted	Number of shares issued	Share price (Euros)	Fair Value (Euros)
	22.04.2011	23.04.2015	18,500	18,500	€85.68	€82.93
	17.04.2012	18.04.2017	18,150	18,150	€95.68	€80.64
	26.04.2013	27.04.2018	12,870	12,870	€130.45	€78.24
17.04.2014		18.04.2018	13,850		€121.35	€109.99
22.04.2015		23.04.2019	12,875		€177.10	€164.50
20.04.2016		21.04.2020	15,325		€168.10	€154.32
20.04.2017		21.04.2021	14,275		€181.75	€166.90
17.04.2018		18.04.2022	16.300		€191.85	€176.17
18.04.2019		19.04.2023	13,900		€243.80	€226.25

The fair value corresponds to the value of the share at the grant date, less dividends expected to be paid during the vesting period.

L'Oréal Employee Share Plan and Share Incentive Plan (SIP)

As part of the Group's first global all-employee share plan, employees were given the opportunity to subscribe to a L'Oréal Employee Share Plan in which free shares were offered. The number of free shares offered was dependent on the contribution made to the plan with a maximum of 4 shares offered for every 10 shares subscribed. The shares vest over a 5 year period. Should the employee leave before the end of the vesting period, the free shares would be lost.

For employees in the Republic of Ireland, the subscription price set was €162.52 representing 80% of the average opening share price in the stock market between 4th May 2018 and 31st May 2018. The number of shares in which employees subscribed was 562 and that amounted to 140 free shares.

For employees in the United Kingdom, they became involved in the L'Oréal Share Incentive Plan (SIP). The subscription price set was €205.66 representing the lower of the share price on 1st July 2018 or the purchase price in November 2018. The number of shares in which employees subscribed was 4,514 and that amounted to 2,010 free shares. Shares, including the matching shares, in the L'Oréal SIP are held in an employee share trust.

The total amount of expense recorded in 2019 for all share based payment was £2,186,000 (2018: £1,880,000).

The carrying amount at the year-end of liabilities arising from social security costs on share based payment transactions amounted to £1,178,000 (2018 : £1,029,000).

Notes to the Financial Statements

21. Retirement benefit schemes

Accounting policy

The Company operates a defined benefit scheme, The L'Oréal (U.K.) Limited Retirement Benefit Plan. Pension benefits are provided through a trustee administered scheme which is entirely separate from the Company's finances.

The defined benefit pension cost and the present value of the defined benefit obligations are calculated at the reporting date by the schemes' actuaries using the Project Unit Credit Method. The net charge to the Income Statement comprises the current service cost, plus the interest cost (the unwinding of the discount rate on plan liabilities), less the expected return on plan assets. Past service costs are charged immediately to the Income Statement to the extent that the benefits have vested, and are otherwise recognised on a straight-line basis over the average period until the benefits vest.

Guaranteed Minimum Pensions (GMP) – GMP is the minimum pension which a UK occupational pension scheme must provide for those employees who were contracted-out of the State Earnings-Related Pension Scheme between 6 April 1978 and 5 April 1997.
On 26 October 2018, the High Court ruled that pensions provided to members who had contracted-out of the state pension scheme must be recalculated. Pension schemes which provided GMP's must equalise their benefits to ensure no inequality between men and women. GMP equalisation will increase benefits for some members. Where GMP's are already in payment, GMP equalisation is likely to mean an arrears payment will need to be made to members as well as correcting benefits going forward.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actual occurred), as well as the effects of changes in actuarial assumptions. Actuarial gains and losses are recognised in other comprehensive income in the period in which they arise.

The defined benefit asset recognised in the Balance Sheet represents the present value of defined benefit obligations adjusted for unrecognised past service costs and reduced by the fair value of plan assets. A net pension asset is only recognised to the extent that it is expected to be recoverable in the future through a cash refund or a reduction in future payments.

The present value of the pension obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Company determines the appropriate discount rate each year. This is the interest rate that used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. The discount rate has been determined by considering yields available on high quality corporate bonds of an appropriate duration.

Other key assumptions are based in part on current market disclosed below.

The Company also operates a defined contribution pension scheme. Contributions to this scheme are charged to the Income Statement as they fall due.

Defined Benefit Plans

The Plan operates in respect of some of its employees (and former employees) in the UK. The plan is a funded defined benefit arrangement and is a Registered Pension Scheme under the Finance Act 2004. Funding valuations for the plan are carried out under the requirements of the Pensions Act 2004. The plan provides benefits based on length of service and final salary at retirement or earlier date of leaving.

The plan is operated by a trustee board. Benefit payments are from trustee-administered funds and the plan assets are held in trusts which are governed by UK regulation. The trustees have the primary responsibility for governance of the plan including investment decisions and contribution rates, subject to consultation/agreement with the Company as required by the plans trust deeds and rules and overriding legislation. The trustee boards comprise of individuals appointed by the Company and individuals nominated by the members of the plan in accordance with the plans trust deeds and rules and overriding legislation.

Notes to the Financial Statements

21. Retirement benefit schemes (continued)

The trustees of the plan undertake asset liability matching studies on a regular basis, and consult the Company regarding any changes to the Plan's investment strategy. The matching assets to the pension obligations are considered to be long-term fixed interest/inflation linked securities.

A majority of the plan's assets are held in such securities and it would be expected that this proportion would increase over time as the plan mature. The balance of the plans' assets are invested in a diversified portfolio of growth oriented assets with the aim of achieving higher levels of return at an acceptable level of risk.

L'Oréal (U.K.) Limited Retirement Benefits Plan
The Plan was closed to new entrants with effect from 1 February 2004.

The last formal funding review valuation had an effective date of 5 April 2018 and was completed by the scheme actuary, Buck Consultants Limited. Under an agreed contingency funding plan, the funding of the plan will be assessed on a quarterly basis and the deficit contributions made by the Company will depend on those assessments, varying between nil and £1,250,000 per month. During 2019 the Company has made additional funding contributions of £9,000,000 (2018: £15,104,000) in addition to the salary-related contributions. The company's best estimate of contributions to be paid during 2020 is £12,626,000, but this estimate assumes that no deficit contributions are required.

The Company makes contributions in respect of active members, the rate of such contributions is currently 32.1% (2018: 32.1%) of relevant salaries (plus an additional amount in respect of members participating in a salary sacrifice arrangement).

The Company also contributes towards the expenses of operating the Plan (including the Pension protection levy and life assurance premiums). Additional contributions may be made in respect of the expenses associated with special projects related to the Plan.

The next formal funding review valuation is due as at 5 April 2020.

The major assumptions used by the actuaries were as follows:

	2019	2018
Rate of increase in salaries	**3.00%**	4.00%
Rate of increase of LPI pensions in payment – L'Oréal plan	**2.95%**	2.95%
Discount rate	**2.00%**	2.75%
Inflation (Retail Prices) assumption	**3.00%**	3.00%
Inflation (Consumer Prices) assumption	**2.00%**	2.00%

The amounts recognised in the Balance Sheet are determined as follows:

	2019 **£'000**	2018 £'000
Present value of defined benefit obligation	**586,470**	524,966
Fair value of plan assets	**(681,419)**	(635,812)
Asset in the Balance Sheet	**(94,949)**	(110,846)

A net asset has been recognised as the Company believe it has an unconditional right to a refund of surplus in the Plan, assuming the gradual settlement of the Plans liabilities over time until all members have left the Plan.

Notes to the Financial Statements

21. Retirement benefit schemes (continued)

The movement in the defined benefit obligation over the year is as follows:

	2019 £'000	2018 £'000
Opening defined benefit obligation	**524,966**	575,216
Current service cost	**3,578**	4,192
Past service cost	**-**	1,823
Employee contributions	**39**	44
Interest cost	**14,163**	14,140
Actuarial loss/(gain)	**63,765**	(59,594)
Benefits and expenses paid	**(20,041)**	(10,855)
Closing defined benefit obligation	**586,470**	524,966

Based on the assumptions set out above, the impact on the present value of the defined benefit obligations of changing the following individual assumptions (with all other assumptions remaining unchanged) is set out below:

	2019 £'000
Value of obligations at the end of the year if:	
Assumptions as set out above	**586,470**
Discount rate reduced by 0.5% p.a.	**654,329**
Discount rate increased by 0.5% p.a.	**528,025**
Inflation reduced by 0.25%* p.a.	**561,455**
Inflation increased by 0.25%* p.a.	**612,089**

*This sensitivity allows for the impact on all inflation related assumptions (salary increases, deferred revaluation and pension increases (subject to the relevant caps and floors).

The net retirement benefit obligation is the difference between the retirement benefit obligation and the fair value of plan assets. Changes in the assumptions may occur at the same time as changes in the fair value of plan assets. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

The movement in the fair value of plan assets of the year is as follows:

	2019 £'000	2018 £'000
Opening fair value of scheme assets	**635,812**	638,739
Expected return	**35,029**	(27,907)
Employer contributions	**13,188**	19,683
Employee contributions	**39**	44
Interest income	**17,392**	16,108
Benefits and expenses paid	**(20,041)**	(10,855)
Closing fair value of plan assets	**681,419**	635,812

Notes to the Financial Statements

21. Retirement benefit schemes (continued)

An analysis of the movement in the Balance Sheet liability is as follows:

	2019 £'000	2018 £'000
Asset at the beginning of the year	**(110,846)**	(63,523)
Net expense recognised in the Income Statement	**349**	4,047
Employer contributions	**(13,188)**	(19,683)
Actuarial loss/(gain) recognised in the Statement of Comprehensive Income	**28,736**	(31,687)
Asset at the end of the year	**(94,949)**	(110,846)

Amounts recognised in the Statement of Comprehensive Income are:

	2019 £'000	2018 £'000
Actual return less expected return on plan assets	**35,029**	(27,907)
Experience (loss)/gain arising on the plan liabilities	**(63,765)**	59,594
Actuarial (loss)/gain recognised in the Statement of Comprehensive Income	**(28,736)**	31,687

The amounts recognised in the Income Statement are as follows:

	2019 £'000	2018 £'000
Current service cost	**3,578**	4,192
Past service cost	**-**	1,823
Net interest income	**(3,229)**	(1,968)
Total included in the Income Statement	**349**	4,047

The current and past service cost has been included in the income statement as 'Selling, general and administrative expenses'. The net interest income has been included within 'Finance cost and Finance income'.

The Trustees of the Plan undertake asset-liability matching studies on a regular basis and consult with the Company regarding any changes to the Plan's investment strategy. The matching assets to the pension obligations are considered to be long-term fixed interest/inflation-linked securities and bulk annuity policies. On 13 May 2019, the Trustees purchased a bulk annuity policy covering the majority of the pensioner membership at that time. From an asset perspective, the bulk annuity policies have been valued using the same methodology as used to value the liabilities of the benefits of those members covered by it (and therefore the bulk annuity policy asset equals the liability under the policy).

The majority of the Plan's assets are held in matching assets and it would be expected that this proportion would increase over time, as the Plan matures. The balance of the Plans' assets is invested in a diversified portfolio of growth-oriented assets with the aim of achieving higher levels of return at an acceptable level of risk.

The breakdown of plan assets, by asset class, is as follows:

	2019 %	2018 %
Equities	**11**	9
Bonds	**79**	80
Property	**10**	10
Cash	**-**	1
	100	100

Notes to the Financial Statements

21. Retirement benefit schemes (continued)

The duration of the plan liabilities is around 22.5 years. The following table provides information on the timing of the benefit payments (amount undiscounted):

	£'000
Year ending 31 December 2020	11,763
Year ending 31 December 2021	12,031
Year ending 31 December 2022	12,155
Year ending 31 December 2023	13,484
Year ending 31 December 2024	14,066
Five years ending 31 December 2029	81,994

Defined Contribution Scheme

The L'Oréal (U.K.) Limited Defined Contribution scheme is a defined contribution plan. The contributions made to the plan in 2019 were £11,439,000 (2018: £9,890,000). At the end of the year, contributions of £933,000 (2018: £861,000), representing the unpaid contributions for December 2019 were outstanding.

22. Provisions for liabilities

Accounting policy

Provisions are recognised when there is a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

A product returns provision is recognised for products which can be returned to the Company where an agreement is in place with the customer and is estimated using historical return rates which have demonstrated to have been reliable in the past.

Leasehold improvement provisions have been created because the Company leases premises which contain lease rectification clauses that impose certain requirements on the Company to return the properties to their original state. Dilapidation provisions are recognised where the Company expect to have to repair a leased property before returning it to the landlord.

A restructuring provision is recognised when the Company has developed a detailed plan for the restructuring and has a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of the restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

Other includes a provision for social security contributions payable on exercise of share based payments, litigation and provision for loans guaranteed.

22. Provisions for liabilities (continued)

	2019 £'000	2018 £'000
Product returns	**10,627**	9,397
Leasehold improvement/dilapidations	**9,187**	6,870
Restructuring	**506**	1,099
Other	**6,298**	4,404
	26,618	21,770
Current	**17,631**	14,822
Non-current	**8,987**	6,948
	26,618	21,770

	Product returns £'000	Leasehold improvement/ dilapidations £'000	Restructuring £'000	Other £'000	Total £'000
At 1 January 2019	**9,397**	**6,870**	**1,099**	**4,404**	**21,770**
New provisions during the year	9,795	2,389	195	4,345	16,724
Utilisation of provision	(6,891)	(72)	(195)	(2,194)	(9,352)
Reversal of provision without cost	(1,674)	-	(593)	(257)	(2,524)
At 31 December 2019	**10,627**	**9,187**	**506**	**6,298**	**26,618**

23. Trade and other payables

Trade and other payables and other current liabilities are recognised at amortised cost.

	2019 £'000	2018 £'000
Trade creditors	**78,961**	52,350
Accruals	**72,435**	81,759
Amounts owed to parent company	**11,662**	13,213
Amounts owed to group undertakings	**24,370**	31,087
	187,428	178,409

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs.

Amounts owed to parent and group undertakings are unsecured, have no fixed repayment period but are repayable on demand, and are non-interest bearing in both years.

Notes to the Financial Statements

24. Other current liabilities

	2019 £'000	2018 £'000
Personnel and social security	**18,978**	19,265
Other taxation (excluding current tax)	**17,941**	20,284
Bank overdraft	**-**	7
Year end and promotional rebates	**96,060**	91,371
Deferred income	**123**	84
Fixed asset payables	**2,459**	7,951
Accrued interest on lease liability	**47**	-
Other current liabilities	**4**	1,290
	135,612	140,252

25. Financial risk management and derivative financial instruments

Accounting policy

Financial instruments

Forward foreign exchange contracts and options are put in place in order to hedge cash flows. They are recorded on the Balance Sheet as fair value hedges of cash flows on future commercial transactions whose completion is considered to be highly probable.

All hedging instruments are recorded on the Balance Sheet at their market value, including those which relate to purchases and sales in the next accounting year. If the future cash flow hedging relationship is duly documented and the effectiveness of the hedges demonstrated, the variation in the fair value of these hedging instruments is recorded directly in equity, and impacts the Income Statement on the date on which the transactions hedged are completed. Any ineffective part is charged directly to the Income Statement within selling, general and administrative expenses.

In application of hedge accounting, unrealised exchange gains and losses relating to unsold inventories are deferred in the inventories item in the Balance Sheet.

The management of the business and the execution of the Company's strategy are subject to a number of risks: market risk, credit risk and liquidity risk.

Market risk
Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market price.

The Company's operations expose it to foreign currency exchange risk due to exchange rate movements, which will affect the Company's transaction costs and the translation of net assets of its branch in the Republic of Ireland.

The Company manages its exposure to currency rate risks arising through its normal course of business using derivatives.

It is the policy of the Company to enter into forward foreign exchange contracts and options to cover foreign currency payments and receipts. Using detailed forecasts, the Company will use forward foreign exchange contracts to reduce its exposure so that at the end of the year, 80% to 100% of any currency risk identified has been hedged.

All foreign exchange hedging is carried out by the L'Oréal S.A. Group Treasury Department who do not enter into or trade financial instruments for speculative purposes.

Notes to the Financial Statements

25. Financial risk management and derivative financial instruments (continued)

The carrying amounts of the Company's foreign currency denominated monetary assets and liabilities are as follows:

	2019		2018	
	Assets	**Liabilities**	Assets	Liabilities
	£'000	**£'000**	£'000	£'000
Forward foreign exchange contracts – cash flow hedge	**9,221**	**24,320**	3,630	2,055
Option premium	**186**	**-**	-	-
	9,407	**24,320**	3,630	2,055

The fair value of the hedging derivatives is classified as a current asset or liability in the Balance Sheet as the maturity of the hedged items are less than 12 months. Gains and losses recognised in the hedging reserve in equity on foreign exchange contracts are recognised in the Income Statement in the years during which the hedged forecast transaction affects the Income Statement. The fair value of the derivatives is their market value.

The following table details the forward foreign exchange contracts outstanding as at year end:

	Nominal value		**Market Value**	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Buy:				
AUD	**-**	1	**-**	-
CAD	**-**	24	**-**	-
EURO	**453,738**	484,284	**(22,474)**	1,161
PLN	**9,882**	9,478	**(258)**	118
USD	**32,434**	41,641	**(1,287)**	1,482
	496,054	535,428	**(24,019)**	2,761
Sell:				
CAD	**-**	209	**-**	4
EURO	**181,331**	168,695	**8,653**	(821)
USD	**10,979**	10,327	**267**	(368)
	192,310	179,231	**8,920**	(1,185)

The following table details the options foreign exchange contracts outstanding as at year end:

	Nominal value		**Market Value**	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Buy:				
EURO	**25,105**	-	**(1,028)**	-
	25,105	-	**(1,028)**	-

The Company has no short or long term borrowings and therefore considers its exposure to interest rate risk to be not significant.

Notes to the Financial Statements

25. Financial risk management and derivative financial instruments (continued)

Credit risk
Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company is particularly exposed to credit risk through its transactions with wholesale and hairdressing salon customers.

The Company has policies in place that require appropriate credit checks on customers, both new and existing, which are reviewed on a regular basis. Credit limits are set for each customer based on the independent rating of that customer, or if no independent rating is available, based on an assessment of the financial position of the customer.

Trade receivables are recorded net of an allowance for doubtful debts. The allowance is calculated using the expected credit loss model, the calculation is based using historic actual loss statistics. If further evidence exists of a customer in significant financial difficulty or continuous default in payment then a specific provision is made against that customer.

Credit insurance cover has been purchased by the Company to protect the trade and other receivables from financial loss.

Other activities to mitigate credit risk include guarantees received, and not releasing goods until payment received.

Liquidity risk
Liquidity risk is the risk that the Company cannot meet its obligations associated with financial liabilities that are settled in cash. The Company manages liquidity in conjunction with the L'Oréal S.A. Group's Financial Services Department. The Company has substantial short term credit facilities through its Group cash pooling arrangements and has no long term external debt.

26. Events after the Balance Sheet Date

The World Health Organisation recognised the COVID-19 outbreak as a pandemic on 11 March 2020.

The Company has modified a number of business practices to ensure that health and safety is priority. It is constantly reviewing the advice and latest guidance from the World Health Organisation, National Health Service, Health and Safety Executive and other authorities.

The Company has taken many mitigating actions during this pandemic which include:

- The temporary closure of its portfolio of owned retail outlets.
- Suspension of all overseas travel.
- Social distancing and protective measures for those employees who were considered to be 'essential workers' during the period of national lockdown.
- Homeworking (where possible) during the period of national lockdown.
- Enhanced safety and sanitation protocols for those returning to their usual workplace. This includes a dedicated e-learning programme to help employees understand and adopt new measures that will protect them and their colleagues.
- Making appropriate use of Government support where available.
- Activities, practical advice and support focusing on the mental wellbeing of its employees. As well as providing its employees access to a wealth of training opportunities through its remote learning programme.

During this time, the Company has also recognised its responsibilities to the wider community which include:

- Donations of hygiene care products and hand sanitisers to the National Health Services and Health and Safety Executive.
- Temporary extension in credit terms so that the Company's most exposed clients, such as hairdressers and other independents, are financially supported during the national lockdown.
- The payment of invoices immediately upon receipt for certain suppliers who face financial difficulties during the pandemic.

26. Events after the Balance Sheet Date (continued)

L'Oréal (U.K.) Limited has made projections for the remainder of 2020 and up until 31 December 2021. We have considered the impact of the COVID-19 pandemic and the impact this could have on the wider economy. Based on these factors we have looked at our business and its forecasted evolution, our beauty market by category, developments in our brands and our program for new launches. We have considered cash flows, revenues and profits. We are satisfied that our profit levels will be maintained at healthy levels, our credit levels are well controlled and there are no significant risks to the cash position.
We do not believe there to be a material impact on the employer covenant for the defined benefit pension scheme following the COVID-19 pandemic. Although the value of investment assets and liabilities have been impacted, the protections put in place including the bulk annuity and the level of interest rate and inflation hedging will have limited that impact.

The directors consider this to be a non-adjusting post balance sheet event.

27. Related Party Transactions

The Company has no related party transactions which need to be disclosed in these financial statements.

The Company has taken advantage under *FRS 101 Reduced Disclosure Framework* not to disclose information about transactions between its parent and fellow subsidiaries.

28. Ultimate Parent Undertaking

The immediate parent undertaking is L'Oréal S.A.

The ultimate parent undertaking and controlling party is L'Oréal S.A., a Company incorporated in France.

L'Oréal S.A. is the parent undertaking of the largest and smallest group of undertakings to consolidate these financial statements at 31 December 2019. The consolidated financial statements of L'Oréal SA can be obtained from its registered office: 31 Rue Martre, 92117 Clichy, France.